

**Labrador Transmission Corporation - Revised Capital & Financing Cost Master AFE's**

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**1. Master Authorization for Expenditure ("AFE")**

The Master AFE's for direct capital costs and financing related costs for the Labrador Transmission Assets are attached in Appendix A for Board of Directors review and approval.

Master AFE LCPLTA-2013-01 was previously approved by the Nalcor Energy Board of Directors in January 2013 and subsequently transferred to Labrador Transmission Corporation in November 2013 through the approval of its Board of Directors. This approval provided for the release of necessary funding, the allocation of which being managed by the President and CEO, for execution of work scope leading to in-service of the Labrador Transmission Assets.

The attached Master AFE LCPLTA-2013-01 Supplement #1 represents an update to the previously approved AFE. It reflects an update to direct capital costs, which was previously based on the Decision Gate 3 ("DG3") estimate, as well as a transfer of approved financing cost funding to a separate Master AFE LTA-FIN-2014-01 that relates solely to financing related costs and interest during construction ("IDC").

An update to the Labrador Transmission Assets direct capital cost estimate of \$692 million established at DG3 was completed as part of determining the \$720 million Project Budget baseline as defined in the MF/LTA Project Finance Agreement executed by Labrador Transmission Corporation on November 29, 2013. The increase of \$29 million from the DG3 estimate to the Project Budget baseline was driven by:

- Market conditions for transmission line materials was favorable, however, this has been offset by cost growth in total tower tonnage to be installed resulting from design changes directed towards improved reliability.
- Market conditions and contractor risk premiums under lump sum / unit price contracts has contributed to cost growth, however provides Nalcor greater cost predictability.

**2. Work Scope**

A summary of the scope of work associated with this Master AFE LCPLTA-2013-01 is contained in Appendix B.

3. Cost

The cost estimate for the two Master AFE's are outlined below:

**Master AFE LCPLTA-2013-01 Supplement #1 Cost Estimate**

(\$ Millions CAD)	<b>Labrador Trx Assets</b>
<b>Project Budget Capital Cost Estimate <sup>(1)</sup></b>	
Owners Team, Admin & EPCM Services	\$ 76.2
Feasibility Engineering	\$ 0.3
Environmental & Regulatory Compliance	\$ 0.7
Aboriginal Affairs	\$ 0.2
Procurement & Construction	\$ 626.9
Commercial & Legal	\$ 2.0
Contingency	\$ 14.0
<b>Master AFE Value</b>	<b>\$ 720.3</b>
Approved Funding to Date	\$ 699.8
Less: Transfer to Financing AFE <sup>(2)</sup>	\$ (8.2)
<b>Total</b>	<b>\$ 691.6</b>
<b>New Funding Requested</b>	<b>\$ 28.7</b>

**Master AFE LTA-FIN-2014-01 Cost Estimate**

(\$ Millions CAD)	<b>Labrador Trx Assets</b>
<b>Financing Cost Estimate</b>	
Underwriting Fees	\$ 1.5
Collateral & Fiscal Agent Fees	\$ 0.1
Trustee & Administrator Fees	\$ 0.1
Credit Rating Agencies	\$ 1.0
Independent Engineer & Insurance Consultant	\$ 0.8
Legal & Financial Advisory	\$ 1.9
Administrative & Other Related Costs	\$ 0.2
Interest During Construction (Net)	\$ 70.3
<b>Master AFE Value</b>	<b>\$ 75.8</b>
Less: Transfer from Capital Cost AFE <sup>(2)</sup>	\$ (8.2)
<b>New Funding Requested</b>	<b>\$ 67.6</b>

(1) Represents Project Budget (Hard Cost) baseline established in the MF/LTA Project Finance Agreement executed by Labrador Transmission Corporation on November 29, 2013.

(2) Funding for Project Debt Financing approved in original Master AFE LCPLTA-2013-01.

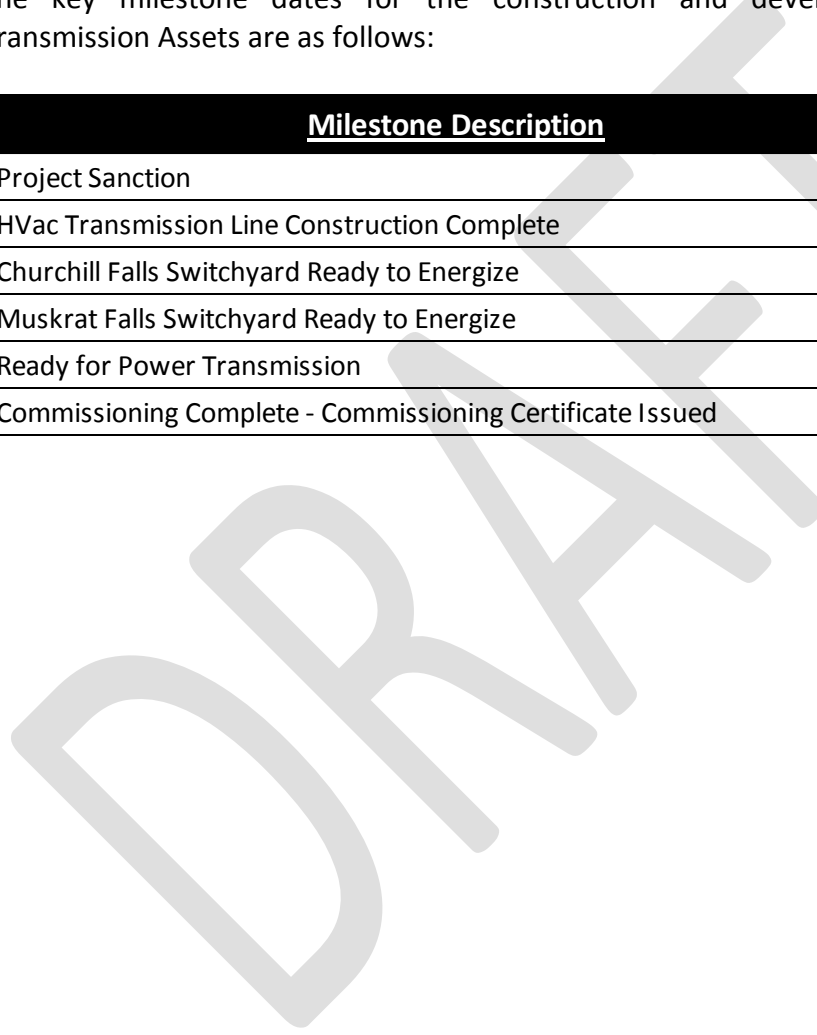
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The work will be carried out under the authority of the President and CEO, as granted by the Board's approval of these Master AFE's, and in the case of LCPLTA-2013-01, will be performed within the confines of the work scope as outlined in Appendix B and the Project documents noted herein. Work entailing a material change from project scope, as outlined in the basis of design (summarized in Appendix B) or increases in the approved Master AFE will require further authorization by the Board of Directors.

**4. Schedule**

The key milestone dates for the construction and development of the Labrador Transmission Assets are as follows:

<u>Milestone Description</u>	<u>Date</u>
Project Sanction	17-Dec-2012
HVac Transmission Line Construction Complete	08-Jun-2016
Churchill Falls Switchyard Ready to Energize	31-May-2017
Muskrat Falls Switchyard Ready to Energize	31-May-2017
Ready for Power Transmission	31-May-2017
Commissioning Complete - Commissioning Certificate Issued	01-Jun-2018



APPENDIX A: AFE LCPLTA-2013-01

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APPENDIX A – AFE LTA-FIN-2014-01

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**APPENDIX B – SCOPE OF WORK****Labrador Transmission - Work Scope**

Labrador Transmission consists of the AC transmission line system from Churchill Falls to Muskrat Falls, specifically:

- a) Churchill Falls switchyard extension;
- b) Muskrat Falls switchyard;
- c) Transmission lines from Muskrat Falls to Churchill Falls: double-circuit 315 kV ac, 3 phase lines, double bundle conductor, single circuit galvanized lattice steel guyed suspension and rigid angle towers;
- d) 735 kV Transmission Line at Churchill Falls interconnecting the existing and the new Churchill Falls switchyards; and
- e) Labrador fibre project (joint venture with Bell Aliant)

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