

Date : 11/13/2012 11:02:08 AM

From : "Kennedy, Jerome"

To : "Maclean, Heather"

Subject : Re: FYI: Questions from Dave Vardy and Ron Penney for APPROVAL

We will discuss when I get back.

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From: Maclean, Heather

Sent: Tuesday, November 13, 2012 10:49 AM

To: Kennedy, Jerome; Bown, Charles W.

Cc: Shute, Tracy

Subject: FYI: Questions from Dave Vardy and Ron Penney for APPROVAL

Just wanted to ensure you had both taken a look at Q and responses noted below (Ron Penney / Dave Vardy)

Heather

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From: Dawn Dalley/NLHydro

To: "Hammond, Lynn" <LynnHammond@gov.nl.ca>, "Power, Glenda" <glendapower@gov.nl.ca>, "Maclean, Heather" <heathermaclean@gov.nl.ca>

Cc: Karen O'Neill/NLHydro@NLHydro, Mandy Norris/NLHydro@NLHYDRO

Date: 11/09/2012 01:06 PM

Subject: Questions from Dave Vardy and Ron Penney for APPROVAL

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Questions from RP and DV

November 1, 2012

1. Did the original estimate of \$6.2 billion include a credit for the effect of the loan guarantee?

The loan guarantee does not impact capital costs and therefore a credit was not applied to capital costs at either DG2 or DG3. The loan guarantee will impact financing costs, which is one of many components that impact Cumulative Present Worth. As you know CPW is used to compare generation alternatives to determine least cost. At DG2 a sensitivity was calculated to determine the potential impact of the loan guarantee on the project. Given the advanced stage of discussions with the Government of Canada, the decision was made to include the value of the loan guarantee in the DG3 CPW analysis.

2. We understand that the current estimate of \$7.4 billion does include such a credit. Can you advise us of what the value of that is?

The DG3 capital cost estimate of \$7.4 billion does not include a credit. The loan guarantee will impact financing costs, which is one of many components that impact Cumulative Present Worth. The negotiation of the loan guarantee is in the final stages. If the negotiations conclude as we expect, the CPW numbers released are an accurate representation of the Muskrat Falls project. If there are any variations in the final loan guarantee, we will need to consider these variations before we make a final sanction decision on the project. In the interim the value of the loan guarantee is considered commercially sensitive.

3. We also understand that there are no cost increases factored in for the Maritime Link. Can you tell us what the percentage cost increases for our transmission costs included in the revised cost estimates are?

The estimates for the Maritime Link have not been updated since November 2010. Emera will update this estimate as part of its regulatory process. It should be noted that rate payers in Nova Scotia will be responsible for the costs of the Maritime Link.

Of the total change in costs between DG2 and DG3, HVdc overland transmission costs represent approximately 30% of the increase and HVac overland transmission represents approximately 5% of the increase. Estimates for the marine cable crossing in the Strait Belle Isle represent less than 1% of the increase.

4. At the PUB hearings you provided figures for interest during construction. We understand that those figures are not included in the cost estimate. Can you tell us what the estimated costs of interest during construction for the new estimated costs are?

For Muskrat Falls, Labrador Transmission Assets and Labrador Island Transmission Link, the costs for interest during construction, the equity component of Allowance for Funds Used During Construction ("AFUDC") and other capitalized financing costs is currently estimated to be \$800 million. These costs for the Maritime Link are the responsibility of Emera and the NS ratepayers.

5. When I was with the City, as new estimates based on more detailed engineering came forward, the range of expected variance was reduced. The original estimates carried a minus 30% plus 50% possible variance, I believe. I may have missed it but can you tell us what those figures are for the new cost estimate. I recognize that you are carrying a contingency.

The estimates at DG3 are considered to be commensurate with the requirements for a Class 3 estimate as defined by the Association for the Advancement of Cost Engineering (AACE) International, and have an expected accuracy range of plus roughly plus 10% to minus 10%. This range is reasonable given that approximately 50% of project engineering is now complete.

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