

# Lower Churchill Financing Considerations

Presentation to NL Department of Finance

Boundless Energy

**“Confidential”**



September 2, 2010

# Overview

- Proposed Configuration
- Equity Requirement
- Need for the Project
- Business Case for the Project
- Financing Strategy and Related Steps
- Possible Project Enhancements

# Proposed Configuration

<b>Muskrat Falls</b>
<b>Island Link</b>
<b>NL Hydro as sole off taker</b>

Lower Churchill Project Decision Gate 2 planned for **September 25, 2010**, at which time above alternative will be announced

# Equity Requirement

\$3.0 billion Base Equity

+

\$0.3 - \$0.6 billion Contingent Equity

# Rationale for Equity Financing

- Consistent with Energy Plan..... *“Leverage our non-renewable oil and gas wealth into a renewable future by investing a significant portion of our non-renewable resource revenues in renewable energy infrastructure and development”*
- Provide commercial flexibility to achieve long-term development and policy objectives
- Some added reliance on equity financing necessary as capital market recovery not complete
- Facilitates Muskrat Falls early sanction prior to having environmental permit and financial close for the Island Link
- Reduces the complexity of the deal – provides Nalcor and NL with more control over the deal – debt financing in Muskrat would introduce complexity
- Enables Lower Churchill Project to pass thru Decision Gate 2 on September 25

# Project Need

- Decision required within next 6 months on next generation source required to meet NL's domestic needs
- Muskrat Falls and Island Link considered the most viable configuration to address this

# Business Case

- The business case is predicated on the following:
  - Muskrat Falls with an Island Link is the least-cost alternative for the Island
  - The Muskrat Falls project is economically viable and can be sanctioned based solely on sales to NLH and assuming 100% equity financing
  - The remainder of the production from Muskrat Falls (initially 2.9 TWh, declining as Island load grows) will be spilled
- The second portion of the business case involves developing a plan to monetize “the spill”
  - This work is intended to improve the business case and reduce risk, but is not required to sanction Muskrat Falls

# Financing Strategy - Key Considerations

- Key factors impacting our strategy include:
  - Scope of the Lower Churchill project
  - Ownership
    - o Nalcor desire to retain ownership of the generation facilities
    - o Less need for ownership of transmission (long-term access is key)
    - o Equity opportunities for strategic partners has been priority
  - Maintaining tax-exempt status is important
  - Availability of reasonable cost debt financing (7 - 8%) for the Island Link
  - Island Link is a key component of Holyrood Replacement, supporting inclusion in rate-base



# Financing Strategy - Overview

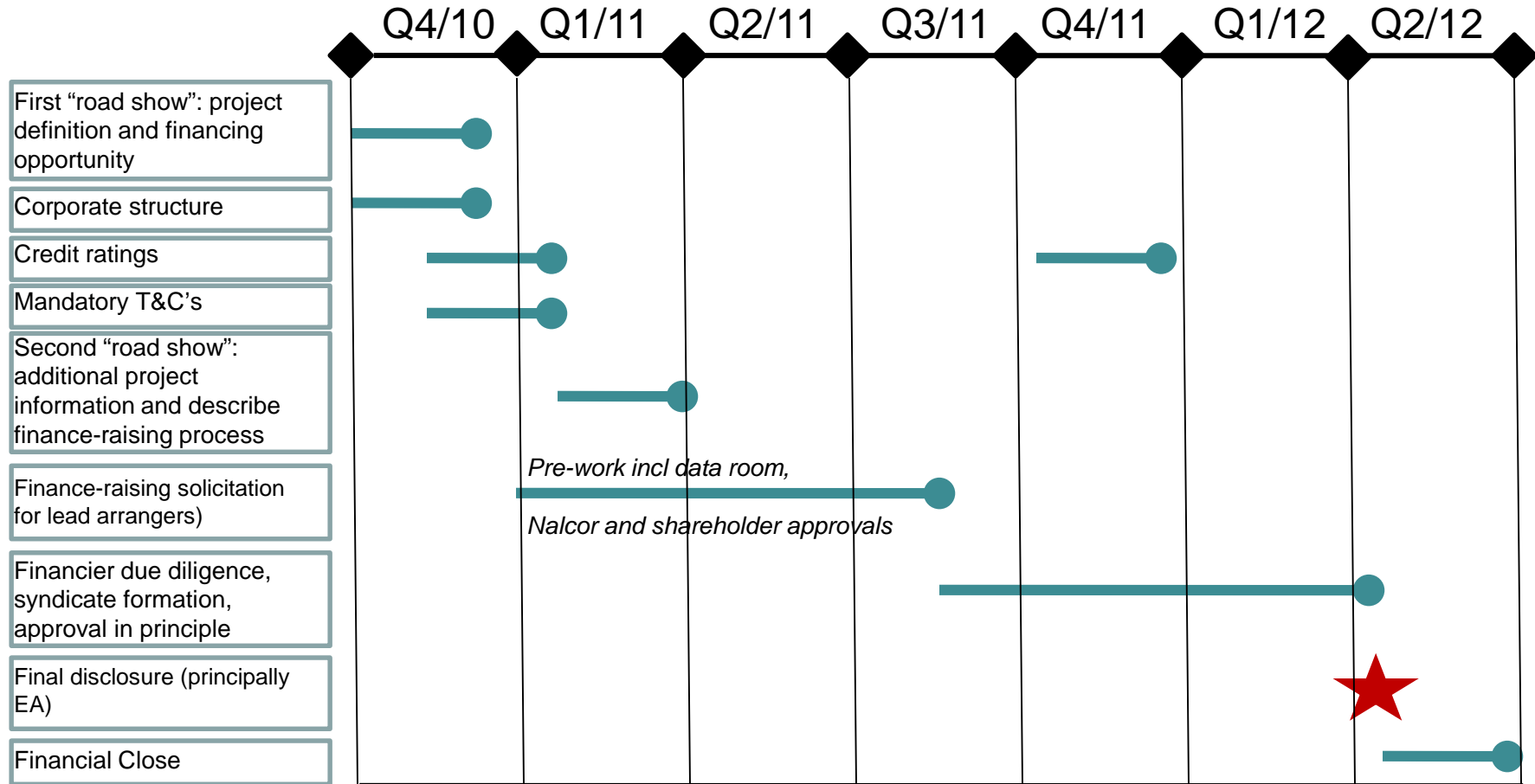
## MUSKRAT FALLS

- Plan to finance with 100% equity
- Will require “contingent equity” to back-stop any shortfall in capital cost overruns
- After first power, consider refinancing Muskrat Falls with debt and redeploying the equity to develop Gull Island

## ISLAND LINK

- Plan to finance with 75% debt and 25% equity
- Will require “contingent equity” to back-stop any shortfall in capital cost overruns
- The Island Link debt financing will be driven by the following factors:
  - Costs related to the Island Link will be included in the NLH rate base
  - Certainty regarding recovery of the costs in rate base and ROE
  - NLH is a credit-worthy off-taker with debt guaranteed by NL
  - Cost-overruns will be covered by contingent equity
  - Objective is to avoid a call on a debt guarantee from the Province by securing an investment grade credit rating for the Island Link

# Finance-Raising High Level Work Plan



★ Financial close aligned with planned environmental release date for Island Link; i.e. March 2012

# Financing Strategy - Key Assumptions

- Capital expenditures for Hydro, Churchill Falls, Hebron, Hibernia South is financed with existing cash flows
- No dividends paid to Shareholder prior to 2018
- PIRA Oil Price Forecast (for revenue projections)

# Investment & Financing Profile (2010-17)

(\$ billions)	MF/ Island Link
Investments	
Muskrat Falls	3.0
Island Link	2.7
<b>Total Investments</b>	<b>5.7</b>
Financing	
Base equity requirement from NL	3.0
Nalcor Cash Flows	0.7
New Debt – Island Link	2.0
<b>Total Financing</b>	<b>5.7</b>

# Possible Project Enhancements

- Possible strategies for the monetization of Muskrat Falls spill
  - Maritime Link with Emera as off taker
  - Non-firm or firm sales through NS into NB and beyond
  - Use remainder of available firm 250MW transmission booking through Quebec
  - Champlain-Hudson Power Express to access NYC market
  - Additional firm transmission booking on HQT system
- Addition of leverage into Muskrat Falls capital structure
- P3 assistance

# Financing Strategy - Summary

## Phase I

- Muskrat Falls – 100% equity
- Island Link – 75/25 debt-equity

## Phase II

- Muskrat Falls – possibly refinance with debt
- Gull Island – use funds from Muskrat refinancing as equity investment into Gull