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Subject: COREA issue.docx
Date: Saturday, November 19, 2016 1:02:50 PM
Attachments: [.png](#)
[COREA issue.docx](#)
Importance: High

Auburn,

Just left you a voicemail. Here's the file I referenced.
Please read, edit, add.

Gone out for about 30 minutes.

Thanks

Craig

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Federal Loan Guarantee

We’ve been following up on this issue of “What is the value of COREA”. It appears that the value cannot be truly quantified at this point since we don’t currently understand what the Federal Government means when they say “... Canada will provide relief on the cost overrun escrow account and correspondingly less the immediate obligation of the province to the projects.” And will “... make more permanent changes to the cost overrun pre-funding requirements...”.

Original Federal Loan Guarantee

Under the terms of the original Federal Loan Guarantee (FLG1), the project was baselined at a cost of \$6.5 billion (excluding interest during construction) with a commissioning date of June 2018. Any cost overruns in excess of the \$6.5 billion were the sole responsibility of the Province and were to be prefunded using the Cost Overrun Escrow Account (COREA).

Based on the current cost estimate of \$9.2 billion and delayed commissioning date, the cash flows under the current FLG for the COREA are as detailed below

Table 1: MidYear Update COREA Cashflows

MidYear Update COREA Cashflows (\$millions)					
	2016	2017	2018	2019	2020
MF/LTA					
Opening	229	767	505	377	381
Contributions	544	544	369	369	0
Uses	-6	-805	-498	-366	-180
Refunds	0	0	0	0	-200
Closing	767	505	377	381	0
LIL					
Opening	221	563	378	208	227
Contributions	342	342	181	181	0
Uses	0	-527	-352	-162	-138
Refunds					-89
Closing	563	378	208	227	0
LCP Total					
Opening	450	1330	884	585	608
Contributions	886	886	550	550	0

Uses	-6	-1332	-849	-528	-319
Refunds	0	0	0	0	-289
Closing	1,330	884	585	608	0

*Based solely upon FLG1 (Total Debt-\$5.0B)

Based on these cashflows, the Province's additional interest expense go-forward is estimated at approximately \$136 million (tbd) based on the borrowings to pre-fund the cost overrun.

Revised Federal Loan Guarantee

Under the revised terms of the Loan Guarantee, Canada has accepted the new baseline of \$9.2 billion for the purposes of the total Project Cost and has agreed to extend the Loan Guarantee by \$2.9 billion from the current \$5.0 billion, for a total Guarantee of \$7.9 billion.

Conceptually, given the acceptance of the new cost and schedule Baseline, under the COREA there is no current projected cost overrun from this current Baseline. Consequently, there should be no further payments made to the COREA and the existing COREA balance of \$450 million should be released. Alternatively, the Federal Government has advised that the COREA concept is integral to the agreement and they had offered deferral of payment and their desire to make more permanent changes, but have not conveyed what they are contemplating for changes. If their position is that there is no change in cost baseline for COREA purposes and the funds cannot be drawn until the debt is depleted, then the Province would be required to continue to pay into the fund but cannot draw until Project completion. Cashflows for this concept are in Table 2 below.

Table 2: FLG2 with no change to COREA from FLG1

FLG 2 - No COREA relief

(\$ millions)

	2014	2015	2016	2017	2018	2019	2020
Contributions	115	336	886	886	550	550	-
Refund	-	-	-	-	-	-	(3,341)

This outcome would be unreasonable given it would require the Province to fund the COREA solely for the purposes of having the amount in escrow. The funds would not be accessible until the Project was completed so the Province would also have to fund its equity share to complete the Project. Only at the end of the Project would the Province be refunded the \$3.341 billion with no need for those funds as Project is complete.

It is anticipated that this is not an outcome the Federal Government is supporting. So either the Federal Government is contemplating a different COREA construct the details of which they have not communicated to the Province, or, the Federal Government has not "turned its mind" to this outcome and does not have a clear vision of the revised COREA concept.