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To: [English, Tracy](#); [Quinton, Diana](#); [Morris, Paul J.](#)
Cc: [Williams, Tina](#); [Dawn Dalley](#); KONeill@nh.nl.ca
Subject: Comments on 20 Questions response
Date: Sunday, October 27, 2013 12:34:17 PM
Attachments: [Telegram Response 20 Questions- CWB comment.doc](#)

Folks;

Please see my comments on the letter response (attached). I haven't copied everyone so you may want to choose who/where this goes. Our deadline is sometime tomorrow morning. I'll send some additional thoughts on a lead-in for the letter.

Charles

Tone: it needs to be conversational and not too formal. Write simple with conversational flow.

Need to respond to his Agenda statement ... MF does make sense for Taxpayers and ratepayers. Should note that govt has had significant independent analysis of this project and has released a tremendous amount of information about why this project is good for NL taxpayers and ratepayers. In case this has been forgotten, much of this will be repeated here.

Taxpayers

- Project construction will generate significant direct and indirect tax benefits as incomes are earned and spent in the local economy
- Money that would have been spent on foreign oil and sent to foreign companies will be spent in the province
- Dividends from the sale of power will be returned to the taxpayer through improved services, lower taxes or investments that will return additional benefits

Ratepayers

- Our demand for electricity is growing and we need a new source of electricity.
- MF is the least cost option for ratepayers by a significant margin.
- Our alternative is to continue to buy oil to generate electricity; this is the more expensive option by a significant margin.

Below are a series of responses to the editorial entitled, *20 questions for the premier*, that appeared in the weekend edition of the Telegram on Saturday, October 16. The Provincial Government and Nalcor remain committed to openness and transparency on the Muskrat Falls Project, and we welcome the interest of Newfoundlanders and Labradorians regarding the Muskrat Falls project. For information, **simply** visit www.musktratfalls.nalcorenergy.com.

1. How do comments by Nova Scotia's newly-elected Premier Stephen McNeil affect the federal government loan guarantee for the project?

All parties, including the Government of Nova Scotia, are working diligently with the Government of Canada to finalize the Federal Loan Guarantee.

On October 21, 2013, Nova Scotia Power – Maritime Link (NSPML) submitted its compliance filing with the Nova Scotia Utility and Review Board (UARB) that included the Energy Access Agreement between Nalcor and Emera. This is a positive agreement for the provinces and meets the UARB requirement for access to more power while providing additional value for Newfoundland and Labrador. This agreement further supports our long held position that there is significant demand for our surplus power.

Doesn't answer the question

- McNeil's comments were consistent with previous statements that he is leaving the question of "ratepayer interests" to the UARB. His reference to "something new" referred to the condition attached by the UARB and the recent filing by Emera addresses that condition.
- Premier McNeil has stated publically that he will support the outcome of UARB process
- Premier spoke to MacNeil and Minister met Younger; can we say this?

2. What happens if Nova Scotia doesn't play?

We are part of a strong partnership on the Muskrat Falls Project. The Government of Canada, the Governments of Newfoundland and Labrador and Nova Scotia, along with Nalcor and Emera, share a vision of a secure energy future. That is why we are moving ahead with a nation-building project like Muskrat Falls. The project will provide tremendous economic and employment benefits to our province, the Atlantic region, and Canada.

- NS has signed the initial loan guarantee agreement with the government of Canada and has signed an agreement with the Govt NL supporting this project.
- The government has also made specific changes to their legislation to increase their renewable energy requirements and in so doing facilitates the MF-ML project
- We are confident that NS will continue to support this project and complete its requirements for the loan guarantee

3. Which one is true - can the project go ahead with or without the federal loan guarantee?

The Government of Canada, the Governments of Newfoundland and Labrador and Nova Scotia, along with Nalcor and Emera, share a vision of a secure energy future. That is why we are moving ahead with a nation-building project like Muskrat Falls. The project will provide tremendous economic and employment benefits to our province, the Atlantic region, and Canada.

- This is a repeat from the previous response

The Muskrat Falls Project is the lowest-cost option to meet the long-term energy needs of the province. We are confident in this project and we continue to work with our partners to complete the Federal Loan Guarantee. The Federal Loan Guarantee is a significant achievement and will result in a projected one billion dollar savings which will be passed onto ratepayers in Newfoundland and Labrador.

- The decision to proceed with MF was based on the specific requirements to meet the electricity needs of the people of the province. MF was, by far, the least cost source of electricity for the long-term benefit of the people.
- This decision was initially made without the benefit of the federal loan guarantee.
- Subsequently, we were successful in gaining the benefit of the loan guarantee which will result in a benefit of more than one billion dollars to ratepayers of the province.
- We are continuing to conclude the process of project financing and the loan guarantee requirements with Canada, NS, Nalcor and Emera.
- we are confident this process will conclude successfully

4. What about new and cheaper power sources?

Newfoundland and Labrador Hydro (Hydro) currently generates and supplies the majority of electricity on the Island and also buys power from various other independent generators.

It has been demonstrated time and time again that the Muskrat Falls Project is the lowest-cost option to meet the long-term energy needs of the province. While the legislative amendments in question provide Hydro with exclusive rights to supply power to retailers and industrial customers, this does not necessarily preclude Hydro from entering into other power purchase arrangements. We would need to ensure that any such arrangements are of benefit to Newfoundland and Labrador ratepayers and aligns with the province's energy policy.

- We are aware of this proposal and are reviewing.

5. What is the status of the province's search for lenders for the project?

Nalcor started its Request for Financing process for \$5 billion in debt financing for the Muskrat Falls Project in June 2013 and major Canadian and global financial institutions were invited to submit proposals. Through the Federal Loan Guarantee, this debt financing will benefit from Canada's AAA credit rating and as a result, it was well received in the financial markets. Nalcor has received competitive proposals and is currently evaluating the responses received.

~~Lenders were not told the interest rates they were to bid.~~

6. What interest rate are those lenders being told to expect to make?

Through the Federal Loan Guarantee, this debt financing will benefit from Canada's AAA credit rating and as a result, it is well received in the financial

markets. Nalcor has received competitive proposals and is currently evaluating the responses received. Lenders were not told the interest rates they were to bid.

7. Nalcor has yet to release whether or not there is a power purchase arrangement (PPA) with Newfoundland Hydro — that arrangement will require ratepayers to pay for electricity whether it's used or not. Will that PPA continue to be in limbo until all the bills come in?

Nalcor has clearly stated that there will be a power purchase agreement (PPA) in place between Nalcor and Hydro for power from the Muskrat Falls Project. The purchase of this power is the lowest-cost option to meet the growing electricity demands for Hydro's electricity customers. The PPA is currently being negotiated and will be publicly available once completed. We anticipate this being finalized in the near future.

8. The federal loan guarantee requires full insurance of the project. Has Nalcor obtained insurance?

The Federal Loan Guarantee requires that Nalcor provide "A report provided by an independent expert that the Projects have sufficient insurance coverage in place that is customary in projects of this nature and size." Nalcor is reviewing proposals from underwriters, and will have coverage in place as required by the Federal Loan Guarantee.

- Is the independent expert MWH? If so we should state it.

9. What's the rate for insurance, and what kind of risk are the insurers concerned about?

Insurance costs were included in the DG3 estimate. We will be looking for third party liability insurance, as well as construction insurance to cover the assets under construction. Once assets are placed in service, similar coverage will be provided as part of Nalcor's overall coverage. No unique or unusual risks have been identified as concerns. The insurance market in general has stated that they see the project as being quite attractive from a risk perspective given the Front End Loading done by Nalcor. Subsequently the interest in providing coverage has been high.

- People won't get "Front End Loading" . we should discuss the significant amount of engineering and de-risking that has taken place.

10. How much has it cost to find a solution to the quick-clay landslide threat of the North Slope?

Nalcor has extensively studied the North Spur, and a cost-effective plan for the stabilization of the North Spur is completed. The cost estimate for this was included in Nalcor's DG3 project estimate completed late last year. To ensure Nalcor continues to obtain competitive quotes for work on the Muskrat Falls Project, we cannot release estimates for work in advance of the bid process. This is done to ensure Nalcor obtains the best value for Newfoundland and Labrador customers.

- The question is posed such that the “problem” exists and that Nalcor need only reply to their solution.
- should also note the limited risk that exists and why we are confident in our approach.

11. Overall, are the bids that Nalcor is receiving in line with its expectations?

Yes, they are generally in line with our expectations.

Nalcor has been able to receive competitive bids for the contracts completed to date. One of the ways this is possible is to keep the bids confidential, and not release estimates for work in advance of the Request For Proposal process and to also keep the bids received by contractors confidential. This will allow Nalcor to get competitive bids, ensuring best value for the project.

- Should note that this result has come about because of the tremendous amount of work on engineering and budgeting that has already gone into the project.
- Tone is important here; people should immediately recognize why this approach is appropriate.
- When is the first “open briefing”?

12. Why can't taxpayers know what individual bid prices are?

By publishing the value of bid prices, Nalcor would lose the ability to effectively manage the costs of the project for Newfoundland and Labrador customers as explained in answer #11 above.

- The answer above needs to be very simple and clear to the uninitiated

However, while Nalcor does not release the individual bid prices, every month Nalcor releases a Benefits Report that states the monthly expenditures for the entire project. This information is provided for every month, as well as the year to

date, and is broken down by the location of where the money is spent, the type of work it is spent on.

This information is publicly available on Nalcor's website at www.muskratfalls.nalcorenergy.com.

13. Is the project on budget?

We are early in the construction of the project with not even a year of construction completed at this time. However, at this early stage, with the contracts that have been awarded and the work completed to date, we are generally where we anticipated the spending of the project to be in relation to the budget.

- Hmmmmm.....

14. How have the project's economics changed with the dramatic weakening of long-term oil prices?

Nalcor's final DG3 detailed cost analysis showed that building the Muskrat Falls Project and the transmission link from Labrador to the Island was the lowest-cost option to meet Newfoundland and Labrador's future electricity needs with a preference of \$2.4 billion over continuing to burn oil at Holyrood.

This long-term analysis factored in short and long-term price fluctuations in oil. While last year oil prices took a short-term dip, over the long-term these prices are expected to remain high. Also, if we were to continue to burn oil at Holyrood, customers would continually be subject to ~~ups and downs and volatility in~~ the markets, and ultimately higher electricity rates than they will have from the clean, renewable power from Muskrat Falls.

15. With ratepayers in this province responsible for the full cost of the dam and transmission line, how will electricity prices be kept competitive for industrial users?

The Muskrat Falls Project has been demonstrated to be the lowest-cost option to meet the long-term energy needs of the province, and we are confident that rates paid by industrial customers in the province will continue to be competitive as compared with other jurisdictions.

16. If industrial prices remain competitive – something that's now, post-Muskrat, set by the provincial Cabinet – how much will other users have to pay to make up for industrial discounts?

~~A critical aspect for project financing is that costs for the Muskrat Falls Project will be recovered through customer rates. That being said,~~ the Board of Commissioners of Public Utilities (PUB) will continue to set electricity rates for consumers. ~~[does Nalcor have future competitive industrial rates analysis?] this includes residential and industrial rates~~

- Is he suggesting that there is a cabinet directive to keep industrial rates low?

17. How low will rates for the mainland sale of power have to be to be considered “cost-effective” by U.S. governors?

Energy markets are financially cleared markets like any other commodity. Prices are set by the marketplace and are not set by U.S. Governors.

- Most folks will not get the substance of this answer. Need to simplify
- In the US, electricity rates are largely set by open market forces similar to the price of oil.
- In order for electricity to sold in the market it must be price competitive. MF power is price competitive.
- Many states offer to pay a premium for renewable energy
- We are pleased with the NE governors recent endorsement that renewable energy (hydro) from Canada is good for their states and they want to purchase more.

18. Have negotiations to “sweeten the pot” to match the expectations of Nova Scotia’s power regulator taken place?

~~As you are aware,~~ on October 21, 2013, Emera’s subsidiary NSPML made a compliance filing on market-priced energy with the UARB to meet a condition to access additional power as laid out by the Nova Scotia regulator on July 22, 2013. Nalcor has offered power surplus to our needs at a competitive price to the Nova Scotia market. This agreement provides Nalcor with a competitive price for this power and the flexibility to maximize the value of the province’s surplus energy.

A copy of NSPML’s compliance filing and Energy Access Agreement is available on the UARB website at www.nsuarb.novascotia.ca.

- Pot has not been “sweetened”
- Not PPA, not a long-term contract; not fixed price;
- It’s a market we can bid into at an attractive price
- All power is non-firm and fully surplus to our needs
- Fully recall-able; only bid what we have available

19. What's on the table in those negotiations?

As you are aware, on Monday October 21, Emera Inc. subsidiary Nova Scotia Power Maritime Link Inc. (NSPML) made a compliance filing on market-priced energy with the Nova Scotia Utility and Review Board (UARB) to meet a condition to access additional power as laid out by the Nova Scotia regulator on July 22, 2013. Nalcor has offered power surplus to our needs at a competitive price to the Nova Scotia market. This agreement provides Nalcor with a competitive price for this power and the flexibility to maximize the value of the province's surplus energy. A copy of NSPML's compliance filing and Energy Access Agreement is available on the UARB website at www.nsuarb.novascotia.ca.

- Need to split answer details between 19 and 20.
- Can't copy same response
- Need to explain the deal details

20. Why is there so much we're not allowed to know?

Never before in the history of this province has a project undergone such scrutiny, and never before has such detailed information been publicly available - testament to the project's openness and transparency.

The Muskrat Falls Project has been extensively studied for years. Nalcor has made public hundreds of reports, studies, and tens of thousands of pages of information and analysis. This information has been presented to all government parties, the PUB, independent consultants, regulators, the public, critics, and many more.

Nalcor has, and will continue to release information as requested, as long as it does not impact the commercial sensitivities of the Project and does not compromise Nalcor's ability to obtain competitive bids. Nalcor is committed to being as open and as transparent as it can be on this project and in all its operations, however, the company must also balance its commercial interests.