

**DRAFT
CONFIDENTIAL**

DG3 Alignment Session

August 3, 2012

Boundless Energy

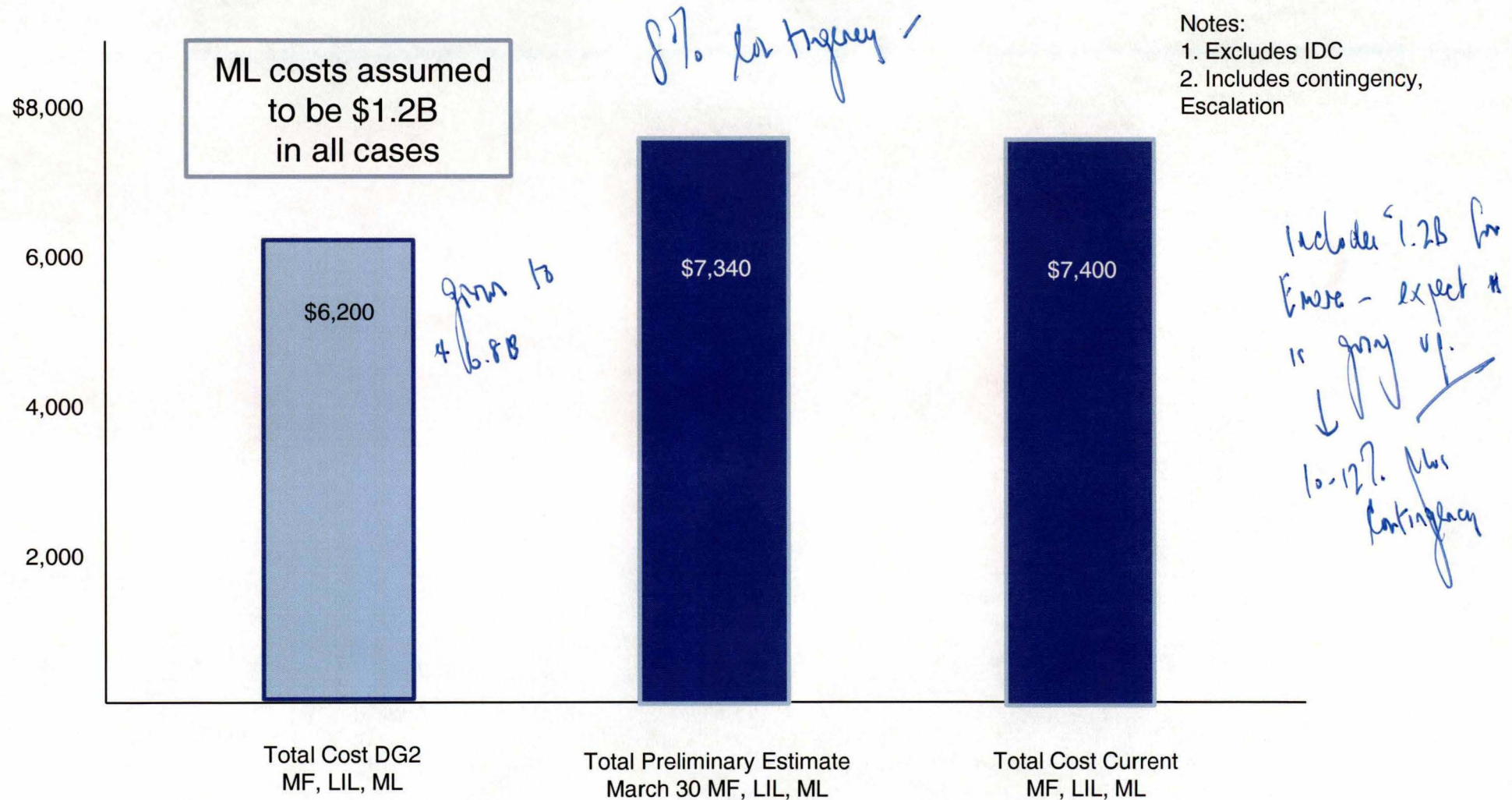


Key Messages

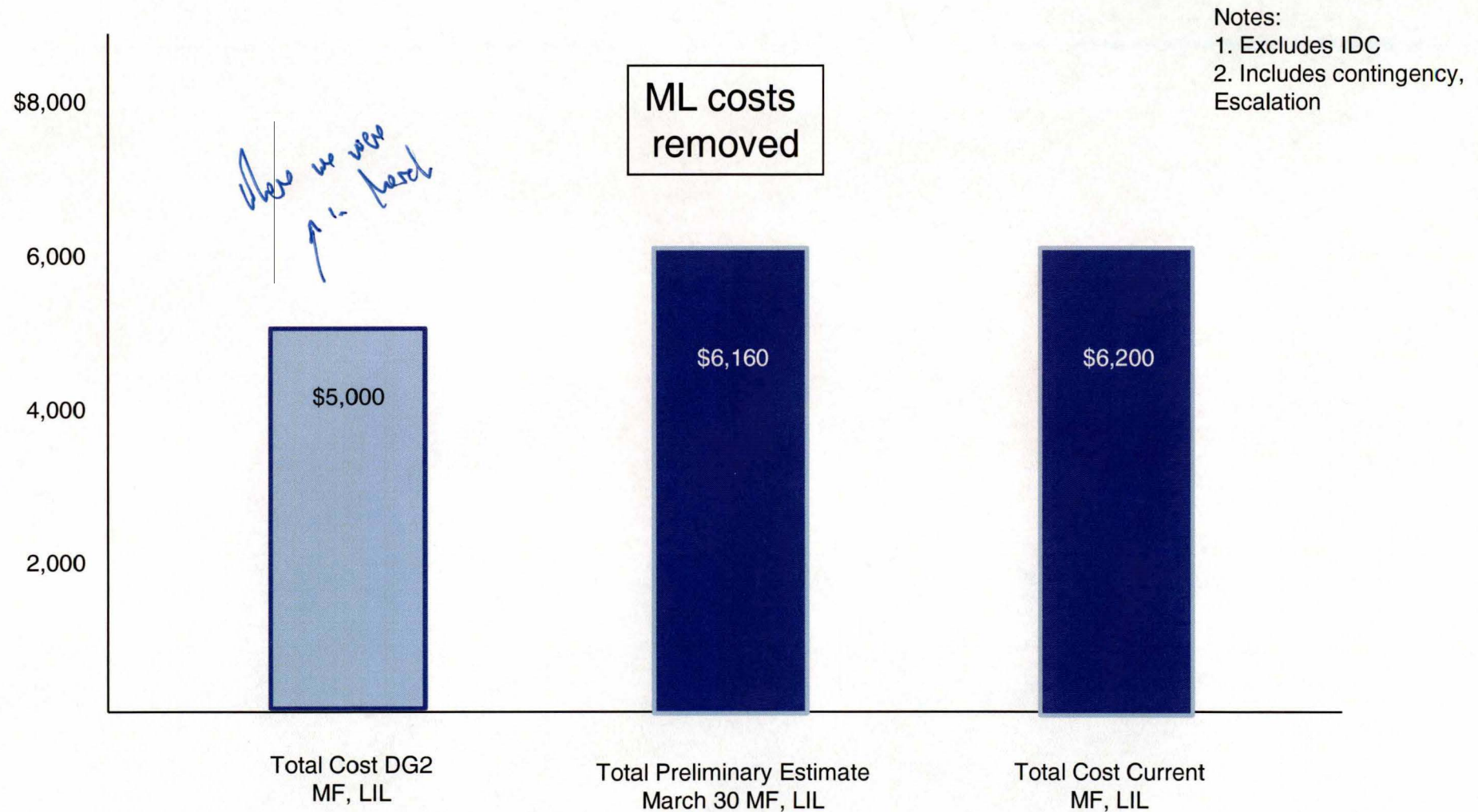
- Analysis has confirmed the viability of Muskrat Falls as the optimal least cost alternative for meeting energy needs of province. This holds true even without including the value of the FLG
- Cost estimates are consistent with previous briefings to Government
- Alignment on messaging is critical as we move towards House debate

Cost estimates

Anchoring back to DG2, Mar. 30, 2012



Anchoring back to DG2, Mar. 30, 2012



Why the change in cost estimates?

Amesce Assoc & Cost Engineering

- Revised estimates fall within AACE range as explained to PUB
- Adjustment from 2010\$ to 2012\$ (\$166mm)
- Project engineering has increased from 4% to >50%. Increased project definition between DG2 and DG3 is typically when cost estimates change e.g. Hebron

Why the change in cost estimates?

- Significant increases in transmission costs (\$600mm)
 - Increased size of LIL cable to minimize line losses, increase reliability and maximize revenue for NL
 - Meteorological analysis required changes to tower design – more and bigger towers resulting in increased quantities of steel, concrete, aluminum, person hours
 - Constructability analysis indicated a need for more helicopter construction, access roads, staging areas
 - Actual bids have now been received for transmission equipment/construction
 - General increases in Labour

Why the change in cost estimates?

- Increases in MF power house, spillway, dam and reservoir costs (\$300mm)
 - Adjustments to plant configuration due to computer and physical modeling
 - EPCM contractor developed 3D CADD model – refined estimates for concrete, rebar. Required additional rock removal
 - Power house alone requires 3x more concrete than Hebron GBS, resulting in increased hours and costs
 - Power house had to be reoriented to optimize flow to all units

Why the change in cost estimates?

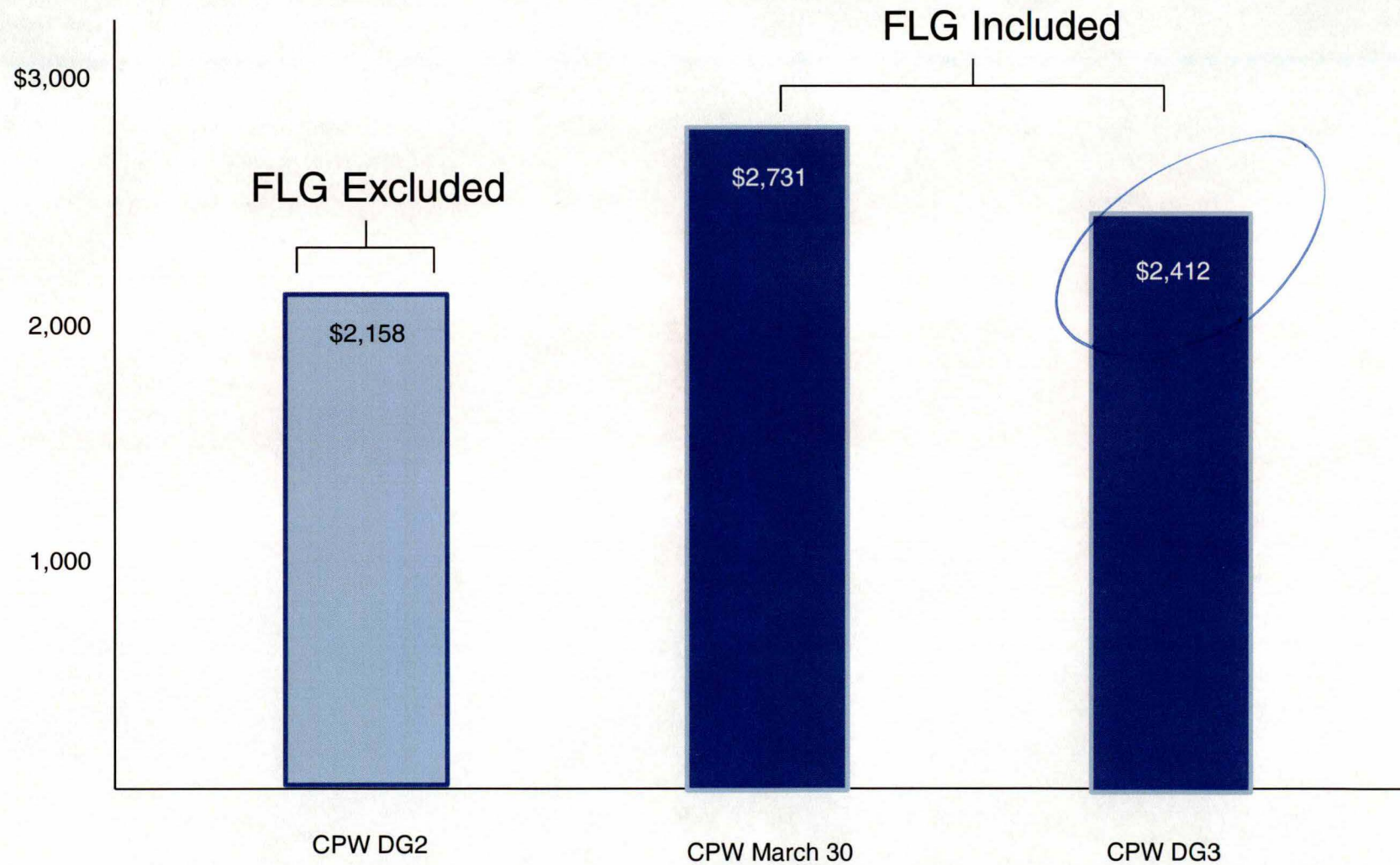
- Significant increases in EPCM and owner costs (\$250mm)
 - EPCM contract awarded after DG2
 - Benefits strategy negotiated after DG2
 - 95% of engineering completed in NL. Significant premium to attract and retain workforce in St. John's
 - Strong competition for experienced personnel from Hebron, Vale Inco and across Canada
 - Release from generation EA two years later than expected resulting in delays to sanctioning, increased carrying costs for Nalcor

Why the change in cost estimates?

- Note: Emera has not finalized its DG2 cost estimate for the Maritime Link. We fully expect there will be additional pressures on Maritime Link transmission construction costs

CPW

Anchoring back to DG2, Mar. 30, 2012



Why has the CPW changed?

- At March 30, 2012 CPW continued to trend greater than \$2.2B with the Federal Loan Guarantee included
- Adjustment from 2010\$ to 2012\$
- Reduced discount rate from 8% to 7% consistent with current NLH WACC
- PIRA forecast decreased 5-10% below DG2 estimates
- Interconnected Capex estimate increased but within AACE standards. Isolated Capex increased more than expected

Why has the CPW changed?

- Reductions achieved through financing costs which has a greater benefit for the Interconnected option

Why has the CPW changed?

- Nalcor has already integrated 54MW of wind and committed to an additional 25MW in 2014-2015
- Nalcor's 2010 PUB submission identified the possibility of 200MW additional wind to Isolated system, requiring detailed further study
 - Further analysis confirmed integration of 200MW of wind is possible but can occur earlier than anticipated at DG2
 - This has a material impact on CPW preference

What does this mean for DG3?

- CPW now estimated to be approximately \$2.412B, including the Federal Loan Guarantee
- Federal Loan Guarantee is estimated to represent approx. \$1.1 of CPW
- The CPW analysis reflects only a direct comparison of Isolated to Interconnected options. It does not include significant other economic benefits to NL as a whole including:
 - Export sales revenue of more than \$600mm to 800mm
 - Carbon costs of \$500-600mm

What does this mean for DG3?

- This estimate does not include:
 - Incremental tax revenue to NL of \$100-150mm
 - Return on Equity to NL net of financing costs of \$700-800mm
 - Net NL labour and business income benefit of \$500-600mm
 - Use of PIRA expected price forecast vs PIRA reference case as per MHI commentary - \$500-600mm

Analysis

- CPW remains robust despite significant drop in oil price forecast and changes to cost estimates
- Project is viable with removal of the loan guarantee – CPW preference is \$1.3B

Issues and Messaging

Additional issues requiring discussion

- Strength of “Quebec” messaging
- \$600mm in investment in Emera infrastructure
- Who pays for cost overruns
- Supplemental power

Release of capital costs

- A decision is required as to when capital costs should be issued:
 - Prior to release of MHI report
 - Concurrent with release of MHI report
- Current status:
 - Government and Nalcor have confirmed that costs are increasing for both MF and Isolated scenarios
 - Costs have become a focal point for Opposition and media
 - Costs have been shared with Federal Govt. and Emera

Release of capital costs

- Advantages of releasing costs:
 - Addresses issue before sanctioning
 - Allows sanctioning message to be positive, enables additional communications opportunities
 - Occurs during summer months
- Disadvantages of releasing costs:
 - Allows critics to focus on a single issue until a sanctioning decision is made
 - May prompt calls for additional information eg CPW
 - Will give project detractors motive and opportunity to increase their efforts

Release of capital costs

- Methodology
 - Order of magnitude in a speech, with appropriate commentary
 - Full cost details in a news conference
 - Full cost details + CPW in a news conference

Confidence in project

- Government must decide an appropriate time to acknowledge that the project is proceeding
- Current status
 - Both Premier and Minister have stated that they believe MF is the best alternative for meeting the energy needs of the Province
 - Neither has seen anything that has changed their opinion. However, they have not seen the final analysis from Nalcor

Confidence in project

- Options
 - Upon release of MHI findings
 - Before release of cost data
 - Upon release of cost data

Additional issues requiring discussion

- Strength of “Quebec” messaging
- \$600mm in investment in Emera infrastructure
- Who pays for cost overruns of ML – Emera vs Nalcor
- Supplemental power

House of Assembly debate

- Current status:
 - Debate will mirror Voisey's Bay debate proceedings
 - Three days in length
 - Resolution introduced, all Members speak, vote
 - Question period will be dedicated to Muskrat Falls
 - Allotted speaking time:
 - Premier, Minister, Opp. Leaders, Critics speak for one hour
 - Remaining Members speak for 20 minutes
 - Premier has additional 20 minutes to conclude

House of Assembly debate

- Current status:
 - Media technical briefing, caucus briefings and materials will be provided two weeks in advance of the debate. Materials will include:
 - DG3 deck containing costs, CPW, benefits
 - MHI report
 - Updated PUB report – to be confirmed
 - Briefing note on additional benefits for Govt. caucus
 - Select briefing notes

House of Assembly debate

- Current status:
 - Every two to three days after the initial briefing the following materials will be released
 - Natural gas papers – LNG and Pipeline
 - Wind studies – Hatch + MHI
 - Labrador mining potential + benefits
 - Why not import energy?
 - Demand?
 - Rates?
 - Legislation will not be introduced until Fall session. This will be explained in technical briefings

House of Assembly debate

- Current status:
 - Key ministers who need to be available for QP, call in shows, media support
 - Premier, Minister Kennedy lead
 - Finance
 - Labrador and Aboriginal Affairs
 - Environment
 - Justice
 - Advanced Education and Skills

House of Assembly debate

- Current status:
 - Caucus will be divided into 6 groups and briefed on their role over the coming weeks. Themes include:
 - The business case for Muskrat Falls
 - The big picture benefits of Muskrat Falls
 - Developing the energy warehouse
 - Why we need to circumvent Quebec
 - Newfoundland and Labrador Benefits
 - “Hit squad” incl. Grimes 2003 deal

House of Assembly debate

- Sample messaging for NL benefits:
 - This project puts the interests of NL before all others
 - Government and Nalcor have adopted a benefits strategy which features a hiring preference for qualified Innu first, then qualified Labradorians, followed by others from the Province
 - An Impacts and Benefits Agreement has been negotiated with the Innu Nation, the only aboriginal group who has a land claim recognized by Canada
 - All non-specialized engineering will occur in this Province. In fact, to date 95% of engineering has been completed in NL

House of Assembly debate

- Sample messaging for NL benefits:
 - At peak employment, approximately 2,700 people will be working on the Lower Churchill Project
 - An average of 1,150 people will work in Labrador each year, and more than 75% of the direct labour for the MF Generation Facility will be undertaken in Labrador
 - Total income to labour and business will be approx. \$1.43 billion. Approx. \$450 million in income to business and labour will be earned by Labradorians and Labrador based business.
 - Total taxes to the provincial Treasury will be \$212million

House of Assembly debate

- Sample messaging for hit squad:
 - The Liberals have no credibility when it comes to the Lower Churchill, and neither do the NDP. Their own federal parties support it. They are just interested in opposing for the sake of opposing it.
 - This is how the Liberals wanted to develop the LC in 2003
 - No transmission line to the Island (or Labrador coast?)
 - Quebec would finance the project using revenues from the Upper Churchill

House of Assembly debate

- Sample messaging for hit squad:
 - 2003 agreement continued
 - No guarantee of ownership, management and control of the project by NL
 - Quebec courts decide major financial matters
 - NL can only recall power at a price greater than what Quebec originally paid for it
 - NL could lose the Lower Churchill project to Quebec under financing conditions
 - NL would be losing money under current economic conditions

House of Assembly debate

- Outstanding issues:
 - Timing of debate – 3rd week September vs late October
 - When to consult opposition parties
 - Who will step up as 3rd party speakers?
 - Can debate proceed without completion of the FLG

House of Assembly debate

- Other:
 - Advance school debate using twitter. Students to be invited to House for part of debate or can watch via internet? – Min. Jackman
 - Open letter to news papers week before and after debate