NALCOR'S REPLY TO THE GRANT THORNTON (BROCKWAY) EMERA REPORT - OCTOBER 11, 2018

INTRODUCTION

In May 2018, the Commission of Inquiry Respecting the Muskrat Falls Project ("Commission") advised parties with standing that it requested Grant Thornton LLP ("Grant Thornton") to report on certain matters with respect to the Muskrat Falls Project and specifically requested that Grant Thornton present a paper explaining the contractual relationships between Nalcor Energy ("Nalcor") and Emera Inc. ("Emera") and the effects of those agreements on Newfoundland and Labrador rate payers and taxpayers. The paper was also to examine the Nova Scotia Utility and Review Board ("UARB") review of Maritime Link ("ML") Project and compare the process to the June 2011 reference question made to the Newfoundland and Labrador Board of Public Utilities ("PUB").

A report was prepared by Grant Thornton, namely the *Review of Emera Agreements and the UARB Experience* ("Emera Report"), dated September 7, 2019. Nalcor has reviewed the Emera Report and provides the Commission with this Reply. All Capitalized Terms used in this Reply not otherwise defined herein shall take on the meaning ascribed to such terms in the Emera Report.

THE EMERA REPORT

Nalcor has identified content requiring (i) clarification and context, (ii) factual corrections, and/or (iii) incorrect conclusions. Nalcor has not included all such observations in this Reply but has limited its remarks to those of a more substantive nature. They include:

1. Page 3, Lines 8 to 13 / Page 14, Lines 21 to 26 – Grant Thornton states Emera could ultimately pay less than 20% and Nalcor could pay more than 80% of the total estimated development costs of all Defined Assets if there are cost overruns in LTA, LIL and MFP.

   Response – Nalcor and Emera assumed 80% and 20% of the total estimated development costs of the Defined Assets (MF, LIL LTA and ML) respectively as determined at sanction. Nalcor and Emera established a principle whereby the assumption of risk related to development costs subsequent to sanction would be relative to the degree of control exercised by each party over development activities after such time. Nalcor maintained 100% control over the development and operation of MF Plant, LIL and LTA and accordingly assumed 100% of the risks relating to the cost overruns for such assets post-sanction. Nalcor and Emera shared control of development of ML and accordingly shared risks related to cost overruns with respect to ML post-sanction.

2. Page 3, Lines 18 to 22 / Page 18, Lines 8 to 11 – Grant Thornton states that Emera receives a fixed amount of power from MFP (0.98 TWh annually), which amount equals approximately 20% of MFP's estimated output of 4.9 TWh. If actual output is lower, Nalcor would provide more than 20% of MFP's power to Emera since the NS Block is fixed Nalcor may then have to find power elsewhere (import) to meet NL's native load and have less energy available for exports.

Response – The opposite also holds true. If MFP produces more than 4.9 TWh, Emera receives less than 20%. While Grant Thornton suggests there is a risk that MFP might not achieve its anticipated output, it offers no assessment of how or whether this risk might materialize. The estimated annual energy output of 4.93 TWh is based on engineering studies prepared for Nalcor.

3. Page 3, Lines 33 to 36 / Page 14, Lines 16 to 17 / Page 15, Lines 4 to 6 – Grant Thornton states equal sharing of third party development costs on ML amongst Nalcor and Emera incurred prior to July 31, 2014 deviated from the Term Sheet and represents additional cost to Nalcor and NL's ratepayers and taxpayers, depending on whether Nalcor recovers any cost overrun payments to Emera in Rates.

   Response – This conclusion is incorrect. Under section 8.2(b) of the ML-JDA, all costs incurred by Nalcor up to and including July 31, 2014 were to be reimbursed by Emera. These costs totaled $22.4 million, of which approximately $9.0 million were third party costs.

4. Page 4, Lines 10 to 13 – Grant Thornton states the NS Block is committed to Emera and will represent approximately 20% of the total power output or more. If output is less than forecast or market prices for power increases significantly, the NS Block commitment limits the availability of surplus power for export to other markets, which would negatively impact NL's taxpayers.

   Response – In exchange for Emera's 20% project contribution, Nalcor received amongst other things transmission rights from NL through to New England. Without such transmission rights, Nalcor would not be in a position to capitalize on surplus energy or increases in market prices given its transmission rights through Quebec.

5. Page 4, Lines 17 to 23 – Grant Thornton states that subject to the maximum equity percentage approved by the PUB for privately owned regulated electrical utilities set at 45%, Emera can decide, at its own discretion, how much of that interest is in debt versus in equity. This could result in a higher relative equity investment compared to if Nalcor were to make the LIL investment on its own.

   Response – This conclusion fails to reflect Emera's equity participation in the LIL and the resulting impact it has on the overall debt to equity ratio ("DER") of the LIL Partnership. While Emera may select its DER at 55:45, Nalcor's corresponding DER must be adjusted to comply with the overall target DER for the LIL LP at 75:25 in accordance with the FLG financing.

6. Page 4, Lines 25 to 32 / Page 25, Lines 16 to 25 – Grant Thornton states that under the EAA, Nalcor's bid price to NSPI is limited to energy only and Nalcor would not be able to include tariffs and transmission costs it incurs in sourcing energy. In order to minimize the cost of tariffs and transmission, Nalcor would be incentivized to source NSPI's energy from MF rather than, as an example, incurring additional tariffs and transmission costs from importing MassHub energy via New England. Therefore if MF's actual output was lower than expected, Nalcor may need to import additional energy and incur additional tariffs and transmission costs to fulfill its obligations under the EAA, adversely impacting NL's taxpayers.

Response – The EAA is premised on providing provincial surplus energy to fulfill EAA energy delivery commitments. Before entering into the EAA, Nalcor completed an extensive assessment on future Provincial energy needs. Upon completion of MFP, Nalcor determined there was sufficient surplus energy generated within NL (not just MFP) to meet obligations under the EAA without sourcing energy from external markets. Accordingly, Nalcor believes the risk of importing energy and incurring the transmission cost noted by Grant Thornton is very low over the life of the EAA.

7. Page 9, Lines 3 to 4 / Page 10, Lines 7 to 8 / Page 13, Lines 21 to 22 – Grant Thornton states the ML joint development committee is comprised of 4 Nalcor / 2 Emera representatives.

   Response – This is incorrect. The ML joint development committee has equal representation with at least two representatives of each party [see Appendix C – s. 2 (b) of Term Sheet / s. 3.3 (a) of ML-JDA].

8. Page 9, Lines 7 to 9 / Page 10, Lines 4 to 5 / Page 13, Lines 9 to 10 – Grant Thornton states that where ML cost overruns are not approved by the UARB, such overruns are paid first by Emera up to the first 5% and then Nalcor for the next 5% and thereafter shared equally by the parties for all unapproved costs beyond 10%. It then goes on to say "*The percentage is calculated by the total development costs incurred as a percentage of total approved costs.*"

   Response – Reference to "*The percentage being calculated by the total development costs incurred as a percentage of total approved costs*" is mathematically incorrect. Emera's obligation to pay unapproved ML cost overruns is equal to an amount up to a maximum of 5% of all ML costs approved by the UARB for inclusion in NS rate base. Nalcor would similarly be responsible for all unapproved ML costs exceeding 5% and up to a maximum of 10% of ML costs approved by the UARB for inclusion in NS rate base. The parties then share unapproved ML cost overruns beyond 10% of all ML costs approved by the UARB for inclusion in NS rate base [see s.3(h) of 2010 Term Sheet / s. 8.1(e) of ML-JDA].

9. Page 11 – Grant Thornton's table states (i) the ML(N)TSA establishes the transmission rights for delivery of the NS Block, and (ii) ML(E)TSA provides for the establishment of all remaining transmission rights over the ML.

   Response – This is incorrect. The ML(E)TSA establishes the transmission rights for delivery of the NS Block, and the ML(N)TSA provides for the establishment of all remaining transmission rights over the ML.

10. Page 12, Lines 7 through to Page 13, Line 2 – Grant Thornton states Emera is responsible for constructing and maintaining any upgrades to NL's transmission system related to ML, other than the connection between ML and the Island Interconnected System, which would be owned and maintained by NLH.

    Response – This statement is incorrect. Pursuant to s.2.1(c) of the ML-JDA, Emera is responsible for the capital costs of the NLH AC upgrades and incremental operating and maintenance costs related thereto to the extent required for interconnection of the ML to the Island Interconnected System ("IIS"). Emera will pay

all connection costs between ML and the IIS to the extent required for interconnection of the ML to the IIS.

11. Page 19, Lines 12 to 14 – Grant Thornton states decisions to be made by the JOC should be made by consensus from all representatives but Nalcor's CEO would have the final say if there are disputes subject to the decision guideline identical to what was outlined in the ML-JDA.

    Response – This is incorrect. Decision making at the JOC level is different than the process that applies to the ML as set out in the ML-JDA. The JOC is comprised of 4 Nalcor and 2 Emera members who shall attempt to find consensus on issues. If no consensus is reached on financial matters, such matters are to be referred to the applicable regulator for resolution. Financial disputes not resolved by the applicable regulator then go to dispute resolution. All other JOC matters are resolved by majority vote [ss. 3.4(a) to (e) of JOA].

12. Page 22, Line 2 (Chart) – Grant Thornton states Class C shares have no right to be allocated losses.

    Response – This is incorrect. The LIL partnership agreement calls for depreciation loss on 'cost overruns' to be allocated to the Class C Units.

13. Page 29, Bullet 6 (fourth line) – Grant Thornton states "The debt raised by LIL LP are first guaranteed by Nalcor and Emera, and then to be covered by the FLG."

    Response – This statement is incorrect. Nalcor and Emera have not guaranteed the debt of LIL LP.