Letter to the Editor submitted to the Telegram, April 30/14

More questions asked – more questions answered

Ken Marshall, President - Atlantic Region, Rogers Communications Inc., and Chair, Nalcor Energy Board of Directors

This letter is in response to questions posed by Messrs. Vardy and Penney in their letter to the editor in the Telegram on April 19, 2014 (*A reply to Nalcor's chairman of the board*).

First and foremost, I want to emphasize to the people of the province that Nalcor Energy was created to develop our energy resources for the benefit of Newfoundlanders and Labradorians – Nalcor is the people's energy company.

Nalcor welcomes questions from the public and has answered hundreds of questions on the Muskrat Falls Project and has posted recent questions and answers on the project website at www.muskratfalls.nalcorenergy.com, under Newsroom. I invite the public to visit the website and read the wealth of information that is available on the project.

The Muskrat Falls Project is being developed first and foremost for the benefit of Newfoundland and Labrador. Muskrat Falls will meet our province's growing electricity demand with clean, reliable energy for generations to come. Decades of studies and analyses exhausting potential alternative energy sources have continually shown that this project is the lowest-cost way to meet our electricity needs.

The business case for developing Muskrat Falls and the Labrador-Island Link is the same today as the day it was announced in November 2010. The economics of the project have never relied upon any additional revenue being generated through the sale of energy from Muskrat Falls that is surplus to our needs. Surplus energy not needed in our province will be sold outside the province for profits and returned to the province for the benefit of Newfoundlanders and Labradorians.

It is unfortunate that Vardy and Penney fail to understand the role of the Auditor General in our province. While safeguards are in place to prevent financial harm to the company, the Auditor General has unfettered ability to review information on Nalcor's business operations and to report to government.

Following are answers to specific questions raised by Vardy and Penney in their letter. In the interest of space, I've attempted to be brief in my responses.

1. *What will be the cost of Muskrat Falls power to retail customers on the Island?*
   Rate projections were presented in 2012, and are available on the powerinourhands.ca website at: www.powerinourhands.ca/pdf/Electricity_Rates.pdf. With Muskrat Falls, electricity rates will be stable over time and will be lower than if we continued to be an isolated system relying on burning oil to generate electricity. Final rates will be determined upon the completion of the project.

2. *What is the revised capital cost estimate for completion of the project?*
Nalcor firmly believes that transparency, project oversight and the release of information to the public is critical and we understand people's desire to know how we're progressing on the project. It's important to find the right balance of providing the public with cost information on the project and protecting the interest of electricity customers and our shareholder by not incurring financial harm. We're still in the process of negotiating and awarding some large contracts for the project and a cost update will be provided as soon as that process concludes. By not releasing contract value and cost information, we are able to maintain our negotiating position with contractors and ensure we continue to get the best possible outcome for customers.

3. *How will the project be financed if project costs exceed the limit imposed for the federal loan guarantee?*
The guaranteed debt amount is capped at $5 billion. Costs above this amount will be funded through equity or additional non-guaranteed debt in accordance with the provisions of the November 2012 Federal Loan Guarantee Agreement which remains available on the newsroom/reports section on the project website. With respect to equity, it will be provided solely by Nalcor/Government of Newfoundland and Labrador (GNL) for the Muskrat Falls and Labrador Transmission Assets components of the project, and by Nalcor/GNL and Emera in proportion to their ownership interests for the Labrador-Island Link. This is in accordance with the provisions of the Equity Agreements and the Newfoundland and Labrador Development Agreement, which is also available online.

4. *Why did we commit energy to meet the needs of Nova Scotia at rates below full cost when the original rationale was to serve ratepayers in NL?*
Nalcor's agreement with Emera for 20 per cent of the power from Muskrat Falls for 20 per cent of the cost has not changed. Through this arrangement Nalcor has secured transmission access to and through the Maritime Provinces that will enable export of surplus energy from Muskrat Falls. The additional Energy Access Agreement (EAA) secured in November 2013 enables the sale of energy that is surplus to our needs to Nova Scotia at market prices and is not directly tied to Muskrat Falls. Under the EAA, Nova Scotia Power will be provided the opportunity to compete for Nalcor's surplus energy that is offered only when it is not required in our province. The power sold will be at the best prices that Nalcor would have obtained if the power had been sold in markets in the US. Profits from surplus power will benefit Newfoundlanders and Labradorians.

5. *In the event of project delay, disruption of generation or transmission, how much will Nalcor have to pay Emera in damages?*
There is no compensation associated with a delay. This is addressed in the Energy and Capacity Agreement also available on the project website. The commitment to provide energy to Nova Scotia starts with commissioning of the third generating unit at Muskrat Falls and continues for

35 years from that event. For disruptions of generation or transmission, replacement energy to make up for missed deliveries will be provided to Nova Scotia after the interruption has ended.

6. *What recourse does the federal government have in the event of default?*
   Similar to any secured lender, in the event of a default that cannot be cured under the provisions of the project finance arrangements, the federal government has the ability to exercise its security interest and assume control of the financed assets.

7. *What commitments have been made to the federal government for which the province is liable?*
   The province has agreed to maintain the conditions necessary for the project to be built and costs recovered from electricity customers, thus maintaining the certainty required for the federal loan guarantee. This is addressed in the Intergovernmental Agreement which is also publicly available on the project's website.

8. *Why did the province enshrine the monopoly power of Nalcor and limit free trade in electrical power, thereby contradicting the province's long standing position on free trade in electricity?*
   Bill 61 provided the certainty Nalcor required to achieve competitive financing terms for the project by demonstrating to the federal government and lenders that there was a guaranteed customer (Hydro) and revenue stream to service the project debt. Open access on the provincial electricity grid is not impacted by Bill 61 and this Bill does not change Hydro's obligations to provide open access for interprovincial electricity transmission, as required by market rules and reciprocity obligations where Nalcor/Hydro operate. Franchise rights similar to those granted to Hydro in Bill 61 are common in other jurisdictions that have open transmission access.

I encourage Messrs. Vardy and Penney to review the report of the Independent Engineer (MWH Canada), who provides an excellent overview of the status of the project, along with the processes used by Nalcor for project management, and cost and schedule management. MWH Canada will continue to provide regular progress reports which will also form part of the Government of Newfoundland and Labrador's oversight of the project.