

**Date : 12/17/2010 11:28:34 AM**  
**From : "Bown, Charles W."**  
**To : "Beckwith, Judy"**  
**Subject : Meeting Note**  
**Attachment : Meeting Note.doc;**

**Meeting Note**  
**Department of Natural Resources**  
**Minister of Finance, Canada**  
**December 17; 3:00 pm**  
**8<sup>th</sup> Floor, Premier's Office**

**Attendees:****Department of Finance:**

Hon. Jim Flaherty, Minister of Finance, Canada  
 Andrew Rankin, Policy Advisor

**Premier's Office:**

Premier Dunderdale  
 Minister Skinner  
 Minister Tom Marshall

**Purpose of Meeting:**

No agenda has been provided, however, the intent of the meeting is to discuss the NL request for a loan guarantee for the Lower Churchill Project

**General Background:**

- The Churchill River in Labrador is a significant source of renewable, clean, electrical energy; however, the full potential of this river has yet to be fully developed. The existing 5,428 MW Churchill Falls Generating Station, which began producing power in 1971, harnesses about 65 per cent of the potential generating capacity of the river.
- The remaining 35% is located at two sites on the Lower Churchill River at Gull Island and Muskrat Falls. Combined, these two installations will have a capacity of 3,074 MW and the potential to produce almost 17 terawatt hours (TWh) of electricity annually. Equivalent production from coal fired generation would emit approximately 16 megatonnes (Mt) of carbon dioxide annually. The development is consistent with commitments made in the Province's Energy Plan.
- The first phase of the Generation Project will address the development of the 824 MW Muskrat Falls generating facility. The proposed 2200 MW facility at Gull Island will be developed in the second phase.
- The Labrador – Island Transmission Link Project is a proposed 1,100 km High Voltage direct current (HVdc) transmission system which would be the first of its kind in Newfoundland and Labrador. The transmission line would be constructed from Central Labrador to the island's Avalon Peninsula and includes:
- The Maritime Link will include 310 km of HVdc transmission - 130km overland in south-western Newfoundland and a 180 km subsea cable from Cape Ray, NL to Cape Breton, NS.
- The current estimated capital cost profile of those projects in which Nalcor Energy will have an ownership interest are:

**Capital Cost Breakdown**  
 (billions of 2010\$ Cdn)

Project	Construction Cost	Less Emera Share	Nalcor share
Phase 1 of Lower Churchill Hydroelectric Generation Project (Muskrat Falls)	\$2.9		\$2.9
Labrador-Island Transmission Link Project	2.1	\$0.6	1.5
<b>Totals</b>	<b>\$5.0</b>	<b>\$0.6</b>	<b>\$4.4</b>

- Nalcor's currently proposed financing sources for the Muskrat Falls and Labrador-Island Link projects are:

**Proposed Financing Sources**  
(billions of 2010\$ Cdn)

Financing Component	Amount
Equity from the Province of Newfoundland and Labrador	\$0.7
Equity from Emera	\$0.2
Equity from Nalcor Energy	\$0.7
Debt – Muskrat Falls Project	\$1.9
Debt – Labrador-Island Transmission Link Project – Nalcor Energy portion	\$1.1
Debt – Labrador-Island Transmission Link Project – Emera portion	\$0.4
<b>Total</b>	<b>\$5.0</b>

**Loan Guarantee:**

- NL is seeking a loan guarantee from the Government of Canada, commencing at financial close in October 2012, for the project debt components of Phase 1 of the Lower Churchill Hydroelectric Generation Project and the Labrador-Island Transmission Link, for an estimated aggregate amount of \$3.9 billion, over the full term of the related project debt.
- The primary purpose of the guarantee is to significantly enhance the credit quality of the underlying debt of each project. This action will yield significant and immediate economic value to the Province's ratepayers. It will also contribute to regional and national development and advancing Canada's goals for reducing carbon emissions.
- The secondary purpose of the guarantee is to make the debt investment more attractive to a broader range of potential investors with a view to creating real competition for price and deal terms – further enhancing direct economic benefits.
- The Maritime Link will be financed independently by Emera and does not form part of this request. The loan guarantee will, however, be extended to Emera's debt financing requirement for its portion of the Island Link.
- Nalcor has considered a number of guarantee options and assessed each on the potential benefit to ratepayers, the Province, the region and to the nation. The value of the Federal Guarantee was seen as the differential between debt costs for a federal Crown corporation such as CMHC/Canada Post and Nalcor which is estimated to be 200 – 250 basis points.
- Based on a 66%-34% debt equity ratio, the total amount of debt to be covered by a federal loan guarantee is estimated to be 3.9 billion. The amount breaks down as follows:

**Estimated Federally Guaranteed Debt**  
(billions in 2010\$ Cdn)

Component	Debt Total	Interest During Construction	Total Guaranteed Debt Estimate
Phase 1 of Lower Churchill Hydroelectric Generation Project (Muskrat Falls)	\$1.9	\$0.3	\$2.2
Labrador-Island Transmission Link Project – Nalcor Energy Component	\$1.1	\$0.2	\$1.3
Labrador-Island Transmission Link Project – Emera Component	\$0.4	\$0.0 <sup>1</sup>	\$0.4
<b>Total</b>	<b>\$3.4</b>	<b>\$0.5</b>	<b>\$3.9</b>

- The estimated net present value of the revenue requirement from Newfoundland and Labrador ratepayers is reduced significantly beyond the current business case as follows:
  - Labrador-Island Link transmission service - \$242 million.
  - Muskrat Falls power supply - \$526 million.
  - Total reduction in revenue requirement is \$768 million or an approximate 8% reduction in overall electricity rates during the analysis period.

**Ottawa Meetings:**

- NR, Nalcor, NS and Emera met with PMO on December 2, 2010. PMO was represented by Derek Vanstone, Deputy Chief of Staff, Andrea McGuigan, Policy Advisor, Economic Affairs, Environment and Energy Security and Sean Speer, Policy advisor and Manager, Stakeholder Relations. Derrick Vanstone is the former Chief of Staff to Minister Flaherty.
- PMO was provided with a short presentation on the project, its benefits to NL and NS and the need for federal assistance. Message was conveyed that this is a good project, can stand-alone without federal assistance, but that this is an opportunity for the federal government to participate in a project with strong regional and nation benefits.
- PMO advised that they were fully aware of the project and needed both NL and NS to provide them with the information necessary to address NL's request for a loan guarantee and NS request for Investment Tax Credits. There was no indication that the federal government would not entertain the request. At the same time, it was also not made clear that we would be successful in our ask.
- On December 14, 2010, Ed Martin met with Kevin McCarthy, Chief of Staff for Minister Flaherty. Mr. McCarthy was Deputy Chief of Staff when Derrick Vanstone was Chief of Staff at Finance. [REDACTED]  
[REDACTED] Ed delivered messages on the benefits of the project for Ontario and Quebec and Canada as a whole. He also advised that the benefits of a loan guarantee will flow to ratepayers and not corporate bottom line. In response to whether a guarantee was really needed, Ed acknowledged that the project could stand alone without assistance but characterized the assistance as a federal investment in a regional and national project that has a good business case and where the benefits will flow directly to Canadians.
- Ed was also asked to provide his perspective on opposition to federal support from Quebec. He noted that NL has the two best hydro projects in North America and that Quebec is doing everything to block those projects being developed, including engaging in uncompetitive behaviour. QC has reaped considerable benefits from the lop-sided Upper Churchill contract including financing their own transmission system. Ed stated that Premier Charest is inconsistent when he criticises Canada for its environmental record and future plans when at the same time he is blocking a national project that can improve Canada's environmental record. He also stated that there is no reason for the federal government to duck out of funding electrical transmission when it has been willing to invest in all other sectors, in particular the auto industry and aerospace. There was no strong indication from the meeting that we will be successful in our request for a loan guarantee.
- The discussion also touched on our application to P3 Canada and the request for additional information from the applicant. Ed messaged that we are preparing a response to the request. He also noted that we can work with P3 Canada on the timing of funds and take program support over 2-3 years instead of lump-sum.

- On December 16, 2010, a team from NL, Nalcor, NS and Emera met with Kevin McCarthy and Richard Botham, Director General in the Department of Finance. A presentation deck was delivered detailing the structure and benefits of a loan guarantee for the generation and Island Link projects and ITC's for the Maritime Link. McCarthy was initially interested in the status of P3 and wanted to know if we were abandoning P3 on favour of our new requests for a loan guarantee and ITC's. He was encouraged when we advised that a response to the information request would be submitted in January.
- [REDACTED]  
[REDACTED] In response to a direct question on whether he was signalling that a loan guarantee was not possible, he responded that he was not signalling, but that if a loan guarantee was provided, then it would be an exceptional circumstance. He went on to note that there have been exceptional circumstances where the federal government has made investments on areas of national importance.
- McCarthy messaged that they need to better understand the request and why they would make an exceptional decision to support this project. He said maybe they can make an exception but that is why they need to do their due diligence.
- [REDACTED]
- MacDonnell responded positively when advised that the loan guarantee was a long standing request for the project and that the letter was merely a formalization of this understanding. He messaged that we need to continue with P3 but that it was arms-length from Ministers.

#### Key Messages:

- The Lower Churchill project is a clean, green renewable energy project that will meet NL growing domestic needs for the next 30 years; it will enable us to close down our thermal generating plant and thereby reduce a significant source of GHG and other emissions, and it will enable NS to meet its legislated renewable energy targets.
- The project has surplus power available for sale which provides an opportunity for New Brunswick and PEI to also benefit. This makes the project a regional initiative and a demonstration of Atlantic cooperation.
- The project is viable and has a solid business case. Federal support represents an opportunity for the government to participate in a regional and national project that has significant business benefits for Ontario and Quebec during project construction. The federal government would also be supporting an environmental initiative by both NL and NS to reduce their thermal generating capacity and cause a significant reduction in GHG's and other emissions in Atlantic Canada.
- All the benefits from federal assistance will be passed on directly to ratepayers. It is estimated that federal support through a loan guarantee will result in an 8% reduction in electricity costs. The ITC's requested for Emera will result in a corresponding 2% decrease in electricity rates for NS.
- The loan guarantee will also alleviate the debt burden that the Government of Newfoundland and Labrador will carry. The amount of new debt the project will bring would be a significant addition to the existing debt load of the province. Reducing the debt burden will allow for investments in other areas of the economy including social welfare and development.

- Quebec opposition to federal support for this project rings very hollow and is self-serving. Concluding an arrangement with NS has eliminated the strangle-hold QC has had on the development of the world-class electricity projects in Labrador. It has also exposed QC's anti-competitive practices that have prevented this project from previously being developed. Specifically we reference the actions taken by Hydro Quebec to prevent access to its transmission grid.
- Unlike the United States, Canada does not have an open-access policy for electricity transmission and does not have a national regulator to monitor anticompetitive behaviour by established electrical utilities. NL has had to petition the US energy regulator, FERC, to step into a clearly Canadian issue to bring about fairness in electricity trade.

Prepared by: Charles W. Bown, Associate Deputy Minister

Approved by: Minister Skinner

December 17, 2010