From: jamesmeaney@lowerchurchillproject.ca
To: dsturge@nalcorenergy.com
Subject: Fw: Deck for GT for Jim"s review / input
Date: Saturday, October 27, 2018 11:12:20 PM

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?

----- Forwarded by James Meaney/NLHydro on 10/27/2018 11:10 PM -----

From: James Meaney/NLHydro

To: Ron Power/NLHydro@NLHydro

Cc: Lance Clarke/NLHydro@NLHYDRO

Date: 05/23/2018 11:31 PM

Subject: Re: Deck for GT for Jim's review / input

Ron/Lance

Some comments on the attached slides. Many are also applicable to the "Story of MF" documents (volumes) which Paul H. gave me a copy to review about a month or so ago.

- Your explanation of the COREA mechanics is generally accurate. It's a requirement under the FLG where any forecasted cost overruns above a set baseline budget must be pre-funded with equity from Nalcor/NL annually through prorated installment payments based on the number of years remaining to full commissioning of the entire project (ie. in your example, 4 years).
- As you noted, the baseline budget set under FLG1 in December 2013, where we issued \$5.0B in debt, was \$6.5B plus financing costs. What you need to add is that with FLG2 in May 2017, where we issued the additional \$2.9B in debt, this baseline got reset to \$9.1B plus financing costs. I believe that in the Story of MF timeline volume, FLG1 is noted, but FLG2 also needs to be added.

- I think the way you've described the understanding we had with Canada/IE about fixed & firm costs and what got included in the FFC for purposes of the COREA is generally accurate. What I have a concern about, which also comes up in the Story of MF documents, is characterizing the FLG COREA requirements as the <u>primary</u> factor driving the stepped approach to LCP cost updates following Sanction. While it may have been a consideration, our financial authorization policy requirement of not being able to make commitments that exceeded the AFE value and other factors impacting the CEO's decision making at the time had as much or more of an influence on this approach.
- The Bonds issued through the funding trusts in 2013 and 2017 to fund Project costs were rated "AAA" based <u>solely</u> on the Government of Canada guarantee. The Project itself did not have an "AAA" rating. Project specific attributes, assets and risks were not considered in anyway, as the buyers of the bonds (lenders) are completely remote from this. So both here and in the Story of MF documents, you need to be careful how this AAA rating is referenced. For the LCP Indicative (non-guaranteed) ratings we got in 2011 and 2012 as a Condition Precedent for the FLG....which were "A" ratings.....Project specific attributes were considered. However, at the end of the day the 2 primary factors that determined the "A" ratings were the Province's commitments to (i) provide any contingent equity needed to complete the project, and (ii) establish in legislation that all LCP costs would be fully recovered from ratepayers once the project achieved commissioning.
- With respect to the NL Completion Guarantee slide, I don't think this was presented by the Deputy Minister of Finance to the rating agencies. Pretty sure I actually presented this one. Additionally, I think you need to be careful about characterizing the NL contingent equity commitment or FLG benefit as being equivalent to a Management Reserve or being the basis for not including a Strategic Risk reserve in the Capital Cost Estimate at DG3. I came across this latter point for the first time when reading the Story of MF documents. To be honest, I did not realize this view had been taken. Capital costs are a "Use of Funds". Contingent Equity is a "Source of Funds" available along with base equity and debt to fund the Uses. Additionally, the savings in interest costs resulting from the FLG prior to commissioning reduce the Financing Cost bucket (also a Use of Funds), not the Capital Cost bucket. And the majority of the interest cost savings benefit is actually realized post commissioning over the 40 year operating period in which we need to repay the debt principal.

Hope you find this feedback beneficial. By all means, let me know if any questions.

Regards,

Jim

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Ron Power---05/23/2018 03:32:12 PM---Lance will talk to you

From: Ron Power/NLHydro

To: James Meaney/NLHydro@NLHYDRO

Cc: Lance Clarke/NLHydro@NLHydro

Date: 05/23/2018 03:32 PM

Subject: Deck for GT for Jim's review / input

Lance will talk to you

[attachment "7 - Financial Close - Completion Guarantees by GNL - Corea - Master - JIM.pptx" deleted by James Meaney/NLHydro]

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