Date : 10/16/2009 1:18:01 PM
From : "Sharpe, Dennis"
To : "Hurley, Brian" , "Constantine, Robert" , "Paddon, Terry" , "Myrden, Paul" , "Cardwell, Jim"
Subject : FW: Gull (Confidential and Commercially Sensitive)

Below are responses (in blue) from Kent Legge at Nalcor to some questions we had.
Dennis

From: KentLegge@nalcorenergy.com [mailto:KentLegge@nalcorenergy.com]
Sent: October 16, 2009 12:58 PM
To: Sharpe, Dennis
Subject: Fw: Gull (Confidential and Commercially Sensitive)

HI Dennis,

Please find responses to your queries, below.

Have a great weekend!

Kent
----- Forwarded by Kent Legge/NLHydro on 10/16/2009 08:23 AM -----

"Sharpe, Dennis" <dsharpe@gov.nl.ca>

10/13/2009 12:16 PM

To <KentLegge@nalcorenergy.com>
cc "Hurley, Brian" <bhurley@gov.nl.ca>, "Constantine, Robert" <rconstantine@gov.nl.ca>, "Cardwell, Jim" <jcardwell@gov.nl.ca>
Subject Gull

Hi Kent,

It has been very helpful having a copy of the PWC Gull model. With it, we have been able to better understand the financial aspects of the analysis. As you have said, without it, we can not replicate (and understand) the financial aspects of Gull.

Terry Paddon, our deputy minister, asked for similar information on the Maritime Link and the Island Infeed. Correct me if I am wrong, but the PWC model provided is Gull only. Again, the information needed is detailed enough to model (to an extent) the financial aspect of your analysis – whether, this requires the model is again your decision. In any event, we need to understand Nalcor's assumptions surrounding financing, in a fairly detailed manner.
We will supply an additional disk with the model run for the Maritime Link, and also our projections for the Island Infeed.
Furthermore, there are several questions regarding the Gull PWC model:

1 – Indexed debt – we seem to understand the mechanics of the indexed debt, but can you provide a rational for using such.
Debt instruments which are linked to an index such as CPI are available in the Canadian market, and common in some markets such as the UK. These instruments carry a low "coupon" rate. In contrast to conventional instruments in which the yield incorporates lenders' expectations of future inflation, these instruments transfer inflation risk to the issuer and so carry a lower yield. The principal is indexed to the change in CPI, and the interest is calculated on this rising principal amount. Such debt instruments can be a good fit in projects where the revenue proceeds from which debt is serviced, tend to rise systematically over time, either due to a contractual agreement (indexed selling prices), or a reasonable expectation (based on historical data and in-depth market research) that prices will rise over time. The key benefit to issuers is the lower initial debt service, perhaps in the order of 20%. As index-linking on PPA pricing is a probable contracting tool for Nalcor, CPI-linked debt instruments have been modelled on a preliminary basis. To the extent that Nalcor's market strategy for Gull Island changes, the debt instrument strategy is also subject to change.

2 – Transmission costs - In the PWC Gull model transmission costs are treated as O&M. In the past there was a construction component as well as O&M. Can you explain the difference in approach?
Transmission investment and operating costs are modelled as de facto regulated assets separately using the PWC financial model as utilized for Gull Island. These transmission costs are included in the Gull Island analysis only for the purposes of accounting for all expenses associated with delivering project energy to the specified markets in order to calculate NPVs and IRRs for the Gull Island generation project itself.

3 – Equity – we need further clarification on the 'source' of equity. The equity figures in Gull total $4,411.64. Is any of this equity funded by Nalcor's internal retained earnings or is it 100% government funded? If so, can you provide a break down of the sources of equity?
As can be seen on the projected Cash Flow statement for Nalcor for the June projection run (included in the info sent on Aug 17), assumed equity injection from the Province is approximately $3,980. For this projection run, additional funding required for the Lower Churchill Project are assumed sourced through a combination of internal Nalcor cash flow and debt financing at the Nalcor level, as detailed in the Nalcor projected statements sent Aug. 17th.

4 – Bank loan payments – what frequency are the payments – semi-annual or monthly?
Loan payments are semi-annual.
Also, re question 3, we need the (monthly/semi-annual) equity requirements for the Maritime link and the Infeed identifying the sources of equity as well.

Thank you,