

# Lower Churchill Project Request for Financing Update Presentation for Cabinet

Boundless Energy



October 9, 2013



Confidential and Commercially Sensitive

# Purpose

- To provide Cabinet with an update on the Request for Financing (“RFF”) for the Muskrat Falls / Labrador Transmission Assets and the Labrador Island Link Funding Trusts

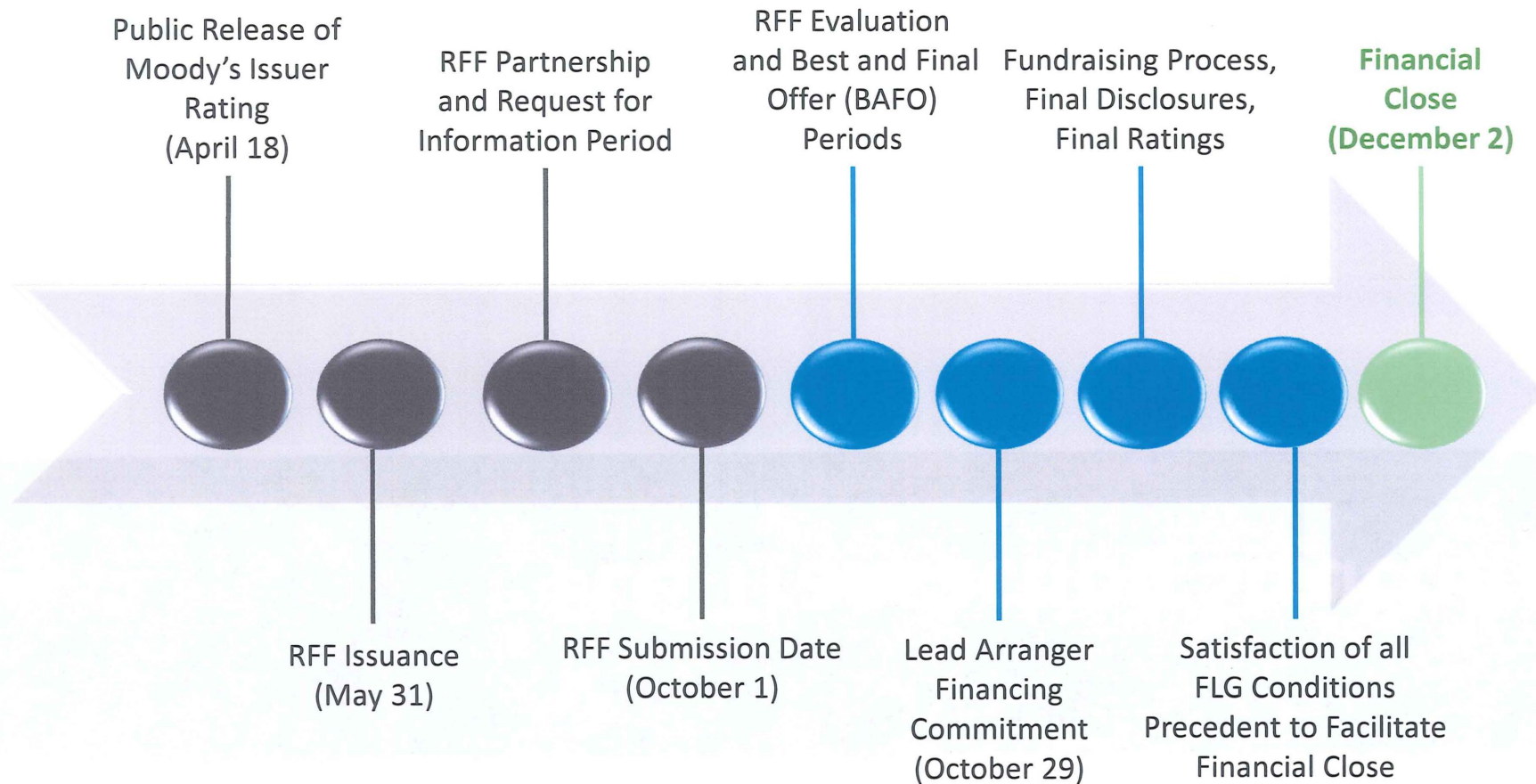
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# Background

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- MF, LTA and LIL expenditures will be funded through a combination of Government of NL equity commitment and debt financing that will be guaranteed by the Government of Canada as per the Federal Loan Guarantee Agreement executed in November 2012
  - NL has committed to provide the base level and contingent equity, if required, to ensure the Projects achieve in-service
  - Debt guarantee constitutes a direct, absolute, unconditional and irrevocable obligation of Canada and thereby carries the full faith and credit of Canada (i.e. AAA ratings or equivalent from each of Standard & Poor's, Moody's, DBRS and Fitch Ratings)
  - Moody's confirmed an Aaa rating in a press release dated April 18, 2013
- Nalcor approached the financial markets on May 31, 2013 through the RFF process to provide a fully underwritten debt financing of up to \$2.6 billion for the MF/LTA Funding Trust and \$2.4 billion for the LIL Funding Trust

# Financing Schedule – Key Milestones



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# FLG Transaction Structure

# Transaction Structure – Background

- Section 2.2 of the FLG Agreement executed with the Government of Canada on November 30, 2012 stated the following:

*"Canada, the Borrowers and the Proponents will work to agree on a Transaction Structure that in conjunction with the FLG Agreement will result in the Project debt achieving Canada's AAA credit rating. The parties agree that the credit rating agencies will be asked to confirm that the FLG Agreement and Transaction Structure would achieve this objective. The Parties agree that they will work together to finalize the Transaction Structure and form of Guarantee, including obtaining confirmation from the credit rating agencies, by January 31, 2013 in order to facilitate the start of the financing process."*

# Transaction Structure – Background (continued)

- Transaction Structure agreed to with the Government of Canada and was confirmed by S&P, DBRS and Moody's to have an AAA rating in February 2013
- Moody's rating publicly released April 18, with others to follow during the RFF process once their additional documentation requirements are met - this will support Nalcor's finance raising efforts for the MF/LTA and LIL projects
- The AAA rating will be advantageous for raising debt financing for the projects with respect to interest cost savings and market availability given the amount of debt to be issued - these benefits will be fully passed onto NL ratepayers



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# Financing Structure

# Financing Structure – Background

- Nalcor/NL made a presentation in March 2013 to the Government of Canada and its advisors to obtain alignment on range of options associated with FLG Financing Structure to facilitate issuance of RFF to financial markets
- Positive discussion with consensus on key Canada/Nalcor/NL objectives, financing considerations and conclusions

# Key Objectives

- The following outlines objectives relating to the FLG Financing Structure which were collectively agreed to by Nalcor, NL and Canada:
  1. Maximize credit substitution benefits of the FLG
  2. Ensure total guaranteed exposure of Canada does not exceed \$5 billion
  3. Minimize all-in cost for both the construction and long-term financing components, based on risk adjusted NPV to NL ratepayers
  4. Completeness of the financing solution, including the amount of funding available and the Lead Arranger's financial commitment to implementation of solution
  5. Mitigation of interest rate risk
  6. Successful execution of the financing plan
  7. Debt repayment based on an amortizing profile following COD
  8. Ensure a fair and competitive RFF process
  9. Simplified decision making with respect to execution of the financing arrangements

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# Request for Financing

# RFF Objectives

- Select a Lead Arranger (or Co-Leads) to execute a financing for the Funding Vehicles where said financing satisfies the following key requirements:
  1. Provides a “complete financing solution” which includes, but is not limited to: (i) certainty with respect to pricing, amount and the timing of funds available; (ii) mitigation of any potential interest rate risk; and (iii) the extent of the Proponent’s commitment to implementation of the financing; and
  2. Minimizes the all-in cost for both the construction and long-term financing components, based on the risk-adjusted Net Present Value (“NPV”) to NL ratepayers
- In addition, the Lead Arranger scope of work includes: (i) Lead Hedge Arranger (if a hedging program is required); (ii) Fiscal Agent under the Master Trust Indenture; and (iii) Collateral Agent to the Funding Vehicles

## Importance of Certainty on Price & Placement

- Magnitude of total debt amount required and NL's significant equity investment
- Opportunity to secure financing at historically low GOC base rates and spreads (which the FLG further reduces) - all forecasts pointing to increases over the planned construction period
- Presence of FLG facilitates the use of financing structures such as the Upfront Bond that provide certainty on availability and cost of total funding requirements from Day 1
  - Would not be available for an unguaranteed project financing
  - Negative carry may be reduced by rising interest rates during construction period
  - Significant risk mitigation benefits given 5 year construction period and potential for change in global or Canadian economic conditions or “black swan” events over that time - could impact ability to issue debt or potentially even the Government of Canada's AAA rating

# Key Submission Requirements

- To satisfy the RFF's requirements, each Proponent must submit a fully underwritten offer of financing for the entire amount of funding required that is consistent with the key financing parameters provided in the RFF and is executed via placement of a single bond or series of bonds at Financial Close (the "**Benchmark Proposal**")
- In addition, each Proponent may propose an alternate financing structure and hedging program (if required) that (i) it believes could better address the RFF objectives, (ii) meets the funding profile provided in the RFF, and (iii) is consistent with the key financing parameters provided in the RFF (the "**Alternate Proposal**")

# Evaluation Criteria - Framework

- Evaluation of RFF Submissions will be conducted according to the following framework:

Element	Evaluation Weight
<b>Qualification Criteria</b>	
1. Proponent Identification & Team Composition	Pass/Fail
2. Financing Commitment Letter & Term Sheet for Benchmark Proposal	Pass/Fail
3. Confirmation Regarding Forms of Documents	Pass/Fail
<b>Evaluation Criteria</b>	
4. Proponent Qualifications & Reasonableness of Financing Execution Plan	10%
5. Certainty of Placement of the Financing & Hedging Program	20%
6. Certainty of Price of the Financing & Hedging Program	30%
7. NPV of the Proposed Financing Structure	40%



# RFF Key Dates

Event	Date
RFF Launch Presentation and Release	May 31, 2013
RFF Submission Date	October 1, 2013
Target Date for Notification of Preferred Proponent	October 22, 2013
Target date for engagement of Lead Arranger and execution of the Financing Commitment Letter (or the Alternate Proposal Offer Letter)	October 29, 2013
Target date for Financial Close	December 2, 2013

# RFF Submissions - Update

- Compliant RFF Submissions received from 3 large Proponent teams
  - RBC/Scotia, CIBC/BMO and TD/Goldman Sachs
    - All have put forth fully underwritten commitments to place the financing with varying approaches to provide price certainty between RFF Submission and Financial Close
    - These financial institutions have been short-listed for the BAFO process and have been requested to submit revised financing commitments by October 11
    - Economics of all 3 submissions are very competitive and in line with those that underpinned the Sanction decision, with possible improvement through the BAFO process
- Non-compliant submissions were also received from National Bank, Laurentian Bank, Desjardins Securities and Bank of America Merrill Lynch
  - Notifications have been sent, however, these financial institutions may participate in the broader bond syndicate put in place by the Proponent team that Nalcor selects as Lead Arranger

# RFF Critical Near-Term Dates

Event	Date
Presentation from BAFO participants	October 8, 2013
BAFO Final Submissions	October 11, 2013
Preferred Proponent identified and aligned/reviewed with Nalcor CEO	October 16, 2013
Preferred Proponent aligned/reviewed with Canada (to allow NR-Can time to receive final approvals)	October 17, 2013
Preferred Proponent aligned/reviewed with NL	October 18, 2013
Preferred Proponent approved by Nalcor & Nalcor SPV Boards, Canada final sign-off and NL final sign-off	October 21, 2013
Preferred Proponent notified (fixed date to allow Dec 2 financial close)	October 22, 2013
Negotiations with Preferred Proponent concluded on Final Financing Commitment Letter and Term Sheet	October 25, 2013
Final Financing Commitment Letter and Term Sheet approved by Nalcor & Nalcor SPV Boards, Canada final sign-off and NL final sign-off (including Award Notice)	October 28, 2013
Execution of Final Financing Commitment Letter and Term Sheet	October 29, 2013

# Approvals

- Under the Energy Corporation Act, borrowing by Nalcor Energy or its subsidiaries, including the terms and conditions of such financing and the form of relevant agreements, must be approved by Lieutenant Governor in Council
- The Act provides LGIC can delegate this approval authority to the Minister of Finance

# Requested Actions

Pursuant to the *Energy Corporation Act* the Lieutenant Governor in Council delegate to the Minister of Finance, upon consultation with the Premier, Minister of Natural Resources, and the Minister of Justice, the authority to approve the:

- i. Financial institution(s) that will be selected through the RFF evaluation process as the Lead Arranger for the Muskrat Falls/Labrador Transmission Assets and the Labrador Island Link Funding Trusts;
- ii. The terms and conditions of the binding financing commitment with such institution(s) in order to raise debt financing of up to C\$2.6 billion for the Muskrat Falls/Labrador Transmission Funding Trust and up to C\$2.4 billion for the Labrador Island Link Funding Trust; and
- iii. Any necessary documentation related thereto;

where such documentation may be executed by Nalcor Energy only where it is expressly provided that the final arrangements to be put in place upon the closing of the financing transaction shall have no ultimate liability accruing to Nalcor Energy.



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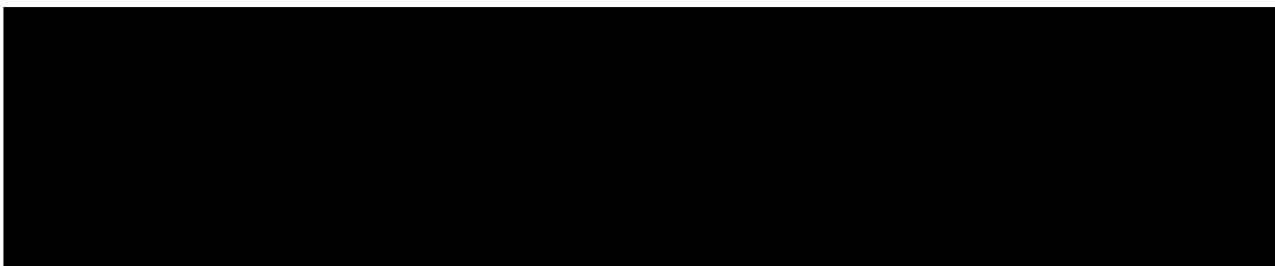
An Update respecting Lower Churchill Project Request for Financing was received from the Minister of Finance.

The following direction was provided:

1) Approval was given for the issuance of an Order in Council, when required and subject to the proclamation of Chapter 47 of the Statutes of Newfoundland and Labrador 2012, under the authority of sections 18 and 14.1 of the Energy Corporation Act, to authorize the Energy Corporation and its subsidiaries established in connection with the Labrador-Island Link, the Muskrat Falls Generation Facility/Labrador Transmission Assets projects to:

(a) raise debt financing of up to \$2.6 billion for the Muskrat Falls/Labrador Transmission Assets project through the issuance and sale of bonds by the Muskrat Falls/Labrador Transmission Funding Trust and up to \$2.4 billion for the Labrador-Island Link project through the issuance and sale of bonds by the Labrador-Island Link Funding Trust; and

(b) secure payment and performance of all obligations arising in connection with the financings referenced in paragraph (a) above through the issuance of bonds, debentures or other securities; execution and delivery of mortgages, assignments, conveyances, charges, pledges, security interests or other encumbrances of and over property of every nature and kind, both present and future; and the entry into, execution, delivery and performance of trust deeds, trust indentures, debentures, pledges, assignments and all other agreements with respect to the financings (including without limitation, project finance agreements, master definitions agreements,



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collateral agency agreements, equity support agreements, guarantees, guarantee assurance agreements, blocked account agreements, step in agreements and related financing documentation) with lenders, a trustee or collateral agent acting for the lenders, the holders of bonds and debentures or other person providing or extending credit or directly with any person providing or extending credit in connection with such financing, or providing a guarantee or assurance thereof;

subject to:

(c) except with respect to its equity support agreements with respect to each Project and its limited recourse pledge of its ownership interests in its subsidiaries, the debt financing structure having no ultimate liability accrue to the Energy Corporation; and

(d) the receipt of approval from the Minister of Finance as to the terms of such financing; and

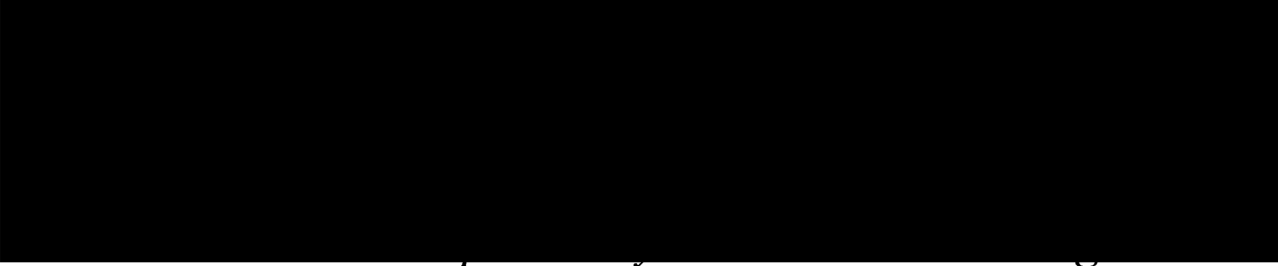
2) Approval was given for the issuance of an Order in Council, when required and subject to the proclamation of Chapter 47 of the Statutes of Newfoundland and Labrador 2012, under the authority of section 18 of the Energy Corporation Act, to delegate to the Minister of Finance, the authority to approve:

a) The terms of the binding financing commitment with such institution(s) as the Minister of Finance shall approve in order to raise debt financing up to the amounts set out in Item 1; and

b) Any necessary documentation related to the financing commitment with such institution(s); and

3) Approval was given to delegate to the Minister of Finance, upon consultation with the Premier, the Minister of Natural Resources and the Minister of Justice, the financial

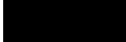




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institution(s) that will be selected through the Request for Financing evaluation process as the Lead Arranger for the Muskrat Falls/Labrador Transmission Assets and the Labrador Island Link Funding Trusts.

(NO ACTION TO BE TAKEN UNTIL 2 ORDERS IN COUNCIL ARE ISSUED).

(Forwarded November 29, 2013 to replace 0504 previously forwarded)



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Under the authority of sections 18 and 14.1 of the Energy Corporation Act, the Lieutenant Governor in Council is pleased to authorize the Energy Corporation and its subsidiaries established in connection with the Labrador-Island Link, the Muskrat Falls Generation Facility/Labrador Transmission Assets projects to:

- (a) raise debt financing of up to \$2.6 billion for the Muskrat Falls/Labrador Transmission Assets project through the issuance and sale of bonds by the Muskrat Falls/Labrador Transmission Funding Trust and up to \$2.4 billion for the Labrador-Island Link project through the issuance and sale of bonds by the Labrador-Island Link Funding Trust; and
- (b) secure payment and performance of all obligations arising in connection with the financings referenced in paragraph (a) above through the issuance of bonds, debentures or other securities; execution and delivery of mortgages, assignments, conveyances, charges, pledges, security interests or other encumbrances of and over property of every nature and kind, both present and future; and the entry into, execution, delivery and performance of trust deeds, trust indentures, debentures, pledges, assignments and all other agreements with respect to the financings (including without limitation, project finance agreements, master definitions agreements, collateral agency agreements, equity support agreements, guarantees, guarantee assurance agreements, blocked account agreements, step in agreements and related financing documentation) with lenders, a trustee or

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collateral agent acting for the lenders, the holders of bonds and debentures or other person providing or extending credit or directly with any person providing or extending credit in connection with such financing, or providing a guarantee or assurance thereof;

subject to:

- (c) except with respect to its equity support agreements with respect to each Project and its limited recourse pledge of its ownership interests in its subsidiaries, the debt financing structure having no ultimate liability accrue to the Energy Corporation; and
- (d) the receipt of approval from the Minister of Finance as to the terms of such financing.

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Under the authority of section 18 of the Energy Corporation Act, the Lieutenant Governor in Council is pleased to delegate to the Minister of Finance, the authority to approve:

- a) The terms of the binding financing commitment with such institution(s) as the Minister shall approve in order to raise debt financing up to \$2,600,000,000 for the Muskrat Falls/Labrador Transmission Funding Trust and up to \$2,400,000,000 for the Labrador Island Link Funding Trust; and
- b) Any necessary documentation related to the financing commitment with such institution(s).

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