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From : "Dalley, Derrick"

To : "Bown, Charles W."

Subject : Fw: News release for final approval: Minister Announces Principles of Oversight Process for the Construction Phase of the Muskrat Falls Project

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From: Quinton, Diana

Sent: Friday, March 21, 2014 03:00 PM Newfoundland Standard Time

To: Dalley, Derrick

Cc: Froude, Ian

Subject: News release for final approval: Minister Announces Principles of Oversight Process for the Construction Phase of the Muskrat Falls Project

Natural Resources

March 24, 2014

Muskrat Falls to Support a Vibrant Economy for Newfoundlanders and Labradorians

Minister Announces Principles of Oversight Process for the Construction Phase of the Muskrat Falls Project

The Provincial Government today announced that the oversight process for the construction phase of the Muskrat Falls Project will focus on three main principles which are to ensure the project is well managed, project costs and schedules are being met, and risks are being identified and addressed in a timely manner.

"As Nalcor's shareholder, the Provincial Government has undertaken oversight throughout all stages of the Muskrat Falls Project - from initial planning, to early engineering, to our agreements with Emera, and most importantly to sanction and financing. Prudent oversight is a priority for our government and is an evolving process that will continue through the construction and operation stages of the project. This process formalizes and strengthens our oversight as we move through the construction phase of the project."

-The Honourable Derrick Dalley, Minister of Natural Resources

Project oversight for the construction phase will be led by a committee, chaired by the Clerk of the Executive Council, and will include representation from the Departments of Natural Resources, Finance, and Justice.

The committee will provide updates and discuss issues with relevant departments, and meet regularly with Nalcor officials. The committee will report to Cabinet which will provide direction to appropriate Ministers as required.

The oversight process for the construction phase of the Muskrat Falls Project builds on existing oversight measures, as outlined in the backgrounder below.

Through sound fiscal management and responsible decisions, the Government of Newfoundland and Labrador is strengthening the business environment, encouraging the development of innovative industries and building a vibrant economy.

QUICK FACTS

- The Provincial Government today announced that the oversight process for the construction phase of the Muskrat Falls Project will focus on three main principles which are to ensure project costs and schedules are being met, the project is well managed, and risks are being identified and addressed in a timely manner.
- The oversight committee will review information provided by Nalcor, external auditors, and the independent engineer. Information to be reviewed includes, but is not limited to, project costs, project scheduling, project financing, and contracts.
- Information will continue to be made available to the public, while still protecting the commercial interests of the project.
- There has been more information made public about this project than any in the province's history, providing the opportunity for review by the public, government, and independent experts including Manitoba Hydro International, Navigant Consulting, the Board of Commissioners of Public Utilities, Dr. Wade Locke and Ziff Energy Group of Calgary.

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BACKGROUND
Muskrat Falls Project Oversight
Activities to Date

- Prior to the announcement of project sanction on December 17, 2012, the Muskrat Falls project had been endorsed by a series of renowned independent experts including Manitoba Hydro International, Navigant Consulting, Dr. Wade Locke, and Ziff Energy Group of Calgary.
- In October 2012, the Provincial Government released the project's Decision Gate 3 cost estimate and the findings of a report conducted by Manitoba Hydro International. The report confirmed the engineering, costs, and project planning completed by Nalcor and affirmed Muskrat Falls as the least-cost option for electricity generation in the province. The report included the most up-to-date information on load forecasts and cost estimates including capital costs, operating costs, financing costs, fuel and interest.
- After project sanctioning, the Departments of Natural Resources and Finance implemented a number of oversight functions. For example, the Provincial Government received monthly reports on the project from Nalcor, which included information on construction and procurement activities, construction costs, safety and environmental activities, and details on stakeholder and community consultation and engagement initiatives during each reporting period. Nalcor provided project financing information to the Provincial Government on a regular basis, including project expenditures and equity investments.
- Nalcor's Board of Directors has detailed oversight of the project. The Internal Audit Department at Nalcor is responsible for assurance oversight of the project. The group has accountability for determining whether the organization's network of risk management, control, and governance processes is adequate and functioning as intended.
- Nalcor and Newfoundland and Labrador Hydro submit joint Annual Transparency and Accountability Reports. The report tabled June 2013 indicated the progress achieved on the strategic plan goals and 2012 objectives. This report presented results for all of Nalcor Energy and highlighted the accomplishments of Newfoundland and Labrador Hydro and other subsidiaries.
- As part of its regular business operations, audited consolidated financial statements are prepared for Nalcor and separate audited financial statements for each legal entity created to execute the Lower Churchill Project. The external independent auditor reviews project related costs and prepares a report consisting of consolidated financial statements. This information is integrated into Nalcor's Annual Business and Financial Annual Report.
- Nalcor holds Annual General Meetings where the previous year's annual performance is discussed and Nalcor responds to questions from those in attendance.
- In accordance with the terms and conditions of the November 2012 Federal Loan Guarantee (FLG) Agreement, MWH Canada was engaged as the independent engineer for the Government of Canada (Canada), in its capacity as guarantor, to assist in Canada's due diligence of the Muskrat Falls Project. Following the required technical review, MWH issued an independent engineer report to Canada to facilitate satisfaction of the related condition precedent found in section 3.5 of the FLG Agreement.
- In addition, the level of external due diligence undertaken by the Government of Canada gave them the confidence and satisfaction they required prior to issuing a federal loan guarantee to back the \$5 billion financing for the Muskrat Falls Project.
- This due diligence was extremely comprehensive and mirrored the level of diligence that financing lenders would have completed for a large construction project. This diligence effort by Canada was supported by experienced external legal advisors, financial advisors, an independent engineer, and an independent insurance consultant all engaged directly by Canada.
- Once the federal loan guarantee was issued by Canada a syndicate of financial institutions lead by TD Securities and Goldman Sachs and including BMO Nesbitt Burns, CIBC World Markets, RBC Dominion Securities, Scotia Capital, HSBC, Bank of America Merrill Lynch, Beacon Securities, Casgrain & Company, Desjardins Securities, Laurentian Bank, and National Bank placed \$5 billion in financing for the Muskrat Falls Project.
- In accordance with the federal Project Finance Agreements, in order to draw upon the required funds for the project, Nalcor, through the project related subsidiaries, is required to submit detailed information to the Collateral Agent (Toronto-Dominion Bank) and MWH Canada. This includes a requirement to submit quarterly and annual financial statements, construction reports, funding requests including budget information. MWH reviews the submitted information and, if acceptable, will issue an approval certificate to the Collateral Agent, and the Collateral Agent will then release the funds to the borrowing entities.
- The collateral agent oversees the lending and security arrangements, the various project accounts and the compliance and covenants.