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Subject : LCP
Attachment : Provincial Government Approves Lower Churchill Development.doc;

Attached is an overview BN that I have begun to go at the front of the book, framed more in our perspective. It also contains a (growing)list of questions for which we will need to generate answers for Q/A purposes. Lets get the group together tomorrow for a briefing book update. See if Leona is available to join us.

Provincial Government Approves Lower Churchill Development

1. Project Recommended by Nalcor

   The Provincial Government has approved the key elements of a development plan for the lower Churchill hydroelectric project. This approval is based on a submission to the government by the Board of Directors of Nalcor that recommends: 1) Muskrat Falls be used as the next generation source to meet future electricity needs inside the Province, and 2) surplus power from Muskrat Falls project be monetized through a maritime link for the export of energy.

2. Next Generation Source for the Province

   Newfoundland and Labrador Hydro, a subsidiary of Nalcor Energy, is mandated by the Public Utilities Board to forecast electricity requirements in the province and bring forward the lowest cost option for meeting these requirements. Nalcor has estimated that an energy capacity deficit will emerge in the province by 2015, and an actual energy deficit will emerge by 2019, even taking into account the surplus power available from the closure of two pulp and paper mills. Therefore, Nalcor evaluated alternatives to develop new generation sources to avoid this deficit. Nalcor assessed five realistic alternatives and found the Muskrat Falls project with a transmission link to the Island to be the lowest cost alternative. Muskrat Falls can produce 824 megawatts of electricity, more than enough to take the Holyrood thermal generating station off-line, avoid expensive capital upgrades to the Holyrood plant, and meet the electricity demand growth in the province up to 2041. The Muskrat Falls option is also more environmentally acceptable than maintaining an “isolated” Island power system, which would retain Holyrood in operation as a major source of greenhouse gases.

3. Stable and Comparatively Lower Consumer Electricity Rates

   If Nalcor had recommended the continuance of an isolated Island system, the impact on electricity consumers would be comparatively higher electricity prices due mainly to escalating oil prices and the mandatory upgrading of the Holyrood station to deal with pollution abatement. In contrast, even though consumer electricity rates will also increase under the Muskrat Falls option, once the facility is in operation the energy price structure in the province will be stable over a long period of time and will avoid the volatility associated with the price of oil.

4. Realizing Value in Surplus Power – the Emera Deal

   While Muskrat Falls/Island link project stands on its own as a necessary and viable project, the surplus water during the next 30 years represents potential value to Nalcor and the Province. Therefore, Nalcor has negotiated an [agreement in principle] with Emera to utilize 20% of the electricity from Muskrat Falls. In

return for this energy, Emera will invest an amount equal to 20% of the costs of the three-part capital project project – Muskrat Falls generation, Island Link transmission and Maritime Link transmission. Emera's 20% investment will be tied to transmission assets only, essentially the Maritime Link. Additionally, Emera will pay 20% of the ongoing operating costs of the overall three-part project for the xx year life of the agreement. On top of obtaining a secure long term customer for power and an investor in the project, Emera has agreed with Nalcor that Nalcor has the right to use its transmission system in Nova Scotia and New Brunswick, all the way to a point of sale in Maine, to sell other available electricity directly into the marketplace.

5. The Emera deal brings enormous strategic value to Nalcor

   Emera is providing transmission capacity to the Maritime and New England markets for NL power. This deal allows NL to escape the geographic stranglehold represented by Quebec and given NL bargaining options that it never had before. The Emera partnership also allows Nalcor to leverage the knowledge, skills and reputation of Emera in energy trading.

6. Project not Sanctioned for Construction

   Government's acceptance of Nalcor's recommendation is a historic milestone in the development of the lower Churchill resource. However, certain critical milestones still remain before the start of the project is sanctioned for construction. Among these milestones are: 1) release of the generation project from environmental assessment; 2) [ratification of agreements with the Innu Nation]; 3) finalizing the agreement with Emera; and 4) completing pre-front end engineering work.

7. Capital Cost and Financing

   The estimated capital cost of the project is xx billion, with Nalcor and the provincial government providing 80 percent of that amount through a combination of debt and equity. The other 20% will be provided by Emera. The NL government will finance its share through an equity injection to Nalcor equal to 25 percent, and Nalcor will borrow the 75% balance.

8. Innu Nation Agreements Need to be Ratified

   Three agreements have been negotiated and initialed with the Innu Nation as a basis for proceeding with the lower Churchill project: 1) an Impact and Benefits Agreement with Nalcor; 2) an Upper Churchill Redress Agreement with the provincial government; and 3) a land claims agreement with the provincial government. The Innu Nation has indicated a preference to ratify these agreements after it finalizes its related negotiations on land claims with the federal government. The provincial government understands this goal and has

encouraged the federal government to proceed expeditiously. However, given the compelling reasons for beginning the project in 2011, including the fact that market opportunities could disappear without timely approval, the provincial government is working closely with the Innu Nation to build the basis for timely approval.

9. Gull Island will be Built as Phase 2

   Gull Island generating station will be built as phase 2 of the lower Churchill project. Although originally slated as phase 1, the negative rulings by the Regie de l'Energie in Quebec caused a reconsideration of the best phasing approach. Potnetial markets for Gull Island energy include the industrial customers in Labrador, or utilities in the Maritime provinces, New England, New York or Ontario. It is important to note that existing Upper Churchill recall power and future MF power will also be available for Labrador industrial development should it be required.

10. The employment and industrial benefits are significant, especially for Labrador.

    The lower Churchill benefits strategy ….

11. This project makes NL an environmental leader.

    This project will make our electricity system run on 98% renewable energy – a situation few jurisdictions in the world can boast. It is also the most significant measure we can take in the province to reduce our greenhouse gas emissions to the level we would like to attain by 2020.

Questions:

- What happens if oil prices do not increase as predicted? Will NL ratepayers be paying too much?
- Why are all the costs of the Island link being borne by NL ratepayers?
- Will NL need to adopt an OATT?
- What will happen to Labrador residential interconnected rates?
- Normal utility planning is for 10-15 years – why is this project using a 30-50 year horizon?
- What is the role of the PUB? Will it be asked to evaluate and verify the chosen option?
- What is the role of the PUB? Will it regulate the generation project or just the transmission project?
- Has there been an independent assessment of the data and assumptions underlying the MF and IL components as they affect ratepayers?

- What is the inferred sale price of power with Emera? How does this compare with likely prices charged to NL ratepayers?
- At the end of this project, what is the increased debt burden of NL taxpayers? Will our bond rating be downgraded? Will this cause an increase in borrowing costs?
- What is the status of a federal loan guarantee?
- What is the status of the P3 application?
- Does today's announcement mean that the project will move forward even without the federal assistance?
- Why is the Emera investment necessary? How does this compare with the role of Hydro Quebec in owning a third of CFLCo? What rights does Emera have to control the development?
- How much profit will Nalcor make on an annual basis when MF is up and running?
- If consumer electricity rates go up higher than the isolated island scenario, will the government use profits from the project to bring down those rates?