

Muskrat Falls Project Value and Cost Update

June 25, 2014

Boundless Energy



Agenda

- Safety Moment
- Our Project, Our Benefits
- Muskrat Falls Project Update
- Long-term Value for Newfoundland and Labrador
 - Project Value
 - Capital Cost Drivers and Forecast
- Project Oversight
- Summary



Safety on the Muskrat Falls Project

Muskrat Falls Safety Performance Statistics - 2014

1.1 Million Hours Worked



Medical Aid Incidents - 1



Orientations Completed - 2,964

Step Backs Completed - 47,219



Completed Work Site Inspections - 1,529

Total Injury Frequency Rate - 0.56



Lost Time Incident - 2



Our Project, Our Benefits





Investing in Muskrat Falls

- Focus is on providing the greatest long-term value to the province
- Significant value and cash flows will be generated from the Muskrat Falls Project returning substantial revenue to the Province of Newfoundland and Labrador
- Nalcor has made additional strategic and prudent investments in the project to enhance system reliability and increase project productivity
- Market conditions are increasing some project costs
- Total value of project provides opportunity to offset net cost changes
- Nalcor will continue to look for opportunities that enhance project productivity and reliability to ensure long-term value to the project and the province

Investing in Muskrat Falls

- Meeting our growing electricity needs
- Long-term rate stability
- Enhanced system reliability
- Eliminating our reliance on foreign oil for electricity
- Practically eliminating greenhouse gas emissions from electricity sector
- Employment & economic benefits
- Significant, long-term revenue for NL
- Controlling our energy future



Muskrat Falls Project Update





Project Progress

- Project Engineering >98% complete
 - Detailed engineering completed as planned
- Procurement
 - Contracts awarded/substantially advanced for >90% of project costs
- Environment
 - Environmental assessment release for generation and transmission
- Construction
 - Commenced work on all major sites as per construction plan and project construction progressing as per schedule

Project Progress

- Financing
 - Federal loan guarantee & project financing completed
- Excess sales
 - Maritime Link sanctioned
 - Emera power sales agreement in place
- Schedule
 - Commissioning and start-up of first power - 2017

2014 Major Activities

- Activity will ramp up in all project areas:
 - Concrete placement at Muskrat Falls
 - Transmission line construction between Muskrat Falls & Churchill Falls
 - Award final major contracts
 - Complete drilling program in Straits
 - Continue site preparation and development at Soldiers Pond
 - Complete site work at Churchill Falls
 - Construction work on Labrador-Island Link



Realizing Benefits Today

- Employment Benefits (as of April 2014)
 - Total project workforce is 1,785
 - 1,527 of project workforce are NL residents
 - 321 females working on the project (91% are NLers)
 - 164 Innu working on site
 - 52% of Labrador workforce are Aboriginal workers
- Employment expected to reach 2,500 by end of 2014

WOMEN ARE PART OF SOMETHING BIG

AT MUSKRAT FALLS





**WOMEN
IN RESOURCE
DEVELOPMENT CORPORATION**

Learn more about
employment opportunities
with the Muskrat Falls Project at
muskratfallsjobs.com



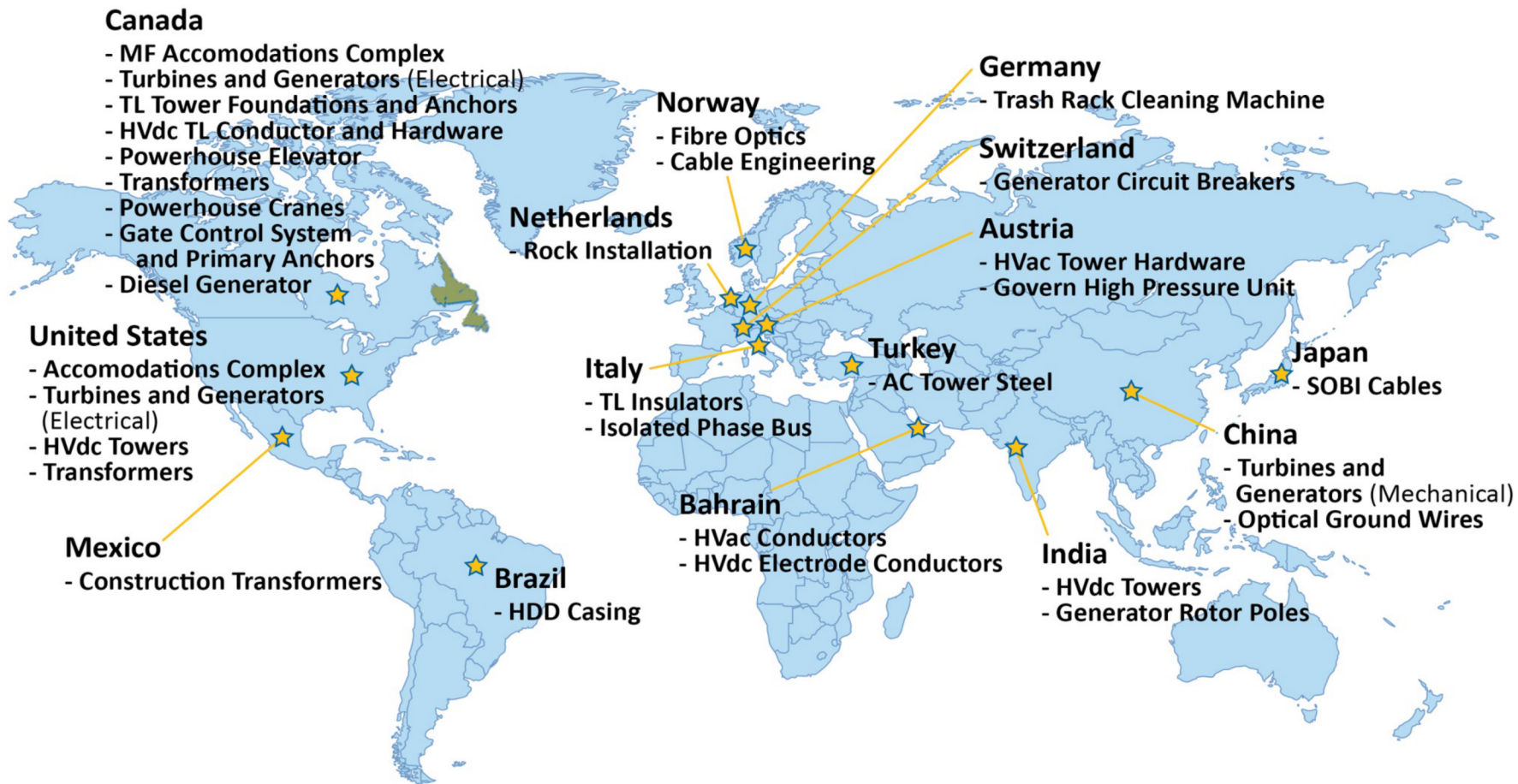
**nalcor
energy**
LOWER CHURCHILL PROJECT

Realizing Benefits Today

- Economic & Income Benefits (Jan'13 to April'14):
 - >\$457 million invested in NL businesses
 - >\$105 million in salaries paid to NL residents
 - Total direct benefits to NLers and NL-based businesses >\$562 million
 - IBA procurement commitments exceeded - ~\$450 million in contracts awarded to Innu businesses
- Total incurred costs to April'14 - >\$1.2 billion



Lower Churchill Project Global Reach



Long-term Value for Newfoundland & Labrador



Components of Project Value

- Overall project value is a function of revenue, cost, quality/reliability and schedule
- Revenue comprised of:
 - Domestic electricity sales
 - Includes return on equity
 - Water rentals
 - Value from excess power sales and other storage/transmission opportunities
- Costs are comprised of three main categories:
 - Capital (facilities), financing and operating costs
- Quality and reliability

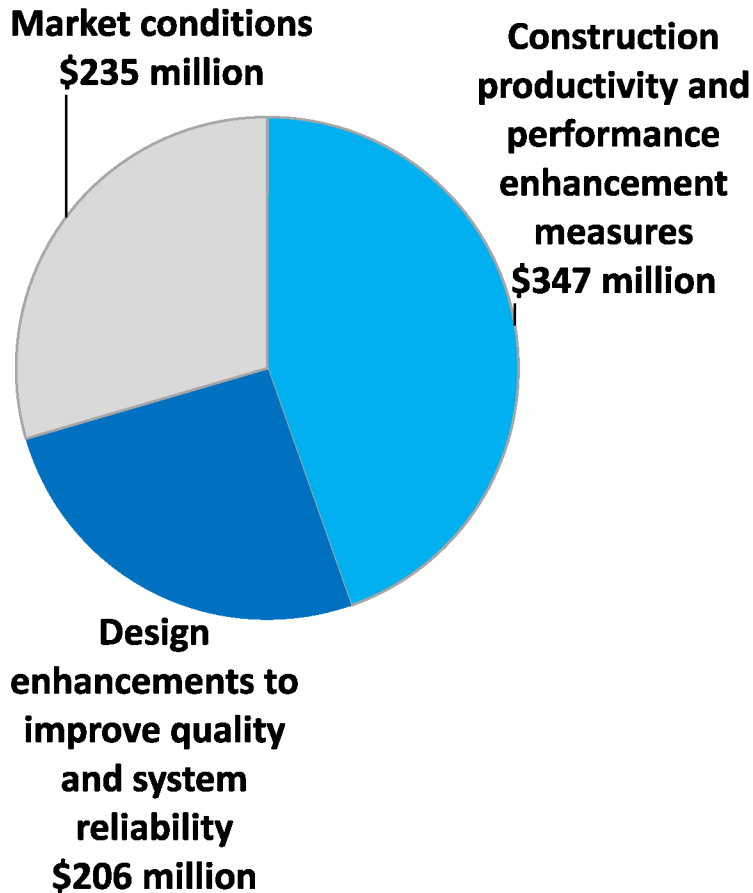
Capital Cost Update



Key Changes Since Sanction (Dec'12)

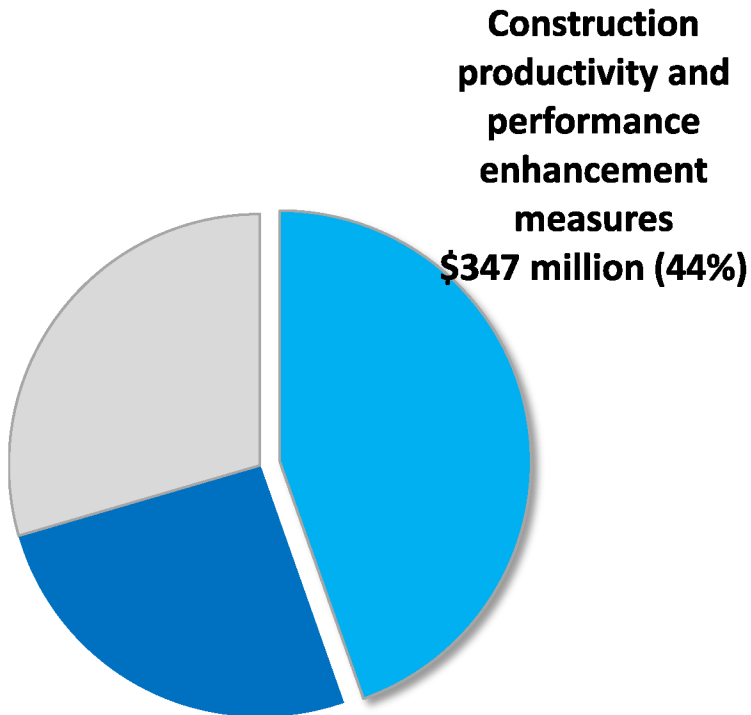
- Cost components:
 - Capital (facilities) costs
 - \$553 million investment in planned project enhancements (accounts for ~9% of cost changes)
 - \$235 million from market influences (accounts for ~4% of cost changes)
 - Financing costs - decrease of additional ~\$300 million on NPV basis
 - Operating costs – no change
- Revenue:
 - Increase \$100 million (NPV) from ML and Emera excess energy agreement

Capital Cost Changes



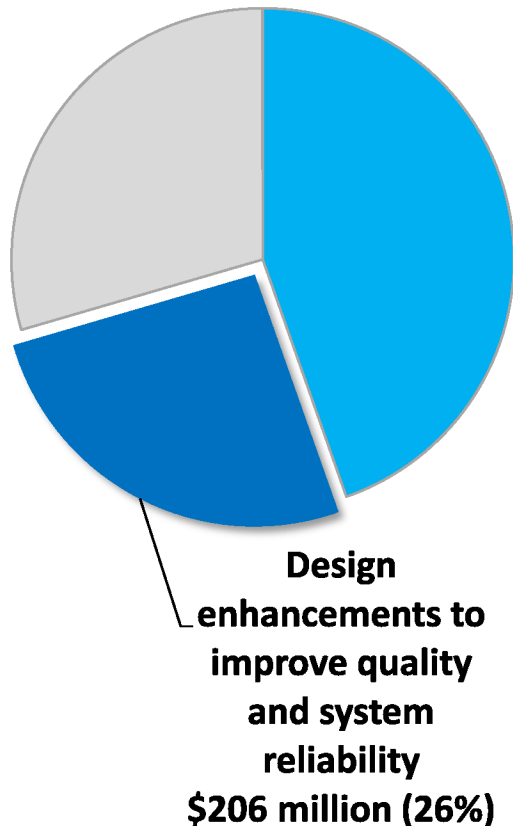
- \$553 million invested in productivity and reliability enhancements
 - Accounts for 70% of changes in capital costs
 - Decisions to enhance long-term value of the project
- Pressures in the market have increased capital costs by \$235 million
 - Accounts for 30% of increase in capital costs
 - Competitive market factors in NL and world wide

Productivity and Performance Enhancements



- Strategic investments include:
 - Enclosure of powerhouse to provide safer working conditions, increased productivity, year-round employment opportunities for workforce
 - Enhanced accommodation complex and catering to increase worker attraction and retention
 - Significant site infrastructure upgrades to promote work face efficiencies – e.g., laydown area expansion
 - Change in river diversion window from 2015 to 2016 to reduce weather window risk on spillway construction

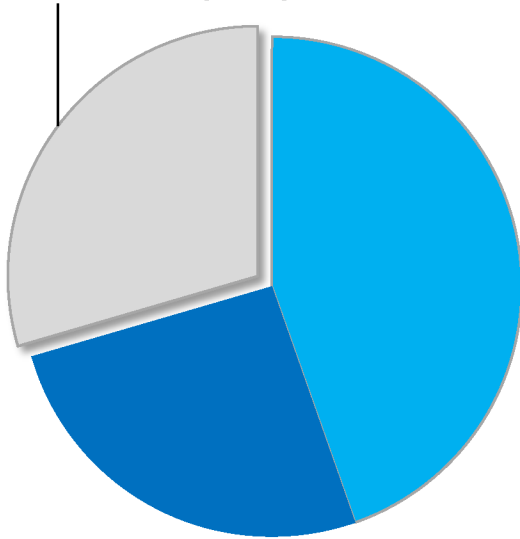
Quality & System Reliability Improvements



- Substantive design enhancements:
 - Spillway discharge channel concrete liner to remove risk of potential erosion
 - Use of 5 low-level vertical gates in spillway to improve winter operation reliability
 - Increase reliability in transmission lines beyond initial design return period expectations:
 - Lower utilization factor for AC towers
 - Use of low temperature steel for HVdc line
 - Additional foundation corrosion protection
 - Increased number of accesses providing flexibility for long-term operations
 - Increased hardware quantities and tower weight, etc.) for HVdc line

Market Conditions

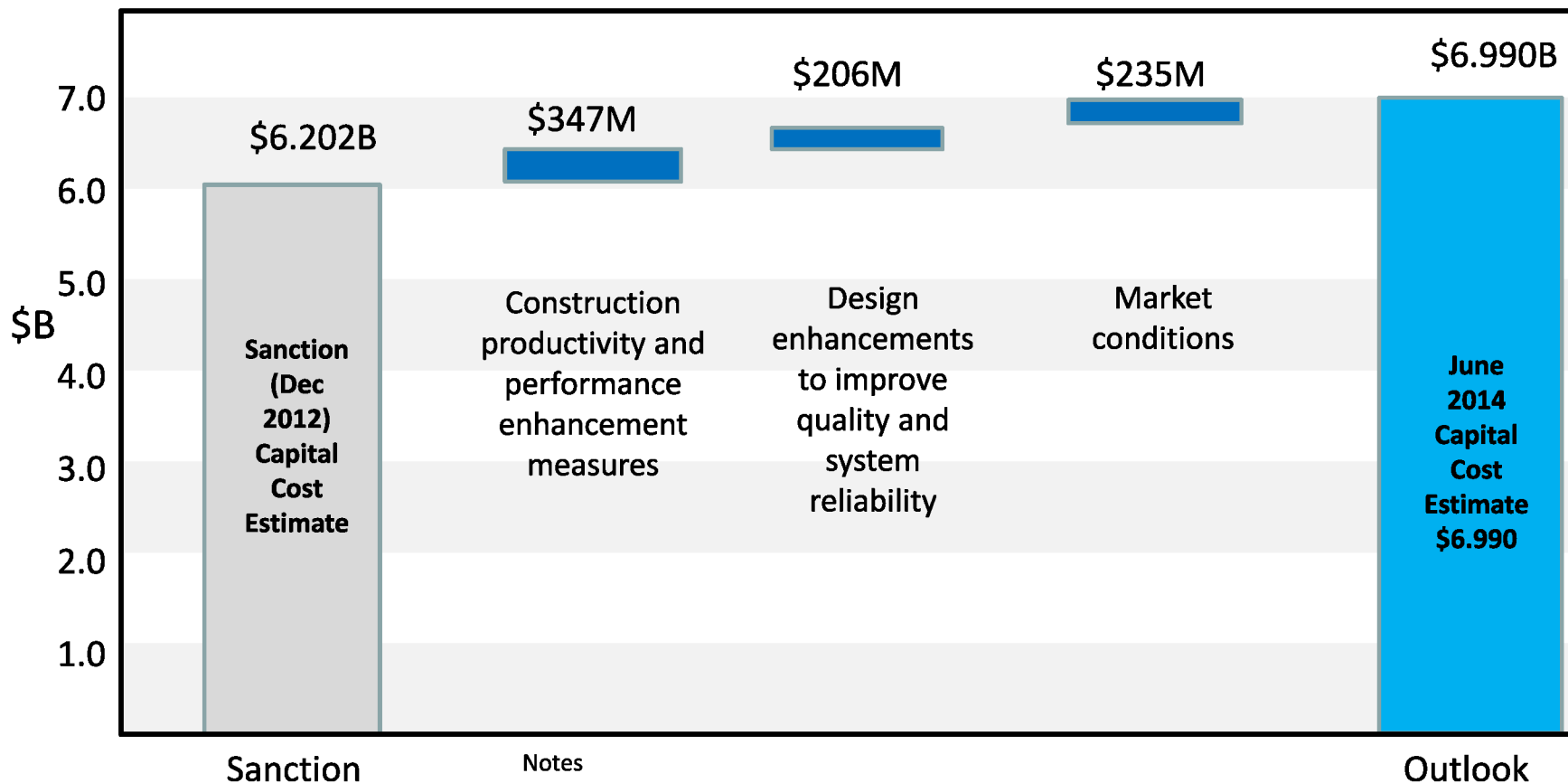
Market conditions
\$235 million (30%)



- **Market condition drivers:**
 - Perception of low labour productivity in NL by contractors is resulting in risk premiums which are driving up bids
 - Highly competitive labour market with significant construction activity ongoing in NL, North America and globally

Capital Cost Outlook (Sanction to June'14)

Cost growth contributors since Sanction



Notes

1. Value excludes interest during construction and capitalized financing costs
2. June 2014 cost outlook includes contingency of \$224 million
3. Additions may vary due to rounding

Cost Changes by Project Component

- From Sanction to June 2014

Project Component	Increase
Muskrat Falls	\$471M
LTA	\$140M
LIL	\$177M
Total	\$788M

Project Oversight

Project Oversight

- Government of NL (GNL) - Muskrat Falls Oversight Committee established
 - Purpose is to strengthen and formalize the existing oversight for the construction phase of the project
 - First report to be published in July 2014
- Independent engineer's oversight is part of GNL Oversight
- Auditor General has open access to Nalcor

Project Oversight

- GNL, on behalf of the people of the province, holds Nalcor accountable for project management and establishing oversight practices and procedures
- Nalcor reports to the public and GNL through:
 - annual reports and audited financial statements
 - public AGM
 - requests for information, open houses & presentations
- Monthly Muskrat Falls Project public reports
- Nalcor public quarterly financial statements starting in fall 2014
- Nalcor presents its capital and operating budgets to GNL for review and approval

Internal Approach

- Best practice project management processes
- Internal audit
- Internal quality control
- Board of Directors of project subsidiaries providing oversight and governance

Our Project, Our Benefits



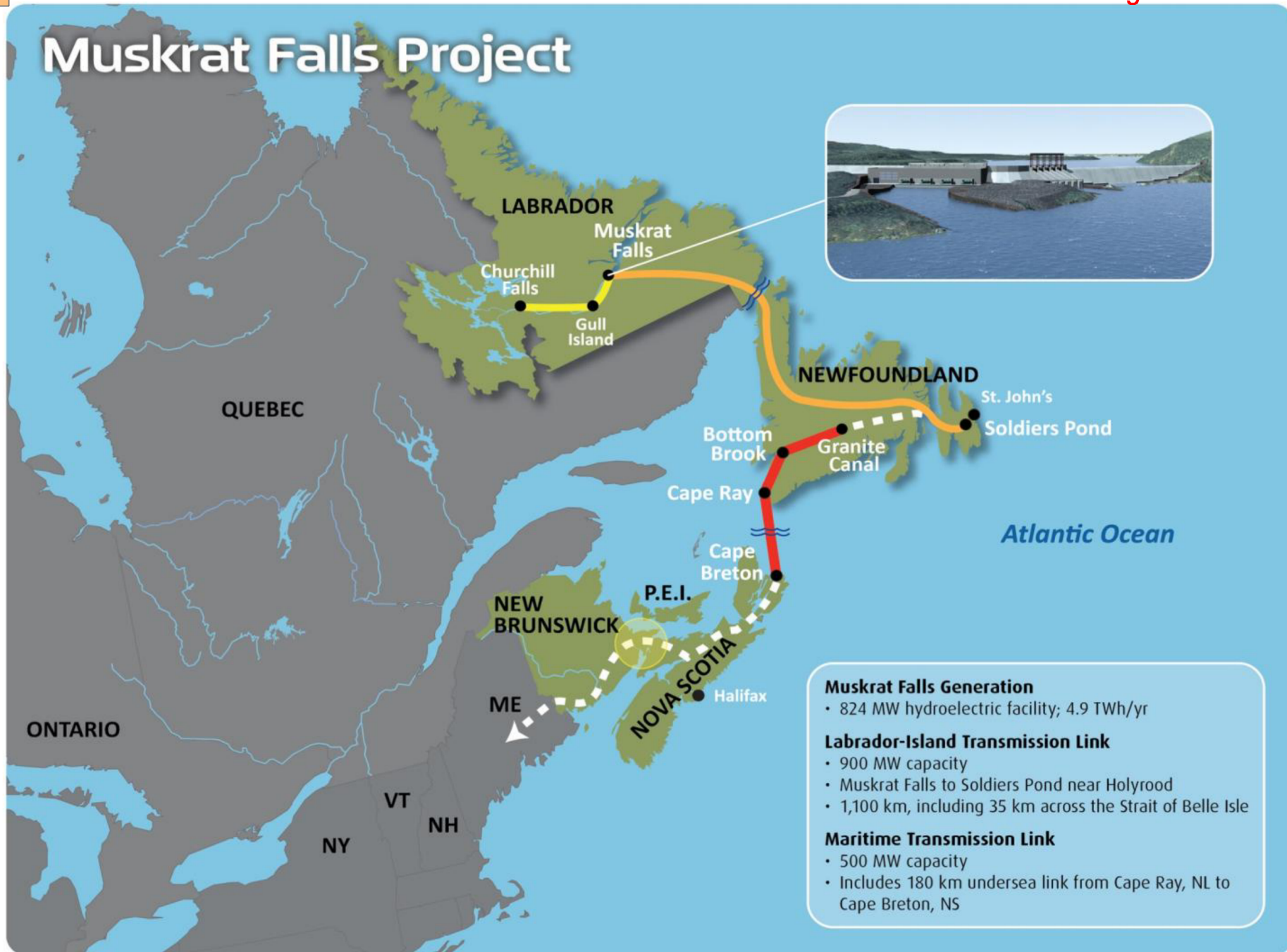
Summary

- The Muskrat Falls Project will return significant value and revenue to the Province of Newfoundland and Labrador
- Total value of project provides opportunity to offset net cost changes
- The majority of cost changes on the Muskrat Falls Project are a result of additional, strategic and prudent investments made to enhance and increase project productivity and reliability
- Market conditions have increased some project costs
- Our focus is on providing the greatest benefits to the province
- People of our province will be the owners of a valuable, long-term power-producing asset that they can take pride in
- We'll continue to look for opportunities that enhance project productivity and reliability to ensure long-term value to the project and the province

Electricity Rate Mitigation

- Rate mitigation of capital cost increase is possible.
- There are three levers that can be employed:
 - Muskrat Falls ROE
 - LIL ROE
 - Export Sales
- Rate mitigation will lower Project returns to NL
- If direction to mitigate increase is provided, additional analysis and consideration is required to select a recommended option.

Muskrat Falls Project





2014/06/25

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NR/DM
E. Martin
Deputy Clerk
File

██████████-075.

An Update respecting Muskrat Falls Project Value and Cost Update was received from the Chief Executive Officer of Nalcor Energy, accompanied by the Deputy Minister of Natural Resources; the Vice-President, Lower Churchill (Nalcor); the Vice-President, Finance and Chief Financial Officer (Nalcor); and the Vice-President, Corporate Relations (Nalcor).

Julia Mullaney
Clerk of the Executive Council