


From: mbradbury@nalcorenergy.com
Sent: Sunday, November 13, 2011 10:55 AM
To: davepardy@nalcorenergy.com
Cc: kentlegge@nalcorenergy.com; alisonball@nalcorenergy.com;
elizabethgray@nalcorenergy.com; geraldcahill@nalcorenergy.com;
lanceclarke@nalcorenergy.com; kentlegge@nalcorenergy.com
Subject: Re: Fw: Redress Settlement Payments

I have been advised by Paul Scott that they will be reimbursing us for the first payment. I have suggested to kent that the first payment of \$2 m be booked not as a charge to the Project but as a receivable from the Province.

The future payments are still under discussion. I am therefore recommending that their value be booked as a charge to the Project until re have confirmation from the province that they will reimburse for all. This recommendation is currently with Kent for his consideration.

 <p>nalcor energy LOWER CHURCHILL PROJECT</p>	<p>Mark Bradbury General Manager Finance Nalcor Energy - Lower Churchill Project t. 709 737-1294 c. 709 685-9747 e. MBradbury@nalcorenergy.com w. nalcorenergy.com 1.888.576.5454</p>
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You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

Dave Pardy---11/13/2011 09:55:31 AM---All Just a note - If we are planning to include redress payments in the project estimate then a Proj

From: Dave Pardy/NLHydro
To: Kent Legge/NLHydro@NLHydro
Cc: Mark Bradbury/CRP/NLHydro@NLHydro, Alison Ball/NLHydro@NLHYDRO, Elizabeth Gray/NLHydro@NLHydro, Gerald Cahill/NLHydro@NLHYDRO, Lance Clarke/NLHydro@NLHydro
Date: 11/13/2011 09:55 AM
Subject: Re: Fw: Redress Settlement Payments

All

Just a note - If we are planning to include redress payments in the project estimate then a Project Change Notice (PCN) should be raised.

I will raise a Deviation Alert Notice (DAN).

This is to comply with our Management of Change (MOC) process.

David P

David Pardy

Project Controls Lead

LC Project

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Kent Legge—11/12/2011 09:47:27 AM—Hi Mark, Let's discuss further on Monday. Conceptually I would agree that based on facts below we li

From: Kent Legge/NLHydro

To: Mark Bradbury/CRP/NLHydro@NLHydro

Cc: Alison Ball/NLHydro@NLHydro, Dave Pardy/NLHydro@NLHydro, Elizabeth Gray/NLHydro@NLHydro, Gerald Cahill/NLHydro@NLHydro, Lance Clarke/NLHydro@NLHydro

Date: 11/12/2011 09:47 AM

Subject: Re: Fw: Redress Settlement Payments

Hi Mark,

Let's discuss further on Monday. Conceptually I would agree that based on facts below we likely have little choice but to consider inclusion for now in DG3 estimate. I would, however, like to understand further the change in thinking from Government... it would seem contradictory to me, on a 'principles' basis that they would fund the first payment (as is my understanding), but not have obligations on the remaining amounts. I would also like to explore further our allocation options (for instance, if we were to use capital estimates as basis, would we also match timing of payments in the NPV calc... would result in nearer term obligations from MF/LIL/ML). , Also re: no portion of this going to ML, I agree that Emera would likely contest the inclusion of

any such amount, but we should test this off of the term sheet, and definitions of pre-development / pre-sanction costs.

In the meantime, anything we can do to help advance discussions with Government, jsut let us know. Once you and I have aligned, suggest we discuss path forward with Derrick.

Kind regards!

Kent



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Mark Bradbury---11/10/2011 01:25:51 PM---Hi Kent We still do not have confirmation from the province that they are prepared to accept liabili

From: Mark Bradbury/CRP/NLHydro

To: Kent Legge/NLHydro@NLHydro

Cc: Elizabeth Gray/NLHydro@NLHydro, Dave Pardy/NLHydro@NLHydro, Lance Clarke/NLHydro@NLHydro, Gerald Cahill/NLHydro@NLHYDRO, Alison Ball/NLHydro@NLHYDRO

Date: 11/10/2011 01:25 PM

Subject: Fw: Redress Settlement Payments

Hi Kent

We still do not have confirmation from the province that they are prepared to accept liability for our Settlement Payment obligations under the Redress Agreement. They are looking for more information and it still appears we have a ways to go before we get approval on it. Hence there is a possibility (perhaps a good possibility) that we may be faced with a situation at year end where we are unable to demonstrate conclusively to the auditors that this longer term obligation has indeed been accepted by the Province. In that case, I am given to understand that the present value of the obligation (\$39 m based on certain assumptions)

will have to be booked as an obligation to Nalcor. With respect to the debit side of that entry, it is Elizabeth's opinion that it should be capitalized to the Lower Churchill project.

As you probably know, the Lower Churchill Team is working toward a revised Project estimate for DG3 and it is expected that this will be completed before year end. The question has arisen:

- a. Should they include the entire \$39 my as part of the DG3 estimate and if so;
- b. On what basis should those cost be allocated to each Project Component.


Based on the uncertainty surrounding the Government position on this and given Elizabeth's opinion as to accounting treatment in the absence of a Government commitment, I consider it wise to incorporate the effects of this into the DG3 estimate and to consider it an incurred cost upon the signing of the agreement. If the Province agrees later to pick up the tab, then all the better, but in the absence of certainty, it seems to me that this should be our governing assumption right now. Lance you may want to weigh in on this.

With respect to the second question, the rationale for capitalizing this to Lower Churchill that was contained in the attached.

[attachment "position paper recevd from e gray on ucra Upper Churchill redress payments reviewed by deloitte.doc" deleted by Kent Legge/NLHydro]

The conclusion contained therein was that **"payments made under the Upper Churchill Redress agreement should be capitalized as part of the Lower Churchill Project as the agreement would not have been negotiated if it were not for the construction of the LCP"**. Based on this statement, I would argue that these costs, if they remain our obligation, are of benefit to all of the Lower Churchill Project Components. It seems unlikely that Emera would accept any of this as a cost to the Maritime Link, and so it makes sense that the \$39 m cost be allocated amongst the four remaining Lower Churchill Projects (Gull Island, Muskrat Falls, Labrador Transmission and Island Link) based on estimated capital cost. Alternatively, we could consider charging direct to Nalcor's bottom line, but based on Elizabeth's note below, the weight of the argument appears to be on the side of capitalization.

We need to make a call on this very soon as the DG3 estimate is nearing completion...not to mention the proximity of year end. I think we all need to get aligned on this before running it up the line. I know it will generate discussion at executive levels.

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---- Forwarded by Mark Bradbury/CRP/NLHydro on 11/10/2011 12:37 PM ----

From: Elizabeth Gray/NLHydro
 To: Mark Bradbury/CRP/NLHydro@NLHydro
 Date: 11/10/2011 12:24 PM
 Subject: Re: Redress Settlement Payments

Hi Mark. The original conclusion we came to was the entry would be to LCP. However, we could make an argument that the two are not linked (not a strong argument in my opinion). If that were the case the entry would be an expense to Nalcor. Obviously neither scenario is ideal if we don't get commitment from the Province.

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Mark Bradbury---11/10/2011 11:11 AM NST---Hi Elizabeth Could you remind me again the accounting treatment that will take place if Government d

From:	Mark Bradbury
To:	Elizabeth Gray
Cc:	
Date:	11/10/2011 11:11 AM NST
Subject:	Redress Settlement Payments

Hi Elizabeth


Could you remind me again the accounting treatment that will take place if Government doesn't accept this liability? You had told me some time back that the present value of that obligation was \$39 million. So once we execute the agreement, this obligation is crystallized on Nalcor's books. So is the entry:

Lower Churchill Project	\$39 million debit
Obligation to Innu Nation	\$39 million credit

Or is it:

Nalcor Expense	\$39 million
Nalcor obligation to Innu Nation	\$39 million

NEED AND ANSWER TODAY IF AT ALL POSSIBLE. GOING TO GOVERNMENT WITH A FORMAL REQUEST LETTER TODAY IN PREP FOR NOV 18 SIGNING.

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