

**Information Note
Natural Resources**

Title: Muskrat Falls Project

Issue: To provide a status update on Project milestones.

Background and Current Status:

Sanction Decision

- On December 17, 2012, the NL Government announced sanction of the Muskrat Falls Project and granted Nalcor Energy the authority to sanction the project. Simultaneously, Emera also sanctioned the Maritime Link Project.

Legislation

- To achieve the proposed financing structure, and to ensure the certainty Nalcor requires for its financing process, two separate bills were passed in the House of Assembly in December 2012.
- Bill 60 was a stand-alone Act outlining the lands-related requirements for the Project and addressed issues such as expropriation, easements, and municipal taxation and permitting. JUS is currently working on developing the related regulations to be completed by March 31, 2013.
- Bill 61 included a number of legislative finance-related amendments to existing provincial legislation, including an amendment that gives government the authority to direct the PUB to accept and include all Project-related costs in Newfoundland and Labrador Hydro's rate setting process. JUS and NR are currently working on the required Order(s) in Council (OC) to provide direction to the PUB with respect to cost recovery with targeted completion by March 31, 2013.

Commercial Agreements

- Nalcor and Emera agreed to broad principles of project execution in the 2010 Nalcor-Emera Term Sheet. Negotiations are now complete and the 13 final agreements were signed on July 31, 2012. As well, an additional Nalcor-Emera agreement added in December 2102 related to the Federal Loan Guarantee agreement and project sanction agreement. All of the agreements are publicly available.
- The Nalcor-Newfoundland and Labrador Hydro (NLH) commercial agreements will govern the purchase and sale of power between Nalcor entities responsible for the Muskrat Falls Project and NLH.
- Negotiations between Nalcor and NLH are underway. NR and JUS have been in discussions with Nalcor and NLH regarding a number of policy issues to be contained in the agreements.
- Nalcor has advised that it would like to complete the commercial agreements dealing with financial requirements (4 agreements) by the end of March 2013 so it can share them with the federal government.

Project Financing

- Nalcor has begun the multi-year finance-raising process for the project. Nalcor completed its shadow-credit rating process in 2012 and received an investment-grade rating for the Project from three rating agencies: Moody's, Dominion Bond Rating Service (DBRS), and Standard & Poor's [CONFIDENTIAL].
- Nalcor is currently involved in repeating the credit rating process to determine whether the investment grade rating will be maintained in light of the new financial structure put in place as a result of the federal loan guarantee whereby the federal government essentially takes over the role of the Project lender.
- In August, 2011 a Memorandum of Agreement (MOA) was signed among the Governments of NL,

Canada and NS which outlined the timing of the federal government's commitment to implement the provision of the loan guarantee.

- In November 2012, NL, NS and Canada agreed on the terms of the federal loan guarantee with a number of conditions precedent required to be finalized by March 31, 2013, the most significant of which from an NL perspective are:
 - Finalizing the structure of the federal loan guarantee;
 - Completing the OC(s) directing the PUB that all Project costs will be recovered in the rates of Island ratepayers;
 - Intergovernmental agreement whereby NL will provide legislative stability to the federal government;
 - Equity support agreements - under which NL agrees to provide base level and contingent equity support that will be required by Nalcor to support successful in - service for MF, the LTA and the LIL.
- Nalcor will begin the process of arranging financing for the Project in early 2013 which will entail presenting to potential lenders for the Project.

Environmental Assessment (EA) Processes

Generation

- The generation EA Joint Review Panel (JRP) released its report, including its recommendations, on August 25, 2011. On March 15, 2012, the Governments of Canada and Newfoundland and Labrador released the Project from the environmental assessment process while committing to ensure the implementation of mitigation measures to reduce the adverse environmental impacts identified by the panel.

Labrador-Island Transmission Link (LIL)

- Nalcor registered the LIL EA February 2, 2009 and the process is ongoing. The Environmental Impact Statement (EIS) Guidelines were issued in May 2011 and in April 2012, Nalcor submitted its EIS.
- Throughout the summer and fall of 2012, Nalcor has continued to submit component studies and additional information. Nalcor submitted additional information on its EIS in December 2012 which was open to public comment until January 29, 2013. ENVC has advised that the EA process for the LIL is now nearing completion.

Maritime Link

- In December 2011, Emera registered its Maritime Link Project with the Canadian Environmental Assessment Agency and NL's Department of Environment and Conservation.
- In February 2012, Emera was informed that an Environmental Preview Report (EPR) is required for the project to address additional information requirements in the registration document in an effort to determine the significance of any environmental effects. In March 2012, an Environmental Assessment Committee was appointed and in October 2012, the final EIS guidelines were released.
- On January 17, 2013, Emera filed its Environmental Assessment Report and NL's Department of Environment and Conservation is currently inviting public comments.

Nova Scotia Regulatory Process

- Emera is required to submit the Maritime Link Project to Nova Scotia's Utility and Review Board (UARB) for a comprehensive review and to determine the capital costs to be recovered in NS rates.
- Emera formally submitted its application to the UARB on January 28, 2013 and requested that \$1.52 billion be approved for cost recovery from Nova Scotia ratepayers. The UARB regulatory process is ongoing.

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Ministerial Approval:

March 5, 2013