

Information Note Natural Resources

Title: Muskrat Falls Project

Issue: To provide a status update on Project milestones.

Background and Current Status:

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 finalizing the related regulations which are anticipated to be enacted in Fall 2013. Interim regulations related to certain expropriation elements of the Act were enacted in May 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 has finalized the required Order in Council (OC) to provide direction to the PUB with respect to cost recovery and Canada has indicated that it is satisfied with the OC. The OC is anticipated to be enacted in Fall 2013.

Commercial Agreements

- Nalcor and Emera agreed to broad principles of project execution in the 2010 Nalcor-Emera Term Sheet which details the terms for sanction of both projects. The 13 final agreements were signed on July 31, 2012. As well, an additional Nalcor-Emera agreement was 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. Discussions between Nalcor and NLH on those agreements dealing with financial requirements are nearing completion. NR and JUS have been in discussions with Nalcor and NLH throughout the process from a policy perspective.
- Nalcor has exchanged drafts of the commercial agreements dealing with financial requirements with Canada and has made amendments to those commercial agreements subsequent to Canada's comments. To date, Canada has not approved these commercial agreements and drafts are still being amended and exchanged.
- There are a number of other agreements between Nalcor and NLH that are currently being drafted related to transmission and operational arrangements. NR and JUS have not been party to those discussions and have not been provided drafts to date.

Federal Loan Guarantee

- 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 to be fulfilled by all parties to the satisfaction of Canada. Work is progressing and documents have been exchanged between parties on all conditions precedent.
- In particular, the Intergovernmental Agreement, whereby NL provides legislative stability to the federal government with respect to recovery of costs, is still being negotiated between NL and Canada. Drafts of the Agreement have been exchanged over several months and are nearing completion.
- Similarly, the Equity Support and Equity Guarantee Agreements, under which Nalcor agrees to provide base level and contingent equity to achieve in-service of MF, LTA, and the LIL and NL guarantees Nalcor's commitments, are still being negotiated between NL, Nalcor, and Canada. Drafts of these Agreements have been exchanged and are nearing completion.
- Negotiations are currently underway between NL, NS, Canada, Nalcor and Emera regarding a draft Land Use Agreement (LUA) which conveys a lease interest in the seabed to the proponents for the subsea portions of the LIL and the ML in the Strait of Belle (SOBI) and the Cabot Strait (CAST).

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 subsequently repeated 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. It was announced on April 18, 2013 that the project had been assigned a Triple A rating by Moody's.
- On May 27, 2013 it was announced that Nalcor had released its Request for Financing (RFF), inviting proposals for the purpose of raising debt financing for the project. Funding will be provided to Nalcor's subsidiaries responsible for the Muskrat Falls Project. The original date for financial close was October 1, 2013, however, it was subsequently changed to December 2, 2013. Potential lenders were informed of this decision. Submitted proposals have been evaluated and a preferred proponent identified. Once notified, Nalcor will work with the preferred proponent to conclude details of the financing agreement.

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. 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 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.

- Additional supporting information was provided and deemed acceptable throughout the winter and spring of 2013, and on June 21, 2013, the Minister announced that the province had released the project from further environmental assessment. The Federal government has not yet released the project, however, a decision is expected within the next couple of weeks.

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 June 21, 2013, the Minister announced that the federal government and both provinces had released the project from further environmental assessment.

Nova Scotia Regulatory Process

- Emera was 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.
- On July 22, 2013, the Nova Scotia UARB released its decision and determined that the Maritime Link is the lowest long-term energy solution for Nova Scotia if Emera can access market-priced energy from Nalcor or some other arrangement.
- Nalcor and Emera concluded an Energy Access Agreement on October 20, 2013 which addresses the UARB requirement. Emera made a compliance filing to the UARB on October 21st. The Board is currently undertaking its review (which includes a hearing), with a decision expected during the third-fourth week of November.

Hydro-Quebec Motion

- On July 22, 2013, Hydro Quebec filed a motion in the Quebec Superior Court seeking that the court confirm that Hydro Quebec will not be obliged to limit its requests for energy deliveries to fixed monthly blocks from 2016 to 2041; and, a that the court confirm that as long as the Contract is in effect, namely until August 31, 2041, CF(L)Co may not sell quantities of power and energy exceeding 300 MW to a third party, including NLH.
- Nalcor has obtained a number of legal opinions related to the matters raised by Hydro-Quebec and remains confident in its analysis of the operational interfaces between Muskrat Falls and the Upper Churchill.

**Prepared / Approved by: NR /
Ministerial Approval:**

29 October 2013