

Morris, Paul J.

From: Bown, Charles W.
Sent: Sunday, November 03, 2013 6:22 PM
To: Marshall Q.C., Hon. Thomas; Wells, Larry; Brewer, Donna; Quinton, Diana; English, Tracy; Morris, Paul J.; Myrden, Paul; Mundon, Tansy; Au, Peter; KONEill@nlh.nl.ca; Derrick Sturge/NLHydro; Auburn Warren Warren
Subject: Fw: Nalcor. MF Oil and Gas Qs from M. Dalley - SP additions r1_KON additions.docx
Attachments: Nalcor. MF Oil and Gas Qs from M. Dalley - SP additions r1_KON additions.docx

Minister/Donna

Responses from Nalcor are attached an an additional rssponse is embedded below.

Charles

Sent from my BlackBerry 10 smartphone.

From: KONEill@nlh.nl.ca
Sent: Sunday, November 3, 2013 6:13 PM
To: Quinton, Diana
Cc: Bown, Charles W.; EMartin@nalcorenergy.com; DSturge@nalcorenergy.com; Auburn Warren
Subject: Nalcor. MF Oil and Gas Qs from M. Dalley - SP additions r1_KON additions.docx

Hi Diana and Charles,

Attached is the latest doc of the Q and A from from questions Minister Marshall had on Friday.

There are two highlighted in yellow. The answer for the FLG is below. This is from the telegram Q and As.

The second I'm tracking down the answer to and that is the contingency one for MF.

We wanted to get these over to you for the Minister. Let me know if you need any additional information.

The decision to proceed with Muskrat Falls was made without the benefit of the Federal Loan Guarantee and was based entirely on the best option to meet the long-term electricity needs for the people of the province. We were subsequently successful in securing a Federal Loan Guarantee which will result in an additional benefit of over \$1 billion to ratepayers. With this benefit in-hand, we continue to work with the Government of Canada, the Government of Nova Scotia, Nalcor and Emera to finalize project financing and loan guarantee requirements and we are confident that the process will conclude successfully.

Thanks
Karen

Karen O'Neill
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Nalcor - Muskrat Falls

QP

1. Financing Questions

- a. How much of the total project costs will be financed using debt instruments? **See attached schedule.**
- b. Is the Financing in place? **No, but the finance raising process is well advanced.**
- c. Is there a negative financial impact for the project or the province given that financial close did not occur when scheduled for October 1, 2013? **Until financial close occurs, the Province has committed to provide equity to support construction expenditures relating to the Project. In aggregate, the total amount of equity required from the Province has not changed due to the change in financial close date. This date has never been stated publicly.**
- d. Why did Nalcor extend the deadline for submitting RFF Responses by two months? **Neither the original or revised RFF submission date has ever been made public. The extension occurred in order to provide sufficient time to satisfy Federal Loan Guarantee conditions precedent required for financial close.**
- e. **Is the Federal Loan Guarantee in jeopardy if the UARB does not approve the Maritime Link project?**
- f. If financing is further delayed, will the Province provide additional equity funding to Nalcor? **If the financing is further delayed, additional equity financing will be required beyond what was included in the NL 2013/14 budget. However, the total equity requirement for the life of the Project will remain relatively unchanged.**
- g. Who is the Lead Arranger for the financing? What are the costs associated with financing? **This information cannot be publicly discussed. See key RFF messages.**
- h. Why is Nalcor drawing down the full \$5 billion effective the date of the financial close versus drawing down the cash as it is needed? **As outlined in the RFF, this provides certainty with respect to the pricing and placement of the financing. The fact that we are taking this approach has not been stated publicly.**

2. Project Cost Questions

- a. What is the total project budget? **\$6.2 billion**
- b. Does the project budget include costs for interim financing? **Uncertain what "interim" refers to?** If so how much interest costs during construction was included in the project budget? **See attached schedule. This information has not been made public.**
- c. Is the project on schedule and on budget?

The value of the Muskrat Falls and Maritime Link project is a combination of costs and overall revenue to the province. Costs are primarily comprised of capital, operating and financing costs. Some of these elements are lower than budget, some are similar, and some are higher. Financing costs continue to be quite favorable in this historically low interest rate period; however, it is also obvious there are selective capital cost pressures. That being said, these capital cost pressures are being experienced throughout NL and Canada in general, and would be similar to costs related to alternative Muskrat Falls options. These are early days on the project and we continue to aggressively manage the cost profile. At this point, we are generally on budget.

Going forward, Nalcor is driven by how best to manage labour costs and people resources. The intent is to minimize the cost of labor by strategically scheduling labor resources and organizing work on site in such a fashion that workers are most productive when we are the busiest. Success in this effort will create the highest probability of cost control and ultimate project success.

From a revenue perspective, budgeted revenue is conservative, and we continue to see upside potential as external markets are tending to improve. Overall net value to the province is currently trending positive, but frankly, it is early days, cost and revenue projections will continue to change. That being said, the overall value of this project is clearly very favorable to the Province, and will continue to be so over the long term.

- d. Are there contingencies included in the project budget for unforeseen costs / escalation?
- e. How will project cost overruns be financed? **Equity**
- f. What is the value of the federal loan guarantee? How were these savings calculated? **Approximately \$1 billion, determined on the basis of financing**

costs with and without the FLG (this latter point has not been discussed publicly).

3. Equity Questions

- a. How much total equity has the Province committed to Nalcor for the Muskrat Falls project? **See attached schedule for estimated base equity commitment. NL has also committed to provide sufficient contingent equity, if required, to ensure completion of the project.**
- b. What equity contribution was budgeted for 2013/14? **Total equity was \$531 million, with \$386 million associated with the MF project.**
- c. How much equity has been paid up to March 31, 2013? **\$248 million for LCP; \$268 million for Oil & Gas**
- d. Will Nalcor require equity contributions for the remainder of 2013/14 beyond what was budgeted in 2013/14? **This will be dependent on when financial close occurs. This has not been discussed publicly.**
- e. What equity is required in 2014/15 and beyond? **See attached schedule.**
- f. What are the debt to equity assumptions for the various components of the project? **See attached schedule.**

Nalcor – Oil and Gas

1. List the projects for which Nalcor has an equity interest (note equity percentage and amount). **Hebron – 4.9%, White Rose Extension – 5%, Hibernia South Extension – 10%**
2. How much equity is budgeted for 2013/14 by project? **NL's 2013/14 budget had a total of \$145 million allocated for all three projects above. The budgeted equity is not allocated by project as all 3 projects are held in one legal entity (Nalcor Oil and Gas) and the equity request is the residual amount required to finance capital requirements after fully utilizing cash from operations.**
3. How much has been advanced in total by project and how much is left to be allocated in 2013/14 and 2014/15 and beyond? **Of the \$145 million allocation in NL's 2013/14 budget, a total of \$101.9 million has been advanced as of November 1, leaving \$43.9**

million to be advanced between now and March 31, 2014. Equity requirements for 2014/2015 will be based largely on the budget for Oil & Gas' 2014 fiscal year. That budget is still being finalized.

4. Has there been a change in the estimate of the equity contribution by project? If so what is the variance and explanation for these variances? **There has been no change to the \$145 million allocated for 2013/14.**

See also NR responses to 20 questions (Telegram editorial)