Emera Report
Grant Thornton Responses to Nalcor's Reply
October 17, 2018

Grant Thornton has reviewed Nalcor's reply to the Grant Thornton Emera report dated October 11, 2018. The following comments have been developed for each response provided.

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.

   Nalcor 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.

   Grant Thornton response – Grant Thornton states that "Emera can pay less than 20% of the total development costs of the Defined Assets" and "Nalcor can pay more than 80% of the total development costs of the Defined Assets", which we believe to be accurate. Grant Thornton agrees that Nalcor and Emera assumed 80% and 20% of the total estimated development costs of the Defined Assets respectively as determined at sanction and Nalcor maintained 100% control over the development and operation of MF Plant, LIL and LTA.

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.

Nalcor 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.

Grant Thornton response – Grant Thornton agrees with Nalcor's statement above that the opposite also holds true.

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.

   Nalcor 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.

   Grant Thornton response – Grant Thornton agrees this is a factual error in our report. As a result, the finding related to sharing of third party development costs on Page 3, Lines 33 to 36 / Page 14, Lines 16 to 17 / Page 15, Lines 4 to 6 is incorrect.

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.

   Nalcor 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.

   Grant Thornton response – Grant Thornton agrees with Nalcor's statement above and has noted the transmission rights as a benefit to NL's taxpayers in the report on Page 4, Lines 33 to 37.

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.

   Nalcor 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.

   Grant Thornton response – Section 5.8 (a)(iv) of the Amended & Restated NLDA sets the requirement for the General Partner to establish the Partnership Target DER. Nalcor and Emera are required to notify the General Partner of their respective target DER and

the General Partner shall calculate the weighted average of those Target DERs and the result shall be the target DER for the Partnership. The FLG financing does not provide the overall target DER for the LIL LP, but establishes the maximum allowed DER of 75:25 once the FLG debt is exhausted.

Grant Thornton concludes the statement on Page 4, Lines 17 to 23 is correct. Assuming Emera establishes its target DER at the maximum 55:45 and Nalcor establishes its target DER at 75:25 (as shown in the example included in Schedule 1 to the Amended & Restated NLDA), this would result in a target DER for the Partnership of 69.2:30.8 which represents a higher relative equity investment in the Partnership compared to if Nalcor were to make the LIL investment on its own at a DER of 75:25. The relative equity investment of the Partnership will become higher if the Emera investment in LIL becomes higher (if, for example, cost overruns on the capital costs of the transmission assets requires a larger additional investment from Emera). This is because the higher target DER of Emera will increase the target DER of the Partnership as the percentage of required investment from Emera increases.

Nalcor may, at its discretion, adjust its Target DER to bring the Partnership Target DER to the maximum allowed of 75:25, but it is not a requirement of the Amended & Restated NLDA and inconsistent with the example included in Schedule 1 to the Amended & Restated NLDA.

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.

   Nalcor 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.

   Grant Thornton response – Grant Thornton accepts Nalcor's opinion that the risk of importing energy to fulfill its obligations under the EAA is very low. This is supported by the Morrison Park Advisors Inc. report – Review and Consideration of the Energy Access Agreement and Related Information dated November 7, 2013, Page 5, Lines 15 to 20.

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.

   Nalcor 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].

   Grant Thornton response – Grant Thornton agrees this is a factual error in our report. However, the correction does not have any impact on our findings.

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.*"

   Nalcor 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].

   Grant Thornton response – As part of Grant Thornton's request from the Commission, Grant Thornton was asked to provide explanations that were not overly technical and that were also understandable to the general public. Grant Thornton accepts that the wording in our report related to the sharing of ML cost overruns could be more detailed and precise. However, this correction does not have any impact on our observation that ML's cost overruns are shared on a 5/5/10 basis between Nalcor and Emera.

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.

   Nalcor 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.

   Grant Thornton response – Grant Thornton agrees this is a factual error in our report. However, the correction does not have any impact on our findings.

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.

   Nalcor 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.

   Grant Thornton response – Grant Thornton agrees this is a factual error in our report. However, the correction does not have any impact on our findings.

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.

   Nalcor 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].

Grant Thornton response – Grant Thornton agrees this is a factual error in our report. However, the correction does not have any impact on our findings.

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

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

    Grant Thornton response – As part of Grant Thornton's request from the Commission, Grant Thornton was asked to provide explanations that were not overly technical and that were also understandable to the general public. Grant Thornton agrees the wording in our report related to allocation of losses related to Class C shares was factually incorrect. The reference should have been limited to "right to receive income" rather than "right to receive income and be allocated losses". However, the correction does not have any impact on our findings.

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."

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

    Grant Thornton response – Grant Thornton agrees this is a factual error in our report. Section 5.11 (a) of the NLDA states that Emera and Nalcor shall each guarantee to the other the respective obligations of their respective wholly-owned subsidiaries (except for the General Partner), who are Nalcor LP and Emera NL. That guarantee would only apply to Nalcor LP's and Emera NL's obligations to the LIL LP (e.g. required capital contributions), but not LIL LP's debt itself. However, the correction does not have any impact on our findings.