

From: jamesmeaney@lowerchurchillproject.ca
To: karenonell@nalcenergy.com
Cc: [Deanne Fisher](#); [Dave Jones](#); [Auburn Warren](#); [Derrick Sturge](#); [Stanley Todd](#); [Pelletier, Randy](#)
Subject: Re: Question from NTV re: Emera LIL investment
Date: Tuesday, March 7, 2017 2:22:24 AM
Attachments: [Calculation of ENL Initial LIL Cash Call.pdf](#)

Hi Karen,

Here some background points:

Emera's participation in the LIL is outlined in the NLDA and LIL LPA, both found on the MF website (as noted below).

At LIL Sanction the calculation found in the attached was done to determine Emera's equity funding obligation during the LIL development period (ie. construction). The \$910M divided by the total LIL capital cost estimate at that time of \$2,609M is where the original 35% came from, however this does not represent the LIL LP partnership capital account contributions (equity) that Emera was permitted to fund. Their target Debt-to-Equity (DER) of 55/45 meant the equity they could contribute was actually $45\% \times \$910\text{M}$ or \$409M.

In accordance with the NLDA, the calculation noted in #1 above is done again following full commissioning of the entire project based on final costs of the LIL, LTA and ML in the event Emera's % of the transmission asset costs (based on the ML and their LIL additional investment) is less than 49%, they would have to pay a cash "true up" to Nalcor in return for more LIL partnership capital account units to address this. Based on the LTA and LIL estimates included in the \$9.1B from the June 2016 update and the current \$1.57B ML estimate, that would mean a payment of around \$190M, so Emera's total equity investment in LIL would end up at around \$600M. This is the amount noted in their investor presentation.

As outlined in the provisions of the NLDA and LIL LPA, the percentage of the LIL LP partnership capital account that Emera is permitted to contribute will vary over the period of LIL construction from sanction in December 2012, following Financial Close in December 2013, and through to final completion and in service of the LIL project. It is currently at 62.7% but once the \$409M cap is hit, it will begin to decline. With the June 2016 cost increase to \$9.1B, and assuming no FLG2, Nalcor/NL would have been required to fund all the LIL cost overruns. As a result, Emera's % of the LIL LP partnership capital account at completion would have ended up around 35%.

However, with FLG2, approximately \$1B of LIL capital account contributions that Nalcor/NL would have needed to fund will be now be replaced with lower cost Canada guaranteed debt. This is of significant benefit to ratepayers given 3.5-4.0% cost of debt vs. 8.5% cost of equity, and it also benefits taxpayers due to lower borrowings required by NL to fund the LIL equity and therefore lower interest costs. Meanwhile, Emera's equity investment of around \$600M remains the same, so instead of them having contributed 35% of the LIL capital account, it's actually around 59%. This is the other amount noted in their investor presentation.

While Emera will have contributed more of the required LIL equity capital than Nalcor through the arrangements noted above (and will therefore get a greater % of the partnership distributions during the operating period), Nalcor still maintains 100% control of the LIL given that (i) LIL General Partner Co., which is responsible for the management of the LIL LP, is a wholly owned subsidiary, and (ii) through another Nalcor wholly owned sub, LIL Operating Co., we also own 100% of the transmission rights over the LIL in accordance with the terms of the LIL Lease (also on the MF website).

I have cc:ed Todd and Randy from NL Justice on this email because we had this same conversation last

Friday and I believe they were working on a briefing as well.

I have also made some refinements to your proposed response below to reflect above, which is now highlighted in blue. Let me know if any questions and by all means feel free to refine it further.

Regards

Jim



Calculation of ENL Initial LIL Cash Call.pdf

James Meaney

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You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

Karen O'Neill---03/06/2017 12:53:28 PM---Mike Connors has asked the following question below. Here's a draft reply to Mike.

From: Karen O'Neill/NLHydro

To: James Meaney/NLHydro@NLHYDRO, Deanne Fisher/NLHydro@NLHYDRO, Dave Jones/NLHydro@NLHYDRO, Auburn Warren/NLHydro@NLHYDRO, Derrick Sturge/NLHydro

Date: 03/06/2017 12:53 PM

Subject: Question from NTV re: Emera LIL investme

Mike Connors has asked the following question below.

Here's a draft reply to Mike.

Nalcor Energy, through its wholly owned subsidiaries, has full control of the Labrador-Island Link (LIL) and will also own 100% of the transmission rights of that link. Emera Inc. is an investor in this transmission asset providing equity funding in the form of partnership capital account contributions to the LIL Limited Partnership (LIL LP).

Under the LIL arrangements with Emera, as outlined in the Newfoundland and Labrador Development Agreement and LIL Limited Partnership Agreement (both of which are available on the Muskrat Falls website), Nalcor and Emera are each entitled to contribute a portion of the equity capital required to fund LIL construction expenditures along with the debt guaranteed by the Government of Canada.

As outlined in the provisions of these agreements, the percentage of the LIL LP capital account that Emera is permitted to contribute will vary over the period of LIL construction from sanction in December 2012,

following Financial Close in December 2013, and through to final completion and in service of the LIL project.

Currently, Emera's contributions in LIL represent approximately 63% of the LIL LP capital account. Based on the cost of the LIL included in the \$9.1B estimate from June 2016, Emera's current estimate of \$1.6B for the ML, and the successful completion of additional debt financing for the MF, LTA and LIL of up to \$2.9B that will benefit from an additional federal loan guarantee from the Government of Canada per their November 2016 commitment (which will reduce the amount of additional equity Nalcor/NL needs to contribute to fund the increased costs, thereby benefiting both ratepayers and taxpayers), it is estimated that Emera's contributions will represent approximately \$600M or 59% of the LIL LP capital account upon completion of the project.

If asked about Emera's return on its investment:

The Public Utilities Board approves the regulated return that companies are permitted to earn on their investments in Newfoundland and Labrador's electricity infrastructure.



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----- Forwarded by Karen O'Neill/NLHydro on 03/06/2017 12:32 PM -----

From: Mike Connors <mconnors@ntv.ca>

To: "karenoneill@nalcorenergy.com" <karenoneill@nalcorenergy.com>

Date: 03/06/2017 11:33 AM

Subject: Emera stake in LIL

Hi,

Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

Michael Connors

**Determination of Initial Cash Call to Emera NL
Relating to Emera NL Investment in the Labrador Island Link
per Section 5.8(a)(iii)(A) of the NL Development Agreement**

Estimated Capital Costs - Transmission Assets			
Labrador Island Link ("LIL")	\$	2,609,748,893	<i>Notes:</i>
Labrador Transmission Assets ("LTA")	\$	691,582,487	<i>Per Nalcor DG3 Estimate at Sanction</i>
Maritime Link ("ML")	\$	1,388,485,000	<i>Per Nalcor DG3 Estimate at Sanction</i>
		<hr/>	<i>Per ML UARB Filing</i>
Total Transmission Assets	\$	4,689,816,380	
Multiplied by		49%	
	\$	2,298,010,026	
Less: ML Estimated Capital Costs	\$	(1,388,485,000)	
		<hr/>	
Emera NL Additional Investment	\$	909,525,026	
<i>Emera NL Funding Obligation %</i>		34.9%	
LIL Capital Balance at January 31, 2013	\$	126,613,699	<i>Per Nalcor Month End Financial Statements</i>
		<hr/>	
Emera NL Initial Cash Contribution	\$	67,731,273	
		<hr/>	
LIL Capital Account Balances Following Emera NL Contribution			
Nalcor	\$	126,613,699	65.1%
Emera	\$	67,731,273	34.9%
	\$	194,344,972	100.0%
		<hr/>	
Emera NL Permitted Equity Contribution @	45%	\$	409,286,262