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From : "Bown, Charles W."
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Meeting going well on FLG. Feds will have negotiating mandate in early June and have committed in the meantime to continuing meeting bi-weekly as we have over the past month to ask questions about the draft Term Sheet we've tabled and on the draft Emera – Nalcor agreements. A meeting of a smaller group on the specifics of some of the agreements is scheduled for next Tuesday.

I have receid so far, the following commitments……Canada is committed to getting the Term Sheets done before Sanction and also to having them ready for the HOA debate. They are also committed to providing a full credit replacement guarantee.

Because they don't have a negotiating mandate yet, Canada's issues with the Term Sheet and agreements couldn't be explicity stated. However, in typical federal form, they asked four "very important" questions which are really their negotiating issues.

1. Canada acknowledges NL's request for an unconditional commitment guarantee when the MF and LIL terms sheets are completed and understands why this is required. But they still feel that the ML must be part of the deal in order to receive federal support. They stated that NL will make legislative changes to ensure MF proceeds with sanction in the Fall but noted that ML sanction will not occur until next summer. The question was directed to NS.

   How does Canada receive the certainty that the ML will go ahead so that Canada can provide an unconditional guarantee to Nalcor that will enable it to proceed with project financing? Will NS be bringing forward legislation or regulation that guarantees that ML will proceed? Canada's objective in asking these questions is to receive an undertaking from NS and Emera that the project will proceed.

2. What is the risk that in the future NS or NL will bring in legislation that forces rate reductions in either province that has the effect of one or both parties defaulting on their debt and Canada being forced to realize on the loan guarantee? Canada's objective here is to receive an undertaking from each govt that no such action would take place during the life of the FLG.

3. What happens in the event of a default on the project debt? What security will be provided? Canada's objective in asking these questions is to note that, with a loan guarantee in place, there will be no incentive for Lenders to impose the normal project financing conditions on debt because they will be risk free (Feds will step in on any default). Canada would like to have the normal financing conditions included in the Term Sheet.

4. What happens if the actions for judicial review are awarded in favour of the applicants? Canada's objective in asking this question is to have an understanding from both governments and companies on how they will respond. This question is more to inform their Ministers should they ask.

Canada outlined their three objectives in completing (negotiating) the FLG, as follows

1. Provide the maximum value possible to the projects from the FLG (ie : lowest interest rate benefit)

2. Protect the federal government from unnecessary risks.

3. Ensure that they do not distort action that would normally take place in the absence of the FLG (how project lenders will approach financing the projects).

The meeting is continuing with the focus on specific questions about the project and the detail within the project agreements. I'll provide another update as necessary. We have already agreed to reconvene in two weeks.

Charles