

Lower Churchill Project

9 – Financial close / Completion Guarantees /

Corea

May 2018

Boundless Energy

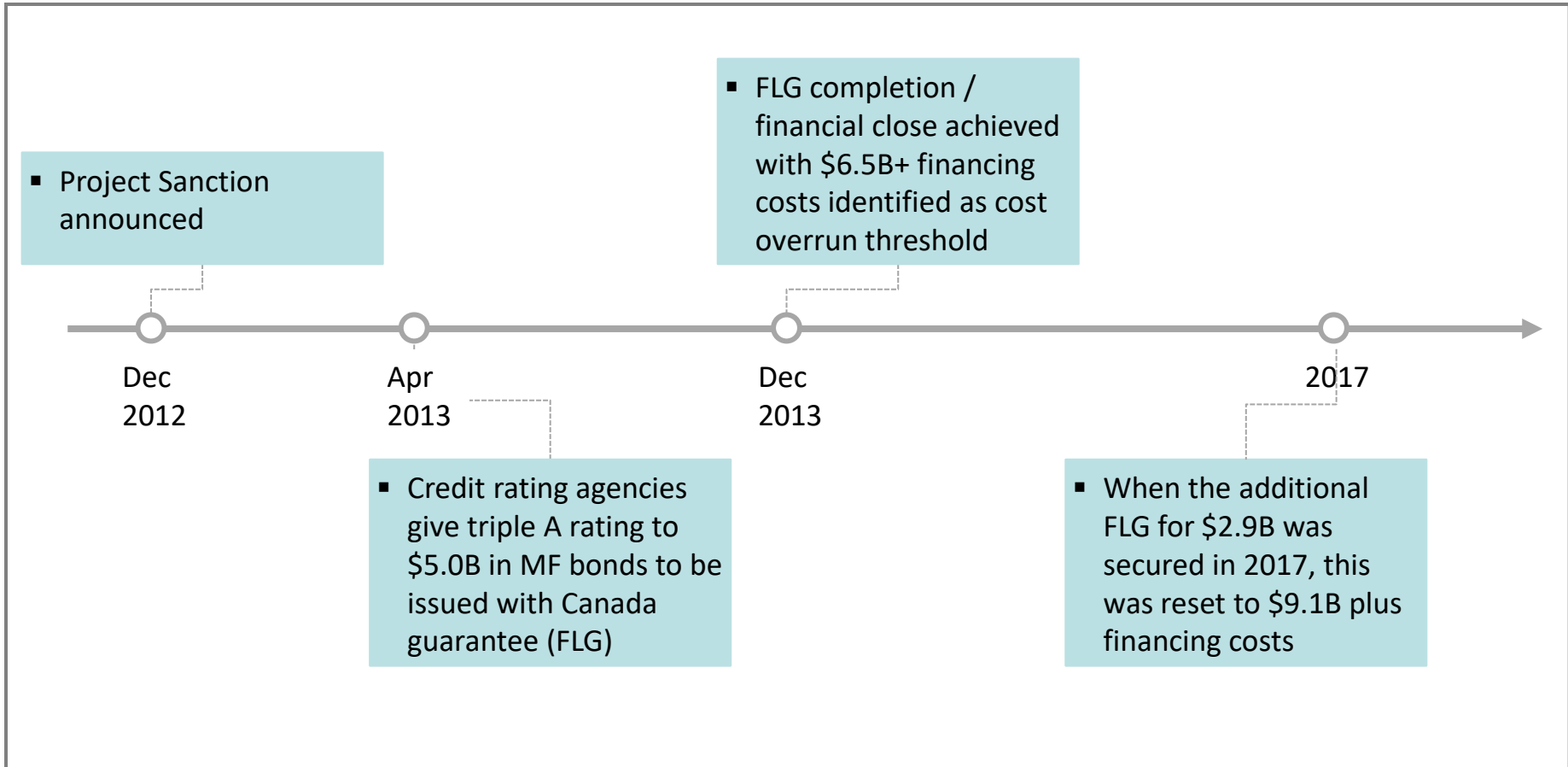


Privileged and Confidential in Contemplation of Litigation

Key financing and Federal Loan Guarantee points of note with respect to project execution

- Consideration in the project model and strategy
- Completion Guarantee from the Province as a form of Management Reserve
- Financial close delays Astaldi award
- Third party involvement in sanction and execution
 - Rating agencies
 - Independent Engineer
 - Legal and financial advisors
- Cost Overrun Escrow Account (COREA) payment definition impact on published cost update, timing

Summary of key events 2012 – 2017



Cost Overrun Escrow Account (COREA)

- A key provision of the FLG and Project Financing Agreement is the pre funded equity provision or **Cost Overrun Escrow Account (COREA)**, as applied to Cost Overruns
- It's a requirement where any forecasted Cost Overruns above a set baseline budget must be pre-funded with equity from Nalcor/NL annually (in December, the anniversary of Financial Close) through prorated installment payments based on the number of years remaining to full commissioning of the entire project
- The calculation is of Cost Overrun **was** based on a **baseline budget** threshold of \$6.5B **plus financing costs. When the additional FLG for \$2.9B was secured in 2017, this was reset to \$9.1B plus financing costs.**
- **A simplified example of the COREA payment calculation under the original FLG is as follows:**
 - Cost to Complete - \$6.5B = Cost Overrun amount
 - Pre funded equity payment = Cost Overrun amount divided by the number of calendar years remaining to the expected **full** Commissioning Date
 - If cost to complete is assumed to be \$7.3B and there were 4 years to the full power date (i.e. the Commissioning Date) - the pre funded equity payment would be \$7.3B- \$6.5B = \$0.8B, requiring GNL to pay \$0.8 divided by 4 = \$0.2B each year thereafter plus any further Cost Overruns

Cost Overrun Escrow Account (COREA)

- It was understood with Canada and the IE that only fixed and firm costs were to be considered in the Cost Overrun calculation. Therefore until there were firm, fixed and executed Contract costs available the DG3 estimate costs would be utilized, similarly Claims were not considered as a Cost Overrun until they were settled.
- The rationale was understood to be that costs that were not yet realized as fixed and firm were not part of the pre funded equity payment calculation, as inclusion of costs that may not be realized could trigger an over funding of COREA payments and cause unnecessary financial hardship to the Province.

Completion Guarantee by GNL

- The following slide was presented by Nalcor and GNL officials to the 3 Credit Rating Agencies as part of the Federal Loan Guarantee process
- It clearly states the intent of a NL contingent equity commitment
- This government assurance was memorialized in a letter on file from the then NL Premier to the then Nalcor CEO stating a firm commitment to provide “the base level and contingent equity support that will be required by Nalcor to support successful achievement of in service for MF, the LTA and the LIL, in cases with and without the participation of Emera.”

Key Risks & Mitigation (continued)

Risk	Description	Mitigation
Interest Rate Risk (All Projects)	Fluctuations in interest rates negatively impacting debt service	<ul style="list-style-type: none"> • Hedging strategy to be implemented at Financial Close • Full cost recovery through agreements with NLH
Operating Risks (All Projects)	Natural hazards or equipment failures could result in business interruptions, liability for damage or regulatory action for non-compliance with laws	<ul style="list-style-type: none"> • Property liability and D&O insurance • MF has four individual generating units • Installed spare cable across SOBI which can be quickly put in service • New equipment based on proven technology • NLH’s 40+ years of operating experience
Inflation Risk (All Projects)	Increases or decreases in inflation may adversely impact operating costs	<ul style="list-style-type: none"> • Full cost recovery through agreements with NLH
Regulatory Risk (All Projects)	Changes in government regulations materially affect the operation of MF/LTA	<ul style="list-style-type: none"> • Nalcor owned by Province of NL – strong support for the Projects

**Government Assurance and Contingent Equity
supplements all other mitigation strategies**

