

NR 2011 – [REDACTED]

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**Title: Commitment Letter to Assist Financing of Phase One of the
Lower Churchill Project**

ISSUE:

Whether to authorize the Premier to sign a Commitment Letter that assures credit rating agencies, the Government of Canada, and potential lenders of the intentions of the Government of Newfoundland and Labrador (“Government”) in support of Phase One of the Lower Churchill Project.

RECOMMENDATION:

It is recommended that:

The Premier be authorized to sign a letter, substantially along the lines of the draft attached in Annex D, outlining Government’s intentions in support of Phase One of the Lower Churchill Project

BACKGROUND:

As part of Nalcor Energy’s financing activities for Phase One of the Lower Churchill Project (the “Project”), the company has asked Government to approve and sign a letter outlining its support for the Project and its intention to revise the framework governing the provincial electricity industry to enable the Project’s successful financing (the “Commitment Letter”). The Commitment Letter is meant to assure credit rating agencies, the Government of Canada, and potential lenders that Government intends to take future actions to ensure the project proceeds and will generate sufficient cash flow to service its debts. The letter is discussed in detail in the Commitment Letter section below.

The Commitment Letter is a key document in the finance-raising process for the Project. During this rigorous multi-year process (described in detail in Annex A), Nalcor will need to provide credit rating agencies, the Federal Government and potential lenders with

confidence in the Project's business case and its ability to cover all debt payments and other costs over the life of the loans. This includes providing supporting documents to allow successful completion of due diligence, establishing early indicative credit ratings to demonstrate the creditworthiness and level of risk in the Project, finalizing the terms of the federal loan guarantee, selecting a lead lender that will recruit a larger team of lenders, and negotiating and completing final documents and advancing the funds.

The finance-raising process also includes executing a term sheet for the federal loan guarantee announced August 19, 2011. The federal loan guarantee term sheet will be a key document in Nalcor's finance-raising efforts, as it will significantly strengthen the attractiveness of the Project's debt to potential lenders.

The finance-raising process began upon execution of the November 18, 2010 term sheet between Nalcor and Emera Inc. (the "Term Sheet") outlining how they will collaborate to develop the Project, which consists of the following components and construction costs:

- the \$2.5 billion Muskrat Falls hydroelectric plant on the Churchill River (the "Muskrat Falls Plant"), which Nalcor will wholly own and fund the related capital costs;
- a \$0.4 billion transmission interconnect to be constructed between the Muskrat Falls Plant and the existing generating plant located at Churchill Falls (the "Labrador Transmission Assets"), which Nalcor will wholly own and fund;
- a \$2.1 billion High Voltage Direct Current (HVdc) transmission line and all other related components to be constructed between the Muskrat Falls Plant and Soldier's Pond, NL (the "Labrador-Island Link"), which Nalcor will own approximately 71% and Emera 29% with funding shared in those proportions; and
- a \$1.2 billion HVdc transmission line connecting the Island interconnected system to Nova Scotia (the "Maritime Link"), which Emera will wholly own and fund (with ownership reverting back to Nalcor for \$1 after 35 years).

The Term Sheet also outlines the provision of electricity by Nalcor to Emera's subsidiary Nova Scotia Power Inc. and the transmission of electricity through Nova Scotia and New Brunswick for sale in the Maritimes and the New England market.

For its portion of the Project costs, Nalcor plans to raise project finance debt in the capital markets. Project finance debt is a commonly-used structure in the energy and infrastructure sectors, wherein project sponsors provide the equity and lending institutions provide non-recourse loans that are typically serviced entirely from project cash flows and secured by the project assets alone, with no recourse back to sponsors (in this case, the Government and Nalcor). Using non-recourse financing prevents lenders from accessing Government's other non-Project assets in the case of a default.

Nalcor is also asking Government to approve a Memorandum of Principles outlining the commercial arrangements between Nalcor subsidiaries associated with the Project and

Newfoundland and Labrador Hydro (“NL Hydro”). The Memorandum of Principles is the subject of a separate Cabinet Submission.

Commitment Letter

The finance-raising process for the Project is based on the assumption that all of the revenues necessary to pay for the construction and operation of the Muskrat Falls Plant, the Labrador-Island Link and the Labrador Transmission Assets will be obtained from regulated ratepayers in the Province, and in particular the Island. As a result, any action which reduces the overall costs of the Project leads to a benefit to the regulated ratepayers by potentially reducing the amount that is required to be paid for these assets.


The amount and cost of this debt financing will depend significantly on the risks that lenders perceive in their evaluations of the Project. To that end, and in particular for the purposes of the finance-raising activities set to occur in the next number of months (see Annex A), Nalcor has requested that Government provide a confirmation of its intentions respecting the investments in the Project and the regulatory changes that will be required to enable its success. These commitments are set out in the proposed Commitment Letter. The letter will be provided to credit rating agencies, the Government of Canada and potential lenders on a confidential basis – no public disclosure is planned.

In summary, the Commitment Letter states Government’s intent to do the following, all of which are critical for financing:

- Approve the creation of any Nalcor subsidiaries required for the development and operation of the Project and ensure that the subsidiaries have sufficient borrowing powers to support its implementation;
- Provide the Government investment into the Project, which includes the amount determined during the financing process (currently estimated at \$1.5 to \$2.0 billion – see Financial Considerations section for more detail) and any additional Government investment needed to address any contingencies required to ensure Project completion; and
- Ensure that NL Hydro’s regulated rates provide sufficient revenue in each year to recover Project costs. This commitment has two elements. First, it confirms that the costs to be recovered will include all capital and related financing costs including a return to the shareholder (Nalcor), operating and maintenance costs, payments under any applicable Impact and Benefit agreements, water lease and management costs, and applicable taxes and fees. Second, by confirming that NL Hydro’s regulated rates will generate the required revenues, it implicitly confirms that Government will structure the electricity industry in the Province to ensure regulated ratepayers (the majority of whom are customers of Newfoundland Power) will be captive to NL Hydro to the extent necessary to support these revenues.

The Department of Natural Resources, in consultation with the Departments of Justice and Finance and with Nalcor, is in the process of determining the best means through which to implement the commitments in the Commitment Letter within the timeframes

contemplated. It is anticipated that implementation of certain of these commitments will require legislative changes. To meet the finance-raising schedule, including finalization of the federal loan guarantee, Government would have to introduce such legislation by the Spring 2012 sitting of the House of Assembly.



ALTERNATIVES:

1. Authorize the Premier to sign the Commitment Letter. (recommended)

Pros:

Approving this letter will enable Nalcor to maintain its finance-raising schedule and overall project schedule to support Project sanction. The Commitment Letter will also facilitate the issuance of indicative credit ratings and therefore enable the federal government to continue its work towards finalizing its loan guarantee, which will reduce interest expenses for the Project and thus lead to reduced rates for electricity customers in both Newfoundland and Labrador and Nova Scotia.

Cons:



2. Do not authorize Premier to sign the Commitment Letter.

Pros:

No action required by Government. Government will also avoid making commitments to significant policy initiatives at this time.

Cons:

The federal loan guarantee will be delayed. The Memorandum of Agreement announced August 19, 2011 affirms a Federal Government requirement for indicative credit ratings for the Project borrowing entities as a key measure to assess the Project's creditworthiness. These credit ratings may not be available in a timely manner unless the Commitment Letter is authorized.

Debt finance funding will likely be delayed, which would increase the amount of up-front equity contributions required from Government prior to putting debt financing in place. Without this additional equity, the present Project schedule would be jeopardized as necessary financing activities may not be completed in time to support Project sanction in 2012. This would likely delay start up and completion, thus eroding investor and public confidence in the Project.



Regulatory Impact Analysis

Authorizing the Commitment Letter does not authorize any legislative or regulatory changes however carrying out the commitments in the letter will require future legislative changes that Cabinet must consider at a later date.

A Regulatory Impact Analysis is not required for this Cabinet Submission as it does not involve any immediate regulatory or legislative change.

FINANCIAL CONSIDERATIONS:

Authorizing the Commitment Letter does not place any immediate financial obligations on Government, however to meet the intentions outlined therein Government must eventually provide a significant contribution to Nalcor to make up the equity portion of its share of the Project.

Based on current capital cost estimates, Government's equity contribution to the Project is expected to be approximately \$1.5 to \$2.0 billion. Key considerations for this estimate are as follows:

- The lower end of the range assumes the benefit of the federal loan guarantee which would lower interest rates and therefore increase the amount of debt that the Project can carry.

- The upper end of the range represents the conservative case and the equity required to maintain investment-grade status without the federal loan guarantee and without Emera participation in the Labrador-Island Link.
- Nalcor is continuing to analyze the equity requirements to determine the optimal capital structure with the lowest overall cost.
- Excluded from these figures would be approximately \$270 million of capital expenditures already incurred through July 2011 that were funded through equity contributions from Government.

While a portion of this investment could potentially be funded from cash on hand, there will likely be a requirement for significant new Government borrowing to fund the remainder. Because these funds will be invested in Nalcor, this will not change the Province's net debt. However, the investment would decrease the Province's liquidity, reduce short term investment income, and increase debt servicing costs.

As a result of these factors, an investment in Nalcor may raise concerns with bond rating agencies and could potentially stress the Province's credit rating, particularly in the event of adverse developments such as construction delays or cost overruns. In addition to the deterioration in liquidity, this project-related borrowing could also impair Government's borrowing capacity for general operations or increase the interest cost of future debt issues.

In its 2011 Bond Rating Report issued in July, the Dominion Bond Rating Service ("DBRS") stated that "While DBRS is of the view that the long-term benefits of the project are substantial, the financing of the Province's \$4.4 billion share could put the Province's rating under stress in the short to medium term, depending on the financing structures used." The DBRS rating report pre-dated the announcement of the federal loan guarantee, and the Department of Finance will participate with Nalcor in discussions with the bond rating agencies.

To protect the Province's financial position and minimize the potential negative consequences associated with this investment, Government could pursue the following strategies:

- Maximize direct Project-related borrowing to the extent permitted by Project finances;
- Ensure all direct Project debt is non-recourse to the Province;
- In loan guarantee negotiations with the Federal Government, attempt to ensure the maximum available guarantee can be accessed;
- Ensure Nalcor funds the Project's equity requirement from internally-generated resources to the maximum extent possible; and
- Structure Project cash flow such that, as a minimum, Nalcor returns to the Province sufficient cash on an annual basis to pay the interest and other debt servicing costs so that these costs are not borne by taxpayers.

The Project and the electricity industry structure proposed in the Commitment Letter will result in significant revenues to Nalcor. Forecasted net cash flow to Nalcor is approximately \$100 million for the first full year of operation. This could climb to \$900 million per year by the end of the 50-year power purchase agreement with NL Hydro (see chart in Annex B). These projections reflect current capital cost estimates, financing assumptions and the latest forecast of market prices.

INTERDEPARTMENTAL CONSIDERATIONS:

The Departments of Finance, Justice, Labrador and Aboriginal Affairs, as well as Nalcor were consulted during the development of this memorandum and the Commitment Letter and support the recommendation.

Officials from the Rural Secretariat have also reviewed this memorandum and the Commitment Letter and have confirmed that a Rural Lens is not required due to the nature of the submission.

LABRADOR OR ABORIGINAL CONSIDERATIONS:

Labrador Affairs has reviewed this memorandum and concurs with the recommendation to authorize the Premier to sign the Commitment Letter. Labrador Affairs has no additional comments to include in this submission.

Aboriginal Affairs has also reviewed this memorandum and the Commitment Letter and concurs with the recommendations provided that the commitments made in the Tshash-petapen Agreements which include the Lower Churchill Impacts and Benefits Agreement, the Churchill Falls Hydro-Electric Development Redress Agreement and the Innu Land Claim Agreement in Principle are met.

INTERGOVERNMENTAL CONSIDERATIONS:

The Memorandum of Agreement for the federal loan guarantee outlines a requirement for indicative credit ratings for the Project borrowing entities as a key measure to assess the Project's creditworthiness. Therefore the Commitment Letter, a prerequisite for the credit ratings, is necessary to meet the requirements of the Federal Government in finalizing the loan guarantee.

Successful completion of the Project is also imperative for the Government of Nova Scotia to reach its target, defined in the NS Clean Energy Act, of 40% renewable electricity by 2020.

OTHER JURISDICTIONS:

Nalcor Energy has highlighted Ontario Power Generation's ("OPG") 2011 project financing of the \$3 billion Lower Mattagami hydroelectric generation project as a parallel to the financing structure being proposed for the Project. It is a structure that credit rating agencies and lenders will likely use as a comparator for the Lower Churchill. The Lower Mattagami will be funded with a capital structure of 65% debt and 35% equity, with OPG's equity investment coming from \$400 million of existing assets and a \$600 million cash injection. The project risks were considered modest by rating agencies given that the buyer, the Ontario Power Authority, was committed to a contract where all project costs will be recovered. Such contracts are preferred by lenders and this is the model being proposed for Phase One of the Lower Churchill Project.

The government of British Columbia by section 8 of the Clean Energy Act has provided an assurance of cost recovery for a number of unregulated projects, including the Northwest Transmission Line (a 335 km long transmission project), the 1100 MW Site C hydroelectric project, and upgrades to two of its existing major hydro projects and some of its energy procurement programs. More generally, the BC government has for years provided varying assurances of cost recovery for its Crown utilities (both generally and for specific initiatives) through special directions to the BC Utilities Commission.

CONSULTATIONS:

This memorandum and the attached Commitment Letter have been reviewed and the recommendations are supported by the Departments of Justice, Finance, Labrador and Aboriginal Affairs, and the Rural Secretariat. Nalcor and its financial and legal advisors were involved in the drafting of the letter and also support the recommendation .

ENVIRONMENTAL CONSIDERATIONS:

N/A

COMMUNICATION AND CONSULTATION SYNOPSIS:

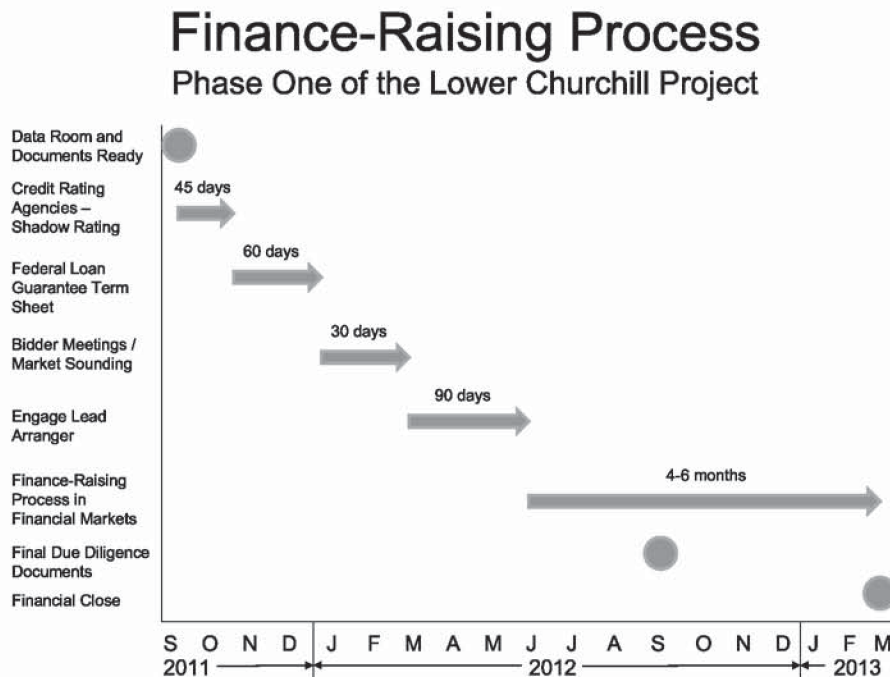
Please see the attached communications plan.

SHAWN SKINNER
Minister of Natural Resources

August 31, 2011

ANNEX A – THE FINANCE-RAISING PROCESS

The finance-raising process for the Project is currently under way and is projected to conclude in early 2013 (see timeline below). Timely approval of the Commitment Letter is a crucial step in this timeline. Each major step in the process is defined below.



- Data Room and Documents Ready** - Nalcor is currently preparing documentation that credit rating agencies, the federal government and potential lenders will require for their assessment of the Project, which is often referred to as the due diligence process. The documents will be stored in a data room, which is a physical and electronic site equipped with appropriate security and confidentiality protection. Only approved organizations and individuals will have access to the data room. The contents of the data room will be extensive and will include financial models and their underlying assumptions as well as documents outlining how the Project will be undertaken (including key engineering documents). The documents in the data room will necessarily evolve during the process with drafts being replaced by finals, assumptions replaced by facts, and commitments replaced by realities. The Commitment Letter is a critical document for the data room since it demonstrates Government's support as equity sponsor of a project being undertaken principally for the benefit of the Newfoundland and Labrador market. The target date for initial opening of the data room is September 15, 2011, and it will remain open throughout the finance-raising process.
- Credit Rating Agencies - Shadow Rating** – Once the data room is open, and before receiving the finalized federal loan guarantee, Nalcor will seek a *shadow credit rating* for the borrowing entities for the Muskrat Falls Plant, the Labrador-Island Link and

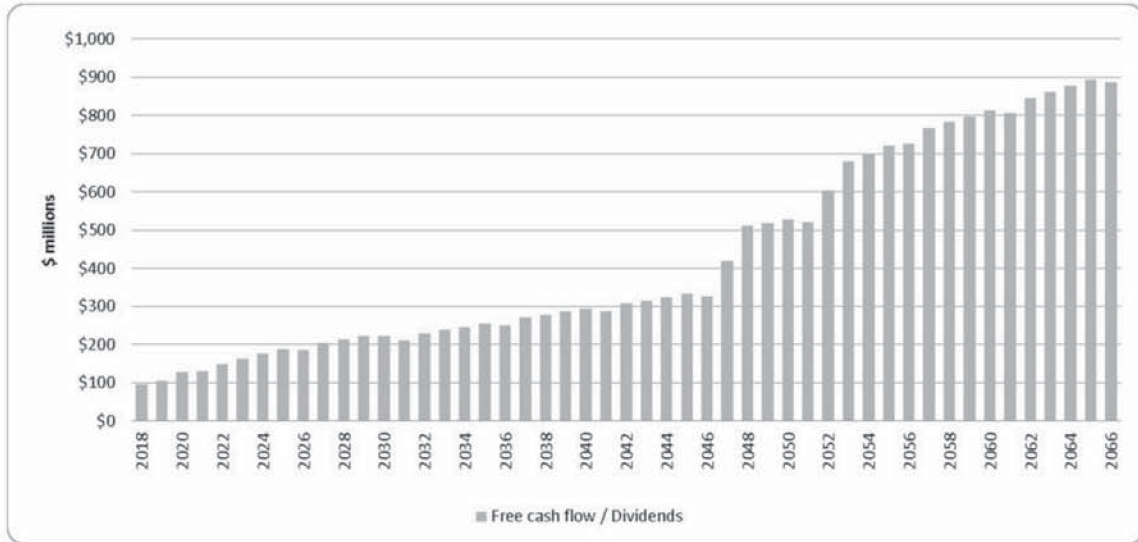
the Labrador Transmission Assets. A shadow credit rating is a confidential credit rating that potential borrowers use to get an indication of the level of risk and creditworthiness that capital markets associate with a project's debt. The immediate need for the shadow credit ratings is to advance the federal loan guarantee discussions. In this regard, the Government support outlined in the Commitment Letter will be critical for the project debt to obtain an *investment-grade* rating, which is a rating of a quality suitable for investment by pension funds and other similar institutions. Standard & Poor's, Moody's and Dominion Bond Rating Service will be engaged for this rating process and have indicated that this will take approximately 45 days. The shadow ratings are therefore projected to be available by mid-November 2011. Lenders will likely also require a formal credit rating, replacing this shadow rating, prior to the commencement of debt funding.

- **Federal Loan Guarantee Term Sheet** – On August 19, 2011, Nalcor reached a Memorandum of Agreement with the Government of Canada on a federal loan guarantee for the Project. The federal government has indicated that a binding term sheet for the loan guarantee will be executed eight weeks after the shadow ratings are provided by Nalcor. In the meantime, federal government due diligence is expected to begin upon their engagement of a financial advisor in early October 2011. The federal loan guarantee term sheet will be a key document in Nalcor's finance-raising efforts, as it will significantly strengthen the attractiveness of the Project's debt to potential lenders.
- **Bidder Meetings/Market Sounding** - Once the terms of the federal loan guarantee are confirmed, Nalcor will be in a position to begin the actual finance-raising process and will conduct a series of bidder meetings with financial market participants including Canadian and international banks, investment banks, pension funds, and insurance companies. These meetings, slated for early 2012, will allow Nalcor to communicate the scope, nature and schedule of the Project, along with the proposed financing structure, and to gain information to adjust its financing strategy where necessary. During this phase and the Engage Lead Arranger phase, the provisions outlined in the Commitment Letter will need to be implemented, as the financial community will place high importance on this being achieved. Participants in these meetings will include prospective *lead arrangers*, one or a team of financial market participants that will lead the raising of project debt financing alongside Nalcor and its other advisors. Canadian and international banks, and Canadian and international investment banks are expected to be candidates for this important role, however, it may also include sophisticated institutional investors who may wish to take on a leading role in the financing process. A primary objective of the bidder meetings will be to demonstrate to potential lead arrangers and lenders that: (i) Project cash flows will enable servicing and repayment of the associated loans with minimal risk of default; and (ii) the Project has the full support of Government and that Government will take the necessary actions to ensure the Project's success. In that regard, the Commitment Letter plays a key role.
- **Engage Lead Arranger** – The engagement of the lead arranger is projected to begin in April 2012, following completion of the bidder meetings. Preparation of the request for proposals ("RFP") for the lead arranger role, including securing

appropriate approvals, as well as updating the data room contents, will be underway from the fall of 2011. Proponents will be given approximately two months to prepare responses indicating their qualifications for the lead arranger role and outlining the approach they intend to take in finance-raising. The RFP will set out Nalcor's financing requirements and critical priorities in detail. Nalcor anticipates receipt of proposals at the end of May 2012, and engagement of the lead arranger by the end of June 2012.

- **Finance-Raising Process in the Markets and Final Due Diligence Documents** – The lead arranger, in co-operation with Nalcor its advisors, will then commence the finance-raising campaign which includes (i) recruitment of the larger team of banks, investment banks, and principal investors such as pension funds and insurance companies that will participate in the project debt financing; (ii) development and negotiation of the lending documents; and (iii) due diligence investigation by the lead arranger and its larger team. The final stage of finance-raising after the disclosure of final due diligence documents will see the lead arranger coordinate the approvals of all the members of the larger team of banks, investment banks and principal lenders. Final due diligence documents include environmental approval for the Labrador-Island Link, major Project contracts, supporting documents relating to provisions outlined in the Commitment Letter, final public credit ratings for Project borrowing entities.
- **Financial Close** – This is the event at which all lending documents are executed and project debt funding commences. This final step in the finance-raising process depends on the completion of all material aspects of the project disclosure, and is expected to occur 4 to 6 months after the final due diligence documentation is released.

ANNEX B – CHART SHOWING FREE CASH FLOW FROM THE MUSKRAT FALLS PLANT, LABRADOR TRANSMISSION ASSETS, AND LABRADOR-ISLAND LINK



ANNEX C – COMMUNICATIONS PLAN

COMMUNICATIONS PLAN
Department of Natural Resources

Title: Commitment Letter to Enable Financing of Phase One – Lower Churchill Project

Issue: In support of financing activities associated with the Lower Churchill project, Nalcor has requested a letter of support from the Provincial Government identifying intentions respecting investments in the project.

<p>Consulted with:</p> <p>Charles Bown, Deputy Minister (Acting), Department of Natural Resources</p> <p>Paul Scott, Assistant Deputy Minister, Energy Policy, Department of Natural Resources</p>	<p>Drafted:</p> <p>August 31, 2011</p>	<p>Anticipated Announcement:</p> <p>Announcement not recommended.</p>
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Communications Analysis**Public Environment**

On November 18, 2010, the Governments of Newfoundland and Labrador and Nova Scotia announced the signing of a Term Sheet between Nalcor Energy (Nalcor) and Emera Incorporated (Emera) to develop Muskrat Falls, Phase One of the Lower Churchill Project. Phase One includes construction of the 824 megawatt generation station, the Labrador-Island Transmission Link, and the Maritime Link.

On August 19 the Government of Canada signed a Memorandum of Agreement in support of a loan guarantee for the project. In order to qualify for financial assistance, the project was required to demonstrate national and regional significance, economic and financial merit, and its ability to significantly reduce greenhouse gas emissions. The agreement to provide a loan guarantee confirms the project has met these criteria. There will be no fees payable for the loan guarantee, and it will extend to both the construction and post-construction periods for the project. The guarantee will apply to the project's aggregate construction debt and the initial long-term debt arranged with lenders at the financial close for each phase of the project. The Government of Canada will engage financial advisors to undertake a process to aid in finalizing the details of the loan

guarantee. This process will not affect the timelines associated with the project's development schedule.

The development of Phase One of the Muskrat Falls development is a \$6.2 billion project and will include the Muskrat Falls generating station, Labrador-island transmission Link, and Maritime Link. Newfoundland and Labrador will fund construction of the generating station and the Labrador-island transmission link at a cost of \$5 billion. Emera will invest \$1.8 billion which includes \$1.2 billion for the Maritime Transmission Link, and \$600 million towards construction of the Labrador-Island Transmission Link.

An environmental assessment report by the joint federal-provincial panel was released in August which included 83 recommendations for consideration by both levels of government. The report was critical of the analysis conducted by Nalcor, and provided commentary which has generated moderate media discussion which relate to financial returns and alternatives to the project.

Public commentary continues to focus on electricity rates; growing electricity demand and oil prices; deal with Emera in Nova Scotia and proposed benefits to Nova Scotians; project cost, and debt concerns. Premier Dunderdale, Minister Skinner and Nalcor Energy's Ed Martin and Gilbert Bennett have all been vocal in explaining the inevitable rise of electricity rates in the province of Newfoundland and Labrador remains tied to oil-based power which is affected by price volatility. Countering claims by critics that the people of Newfoundland and Labrador will see an astronomical rise in rates as a result of the Muskrat Falls development, both the Provincial Government and Nalcor Energy have clearly articulated the potential of Muskrat Falls to stabilize electricity rates in the long-term and address the province's growing future energy needs based on projections by PIRA and the International Energy Agency.

Strategic Considerations

- Nalcors' financing-raising activities are set to commence in the next few months.
- The financial plan for the project is based on the assumption that all of the revenues necessary to pay for construction of the Muskrat Falls plant, Labrador-island Link and the Labrador Transmission Assets will be obtained from regulated Island ratepayers in the province.
- Nalcor plans to raise more than half of its \$4.4 billion portion of project construction costs in the capital markets.
- Nalcor has requested a commitment letter to be signed by Premier Dunderdale to support project financing. The commitment letter is a key document in the financing process.

- The commitment letter identifies governments' intentions in support of the project, which include information of subsidiary borrowing powers, government investment, and revenue to recover project costs.
- Nalcor will provide the commitment letter to various credit rating agencies and lenders as required.
- The commitment letter is a necessary document to meet the requirements of the federal government and finalize the loan guarantee.
- The amount and cost of debt financing will depend on the risks that lenders perceive in their evaluations of the project.
- Legislative changes would be required in order to meet timelines identified by Nalcor.
- Planned timing of financing process will require implementation of the commitments stated in the letter by the summer of 2012.
- The letter does not provide and legal recourse to lenders should government not follow through actions identified in the letter. This would compromise project schedule, negatively affect Nalcors ability to borrow in the future, and would likely prevent financial close and advancement of debt funding.
- Authorization of the commitment letter does not place any financial obligations on government, however to meet intentions identified in the letter government would eventually provide significant contribution to Nalcor to make up the equity portion of its share of the project. (\$1.5 to \$2 billion)
- The letter identified information on the obligation of ratepayers to cover the costs of the project will result in a net cash flow to Nalcor of \$100 million in the first year of the project operation, which will climb to \$900 million per year by the end of the 50-year power purchase agreement with Hydro.
- Nalcor has also requested approval of a Memorandum of Principles which outlines commercial arrangements between Nalcor subsidiaries, and Newfoundland and Labrador Hydro – this is a separate submission to Cabinet.
- Final interest rate on borrowing will be determined according to market conditions when the debt is issued.
- The Federal Loan Guarantee will further lower the interest rate for borrowing which will provide estimated savings to Island electricity consumers of approximately 6%.

- Project will not impact net debt for the province because the province will have an income producing asset (investment in Nalcor) to offset the required debt unlike other provincial borrowing to fund general services. This income producing asset will continue to provide power for the province and revenue to the treasury long after the debt is paid off.
- Debt and debt servicing for Nalcor are included in the projected electricity rates.
- Dividends from Muskrat Falls, and eventually Gull Island, will supplement revenues to the provincial treasury.

Target Audiences**Internal**

- Executive Council
- Premier's Office
- Department of Natural Resources
- Department of Justice
- Department of Finance
- MHAs
- Nalcor

External

- Government of Nova Scotia
- Government of Canada
- Emera
- Opposition
- Media
- Public

Consultation

Consultation has taken place with the Department of Justice, the Department of Finance, Labrador and Aboriginal Affairs, Women's Policy Office, Rural Secretariat and Nalcor. No public consultations are planned or required.

Communications Objectives

- To clearly articulate purpose of the letter of commitment would be to support financing activities associated with the development of the Lower Churchill project.

Communications Strategy**Messages**

- The Provincial Government is supporting Nalcor with activities to assure potential lenders have information on governments intentions on the development of the

Lower Churchill project, and the generation of sufficient cash flow to service its debts.

- A commitment letter from the Provincial Government will be provided to various credit rating agencies and lenders as required.
- The effort to secure financing will reduce overall projects costs and will benefit ratepayers in the province.
- We are confident that Nalcor is managing the risks of the Lower Churchill Project appropriately, and assuming an appropriate amount of risk that balances the benefits and rewards Newfoundlanders and Labradorians will gain from this development.

The Announcement (and activities)

An announcement is not recommended.

Minister's Involvement

The Minister of Natural Resources will be the lead.

Interdepartmental Coordination

The Departments of Natural Resources, Finance, Justice in consultation with Nalcor is in the process of determining a plan to implement commitments in the letter, with timelines contemplated.

Commitment letter has implications for the Departments of Labrador and Aboriginal Affairs, Environment and Conservation, Rural Secretariat, and the Board of Public Utilities.

Briefing of Members of the House of Assembly

Members will be briefed as required.

Internal Communications

The Departments of Natural Resources, Finance, Justice, and Nalcor continue to be engaged with this issue.

Follow-up Activities

N/A

Evaluation Criteria

Media will be monitored and responded to appropriately in the event that the commitment letter becomes public.

Budget

N/A

Drafted by:

Heather Maclean, Director of Communications, 709-729-5282

Approved by:

Charles Bown, Associate Deputy Minister, 709-729-2349

Paul Scott, Assistant Deputy Minister, Energy Policy, 709-729-1406

ANNEX D – COMMITMENT LETTER

[date]

[addressee]

This letter outlines the objectives and intentions of the Government of Newfoundland and Labrador (the “Government”) in support of the Lower Churchill Projects (the “Projects”) being undertaken by Nalcor Energy (“Nalcor”) in association with Emera Inc. (“Emera”) and its subsidiaries, as described below.

The Projects are:

- The Muskrat Falls generation facility (“MF”) and Labrador transmission assets (“LTA”), comprising a 345 kV HVAC transmission interconnect between MF and Churchill Falls, which Nalcor will be responsible to develop;
- The Labrador-Island Link, a HVDC transmission line connecting the Island of Newfoundland to generation facilities in Labrador, including any associated upgrades to the island interconnected system funded as part of this project component (the “LIL”). Nalcor will develop the LIL and provide Emera with an opportunity to invest in it; and
- The Maritime Link, a HVDC transmission line connecting the Island interconnected system to Nova Scotia (the “ML”). Emera or an entity which it controls and Nalcor will jointly develop the ML. In exchange for Emera funding 100% of the \$1.2 billion construction cost of the ML, and providing Nalcor with long-term transmission services over the ML, Nalcor will provide approximately 1 TWh of energy annually to Nova Scotia for 35 years.

The Government is committed to supporting the development of the Projects as a matter of Government policy of the highest importance, consistent with its *2007 Energy Plan*. To that end, Government’s policy will be to revise the framework governing the electricity industry in the Province to align that framework with the requirements of the successful completion of the Projects. As part of this process, Government is committed to do the following:

1. Approve the creation of those subsidiaries or entities controlled by Nalcor which are required in order to facilitate the development and operation of MF, the LIL and the LTA, and to ensure Nalcor and existing and new subsidiaries or entities have the authorized borrowing powers required to implement the Projects and meet any related contractual or reliability obligations.

2. Provide the base level and contingent equity support that will be required by Nalcor to support successful achievement of in-service for MF, the LTA and the LIL, in cases with and without the participation of Emera.
3. Ensure that, upon MF achieving in-service, the regulated rates for Newfoundland and Labrador Hydro ("NLH") will allow it to collect sufficient revenue in each year to enable NLH to recover those amounts incurred for the purchase and delivery of energy from MF, including those costs incurred by NLH pursuant to any applicable power purchase agreement ("PPA") between NLH and the relevant Nalcor subsidiary or entity controlled by Nalcor that will provide for a recovery of costs over the term of the PPA and relate to:
 - (a) initial and sustaining capital costs and related financing costs (on both debt and equity), including all debt service costs and a defined internal rate of return on equity over the term of the PPA;
 - (b) operating and maintenance costs , including those costs associated with transmission service for delivery of MF power over the LTA (as described further in 5 below);
 - (c) applicable taxes and fees;
 - (d) payments pursuant to any applicable Impact & Benefit agreements;
 - (e) payments pursuant to the water lease and water management agreements; and
 - (f) extraordinary or emergency repairs.
4. Ensure that, upon the LIL achieving in-service, the regulated rates for NLH will allow it to collect sufficient revenue in each year to enable NLH to recover those amounts incurred for transmission services, including those costs incurred by NLH pursuant to any applicable agreements between NLH, the LIL operating entity and/or the entity holding ownership in the LIL assets, that will provide for a recovery of costs over the service life of the LIL and relate to:
 - (a) initial and sustaining capital costs of the LIL and related financing and debt service costs, including a specified capital structure and regulated rate of return on equity equal to, at least, a minimum value required to achieve the debt service coverage ratio agreed to in lending agreements by the LIL borrowing entity;

- (b) operating and maintenance costs;
- (c) applicable taxes and fees; and
- (d) extraordinary or emergency repairs;

and that any entity which is associated with the investment of Emera in the LIL will be treated as a “public utility” under the Public Utilities Act and the Electrical Power Control Act, 1994;

5. Ensure that, upon LTA achieving in-service, the regulated rates for the provision of transmission service over the LTA will provide for a recovery of costs over the service life of the LTA including initial and sustaining capital costs, operating and maintenance costs, extraordinary or emergency repairs, applicable taxes and fees and financing costs (on both debt and equity), including all debt service costs and a defined internal rate of return on equity over the term of any applicable agreement.

The means undertaken to implement these policies and objectives will be at the sole discretion of the Government, but may include legislative amendments, regulatory rulings, and orders under current legislation.

[Conclusion and sign-off]

Attach To: NR 2011- [REDACTED]

Title:**Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project****Branch
Comment:**

The Communications Branch has reviewed the submission and has the following comments:

Key Messages:

There are several points raised in the cabinet submission that will have significant communications impacts. Key messages need to be developed around these, which include:

- Hydro's regulated rates will cover the province's share of the entire cost of the project (rate payer's money). Why are rate payers paying if Nalcor is getting significant revenue?
- This could negatively impact the province's credit rating and ability to borrow in future years
- Interest and debt servicing costs will not be paid by tax payers.

Target Audience:

The following should be added to external audiences: credit rating agencies and lenders

Announcement:

The plan does not recommend an announcement. However, given that legislative changes will be required, the issue will be debated publicly during the Spring 2012 session of the House of Assembly. The Provincial Government may be criticized at that time for waiting to disclose the commitment letter and the Minister should be fully prepared to address such criticism. Consideration may be given to making a public statement sooner.

The communications plan must be revised / updated - particularly key messages - in conjunction with the Branch and the Communications Director for the Premier's Office once cabinet direction is received.

Date:

2011-09-01

Prepared by:

Jennifer Collingwood

Reviewed by:

Jacquelyn Howard

*The following is a Copy of a Directive
passed by Cabinet at a Meeting held on
2011*

MC2011-

NR/DM
E. Martin
J. Cheeseman
AG
Deputy Clerk
File

NR2011-

The Submission of the Minister of Natural Resources respecting Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project was considered. Approval was given for the Premier to sign a letter, substantially along the lines of the draft attached to the Minister's Submission as Annex D, outlining Government's intentions in support of Phase One of the Lower Churchill Project, subject to the Department of Natural Resources consulting with the Communications Branch on a revised communications plan.

Clerk of the Executive Council

Email Message

From: Smith, Franca [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=FRANCASMITH]
To: Hammond, Vaughn [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=VAUGHNHAMMOND]
Cc: Hickey, John [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=JHICKEY], Dutton, Sean [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=SDUTTON], Bowles, Ron [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=RABOWLES], Gover, Aubrey [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=AUBREYGOVER], Harvey, Brian [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=BRIANHARVEY], Watkins, Michelle [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=MICHELLEWATKINS], Keats, Janet [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=JANETKEATS]
Sent: 9/2/2011 at 11:58 AM
Received: 9/2/2011 at 11:58 AM
Subject: NR2011-██████████

Good Day Vaughn:

Labrador Affairs has reviewed the Memorandum to Executive Council titled "Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project" (NR 2011-██████████) and concurs with the outlined recommendations. Labrador Affairs comments from previous drafts are accurately reflected and have no additional comments for the submission.

Thank you,

Franca

Franca Smith

Senior Analyst

Department of Labrador and Aboriginal Affairs

Government of Newfoundland and Labrador

(709) ██████████ 780 (t)

(709) ██████████ 473 (bb)

(709) ██████████ 045 (f)

FrancaSmith@██████████

Email Message

From: Gover, Aubrey [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=AUBREYGOWER]
To: Dutton, Sean [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=SDUTTON], Hammond, Vaughn [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=VAUGHNHAMMOND]
Cc: Watkins, Michelle [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=MICHELLEWATKINS]
Sent: 9/2/2011 at 11:23 AM
Received: 9/2/2011 at 11:23 AM
Subject: TRIM: RE: NR2011-████ and NR2011-████

I think it was last Friday that AA basically advised-Given the short time allowed to comment on this, AA has no concerns as long as the arrangements are consistent with the New Dawn Agreements.

From: Dutton, Sean
 Sent: Friday, September 02, 2011 10:17 AM
 To: Hammond, Vaughn
 Cc: Watkins, Michelle; Gover, Aubrey
 Subject: Re: NR2011-████ and NR2011-████

I think LAA already commented?

Sean

Sent Via BlackBerry

From: Hammond, Vaughn
 To: Quigley, David; Blanche, Pauline; Paddon, Terry; Stanley, Todd; Cheeseman, Josephine; Collingwood, Jennifer; Manning, Bryan; Dutton, Sean
 Cc: Bowles, Ron; Gover, Aubrey; English, Tracy
 Sent: Fri Sep 02 10:14:34 2011
 Subject: NR2011-████ and NR2011-████

Good morning,

The above noted, and related, Cabinet submissions, titled "Memorandum of Principles Outlining Commercial Arrangements to Enable Financing of Phase One of the Lower Churchill Project" and "Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project" were signed by the Natural Resources Minister last evening and Cabinet Secretariat expects to receive hard copies of the submissions later this morning. However, Cabinet Secretariat's analyses of these submissions have to be completed by end of day today because these papers will be considered by Cabinet during its meeting on Tuesday September 6. Therefore, I have had the submissions placed on your departmental secured drives for you to retrieve for review and ask that you have your comments on the submissions sent to me by 1 pm today (Friday

September 2). I recognize that this does not give you much time and sincerely apologize for this. If you have concerns getting access to the submissions, please let me know.

Sean, I'm sending this to you for LAA's and IGAS' perspective and have copied Ron, Aubrey and Tracy.

Regards,

Vaughn Hammond

Cabinet Officer

Cabinet Secretariat

418

vaughnhammond

Email Message

From: Stanley, Todd [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=TODDSTANLEY]
To: Hammond, Vaughn [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=VAUGHNHAMMOND]
Cc:
Sent: 9/2/2011 at 10:36 AM
Received: 9/2/2011 at 10:36 AM
Subject: TRIM: RE: NR2011-████ and NR2011-████

We were involved in drafting. We've reviewed and are good.

Todd Stanley

Director

Civil Division, Department of Justice

Government of Newfoundland and Labrador

t.709.████ 597 f.709.████ 129

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From: Hammond, Vaughn
Sent: September 2, 2011 10:15 AM
To: Quigley, David; Blanche, Pauline; Paddon, Terry; Stanley, Todd; Cheeseman, Josephine; Collingwood, Jennifer; Manning, Bryan; Dutton, Sean
Cc: Bowles, Ron; Gover, Aubrey; English, Tracy
Subject: NR2011-████ and NR2011-████
Importance: High

Good morning,

The above noted, and related, Cabinet submissions, titled "Memorandum of Principles Outlining Commercial Arrangements to Enable Financing of Phase One of the Lower Churchill Project" and "Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project" were signed by the Natural Resources Minister last evening and Cabinet Secretariat expects to receive hard copies of the submissions later this morning. However, Cabinet Secretariat's analyses of these submissions have to be completed by end of day today because these papers will be considered by Cabinet during its meeting on Tuesday September 6. Therefore, I have had the submissions placed on your departmental secured drives for you to retrieve for review and ask that you have your comments on the submissions sent to me by 1 pm today (Friday

September 2). I recognize that this does not give you much time and sincerely apologize for this. If you have concerns getting access to the submissions, please let me know.

Sean, I'm sending this to you for LAA's and IGAS' perspective and have copied Ron, Aubrey and Tracy.

Regards,

Vaughn Hammond

Cabinet Officer

Cabinet Secretariat

██████████418

vaughnhammond@██████████

Email Message

From: English, Tracy [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=TENGLISH]
To: Hammond, Vaughn [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=VAUGHNHAMMOND]
Cc: Janes, Mark [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=MARKJANES]
Sent: 9/2/2011 at 12:52 PM
Received: 9/2/2011 at 12:52 PM
Subject: TRIM: RE: NR2011-████ and NR2011-████

Vaughn

Given the short turn around time, we reviewed the papers solely for IG implications. As a result, we have no issues with the Submissions.

tracy

From: Hammond, Vaughn
Sent: Friday, September 02, 2011 10:15 AM
To: Quigley, David; Blanche, Pauline; Paddon, Terry; Stanley, Todd; Cheeseman, Josephine; Collingwood, Jennifer; Manning, Bryan; Dutton, Sean
Cc: Bowles, Ron; Gover, Aubrey; English, Tracy
Subject: NR2011-████ and NR2011-████
Importance: High

Good morning,

The above noted, and related, Cabinet submissions, titled "Memorandum of Principles Outlining Commercial Arrangements to Enable Financing of Phase One of the Lower Churchill Project" and "Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project" were signed by the Natural Resources Minister last evening and Cabinet Secretariat expects to receive hard copies of the submissions later this morning. However, Cabinet Secretariat's analyses of these submissions have to be completed by end of day today because these papers will be considered by Cabinet during its meeting on Tuesday September 6. Therefore, I have had the submissions placed on your departmental secured drives for you to retrieve for review and ask that you have your comments on the submissions sent to me by 1 pm today (Friday September 2). I recognize that this does not give you much time and sincerely apologize for this. If you have concerns getting access to the submissions, please let me know.

Sean, I'm sending this to you for LAA's and IGAS' perspective and have copied Ron, Aubrey and Tracy.

Regards,

Vaughn Hammond

Cabinet Officer

Cabinet Secretariat

██████████ 418

vaughnhammond@██████████

Email Message

From: Blanche, Pauline [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=PAULINEBLANCHE]
To: Hammond, Vaughn [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=VAUGHNHAMMOND]
Cc: Grandy, Glenn [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=GLENNGRANDY], Quigley, David [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=DQUIGLEY], Morris, Joan E. [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=JMORRIS], Terry, Kayla [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=KAYLATERRY]
Sent: 9/2/2011 at 1:13 PM
Received: 9/2/2011 at 1:13 PM
Subject: TRIM: RE: NR2011-████ and NR2011-████

NR2011-████

We have reviewed the Cabinet Paper entitled 'Memorandum of Principles Outlining Commercial Arrangements to Enable Financing of Phase One of the Lower Churchill Project' and note that the Memorandum of Principles is necessary to meet the requirements of the Federal Government in finalizing the loan guarantee and authorizing the Memorandum does not place any financial obligation on Government, thus there are no financial implications at this time.

It should be noted however, that statements on pg 3 (last bullet on pg) and pg 4 (last par under Pros) are somewhat contradictory. The first states proceed from export sales will go to Nalcor and not automatically benefit taxpayers whereas pg 4 states taxpayers will benefit as proceeds from export sales will be available to GNL in form of dividends. Which is it? Earlier statement on pg 3 (3) states that revenue proceed will be dependent on policy decision of GNL at the time.

NR2011-████

We have reviewed the Cabinet Paper entitled 'Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project' and note that the Commitment Letter is necessary to meet the requirements of the Federal Government in finalizing the loan guarantee and authorizing the Letter does not place any immediate financial obligations on Government, thus there are no financial implications at this time.

It should be noted; however that one of key component of the Lower Churchill deal has been investment of Emera in the Labrador-Island link - 29% (.6 B). Several statements made in this paper seem to cast possible doubt on Emera's participation (ie pg 6, bullet 1); Appendix D (pg 1, bullet 2) and pg 2 (# 2). What are cost implications to ratepayers and/or taxpayers should Emera back out of the agreement?

Vaughn, please note that given the short turnaround time we were unable to review both papers in detail.

Should you require any further information please do not hesitate to contact me.

Pauline

From: Hammond, Vaughn
Sent: Friday, September 02, 2011 10:15 AM
To: Quigley, David; Blanche, Pauline; Paddon, Terry; Stanley, Todd; Cheeseman, Josephine; Collingwood, Jennifer; Manning, Bryan; Dutton, Sean
Cc: Bowles, Ron; Gover, Aubrey; English, Tracy
Subject: NR2011-████ and NR2011-████
Importance: High

Good morning,

The above noted, and related, Cabinet submissions, titled "Memorandum of Principles Outlining Commercial Arrangements to Enable Financing of Phase One of the Lower Churchill Project" and "Commitment Letter to Assist Financing of Phase One of the Lower Churchill Project" were signed by the Natural Resources Minister last evening and Cabinet Secretariat expects to receive hard copies of the submissions later this morning. However, Cabinet Secretariat's analyses of these submissions have to be completed by end of day today because these papers will be considered by Cabinet during its meeting on Tuesday September 6. Therefore, I have had the submissions placed on your departmental secured drives for you to retrieve for review and ask that you have your comments on the submissions sent to me by 1 pm today (Friday September 2). I recognize that this does not give you much time and sincerely apologize for this. If you have concerns getting access to the submissions, please let me know.

Sean, I'm sending this to you for LAA's and IGAS' perspective and have copied Ron, Aubrey and Tracy.

Regards,

Vaughn Hammond

Cabinet Officer

Cabinet Secretariat

████418

vaughnhammond([REDACTED] <mailto:vaughnhammond([REDACTED] >

Email Message

From: Constantine, Robert [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=RCONSTANTINE]
To: Hammond, Vaughn [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=VAUGHNHAMMOND]
Cc: Marshall Q.C., Hon. Thomas [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=TOMMARSHALL], Paddon, Terry [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=TPADDON], Myrden, Paul [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=PMYRDEN], Blanche, Pauline [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=PAULINEBLANCHE], Quigley, David [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=DQUIGLEY]
Sent: 9/2/2011 at 12:11 PM
Received: 9/2/2011 at 12:11 PM
Subject: TRIM: RE: NR2011-[REDACTED] and NR2011-[REDACTED]

The Department of Finance has reviewed the ongoing drafts of the Commitment Letter and the Memorandum of Principles, as well as NR 2011-[REDACTED] and NR2011-[REDACTED]. FIN has provided text for the Financial Considerations section of the submission, and this text has been incorporated.

Perhaps the most significant public policy issue/communications challenge (although these are not public documents at this stage) lies in the proposed Power Purchase Agreement between Muskrat Falls and NL Hydro as outlined in the Memorandum of Principles (MOP).

Under the proposed PPA

- * There are 3 power blocks - the Base Block, the Supplemental Block and the Residual Block.
- * Hydro is agreeing to purchase all 3 blocks, with power in excess of Hydro's needs being sold in export markets.
- * Hydro must take the Base Block on a "take or pay basis" meaning they will pay for this power whether or not they need all of it.

Base Block

- * Revenues paid to Muskrat Falls (and Nalcor) by Hydro for the Base Block will be sufficient to recover the Cost of Service which essentially includes all costs plus an Internal Rate of Return (IRR).
- * The IRR amount is not specified, so as not to commit government at this time, but an 8.4% IRR is used for modeling purposes.
- * Hydro will recover its costs through regulated rates in accordance with the commitment letter.
- * This essentially means the ratepayer will pay for Muskrat Falls Project through the Base Block. Any revenues above the base block will accrue to Nalcor and will not reduce rates to the NL ratepayer.
- * This is the basis of the modeling, and the basis of determining the Free Cash Flows/ Dividends in Appendix B of NR2011-023. The cabinet submission states that it will be a decision of future governments as to whether these profits are returned to the taxpayer or to the ratepayer.

* The amount of energy available within the Base Block increases over time with domestic demand and would be fully subscribed by Hydro by 2066.

Supplemental Block

* If Hydro requires energy over and above the Base Block, it can acquire a Supplemental Block. Hydro will pay export market rates (based upon a published price) for the Supplemental Blocks, which in the near term would be less than the cost of Base Block energy.

* It may be argued that the ratepayer is already paying for the project through regulated rates for the Base Block, and is paying again for the Supplemental Block.

Residual Block

* The residual Block is any amount of energy not in the Base Block or Supplemental Block.

* Hydro will purchase this from Muskrat and will sell it to NEM. Hydro will purchase and sell this energy at the same price, resulting in no net cost to Hydro.

* Again, arguably, Hydro (the ratepayer) has paid for the power through the Base Block.

From: Hammond, Vaughn
Sent: Friday, September 02, 2011 10:16 AM
To: Constantine, Robert
Subject: FW: NR2011-████ and NR2011-████
Importance: High

Hi Bob,

In Terry's absence, please see below.

Regards,

Vaughn

From: Hammond, Vaughn
Sent: Friday, September 02, 2011 10:15 AM
To: Quigley, David; Blanche, Pauline; Paddon, Terry; Stanley, Todd; Cheeseman, Josephine; Collingwood, Jennifer; Manning, Bryan; Dutton, Sean
Cc: Bowles, Ron; Gover, Aubrey; English, Tracy
Subject: NR2011-████ and NR2011-████
Importance: High

Good morning,

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Sean, I'm sending this to you for LAA's and IGAS' perspective and have copied Ron, Aubrey and Tracy.

Regards,

Vaughn Hammond

Cabinet Officer

Cabinet Secretariat

██████████418

vaughnhammond(██████████)