From: Martin, Craig
Sent: Tuesday, January 12, 2016 4:02 PM
To: Murphy, Tim; Mullaley, Julia
Subject: Deck
Attachments: Federal Loan Guarantee.pptx

Tim and Julia,

The Minister asked that I forward the attached Deck for your information.

Regards

Craig

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Lower Churchill Project (Phase I)
Federal Loan Guarantee

Newfoundland Labrador

Project Background

Newfoundland Labrador

- Newfoundland and Labrador (NL) requires more power due to increasing demands for electricity and aging infrastructure
- Lower Churchill Project – Phase I (LCP) positions NL as a leader in clean, renewable energy with 98% of NL's energy generated from renewables
- LCP stabilizes electricity rates for residents and is a strategic enabler for businesses and economic growth
- LCP will change the future of our province, Atlantic Canada and the rest of the country when it connects NL to the North American grid for the first time in the province's history
- LCP allows NL to take advantage of opportunities to sell clean, renewable power to other Canadian provinces as well as the North Eastern US
- LCP generates significant revenues and savings over the next 50 years delivering long-term value to NL, NS and Canada
- LCP provides significant economic and employment benefits to NL, NS, QC and Canada during construction

Key Messages

- An Enhanced Federal Loan Guarantee (FLG) strategically aligns with the new Government of Canada's platform commitments:

New Government of Canada Platform	Alignment with Enhanced FLG
Climate Change/COP21	NL is an environmental leader with 98% clean, renewable energy to meet provincial needs and available for export markets – NL will be tied for the leading position across all provinces for renewable energy and reduction of fossil fuel LCP represents a 4.5 million tonne reduction of CO_2 and will enable further development of clean, renewable energy in the region
Stronger Federal-Provincial Partnerships	Demonstrates commitment to NL, and other Canadian provinces, of more effective Federal-Provincial working relationship – as Canada's cooperation provides meaningful support to a Province's fiscal management action plan NL not competing with Canada and provinces in tight, government debt markets
Infrastructure Investments / Clean Energy Infrastructure	Investment in green infrastructure creating $6.1 billion total income to labour and business generating 70,000 person years of employment, $950 million in federal taxes and $850 million in provincial taxes
Renewed relationship between Canada and Indigenous peoples	Demonstrates support for strong Aboriginal partnerships as evidenced by NL and Innu Nation's *New Dawn* agreement

- It provides significant financing cost savings and economic benefit while maintaining Canada's key financial protections under the FLG –$1.8 billion to $4.4 billion savings to ratepayers with minimal potential cost impact to Canada

Projected Benefits to Canada

Newfoundland Labrador

$6.1 B
total income to labour and business
- 3.0 B Newfoundland
- 1.2 B Ontario
- 1.2 B Québec

$950 M
in federal taxes

70,000
person-years of employment in Canada

31,000
Atlantic Canada

17,000
Ontario

18,000
Québec

$350 M
in taxes to NL

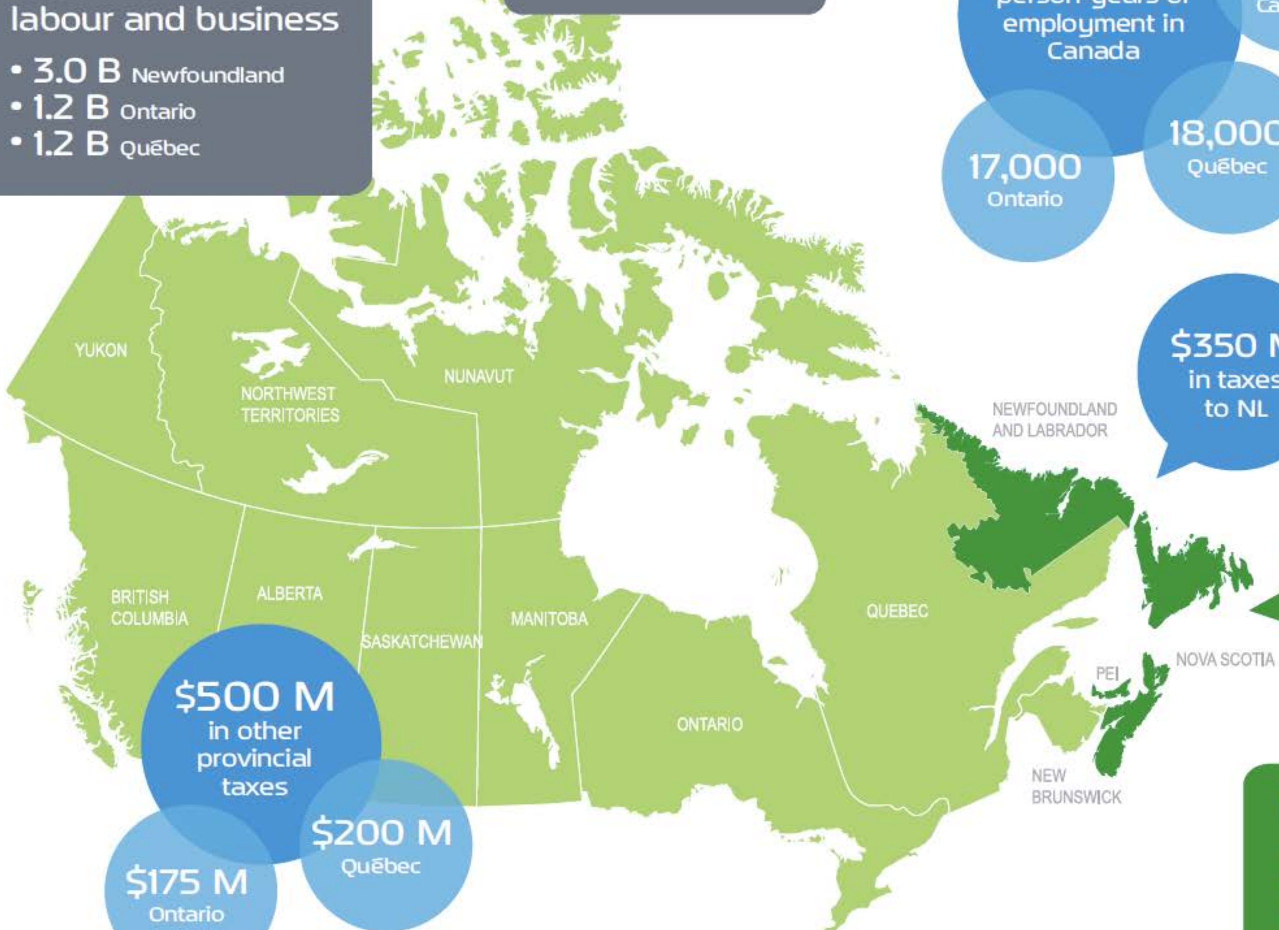
Further development of renewable energy in the region enabled

$500 M
in other provincial taxes

$175 M
Ontario

$200 M
Québec

up to
4.5 M
tonnes of
CO_2 reduction



Federal Loan Guarantee

- Background

- In December 2013, Nalcor (through funding trusts) completed financial close by issuing $5 billion of AAA rated long term bonds guaranteed by Canada for the LCP – these proceeds were invested and are being drawn down monthly to fund Project expenditures
- Some of the key provisions of the FLG with Canada include:
  - Maximum debt levels (DER) for (i) the Muskrat Falls (MF) / Labrador Transmission Assets (LTA) component of the project is 65% and (ii) the Labrador-Island Link (LIL) is 75%
  - Minimum Debt Service Coverage Ratios (DSCR) of 1.4 times
  - Any amounts not financed through debt are to be financed by equity (supported by a formal guarantee from NL)
  - Debt is amortized over the repayment period (30 years MF/LTA; 35 years LIL) through semi-annual sinking funds contributions starting on December 1, 2018
  - Any forecasted cost overruns subsequent to financial close are to be wholly pre-funded with equity through the Cost Overrun Reserve Escrow Account (COREA) – current balance is $450 million
- Since financial close, NL and Nalcor have maintained compliance with the provisions of all the agreements and commitments relating to the FLG

Newfoundland Labrador

Federal Loan Guarantee

- Background (continued)

- A-rated, non-guaranteed LCP credit ratings were secured as a condition precedent to FLG – this was and continues to be based on the following:
  - The investment decision was made on the basis that the future requirement for electricity by NL was such that the financing is supported solely by the cash flow from domestic NL sales, through NL Hydro (NLH), and does not require any export sales
  - Given the above, a series of agreements were developed to ensure that the cash flow stream from NLH was unconditionally available to support the LCP financing
  - Implementation by the Province of a legislative and regulatory framework to ensure full cost recovery in a timely manner to support debt service
  - The equity portion of the financing will be provided to the Project's entities by (i) Nalcor under Equity Support Agreements, and (ii) Emera under Nalcor/Emera Formal Agreements – all of this is backstopped by NL with formal unlimited Equity Support Guarantees
- All of these above features would continue under the proposed FLG enhancements

Federal Loan Guarantee

Newfoundland Labrador

- Opportunity

- In finalizing terms of the current FLG, there were opportunities missed at the Canada-NL political level for additional cooperation and benefit
  - The level of low cost guaranteed debt was capped at $5 billion based on cost estimates at that time
  - Canada required any forecasted cost overruns subsequent to financial close to be wholly pre-funded with equity through the COREA, despite being provided unlimited Equity Support Guarantees by NL to fund whatever equity is required to achieve Project in-service
  - Canada required a fixed date to start principal repayment through semi-annual sinking funds contributions – this did not provide flexibility in case of a delay scenario
- In the spirit of greater partnership between Canada and the Provinces, NL and Nalcor request to make three simple amendments (outlined on next slide) to the FLG that will:
  - Continue to respect Canada's key financial protections (maximum DER, minimum DSCR, priority asset security and NL equity completion guarantee)
  - Have minimal potential cost impact to Canada;
  - Achieve the objective of minimizing the total incremental cost to all stakeholders of funding required for the Project; and
  - Reduce the level of required NL equity funding and improve the timing in which the remaining NL equity is to be funded

Enhanced Federal Loan Guarantee

Newfoundland Labrador

1. Eliminate the COREA concept, thereby not requiring any future pre-funded equity payments and thus allowing the existing $450 million COREA balance to be used as equity immediately
   - COREA requires NL to borrow funds earlier than normally required – inefficient and more expensive
   - Canada remains provided with unlimited Equity Support Guarantees by NL to fund whatever equity is required to achieve Project in-service
   - defers timing of additional NL equity requirements
2. Improve existing additional debt provisions to allow additional debt to be guaranteed by Canada and funded in the same way as the original $5 billion
   - by maintaining maximum DER and minimum DSCR, this additional debt would be at least $1 - $2 billon (depending on final costs)
3. Change sinking fund contribution requirement from fixed date starting in December 1, 2018 to date depending on LCP in-service with any deferred amount being amortized between in-service date and first bullet bond repayment
   - sinking fund contribution is approximately $50 million every six months

- Improved timing and reduced NL equity requirements of the above generate net interest savings to NL of $30 - $90 million over next 2-3 years

Potential Benefits of Enhanced Loan Guarantee

Newfoundland Labrador

- Canada demonstrates a more comprehensive regional partnership and assists in achieving key announced policies on reduction of greenhouse gas emissions, green infrastructure development and renewed relationship with Indigenous peoples, while maintaining key FLG financial protections with minimal potential cost impact to Canada
- $1.8 to $4.4 billion savings over life of the project ($0.4 to $0.9 billion on a present value basis) to ratepayers – from difference in cost of guaranteed debt versus equity
- $1 to $1.9 billion reduction over next 2-3 years in NL equity contribution to Nalcor – Canada's cooperation provides meaningful support to a Province's fiscal management action plan
- $30 - $90 million in net interest savings over next 2-3 years due to improved cash flow timing and reduced NL equity requirements
- The requirement not to pre-fund forecasted cost overruns results in NL not competing in tight, government debt markets with Canada and other provinces before funds are actually required by the Project