

Memo

To: Siobhan Coady

From: Cathy Bennett

Cc: Greg Mercer

Date: June 17th, 2017

Re: Nalcor Update

As we discussed last week, Finance officials and I were to meet with Nalcor this week in preparation for rating agency meetings. On Tuesday of this week ADM Craig Martin and I meet with Stan & Derrick to be briefed on the latest numbers related to the Muskrat Falls Project. Deputy Minister Donna Brewer and ADM Denise Hanrahan were briefed on Monday by Derrick.

Since these briefings Finance officials and I have considered the information shared with us and have several questions that I shared with Stan on Thursday of this week. He connected with me late Friday to set a time to review the answers, however we won't be able to connect until Tuesday of next week due to my travel schedule. Stan has indicated that he has incorporate many of these questions and answers into his presentation for the Premier on Monday, June 19th, 2017.

For your information, I've attached a copy of the questions we shared with Stan.

In preparation for Budget 2017 we were assured that there would be 'no surprises' in the information provided by Nalcor. I'm sure you share my disappointment with these latest developments.

Based on the risk assumptions Finance used in our most recent Fiscal plan, Early indications are that these new numbers will impact our borrowing plan by slightly more than \$250M.

I look forward to reviewing these questions with Stan when I return from Ottawa.



Cathy Bennett

Hand delivered
to GLEA & Siobhan
Sunday June 12/2017

Jan 2017

- What will be the impact on Nalcor's equity draw from the Province (by year)? ✓ Pp 26
- What is the impact on electricity rates? ✓ Pp 21 (9% HST incl or not)
- What is reasonable rate (growth) that the economy / consumer can absorb and remain competitive? *Finance*
- What electricity rate is required just to recover the capital cost (i.e. not provide the shareholder's 8.5% return)? Pp 15 *1-1.2 cent*
- Is there a risk the auditors (external or AG) will determine that the asset is impaired? *AG - Nalcor Gov't purpose*
- How much contingency is remaining in the revised project budget? *340M*
- What are the remaining risks? What is the probability some of these risks will result in further cost impacts or schedule adjustments?
- Can you assess probability of each risk and provide range of potential impact on cost / schedule?
- Was the Muskrat Falls Oversight Committee advised of these changes? *no / but Thursday*
- You indicated that some of the claims were known over a year ago but no quantification of the potential settlement of the claim was noted in the risk register. Has this changed? *Valens? Antuity(?)*
- What are the outstanding claims and status of each?
- Have the recommendations of the EY report re project office budgeting been implemented? →
- Budget 2017 allowed for a capital cost of \$9.85 billion. Minister of Finance was advised that no surprises were expected. What changed in this past quarter?
- Should investors have been advised of such a significant change prior to the FLG2 financing? *NO - same best info at time*
- Will there be a knock-on impact on spreads for NL and Hydro bonds?
- What is your expectation re revised operating cost projections? What impact will this have on rates? *\$55 - \$135*
- What has the public been advised (i.e. annual general meeting / last quarterly update)?
- Is the Board aware? External auditor? AG? *x x x*
- Methyl mercury risks?
- Work interruption risks?

*Star
Don't not
you got what
you number 11
try to
suppose
that
Derrick must
have fine
wrap number*

Risks	75% spent vs Risk	50%
① Trees / soil	→ Considerable	
② Andritz	(law suits) 2yr behind schedule	(no)
③ Cartwright		

*Star's mega project in crisis!
Nothing the Province can do!*

-

1. What is reasonable rate (growth) that the economy / consumer can absorb and remain competitive? Will the estimated rate mitigation reserve have to be adjusted upwards?
2. Was the Muskrat Falls Oversight Committee advised of these changes? (Note concern that Board's March 2017 quarterly update being released after GNL knowing the change will not even suggest there is a change or the potential size of same)
3. Budget 2017 allowed for a capital cost of \$9.85 billion. Minister of Finance was advised that no surprises were expected. What changed in this past quarter? How do we communicate that Budget 2017 included a price adjustment (why was this not transparent / disclosed)?
- 4.

June 22/2017

Star said the work shut down
in fall of 2016 created a
BNE delay in getting the
"transmission (?)" in from Bay Bulls
to MF.

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Slide 11

STAFF
DEC NUMBER!

9.1

300M Astaldd

9.4

150M

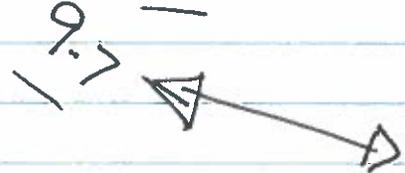
Cont Request from
Nalcor in Budget 2017

9.55

9.85

300M

* Corec overrun for
2 more yrs.



10.1

50-60M

\$250

over 3 yrs.

Hydro Borrowing

17/18 - 335 equity, plus 150M conting 485M
plus we increase 225M for hydro
borrow with assumed revenues

net diff may be 80M, putting at risk
hydro recap plan for 225.

- Hydro Borrowing Issues

Bennett, Cathy (Minister)

From: Martin, Craig
Sent: Tuesday, June 20, 2017 11:51 AM
To: Bennett, Cathy (Minister)
Cc: Hanrahan, Denise; Brewer, Donna
Subject: Follow up on Questions
Attachments: Questions with answers.doc

Minister,

Attached is the document outlining your questions and summarizing the responses from the meeting yesterday. I've highlighted yellow those still outstanding.

Regards

Craig

Craig Martin, CPA, CMA
Assistant Deputy Minister of Finance
Economic, Fiscal and Statistics Branch

☎: (t.) 729-0864 ☎: (f.) 729-2070
✉: cmartin@gov.nl.ca

Covering Ass

- original risk quantified(?)

- Why didn't we estimate
some thi or claim [- Value
- Activity]

- Budget # is differ from
your Dec # - why }

- Stop the BLEED?
How

Operations COST - ~~over~~ ~~where~~ ~~to~~
why [- why were they not captured
last yr. or the 9.1 capital
Revenue. (RATE mitigation)

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3. What electricity rate is required just to recover the capital cost (i.e. not provide the shareholder's 8.5% return)?
 - a. Outstanding
4. Is there a risk the auditors (external or AG) will determine that the asset is impaired?
 - a. Outstanding
5. How much contingency is remaining in the revised project budget?
 - a. Outstanding. But, approximately \$213M remaining per OC reporting and \$400 additional in current estimate
6. What are the remaining risks? What is the probability some of these risks will result in further cost impacts or schedule adjustments?
 - a. Main risks are:
 - i. Methyl Mercury (Soil and tree removal)
 - ii. Further delays (protests, Cartwright, etc.)
 - iii. Main Contractor still o/s - Andritz
7. Can you assess probability of each risk and provide range of potential impact on cost / schedule?
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