

Date : 4/12/2016 9:18:37 AM

From : "Mullaley, Julia"

To : "Murphy, Tim" , "Parsons, Kelvin" , "O'Connor, Nancy" , "Foote, Carla"

Subject : Fw: Summary - Reasons why not to shut down MF

Attachment : ImpactofSlowdownJPS.docx;

Please see below for further discussion.

Sent from my BlackBerry 10 smartphone on the Bell network.

From: Bown, Charles W. <cbown@gov.nl.ca>

Sent: Monday, April 11, 2016 5:21 PM

To: Mullaley, Julia

Subject: Summary - Reasons why not to shut down MF

I've attached a Summary of the analysis of why not to shut down MF. Its not in the comms but we need an avenue to release.

Muskrat Falls Project Summary of issues related to Delay or Cancellation of the Project

Conclusion

If the Government were to cancel or significantly delay the Muskrat Falls Project there would be substantive legal and financial implications for the Province. In addition, there would also be future negative implications on the reliability of the Province's electricity system during any delay period.

These implications include:

1) Need for Power

- Demand for power continues to grow and is expected to exceed what the current energy assets can supply from a capacity perspective by 2018/19 and a new generation source is required to meet Island customer requirements.
- The aged Holyrood generating plant is experiencing operational issues and is in need of significant repairs. With the in-service of Muskrat Falls and the transmission links, this aged plant will be retired. If the Project is cancelled or delayed, then continuing to rely on the Holyrood generating plant will have a significant negative impact on the reliability of the Province's electricity system.

2) Significant Financial Commitments to Date

- At the end of 2015, over 50% of work on the Project has been completed. A total of \$4.4 billion in facilities capital and interest/financing costs has been incurred, and \$6.6 billion has been committed for construction and procurement contracts. This compares to the current facilities' capital cost estimate of \$7.65 billion released in September 2015, and nearly \$9 billion when interest/financing costs are included.
- Almost all of the contracts are awarded, goods are procured and many components, such as the turbines and generators, and subsea cable, are advancing through or completed manufacturing.
- Any delay or cancellation related to the Project will add to the overall cost, including costs associated with cancellation or delay penalties for committed contracts.

3) Federal Loan Guarantee & Financing Agreements

- Nalcor, through its Project related subsidiaries, has borrowed \$5 billion under a Federal Loan Guarantee with the Government of Canada at a very favourable interest rate of approximately 3.8% over 35 years for Muskrat Falls / Labrador Transmission Assets and 40 years for the Labrador-Island Link. These funds were fully secured in December 2013 and have to be repaid with interest.
- As part of the loan guarantee, the Province executed an equity completion guarantee to provide whatever funding is required above the \$5 billion to ensure the full Project achieves in-service. If the Province decides to cancel or significantly delay all or a component of the Project, this would trigger default provisions under the loan guarantee and financing agreements. This would include cross defaults between all Project components in the event just one component was cancelled or significantly delayed.
- In a situation of default, customers in the Province will still have to pay for the electricity through power supply and transmission agreements with NL Hydro and the associated dividends and Muskrat Falls export revenues will be paid to the Federal government (or to an entity it may decide to sell the assets to) instead of to the Province.

- In a situation where Canada chose not act on the default, the repayment of the \$5 billion debt plus interest would still be required, incremental Project costs would still accumulate, a new source of generation would still be required and all these costs would still be passed onto ratepayers in the Province.

4) Nalcor/Emera Agreements

- Nalcor has entered into agreements with Emera, who is investing \$1.5 billion plus interest/financing costs to build the Maritime Transmission Link (“ML”) and will receive 20% of Muskrat Falls’ power over 35 years. The ML reverts back to Nalcor for \$1 at the end of that period.
- In the event the Project was cancelled, there are significant remedies to Emera if this power is not provided, including recovery of Emera’s costs and related damages plus an obligation for Nalcor to deliver power or financial compensation.
- Emera also has an equity investment in the LIL, and in the event the Project is halted there are remedies available to Emera.[NTD: the remedies available would vary depending on losses]

5) Significant Economic Value to the Province

- Approximately \$9 million is invested in the NL economy weekly as a result of the Project, and over \$1 billion has been spent with NL businesses since the start of the Project.
- At peak employment in 2015 over 4,500 NL residents were working on the Project, which equates to over \$1 billion in wages to NL residents. Employment is expected to be at similar levels in 2016.
- The Province’s total equity investment in the Project is currently estimated at \$3.1 billion based on the \$7.65 billion facilities capital cost estimate released in September 2015. As at the end of 2015, approximately \$1.5 billion of this has been invested. The Province is currently borrowing long-term debt at approximately 3-3.5% to fund these equity commitments which will provide a guaranteed equity return of greater than 8% over a 50 year period.
- The development of the Project will result in approximately \$60 billion in benefits and cost savings to Newfoundlanders and Labradorians over 50 years.
- The Project lays the groundwork for development of other energy projects in the Province such as small hydro, wind and the much larger Gull Island hydroelectric facility.

6) Clean Energy Impact

- With the completion of the Project, Newfoundland and Labrador will have over 98% renewable electricity generation.
- Muskrat Falls essentially eliminates the Province’s reliance on burning fossil fuels for electricity generation. The retirement of the Holyrood thermal generation station will result in the reduction of one million tonnes of greenhouse gas emissions annually and provide long-term stability to electricity rates.
- Hydropower is a clean, renewable, and stable source of energy. Once built, a hydropower resource will last for more than 100 years.
- The benefits of clean, renewable hydropower can be seen in other jurisdictions in Canada.