

NR2017-
TITLE: Additional Federal Loan Guarantee for Muskrat Falls

ISSUE:

Whether to approve an additional federal loan guarantee agreement for the Muskrat Falls project, extending the guaranteed debt by \$2.9 billion and providing partial relief on the cost overrun escrow account (COREA) payments.

RECOMMENDATION(S):

It is recommended that authority be provided:

- 1) under the authority of sections 10 and 11 of the *Executive Council Act* and section 7 of the *Intergovernmental Affairs Act*, for the Ministers of Natural Resources, Finance, and Intergovernmental Affairs to enter into an agreement with the Government of Canada for an additional federal loan guarantee, substantially along the lines of that attached in Annex B;
- 2) under the authority of sections 10 and 11 of the *Executive Council Act* and section 7 of the *Intergovernmental Affairs Act*, for the Ministers of Natural Resources, Finance, and Intergovernmental Affairs to approve and enter into an amendment and restatement of the Intergovernmental Agreement with the Government of Canada, dated November 29th, 2013, pursuant to the terms of the enhanced federal loan guarantee attached in Annex B;
- 3) under the authority of sections 10 and 11 of the *Executive Council Act*, section 7 of the *Intergovernmental Affairs Act*, and sections 25 and 27 of the *Energy Corporation Act*, for the Ministers of Natural Resources, Finance, and Intergovernmental Affairs to enter into amendments to the MF/LTA Amended and Restated Master Definition Agreement and

the LIL Amended and Restated Master Definition Agreement required pursuant to the terms of the additional federal loan guarantee attached in Annex B, the effect of which will be to alter the mechanic and timing for the funding of equity set out in the Muskrat Falls Equity Support Guarantee, the Labrador Transmission Assets Equity Support Guarantee, Labrador-Island Link Equity Support Guarantee, the Muskrat Falls Equity Support Agreement, the Labrador Transmission Assets Equity Support Agreement, and the Labrador-Island Link Equity Support Agreement, among other agreements;

- 4) under the authority of section 18 of the *Energy Corporation Act*, for Nalcor Energy to enter into amendments to the MF/LTA Amended and Restated Master Definition Agreement required pursuant to the terms of the additional federal loan guarantee attached in Annex B;

- 5) under the authority of sections 18 and 14.1 of the *Energy Corporation Act*, for Nalcor Energy and its subsidiaries established in connection with the Labrador-Island Link, the Muskrat Falls Generation Facility, and the Labrador Transmission Assets projects, acting in their own right and not as agents of the Crown, to:
 - a. raise debt financing of up to \$1,850 million for the Muskrat Falls/Labrador Transmission Assets project, and up to \$1,050 million for the Labrador-Island Link project;
 - b. Secure payment and performance of all obligations arising in connection with the financings referenced in paragraph (a), through the issuance of bonds, debentures and other security interests or other encumbrances over property of every nature and kind, both present and future; and the entry into, execution, delivery and performance of trust deed, trust indentures, debentures, pledges, assignments and all other agreements with respect to the financing (including without limitation, project finance agreements, master definition agreements, guarantees, guarantee assurance agreements, blocked account agreements, step-in agreements and related financing documents);

Subject to:

- c. Except with respect to its equity support agreements for each Project and its limited recourse pledge of its ownership interests in its subsidiaries, the debt financing structure having no ultimate liability accrue to Nalcor Energy; and
 - d. the receipt of approval from the Minister of Finance as to the terms of such financing;
- 6) under the authority of section 18 of the *Energy Corporation Act*, for the delegation to the Minister of Finance of the authority to approve the terms of the financing commitment described in paragraph 5(a) with such institution(s) as the Minister shall approve, and any necessary documentation related to the financing commitment.

BACKGROUND:

The Province has concluded an additional federal loan guarantee (FLG2) for the Muskrat Falls project. As announced by the federal minister of Natural Resources on November 3, 2016, the federal government committed to guarantee up to \$2.9 billion in additional debt for the project (the amount needed to cover project overruns as of the new baseline set in June 2016) with specific conditions of the guarantee to be negotiated. By allowing the additional debt to achieve the federal government's AAA credit rating, financing costs can be reduced which produces savings for electricity ratepayers in the province.

Nalcor has determined that the FLG2 will reduce the Government's borrowing costs for the project by \$2.0 billion (or \$1.2 billion NPV, i.e. on a net present value basis), and will lead to a savings of about 1.5 cents per kilowatt-hour for electricity customers on the Island of Newfoundland. Further details on these savings are provided in the Financial Considerations section.

The negotiated agreement allows for a delay in making *sinking fund* payments (i.e. periodic payments made to repay the project bonds) until December 2020, by which time the project is expected to have achieved full power. Under the original loan guarantee (FLG1), these payments were scheduled to begin in December 2018. The *date certain*, i.e. the date by which the project

must be completed to comply with the loan agreement, has also been extended to February 2021, with an option of a six-month extension at the federal government's discretion.

The agreement also provides for relief from the pre-funded equity contributions that were required to be made into the *cost overrun escrow account* (COREA) as a result of cost overruns that have occurred up to the most recent project cost update in June 2016. The previous loan guarantee agreement required Nalcor to make early equity payments in December of each year of construction that were sufficient to cover the projected project overruns. Without this COREA relief, which was provided in the form of a waiver while negotiations were ongoing, the Province would have needed to borrow and contribute an additional \$875 million in December 2016. The COREA has now been reset and will apply only to new overruns which are identified after the new baseline of June 2016.

The new agreement replaces the previous COREA requirement with a new concept that minimizes the impact on the Province's finances. The equity portion of the previously-identified cost overruns (minus the funds already deposited in the original COREA) will now be spread over four \$184 million equity installments to be made in March 2017, December 2017, December 2018, and December 2019. Unlike the COREA, which could not be accessed until all project debt was exhausted, these funds may be accessed in the month following the payment. Further detail on the calculation of the \$184 million pre-funded equity payments can be found in Annex C.

In contrast to the FLG1, the FLG2 requires that Nalcor pay an annual loan guarantee fee of 0.5 per cent of the net outstanding debt guaranteed under the FLG2. The total added cost over the life of the debt is estimated to have an NPV of \$134 million.

Negotiation of the FLG2 took place between September 2016 and February 2017. The federal government's opening position had included keeping the original COREA concept (and its requirement that the Province make a \$875 million equity payment in December 2016), the 0.5 per cent guarantee fee being calculated on the full amount of new debt for the full term of the guarantee (rather than on the outstanding amount), and a share for the federal government in any export sales that exceed market price forecasts. The reset of the COREA, the reduction in the

guarantee fee, and the elimination of export sales sharing have significantly increased the value of the FLG2 to ratepayers (see details in Financial Considerations section).

Amendment of Agreements

There are other related agreements that must also be amended to give effect to the FLG2: the Intergovernmental Agreement and the Master Definition Agreements (MDAs).

The Intergovernmental Agreement provides legislative stability for the federal government. It commits the Province to take the necessary actions to create Nalcor subsidiaries needed to support the development and operation of the project, provide Nalcor with equity support, and to provide assurance that Hydro would be able to recover the cost of the purchase, delivery, and transmission of energy from Muskrat Falls through regulated rates.

The Intergovernmental Agreement also confirms that the Province will reimburse Canada for any costs, losses, or damages that Canada may incur under the FLG1 (or FLG2) as a result of a regulatory decision or regulatory change by the Province (through legislation or policy) and cover any costs that Canada may incur as a result of the projects (Muskrat Falls, Labrador Transmission Assets, Labrador-Island Link) not achieving commercial operation. The proposed amendments will extend the scope of the Intergovernmental Agreement to include the FLG2 but will not change its overall principles.

The MDAs contain all the legal definitions of terms that are contained in all agreements related to financing under the FLG1. The MDAs simplified the suite of agreements by eliminating the need for each agreement to include a section containing definitions. The MDAs will be amended to update terms that existed in the FLG1 that have been changed and to add any new terms that require legal definition related to the FLG2.

Changes to the text of the MDAs will also lead to changes to the mechanic and timing for the funding of equity set out in the Muskrat Falls Equity Support Guarantee, Labrador Transmission Assets Equity Support Guarantee, Labrador-Island Link Equity Support Guarantee, as well as the equity support agreements to which Nalcor is a signatory, among other agreements. As part of

the FLG1, these guarantees were signed by the Province in response to the federal government's request for binding confirmation of the Province's equity commitments. The Province's equity contributions are made to Nalcor which then invests in subsidiary corporations responsible for each element of the project. Nalcor then borrows through its subsidiaries to cover the remaining project costs.

The MDAs will be amended to provide for (i) the establishment, funding of, and disbursements from the new equity pre-funding reserve accounts contemplated by the FLG2, including the requirements for the pre-funded equity payments, and (ii) the additional COREA payments. While these changes will not require direct amendments of the Equity Support Guarantees provided by the Province, the effect of the amendments to certain defined terms in the MDAs will have the effect of indirectly amending the terms of those guarantees to ensure that the Province's guarantee of Nalcor's equity funding commitments will continue.

ALTERNATIVES:

1. Provide authorities to sign agreements related to the FLG2 and for Nalcor to raise the associated debt financing. (RECOMMENDED)

Advantages

- Fulfills a requirement of the FLG2.
- Is consistent with the negotiated and approved terms of the FLG2.
- Will lead to cost savings for ratepayers.
- Retains the federal government as a partner in the financing of the remainder of the Muskrat Falls project.

Disadvantages

- The FLG2 includes a guarantee fee which erodes some of the benefit.
- The COREA concept still applies to any future overruns.

2. Do not provide authorities to sign agreements related to the FLG2 or for Nalcor to raise the associated debt financing. (NOT RECOMMENDED)

Advantages

- May provide an opportunity for further negotiation.

Disadvantages

- The Province would likely be required to borrow additional funds to make a \$875 million payment into the COREA, as well as further installments in December of 2017, 2018, and 2019.
- Nalcor would not have access to lower cost debt, leading to higher costs for ratepayers.
- Is not consistent with the announcements made by both the federal and provincial governments.

LEGISLATIVE AND REGULATORY CONSIDERATIONS:

Section 7 of the *Intergovernmental Affairs Act* requires that the FLG2 agreement, the Intergovernmental Agreement, and the Master Definition Agreements be signed by the Minister for Intergovernmental Affairs and the Minister of the department which the agreement relates. The Minister for Intergovernmental Affairs may delegate this authority to another Minister. Sections 10 and 11 of the *Executive Council Act* provide authority to the Ministers of Natural Resources and Finance, and the Minister for Intergovernmental Affairs, to sign agreements with the federal government, which includes agreements such as the FLG2, the Intergovernmental Agreement, and the Master Definition Agreements, as applicable.

Section 18 of the *Energy Corporation Act* requires that Nalcor obtain the approval of the Lieutenant-Governor in Council to borrow money and secure the repayment of money borrowed. Section 18 also allows Cabinet to delegate approval of the form of such financing to the Minister of Finance.

This submission does not have any legislative implications.

FINANCIAL CONSIDERATIONS:

The FLG2 will lead to a significant reduction in borrowing costs by lowering the interest rates on the additional required debt. In the absence of an FLG2, all project overruns to date would have

had to be funded through additional equity from the Province (which in turn is funded through borrowing by the Province) or through non-guaranteed debt issued by the Nalcor subsidiaries. Both of these options would involve borrowing funds at a rate much higher than that available to the federal government.

Nalcor has determined that the FLG2 will lead to a \$1.2 billion reduction in borrowing costs and a \$4.6 billion reduction in dividends payable to the Province (all figures NPV – see details in Annex D). The reduction in dividends is caused by the reduction in equity contributions from the Province, all of which generate a return fixed by legislation.

INTERDEPARTMENTAL CONSIDERATIONS:

In drafting this paper, NR consulted JPS, FIN, IGA, LAA, and Executive Council (CPEB, PIAO, and MPO).

LABRADOR OR ABORIGINAL CONSIDERATIONS:

MF, LTA, and portions of LIL are located in Labrador and Aboriginal organizations with asserted claims in Labrador were consulted on regulatory approvals associated with the development.

INTERGOVERNMENTAL CONSIDERATIONS:

The agreements described throughout the submission are agreements between the Province and the Government of Canada.

OTHER JURISDICTIONS:

The Government of Nova Scotia (NS) entered into an intergovernmental agreement with Canada as per the requirements of the FLG1. The terms of the NS-Canada intergovernmental agreement differ from those of the NL intergovernmental agreement to reflect the fact that Emera is a private company and Nalcor is a Crown corporation wholly-owned by the Province of Newfoundland and Labrador.

CONSULTATIONS:

NR consulted Nalcor Energy throughout the development of this submission. Nalcor officials formed part of the FLG2 negotiating team and are fully supportive of the recommendations.

ENVIRONMENTAL CONSIDERATIONS:

N/A

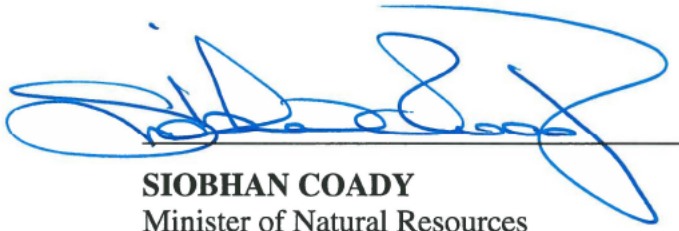
COMMUNICATIONS SYNOPSIS:

Attached as Annex A.

ANNEXES:

- A – Communications and Consultation Synopsis
- B – Draft agreement with the Government of Canada for an additional federal loan guarantee
- C – Pre-Funded Equity Calculations
- D – Summary of Cost Savings related to FLG2

MAR 03 2017



SIOBHAN COADY
Minister of Natural Resources

ANNEX A
COMMUNICATIONS PLAN
Department of Natural Resources

Title: Additional Federal Loan Guarantee for Muskrat Falls

Issue: Whether to approve an additional federal loan guarantee agreement for the Muskrat Falls Project, extending the guaranteed debt by \$2.9 billion and providing partial relief on the cost overrun escrow account (COREA) payments.

Consulted with: Walter Parsons, ADM of Energy Policy, NR	Date drafted: March 2, 2017	Announcement date: Once approved by Cabinet.
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COMMUNICATIONS ANALYSIS

Public Environment

- Government of Newfoundland and Labrador has been working with the Government of Canada for several months to secure an extension to the Muskrat Falls loan guarantee.
- On Thursday, November 3, it was announced that additional loan guarantee support would be provided for the Muskrat Falls Project, up to an additional \$2.9 billion.
- At the time, government said that the specific conditions were being negotiated with the Government of Canada and would be announced in the near future.
- Negotiations have now concluded and an announcement is pending.
- Public commentary on this issue has been neutral.

Strategic Considerations

- As a result of the additional federal loan guarantee (FLG2) for the Muskrat Falls Project, financing costs can be reduced that produces savings for electricity ratepayers in the province.
- Nalcor has determined that the FLG2 will reduce government’s borrowing costs for the project by \$2.0 billion (or \$1.2 billion NPV, i.e. on a net present value basis), leading to a savings of about 1.5 cents per kilowatt-hour for electricity customers on the Island of Newfoundland.
- The negotiated agreement allows for a delay in making sinking fund payments (i.e. periodic payments made to repay the project bonds) until December 2020, by which time the project is expected to have achieved full power. Under the original loan guarantee (FLG1), these payments were scheduled to begin in December 2018.
- The date certain, i.e. the date by which the project must be completed to comply with the loan agreement, has also been extended to February 2021, with an option of a six-month extension at the federal government’s discretion.
- The agreement also provides for relief from the pre-funded equity contributions that were required to be made into the cost overrun escrow account (COREA) as a result of cost overruns that have occurred up to the most recent project cost update in June 2016. The previous loan guarantee agreement required Nalcor to make early equity payments in December of each year of construction that were sufficient to cover the projected project

overruns. Without this COREA relief, which was provided in the form of a waiver while negotiations were ongoing, the provincial government would have needed to borrow and contribute an additional \$875 million in December 2016. The COREA has now been reset and will apply only to new overruns which are identified after the new baseline of June 2016.

- The new agreement replaces the previous COREA requirement with a new concept that minimizes the impact on the provincial government's finances. The equity portion of the previously-identified cost overruns (minus the funds already deposited in the original COREA) will now be spread over four \$184 million equity installments to be made in March 2017, December 2017, December 2018, and December 2019. Unlike the COREA, which could not be accessed until all project debt was exhausted, these funds may be accessed in the month following the payment.
- In contrast to the FLG1, the FLG2 requires that Nalcor pay an annual loan guarantee fee of 0.5 per cent of the net outstanding debt guaranteed under the FLG2. The total added cost over the life of the debt is estimated to have an NPV of \$134 million.
- Negotiation of the FLG2 took place between September 2016 and February 2017. The federal government's opening position had included keeping the original COREA concept (and its requirement that the provincial government make a \$875 million equity payment in December 2016), the 0.5 per cent guarantee fee being calculated on the full amount of new debt for the full term of the guarantee (rather than on the outstanding amount), and a share for the federal government in any export sales that exceed market price forecasts. The reset of the COREA, the reduction in the guarantee fee, and the elimination of export sales sharing have significantly increased the value of the FLG2 to ratepayers.

Audiences/Key Stakeholders

Internal

- Department of Natural Resources
- Department of Finance
- Intergovernmental and Indigenous Affairs Secretariat
- Premier's Office
- Communications Branch
- Cabinet Secretariat
- Ministers
- Caucus
- Official Opposition
- NDP

External

- NRCan
- Bond rating agencies
- Media
- Residents of Newfoundland and Labrador

Consultations

- No consultations are necessary.

Communications Objectives

- To advise residents that the provincial government has concluded an additional federal loan guarantee for the Muskrat Falls Project that will reduce financing costs and produce savings for electricity ratepayers in the province.
- To demonstrate that government is taking action to ensure the Muskrat Falls Project is being responsibly managed.
- To manage balanced reporting in traditional and social media.

COMMUNICATIONS STRATEGY**Overall Approach**

- The overall communications approach will be high level and proactive including the Premier and Minister. It will consist of a media briefing and news conference as well as the issuing of a news release with a backgrounder. Premier and Minister will provide follow up interviews to interested media representatives if requested.

Key Messages

- As announced last November, our government secured a commitment from the Government of Canada to provide additional loan guarantee support for the Muskrat Falls Project, up to an additional \$2.9 billion
- This is the amount needed to cover project overruns as of the new baseline set in June 2016.
- Today, we are announcing the specific conditions of the guarantee which we have successfully negotiated with the Government of Canada.
- By allowing the additional debt to achieve the federal government's AAA credit rating, financing costs can be reduced which produces savings for electricity ratepayers in the province.
- The additional federal loan guarantee will reduce government's borrowing costs for the project by \$2.0 billion leading to a savings of about 1.5 cents per kilowatt-hour for electricity customers on the Island of Newfoundland.
- The negotiated agreement allows for a delay in payments to repay the project bonds until December 2020, by which time the project is expected to have achieved full power. Under the original loan guarantee, these payments were scheduled to begin in December 2018.
- The date by which the project must be completed to comply with the loan agreement has also been extended to February 2021, with an option of a six-month extension at the federal government's discretion.
- The agreement also provides for relief from the pre-funded equity contributions that were required to be made into the cost overrun escrow account (COREA) as a result of cost overruns that have occurred up to the most recent project cost update in June 2016.
- The previous loan guarantee agreement required Nalcor to make early equity payments in December of each year of construction that were sufficient to cover the projected project overruns.
- Without this COREA relief, the provincial government would have needed to borrow and contribute an additional \$875 million in December 2016. The COREA has now been reset and will apply only to new overruns which are identified after the new baseline of June 2016.

- The new agreement replaces the previous COREA requirement with a new concept that minimizes the impact on the provincial government's finances. The equity portion of the previously-identified cost overruns (minus the funds already deposited in the original COREA) will now be spread over four \$184 million equity installments to be made in March 2017, December 2017, December 2018, and December 2019. Unlike the COREA, which could not be accessed until all project debt was exhausted, these funds may be accessed in the month following the payment.
- In contrast to the FLG1, the FLG2 requires that Nalcor pay an annual loan guarantee fee of 0.5 per cent of the net outstanding debt guaranteed under the FLG2. The total added cost over the life of the debt is estimated to have an NPV of \$134 million.
- The reset of the COREA, the reduction in the guarantee fee, and the elimination of export sales sharing have significantly increased the value of the federal loan guarantee to ratepayers.

Secondary Messages

- Providing stable, secure, reliable power for Newfoundland and Labrador is a primary focus of our government.
- We inherited quite a difficult situation and we have been working diligently to improve the Muskrat Falls Project.
- Most of the legal and contractual arrangements were fixed by the time our government took office including some \$7 billion in contractual obligations, a legal commitment to supply energy to Nova Scotia, and a completion requirement under the Federal Loan Guarantee.
- Given this reality, our only option is to finish Muskrat Falls as efficiently and effectively as possible.
- Our immediate goal on coming into office was to determine the cost, schedule and associated risks of the project. EY was engaged and in its April report determined that the September 2015 estimates were unreasonable and that the project was further over budget and behind schedule. We now know the project is expected to be 2 years delayed and \$4 billion over budget.
- EY was engaged to determine the cost, schedule and associated risks of the project; and government accepted and is implementing EY's recommendations.
- The province has secured a commitment from the Government of Canada to provide up to an additional \$2.9 billion in loan guarantee support for the project.
- A long-standing issue with contractor Astaldi has been settled.
- A new CEO, Stan Marshall, was appointed to Nalcor Energy and highly qualified members were appointed to a new Board of Directors at Nalcor based on a list of recommendations provided by the Independent Appointments Commission.
- In addition, efforts are well underway to ensure that the province is meeting the regulatory requirements in order to connect to the North American grid.

The Announcement

Activities

- The announcement will include media briefing and news conference as well as the issuing of a news release with a backgrounder. Premier and Minister will provide follow up interviews to interested media representatives if requested.

- The preference is to have a quote from the Government of Canada in the news release.
- The Premier and Minister will be provided with speaking notes and an event scenario, as well as key messages and a question and answer document in case of follow-up questions from the media.
- Tweets will be issued from the departmental twitter account; the general government twitter handle will be requested to retweet the message.
- Opportunities for the Premier and Minister to highlight the benefits of the additional loan guarantee will be incorporated into future speaking engagements.

Minister's Involvement

- The Premier and the Minister of Natural Resources will be the lead spokespeople and will respond to questions, as deemed necessary or requested.

Interdepartmental coordination

- Ongoing work will take place between relevant departments and ministers of those departments will be provided messaging as necessary.

Briefing of Members of the House of Assembly

- Cabinet Ministers and MHAs will be briefed and provided key messages as necessary.

Internal Communications

- N/A

Follow-up Activities

- Media monitoring and follow up will be undertaken as necessary.

Evaluation Criteria

- N/A

Budget

- No communications budget required.

Prepared by: Diana Quinton, Director of Communications

ANNEX B**AGREEMENT PROVIDING THE KEY TERMS AND CONDITIONS FOR THE ADDITIONAL FEDERAL LOAN GUARANTEE BY HER MAJESTY THE QUEEN IN RIGHT OF CANADA FOR THE LOWER CHURCHILL PROJECTS**

The Lower Churchill Projects (the "**Projects**" as defined in Section 1.1 below) rely in part on third-party debt financing for purposes of funding the construction costs of the Projects. In 2013, the Federal Government provided a Federal Loan Guarantee (the "**FLG**") to support the construction and operation of the Projects in view of the national and regional significance, economic and financial merit of the Projects and their contribution to significantly reducing greenhouse gas emissions once they are completed and thereby significantly enhanced the credit quality of the FLG Debt (as hereinafter defined).

The FLG supports bonds issued to the public by two special purpose funding trusts (each, a "**Funder**") pursuant to two (2) trust indentures, the terms of which are outlined in the public debt agreements (the "**FLG Agreements**"). The FLG is secured and documented as a modified credit wrap secured guarantee in a series of project debt documents with the Borrowers (the "**Project Finance Documents**"). On December 13, 2013, two Funders issued public debt in an aggregate amount of \$5,000 million ("**FLG Debt**") comprised of a \$2,600 million financing for the MF and LTA Projects (as defined in Section 1.1 below) and a \$2,400 million financing for the LIL Project (as defined in Section 1.1 below), all pursuant to the FLG Agreements.

This agreement (this "**Agreement**") sets forth a summary of the key terms and conditions of the additional Federal Loan Guarantee ("**FLG2**") to guarantee \$2,900 million of debt ("**FLG2 Debt**" or collectively with the FLG Debt, the "**Guaranteed Debt**") for the Projects.

This Agreement is intended to serve as an outline for amendments to the Project Finance Documents and creation of new agreements to govern the new debt to be issued by the two Funders and related additional guarantee of the FLG2 (the "**FLG2 Agreements**"), which the parties hereto will negotiate in good faith.

Canada (as defined in Section 1.2 below) hereby agrees to guarantee the FLG2 Debt and to provide the FLG2 as more fully described and subject to the key terms and conditions described herein.

The agreements of Canada hereunder are made solely for the benefit of Nalcor (as defined in Section 1.3), the Borrowers (as defined in Section 1.5 below) and the lenders ultimately selected by them to make the FLG2 Debt available for the benefit of the Projects, and may be relied upon by all such persons but may only be enforced by Nalcor and its affiliates including the Borrowers. Once this Agreement has been executed by all the parties hereto, it may be disclosed publicly by or on behalf of any of Canada, Nalcor and its affiliates, and NL Crown (as defined in Section 1.3 below).

Canada understands that Nalcor or its affiliates will be soliciting offers for the FLG2 Debt from various lenders to be agreed. Given the importance of the FLG2 to the FLG2 Debt for the Projects, Canada hereby acknowledges and agrees that upon request by Nalcor within a reasonable period of time prior to any proposed meeting, it shall make available senior representatives of Canada and its legal advisors and financial consultants as appropriate, responsible for the provision and oversight of the FLG2, for participation in meetings with credit rating agencies and potential lenders to respond to queries concerning the FLG2 to be provided.

This Agreement shall be governed by, and construed in accordance with, the laws of the Province of Newfoundland and Labrador ("**NL**") and the federal laws of Canada applicable therein and all actions, suits and proceedings arising will be brought in the courts of competent jurisdiction of NL, subject to any

right of appeal to the Federal Court of Appeal or to the Supreme Court of Canada. This agreement may be executed in any number of counterparts, each of which, when so executed, shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement. Delivery of an executed counterpart of this agreement by telecopier or electronically shall be as effective as delivery of a manually executed counterpart of this agreement.

TERMS AND CONDITIONS

1. <u>THE PROJECTS AND THE TRANSACTION PARTIES</u>	
1.1 Projects	<p>The Muskrat Falls Generation Facility ("MF"), the Labrador Transmission Assets ("LTA") and the Labrador-Island Link ("LIL"), each as more fully described as follows:</p> <p>MF: an 824-MW hydro-electric generation facility in the vicinity of Muskrat Falls, Labrador being developed by Nalcor.</p> <p>LTA: a 345-kV HVac transmission interconnection between Muskrat Falls and Churchill Falls being developed by Nalcor.</p> <p>LIL: a HVDC transmission line connecting the Island of Newfoundland to generation facilities in Labrador being developed by Nalcor in which Emera Inc., via a Newfoundland and Labrador corporate entity, is an investor.</p> <p>Each of (i) MF and LTA together ("MFLTA"); and (ii) LIL; is referred to herein as a "Project" and together as the "Projects".</p>
1.2 Guarantor	Her Majesty the Queen in Right of Canada (" Canada " or " Guarantor ").
1.3 Proponent	Nalcor Energy (" Nalcor "), acting on its own behalf and not as agent of the Province of Newfoundland and Labrador (" NL Crown ").
1.4 Funders	<p>Muskrat Falls / Labrador Transmission Assets Funding Trust ("MFLTA FV"), a trust formed under the Laws of NL pursuant to a Declaration of Trust.</p> <p>Labrador - Island Link Funding Trust ("LIL FV"), a trust formed under the Laws of NL pursuant to a Declaration of Trust.</p> <p>Each a "Funder" and collectively, the "Funders".</p>
1.5 Borrowers	<p>Muskrat Falls Corporation: a special purpose wholly-owned subsidiary of Nalcor ("MF Corp").</p> <p>Labrador Transmission Corporation: a special purpose wholly-owned subsidiary of Nalcor ("Labrador Transco").</p> <p>Labrador-Island Link Limited Partnership: a special purpose limited partnership controlled by Nalcor and held by it together with Emera Inc. ("LIL LP"). The obligations of LIL LP will be guaranteed by Labrador - Island Link Operating Corporation.</p> <p>Each a "Borrower" and collectively, the "Borrowers".</p>

<p>1.6 Lenders</p>	<p>As to the additional debt to be issued under the FLG2 Debt, with respect to each Funder, a financial institution or a group of financial institutions or financiers that will purchase debt securities to be issued by such Funder to permit such Funder to in turn make credit facilities available to the applicable Borrowers, which FLG2 Debt will be guaranteed by Canada pursuant to the FLG2 (the "Lender" or "Lenders"). The structure will include trustees and collateral agents in the same structure as the FLG for the benefit of the Lenders and Canada.</p>
<p>2. <u>AMENDMENTS TO AGREEMENTS</u></p>	
<p>2.1 Cost Overrun Escrow Accounts Funding Requirements & Annual Equity Prefunding Requirements</p>	<p>The Cost Overrun Escrow Account ("COREA") payments currently contemplated in the FLG Agreements and Project Finance Agreements will no longer be required to be made. These payments will be replaced with new annual equity prefunding requirements ("New Annual Equity Prefunding Payments") that will be made in each of March 2017 and December 2017, 2018 and 2019. The New Annual Equity Prefunding Payments for each Project will be as follows:</p> <p>(i) MFLTA: \$184 million; provided, however, that the New Annual Equity Prefunding Payment shall take into account and be reduced by an amount equal to any equity funded by MF Corp and Labrador Transco from fresh sources in the same year as the New Annual Equity Prefunding Payment is required to be made (and not from release from other reserve accounts including the COREA) prior to the date the New Annual Equity Prefunding Payment is made; for clarity this is to mean that for the March 2017 payment, the amount of the New Annual Equity Prefunding Payment will be reduced by any fresh equity contributions that occur from the time that the FLG Debt is exhausted to the time when that deposit is made and for the December 2017 payment, the amount of the New Annual Equity Prefunding Payment will be reduced by any fresh equity contributions that occur from March 31, 2017 to December 13, 2017; and</p> <p>(ii) LIL: \$0 million.</p> <p>Each Borrower will provide quarterly revised cash flows, including an explanation of any change in anticipated equity contribution requirements and timing.</p> <p>The New Annual Equity Prefunding Payments correspond to the equity required from the time the FLG Debt is fully drawn until expected Commissioning based on the cost estimates provided by Nalcor in June 2016 (the "2016 Cost Estimate") less the Existing COREA Balances (as hereinafter defined) for each Project divided into four (4) equal payments.</p> <p>Funds will be held in the Equity Prefunding Reserve Account as an account controlled by the Collateral Agent and released at the times and in</p>

	<p>accordance with the funding process pursuant to the funding request conditions.</p> <p>Once the FLG Debt is fully drawn, the existing balance in the applicable COREA account as of execution of this Agreement (each, an "Existing COREA Balance") of each Borrower will be transferred to a new dedicated reserve account of such Borrower or, in the case of LIL LP, a new dedicated reserve account of Nalcor LP, to which the New Annual Equity Prefunding Payments will be made (each, an "Equity Prefunding Reserve Account"). The funds in the Equity Prefunding Reserve Account for each Project (including the Existing COREA Balance for each Project) will become available to the Borrowers following the full drawdown of the FLG Debt for each specific Project. The funds in the Equity Prefunding Reserve Account (including the Existing COREA Balance for each Project) may only be used by the Borrowers to fund the Expected Costs to Complete as equity funded in conjunction with FLG2 Debt and will not be included as equity contributions made for purposes of the calculation of the DER or the AFUDC until released and so used.</p> <p>To the extent equity is contributed to MF Corp and Labrador Transco by Nalcor that is not: (i) equity required against FLG Debt; and (ii) equity transferred into the MFLTA Equity Prefunding Reserve Accounts from the MFLTA COREA, these equity contributions can be used to reduce the \$184 million March 2017 New Annual Equity Prefunding Payment. During any year, to the extent that the Equity Prefunding Reserve Account does not have a sufficient balance to support the equity contributions required with respect to the FLG2 Debt requirements and Nalcor funds these equity requirements with new equity, the next scheduled New Annual Equity Prefunding Payment will be reduced by the equivalent amount of new equity contributed.</p> <p>In October of each year until Commissioning each Borrower will provide up to date cost estimates to that date, then in December of each year prior to the Commissioning Date, the most up-to-date cost estimates available at that time, being not older than the October estimates, will be used to determine if cost overruns have arisen since the prior year. To the extent that new cost overruns arise in a given year, an Additional COREA Payment will be calculated as follows:</p> <p style="padding-left: 40px;">Additional COREA Payment_{year}: (i) the amount of the cost overruns that have arisen over the year divided by (ii) the number of years remaining until the expected Commissioning Date.</p> <p style="padding-left: 40px;">For example, the calculation of Additional COREA Payment₂₀₁₇ in December 2017 would be equal to (i) the amount of cost overruns that exceed the 2016 Costs Estimate divided by (ii) three (3) - which is the number of years until the expected Commissioning Date.</p> <p>The process for determination and certification as to the Additional</p>
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	<p>COREA Payment will be consistent with past practice and the Additional COREA Payment will be funded at the time of calculation and in each following December until the expected Commissioning Date. A new Additional COREA Payment will be calculated in each year that new cost overruns arise.</p>
2.2 Sinking Fund Funding Requirements	<p>The sinking fund contribution requirements for the FLG Debt that is currently scheduled to begin in December 2018 under the Project Finance Documents will be delayed such that the first payment will be made on December 1, 2020 ("SF Funding Date") The sinking fund contribution requirements for the FLG2 Debt will also begin on the SF Funding Date.</p> <p>The contributions that would have been made to the sinking funds for FLG between December 2018 and SF Funding Date will be spread equally over the remaining life of the bond to which the sinking fund relates such that on maturity of the bond the sinking fund will be funded to the same level as it would have under the initial funding schedule.</p>
2.3 Date Certain	<p>The Commissioning by Date Certain event of default found in the Project Finance Documents will be amended to define Date Certain as February 28, 2021, subject to the option of the Borrowers to extend that date by one (1) additional six (6) month period in accordance with the conditions for extension currently contemplated in the Project Finance Documents.</p>
2.4 DSRA Prefunding	<p>The obligation contemplated in the Project Finance Agreements for both FLG and FLG2 to make any DSRA Prefunding will be amended to permit the Equity Rateable Share of funding first using balances, if any, in the COREA (as may be permitted) and the Equity Prefunding Reserve Account and to provide that the combined balances in the applicable bond proceeds account, working capital reserve accounts, Equity Prefunding Reserve Account, COREA and DSRA cannot at any time be less than the required funding at that date for the DSRA prefunding.</p>
<p>3. <u>TRANSACTIONS</u></p>	
3.1 Federal Loan Guarantee	<p>The FLG2 shall, in respect of each Project, be an absolute, continuing, unconditional and irrevocable guarantee of payment (not collection) when due of the FLG2 Debt of the relevant Funder to the Lenders. The Lenders shall not be bound to pursue or exhaust their recourses against the relevant Funder or any security held by it before demanding payment from the Guarantor. The form and terms of the FLG2 will be the same as those for the FLG.</p> <p>Security - Canada shall be given security in the same form as, and <i>pari passu</i> with, the existing security given by the Funders for the FLG and security given by the Borrowers in favour of the Funders in connection with the FLG2 Debt proceeds on-lent to them shall be in the same form as, and <i>pari passu</i> with, the existing security given by the Borrowers.</p> <p>Acceleration - It shall be a term of the FLG2 Agreements for any Project</p>

	<p>that in the event of default by a Funder thereunder, the Lenders will not have the right to accelerate the FLG2 Debt unless they have failed to receive payments in accordance with the scheduled payments under the FLG2. Canada's payment under the FLG2 within the stated notice period will satisfy payment and prevent acceleration.</p> <p>Full Credit Substitution - Canada acknowledges that consistent with the FLG Debt, for the full benefit of the FLG2 to be realized, its terms and implication for any financing undertaken must satisfy the requirements of full credit substitution published by the applicable credit rating agencies.</p> <p>The Guarantor, the Funders, the Borrowers and the Collateral Agent will enter into a guarantee assurance agreement setting out their respective rights and obligations as regards the FLG2 (the "FLG2 Assurance Agreement").</p>
<p>3.2 Transaction Structure</p>	<p>The FLG2 Debt will be structured in the same format as the FLG Debt. There will be debt issued by each Funder which will be unsecured and covered by the FLG2. There will be an amendment to the project level debt documents with the Borrowers to add the additional debt on the same terms as currently contemplated in the Project Finance Documents providing the secured lender rights and benefits to Canada to support the FLG2. The FLG2 Assurance Agreement will be drafted to take into account the FLG2 Debt and reflect the terms contained in this Agreement and be in the same form and substance as the guarantee assurance agreement currently in force with respect to the FLG Debt.</p> <p>Since the amount of the debt that can be issued pursuant to the existing trust indenture of each Funder is capped and the full amount of that cap has been utilized, the FLG2 Debt will be issued pursuant to new trust indentures in the same form and substance as the existing trust indentures pursuant to which the FLG Debt was issued by the Funders.</p>
<p>3.3 Financing Structure</p>	<p>The execution and delivery of all amended Project Finance Documents and FLG2 Agreements and issuance of the FLG2 Debt will constitute "FLG2 Close". Upon FLG2 Close, the Funders will raise the FLG2 Debt on the public or corporate markets. The structure of this financing will be done in a manner that aligns with the existing FLG Debt and is flexible enough to allow each Funder to raise the FLG2 Debt by way of (the "Financing Structure"): </p> <ul style="list-style-type: none"> (i) bank credit facilities; (ii) a commercial paper program; (iii) a single bond or a series of bonds with staggered short-term maturity dates or a single maturity date, issued prior to or immediately following Commissioning; (iv) a single long-term bond or a series of long-term bonds issued prior to or immediately following Commissioning; or

	<p>(v) a combination of one or more of the foregoing options, together with any related hedging instruments.</p> <p>The FLG2 Amortization Profile shall be consistent with the amortization profile outlined in Section [] of this Agreement.</p> <p>All of the foregoing is hereinafter collectively referred to as the "Financing".</p> <p>Canada will consider structures similar to the FLG Debt structure or such other structures as may be proposed by the Proponent and/or the underwriters (with the approval of the Proponent) that could reduce the total interest costs while managing the refinancing risk for the Projects in a manner consistent with that of the FLG Debt. This must also be consistent with the concepts of the Project Finance Agreements.</p>
<p>4. <u>FLG2 TERMS</u></p>	
<p>4.1 FLG2 Debt</p>	<p>The total maximum amount of borrowing under the Financing to be guaranteed by Canada by the FLG2 shall be:</p> <p>(i) A fixed dollar-based cap of \$2,900 million, allocated among the Projects as follows:</p> <p style="padding-left: 40px;">(a) MFLTA: up to \$1,850 million,</p> <p style="padding-left: 40px;">(b) LIL: up to \$1,050 million; and</p> <p>Herein called "Individual Project Debt Caps".</p> <p>The terms and conditions of the FLG2 Debt shall be consistent with those in the FLG Debt and shall be subject to Canada's approval, acting reasonably. The terms and conditions of the project level debt, except as amended by this Agreement, will remain the same.</p>
<p>4.2 Term of the FLG2</p>	<p>The FLG2 Term shall begin on FLG2 Close and shall terminate on the earlier of: (a) payment in full of the FLG2 Debt; or (b) the Maximum Term for each Project, as follows:</p> <p style="padding-left: 40px;">(a) MFLTA: June 1, 2052; and</p> <p style="padding-left: 40px;">(b) LIL: June 1, 2057.</p>
<p>4.3 FLG2 Amortization Profile</p>	<p>The FLG2 Debt shall be repaid in accordance with the following amortization profile ("FLG2 Amortization Profile"):</p> <p>MFLTA: simple mortgage-style amortization, over a term ending on June 1, 2052, and the first Sinking Fund Payment with respect to the FLG2 Debt</p>

	<p>of MFLTA FV being made in December 2020.</p> <p>LIL: level dollar amortization, over a term ending on June 1, 2070, and the first Sinking Fund Payment with respect to the FLG2 Debt of LIL FV being made in December 2020.</p> <p>The FLG2 Amortization Profile shall be such that there is no principal outstanding at the end of each amortization period for each Project.</p> <p>In the case of amortizing bonds, there shall be at least one payment a year.</p> <p>Bullet maturity bonds may be used instead of amortizing bonds. Bullet maturity bonds must be accompanied with sinking funds to match the required FLG2 Amortization Profile.</p> <p>LIL LP may seek third-party refinancing as required for the purposes of refinancing the outstanding balance of the FLG2 Debt of the LIL FV at the end of the term of such debt.</p>
<p>4.4 FLG2 Maximum Exposure</p>	<p>The maximum exposure to the Guarantor under the FLG2 at any given time shall be actual principal amounts outstanding on the FLG2 Debt at such time plus interest, fees and costs. The Guarantor will have security over any amounts in the FLG2 related sinking funds which will act to reduce the maximum exposure by offsetting the principal amounts outstanding.</p>
<p>4.5 FLG2 Conditions Precedent</p>	<p>The following conditions precedent (the "FLG2 Conditions Precedent") must be satisfied in form and substance acceptable to the Guarantor, acting reasonably, prior to the execution and delivery of the FLG2:</p> <ul style="list-style-type: none"> (i) Execution of the FLG2 Assurance Agreement and all other relevant documents necessary to effect FLG2 Close ("Financing Documents"); (ii) Amendment of the intergovernmental agreement (the "IGA") between Canada and the NL Crown to provide identical commitments by NL Crown for the FLG2 as were provided for the FLG; (iii) Approval by the Guarantor, acting reasonably, of the Financing, Financing Structure, Financing Documents, and the Transaction Structure; (iv) A satisfactory report provided by an independent expert that the Projects have insurance coverage in place that is customary in projects of this nature and size; (v) Execution of a certificate by each Borrower that all necessary permits, approvals, land-use agreements and other required authorities have been obtained and remain in good standing or have been planned in accordance with industry practice and covenanted to be obtained as required;

	<p>(vi) Confirmation of the continuance of the indemnity referred to in Section Error! Reference source not found. and executed with the FLG Agreements and Project Finance Agreements; and</p> <p>(vii) Other reasonable Conditions Precedent customary in commercial project financing transactions.</p>
<p>4.6 Costs Incurred by Guarantor</p>	<p>All reasonable third-party costs incurred by the Guarantor in relation to the FLG2 shall be at the expense of the Borrowers consistent with past practice as to responsibility, billing and payment.</p>
<p>4.7 Guarantee Fee</p>	<p>The Funders will pay an annual guarantee fee, which will form a Project Cost, of 0.5% of the net amount of FLG2 Debt outstanding ("Guarantee Fee"). The Guarantee Fee will be split proportionally between MFLTA FV and LIL FV based on the respective amount of debt outstanding (total debt less sinking fund balances). The Guarantee Fee will be payable on the anniversary date of FLG2 Close from FLG2 Close until such time as the FLG2 Debt of a Funder has been fully repaid.</p>
<p>5. <u>PROJECT DEBT</u></p>	
<p>5.1 Debt Service Coverage Ratio</p>	<p><u>Definition:</u></p> <p>The Debt Service Coverage Ratio ("DSCR") in respect of any Borrower, and in respect of any 12-month period, shall be calculated as follows:</p> <p>DSCR = Base Cash Flow/Debt Service, where:</p> <p>Base Cash Flow = Liquidity Reserves plus Contracted Revenues less Cash Operating Costs</p> <p>Debt Service = Amortization plus Interest Expense</p> <p>Amortization = The amortization amount of the FLG Debt, FLG2 Debt and Additional Debt for the period in question in respect of each Borrower (other than bullet payments of principal required to be made during any calculation period)</p> <p>Interest Expense = The interest expense of the FLG Debt, FLG2 Debt and Additional Debt for the period</p> <p>Contracted Revenues:</p> <p>(i) MFLTA: DSCR shall include the Base Block Revenue plus Liquidity Reserve, plus revenue from power purchase agreements with investment grade parties, based on total annual energy sales not to exceed (P50) energy production for MF plus LTA Tariff Revenue.</p>

	<p>(ii) LIL: DSCR shall include revenue from NL Hydro under the LIL Lease and Transmission Funding Agreement.</p> <p>Cash Operating Costs include all cash costs of the Borrowers, excluding interest and principal on any Guaranteed Debt.</p> <p><u>Test:</u></p> <p>The DSCR Test shall apply both prospectively and retrospectively except the DSCR Test shall apply only prospectively in the context of Additional Debt.</p> <p>DSCR will be calculated monthly on a rolling 12-month basis.</p> <p>"Base Block Revenue" means amounts paid by NL Hydro to MF in respect of the Base Block Energy purchase commitments as set out in the MF Power Purchase Agreement.</p>
<p>5.2 Debt Service Coverage Ratio</p>	<p>The DSCR for each Project shall be a minimum of 1.40x.</p>
<p>5.3 FLG2 DSCR Protocol</p>	<p>FLG2 DSCR protocol for disputes will be the same as the FLG DSCR Protocol.</p>
<p>5.4 Debt Equity Ratio</p>	<p>The maximum debt to equity ratios ("DER") of the Projects, on a fully combined basis, are:</p> <p>(a) MFLTA-65:35</p> <p>(b) LIL-75:25</p>
<p>5.5 FLG2 Events of Default</p>	<p>Events of default will be the same as the events of default in the Project Finance Documents, including as to the cross-default provisions.</p>
<p>5.6 Security</p>	<p>The FLG2 Debt will rank <i>pari passu</i>, pro rata with the FLG Debt in all respects as to rights, payments and security. The security for the FLG2 Debt shall be in the same form as the existing security given by the Funders for the FLG and security given by the Borrowers in favour of the Funders in connection with the FLG2 Debt proceeds on-lent to them shall be in the same form as the existing security given by the Borrowers.</p> <p>The FLG2 Debt shall benefit in all the same fashion as the FLG Debt from the IGA which will be amended to incorporate the additional debt and terms.</p>
<p>5.7 Permitted Liens</p>	<p>The Borrowers shall have the same restrictions on Permitted Liens as currently contemplated in the Project Finance Agreements.</p>
<p>5.8 Permitted Debt & Additional Debt</p>	<p>The Borrowers shall have the same restrictions on Permitted Debt as currently contemplated in the Project Finance Agreements.</p> <p>No additional debt may be incurred by the Borrowers during the term of the</p>

	<p>FLG2, other than additional debt (i) constituting an operating line of credit, (ii) to finance a portion of cost increases from the 2016 Cost Estimate provided to the Guarantor to finance cost increases thereafter ("Cost Overruns"), or (iii) to finance costs associated with major repairs and refurbishments following the Commissioning Date (i to iii collectively, "Additional Debt").</p> <p>Additional Debt shall be subject to the following conditions:</p> <ul style="list-style-type: none"> (a) It shall not be covered by the FLG2; (b) It may be secured provided that it is subordinate to the Guaranteed Debt; and (c) It must satisfy the Debt Equity Ratios and DSCR-based tests on prospective, aggregate basis (taking into account the Guaranteed Debt and the Additional Debt) throughout the term of the Additional Debt.
<p>5.9 Independent Engineer</p>	<p>The amended Project Finance Documents for FLG2 will continue as to the terms relating to the current engineer appointed by the Guarantor (the "Independent Engineer" or "IE"). Specifically, the IE shall continue to have the same level of access to management and employees of the Proponent or Borrowers as it enjoys today.</p> <p>The cost of the Independent Engineer shall continue to be borne by the Borrowers. The terms of the Project Finance Documents that Borrowers indemnify and save the Guarantor harmless from and against any liability that the Guarantor incurs, in respect of the period prior to any realization of security in connection with an uncured Event of Default, solely by virtue of being found, in respect of the Projects, liable as a partner or joint venturer shall remain in force and extend to FLG2.</p>
<p>5.10 Expected Costs to Complete:</p>	<p>The expected costs to complete ("Expected Costs to Complete") in respect of any Borrower at any given time shall be determined by the Borrowers and reviewed and confirmed by the IE by way of an IE certificate to be provided in connection with any drawdown requests prior to the Commissioning Date. The 2016 Cost Estimates shall form the basis for the Independent Engineer's review of and confirmation of any proposed changes to such estimates on an ongoing basis as construction proceeds. Expected Costs to Complete shall include contingencies and escalation. Expected Costs to Complete shall also include any interest during construction and costs associated with the Financing prior to the Commissioning Date, calculated on a <i>pro forma</i> basis.</p>
<p>5.11 Change of Control</p>	<p>Restrictions on change of control shall be unamended from those in the Project Finance Agreements</p>
<p>5.12 Equipment Monitoring</p>	<p>The requirements for equipment monitoring following Commissioning Date shall be unamended from those in the Project Finance Agreements.</p>
<p>5.13 Good Utility</p>	<p>"Good Utility Practice" shall be unamended from those in the Project</p>

Practice	Finance Agreements.
5.14 Debt-Equity Contributions	<p>Subject to the conditions provided herein (including, without limitation, the Individual Project Debt Caps in respect of any Guaranteed Debt, and the funding of Cost Overruns), following FLG2 Close, debt and equity funds shall be invested as follows:</p> <p>(i) Initial \$2.6 billion FLG Debt of MFLTA FV, \$2.4 billion FLG Debt of LIL FV and equity shall be invested on a pro rata basis in accordance with the maximum DER for each Project until the FLG Debt is exhausted;</p> <p>(ii) FLG2 Debt and equity shall be invested on a pro rata basis in accordance with the maximum DER for each Project until the FLG2 Debt is exhausted; and</p> <p>(iii) thereafter, the Borrowers shall invest in their Projects by way of equity or Additional Debt, at their discretion but subject to maximum DER.</p>
5.15 Distributions	Terms governing distributions will be unamended from those in the Project Finance Documents.
5.16 Debt Service Reserves and Liquidity Reserves	Debt Service Reserve and Liquidity Reserve requirements will be unamended from those in the Project Finance Documents.
5.17 Prepaid Rent Reserve for LIL	Prepaid rent terms will be unamended from those in the Project Finance Documents.
5.18 Reports	Reporting requirements will be unamended from those in the Project Finance Documents except as set out elsewhere in this Agreement.
5.19 Covenants	Affirmative and negative covenants will be unamended from those in the Project Finance Documents except as set out elsewhere in this Agreement.
5.20 Representations and Warranties	Representations and Warranties will be unamended from those in the Project Finance Documents except as set out elsewhere in this Agreement.

This Agreement shall enure to the benefit of Nalcor its affiliates including the Project Entities and their respective permitted successors and assigns and shall be binding on the parties hereto. Each of the parties hereto represents and warrants that once this Agreement is accepted by it as herein provided, it shall constitute the irrevocable, legal, valid and binding obligation of such party, enforceable in accordance with its terms.

IN WITNESS WHEREOF each of the parties has executed this Agreement as of the date set forth above.

HER MAJESTY THE QUEEN IN RIGHT OF CANADA,
as represented by

Per: _____
Authorized Signatory

**HER MAJESTY THE QUEEN IN RIGHT OF THE
PROVINCE OF NEWFOUNDLAND AND LABRADOR,**
as represented by

Per: _____
Hon. Dwight Ball, Premier and Minister for
Intergovernmental Affairs

Hon. Siobhan Coady, Minister of Natural
Resources

Hon. Cathy Bennett, Minister of Finance

NALCOR ENERGY

Per: _____
Authorized Signatory

MUSKRAT FALLS CORPORATION

Per: _____
Authorized Signatory

LABRADOR TRANSMISSION CORPORATION,

Per: _____
Authorized Signatory

**LABRADOR-ISLAND LINK LIMITED PARTNERSHIP, by
its general partner, LABRADOR-ISLAND LINK
GENERAL PARTNER CORPORATION**

Per: _____
Authorized Signatory

ANNEX C**Pre-Funded Equity Contributions
Method of Calculation****Muskkrat Falls & Labrador Transmission Assets**

Description	Item	Calculation	June 2016
Forecasted MFLTA FLG2 Debt	(A)		\$1,790 M
Max Debt in DER	(B)		65%
Max Project Expenditures supported by FLG2	(C)	(A) / (B)	\$2,754 M
Min Equity in DER	(D)		35%
Required Equity to support FLG2 Debt	(E)	(C) x (D)	\$964 M
Previously contributed Equity in COREA	(F)		\$229 M
Additional Equity to be pre-funded	(G)	(E) - (F)	\$735 M
Number of pre-funded equity payments	(H)		4
Pre-funded Equity payment amount	(I)	(G) / (H)	\$184 M

ANNEX D

Summary of Cost Savings related to FLG2

- (1) Reduced Government of Newfoundland and Labrador (GNL) equity requirements:

<i>(in dollars, millions)</i>	2016/17	2017/18	2018/19	2019/20	2020/21	Total
No FLG2	1,342	1,553	853	675	(507)	3,915
FLG2	655	352	267	282	(266)	1,289
	<u>(687)</u>	<u>(1,201)</u>	<u>(586)</u>	<u>(394)</u>	<u>241</u>	<u>(2,627)</u>

- (2) The reduced equity requirements reduces GNL borrowing costs to project in-service as follows:

<i>(in dollars, millions)</i>	NPV (@4% in 2016\$)	Nominal
No FLG2	359	391
FLG2	102	112
	<u>256</u>	<u>279</u>

- (3) The reduced equity requirements reduces GNL borrowing costs as follows:

<i>(in dollars, millions)</i>	NPV (@4% in 2016\$)	Nominal
Interest Savings	1,217	2,033

- (4) Over the 50 year contract, ratepayers benefit from lower cost borrowings versus equity return as follows:

<i>(in dollars, millions)</i>	NPV (@7.5% in 2016\$)	Nominal
No FLG2	10,404	71,151
FLG2	9,330	64,730
	<u>1,074</u>	<u>6,421</u>

- (5) Reduced GNL equity; however reduced dividends to be received from the Lower Churchill Project as follows (also over 50 years):

<i>(in dollars, millions)</i>	NPV (@4% in 2016\$)	Nominal
No FLG2	14,695	52,080
FLG2	10,092	40,581
	<u>4,603</u>	<u>11,499</u>

(6) Additional expense related to the FLG2 Guarantee fee is as follows:

<i>(in dollars, millions)</i>	NPV (@7.5% in 2016\$)	Nominal
Guarantee Fee	134	311



Presentation to Cabinet FLG 2



Outline

- **FLG 1**
- **2016 Situation**
- **FLG 2 Terms and Conditions**
- **Next Steps**
- **Recommendations**



Summary of FLG1

- **Federal Loan Guarantee announced in 2012**
- **An absolute, continuing, unconditional and irrevocable guarantee of payment**
- **Reduced cost of borrowing**
- **Savings to ratepayers**
- **Guarantee secured by assets and revenues**
- **No cost to government or ratepayers**
- **Pre-funding of cost overruns**



2016 Situation

- Project capital increased to \$9.1b, up from \$6.5b at financial close
- Dec 2016 COREA payment requirement of \$875m (Cost Overrun Escrow Account)
- Difference to be made up with 100% equity from Treasury PLUS mandatory COREA payments
- Province to borrow all funds



Objectives

- **Enhanced loan guarantee of \$2.9b**
 - Increase guaranteed debt to support project cost growth
- **Elimination of COREA payment**
- **Same terms as FLG 1**

FLG2

- Announced November 2016 by Minister Carr
- Up to \$2.9 billion federal loan guarantee
- Relief from COREA payment
- Guarantee Fee of 0.5%
- Negotiate specific terms and conditions



FLG2 Terms

- **\$2.9b Loan Guarantee**
 - An absolute, continuing, unconditional and irrevocable guarantee of payment
 - \$1,850m MFLTA
 - \$1,050m LIL
- **Repayment terms same as FLG1**
 - Amortization
 - Sinking Fund payments
 - Date Certain



FLG Terms (cont'd)

- **2016 COREA commitment up to \$9.1b has been removed and the Dec 2016 payment was waived**
 - Replaced with 4 equal payments of \$184m in March 2017, Dec 2017, Dec 2018, Dec 2019
 - Equal to remaining equity required based on June 2016 cost less funds currently in COREA
- **COREA on additional cost overruns remains**
- **Guarantee Fee**
 - 50 basis points against the declining balance of FLG2

Differences between FLG1 and FLG2



- **Guarantee Fee**
- **Reduction in potential extensions of Date Certain from two to one**
- **Existing COREA payment spread out over 4 equal payments**



FLG2 Benefits

- Reduced borrowing requirement for Province
- Savings of \$1.2b (NPV) in borrowing costs
- Reduction in electricity rate of 1.5 cents/kWh
- Smooths out FLG1 COREA payments



Next Steps

- **Sign agreements**
- **Fund raising process**
 - Debt rating
 - Investor / Dealer meetings
 - Request for Financing
- **Close financing in late May**



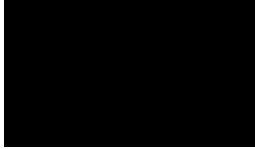
Project Agreements



- **16 existing project agreements**
 - Create one new agreement
 - Amend two
- **Enhanced Federal Loan Guarantee Agreement**
- **Intergovernmental Agreement**
- **Master Definitions Agreements**



Recommendations

- **Approval for Ministers to sign:**
 - Loan Guarantee Agreement
 - Amendment to Intergovernmental Agreement
 - Amendment to Master Definitions Agreements
- **Approval for Nalcor to sign amendments to Master Definitions Agreements**
- **Approval for Nalcor to borrow \$2.9 billion secured by FLG2 and complete financing arrangements and agreements**
 - With approval of Minister of Finance on terms and conditions



Attach To: NR2017-
Committee No: EPC2017-



Title: **Additional Federal Loan Guarantee for Muskrat Falls**

Branch Comment: The branch has reviewed the submission, and agrees with the communications approach as suggested.

The branch recommends that the primary and secondary key message sections in the communications plan be switched.

Date: March 7, 2017

Prepared by: Luke Joyce

Attach to: NR2017-
EPC2017-

Title**Additional Federal Loan Guarantee for Muskrat Falls****Summary of Proposal**

The Submission seeks approval to: i) enter into an agreement with the Government of Canada for an additional Federal Loan Guarantee (FLG2); ii) approve an amendment and restatement of the Intergovernmental Agreement with the Government of Canada; iii) amend the Muskrat Falls (MF)/Labrador Transmission Asset (LTA) Amended and Restated Master Definition Agreement and the Labrador Island Link (LIL) Amended and Restated Master Definition Agreement; iv) authorize Nalcor to amend the MF/LTA Amended and Restated Master Definition Agreement; v) authorize Nalcor and its subsidiaries (LIL, MF Generation Facility, and the LTA projects) to raise debt financing of up to \$1,850 million for the MF/LTA project and up to \$1,050 million for the LIL project, and secure payment and performance of all obligations arising in connection with the financings; and vi) authorize the Minister of Finance to approve the terms of the financing commitment, and any necessary documentation related to the financing commitment.

Secretariat Comment

1. An agreement for a Federal Loan Guarantee (FLG1) for \$5 billion dollars was signed with the Federal Government in November 2012, to support the construction and operation of the Lower Churchill Projects (the projects). Without the FLG1, any debt contributions for the projects would be at a much lower credit rating, resulting in higher costs to Government.
2. Since the signing of the FLG1 there have been additional cost overruns associated with the projects. June, 2016 was the last full re-baselining for the project which showed cost overruns of \$7.9 billion - \$2.9 billion more than the FLG1. On November 3, 2016, the Federal Government committed to guarantee up to \$2.9 billion in additional debt. Although there have been additional cost overruns since June 2016, the Federal Government will not consider any costs past the June 2016 date.
3. Allowing the additional debt to achieve the Federal Government's AAA credit rating will reduce financing costs which produces savings for ratepayers. Nalcor has determined that the FLG2 will lead to a \$1.2 billion net present value (NPV) reduction in borrowing costs, and will result in savings of about 1.5 cents per kilowatt-hour for electricity customers on the Island.

FLG2 Agreement

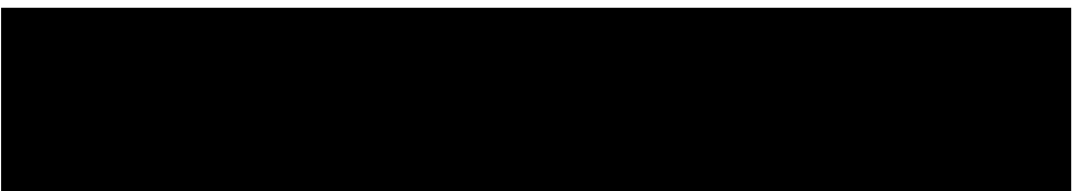
4. Periodic payments to repay sinking fund payments (i.e., periodic payments to repay project bonds) will be delayed until December 2020 (from December 2018), by which time the project is expected to achieve full power. Also the date by which the project must be completed to comply with the loan agreement has been extended to February 2021 (from February 2019).
5. Relief is provided from the pre-funded equity contributions that were required to be made into the cost overrun escrow account (COREA) under the FLG1. Without this relief the Province would have needed to borrow and contribute an additional \$875 million in December 2016. The Province will now be required to make four payments of \$184 million set for March 2017,

December 2017, December 2018 and December 2019. Unlike COREA (where funds could not be accessed until all project debt was exhausted) these funds may be accessed in the month following the payment. Any new project overruns (incurred after June 2016) will be subject to the original COREA process (payments made in December of each year to cover any projected overruns).

6. In contrast to the FLG1, the FLG2 requires Nalcor to pay an annual loan guarantee fee of 0.5 per cent of the net outstanding debt guaranteed under the FLG2. The Federal Government decided to treat this guarantee as they would a commercial agreement and not an agreement with a Government. The 0.5 per cent was determined to be the amount that would have to be paid as the Federal Government, as a part of their agreement to a loan guarantee, required payment of 1/3 of the benefits the Province will receive through the FLG2 on a declining balance. The total cost over the life of the debt is estimated at a NPV of \$134 million. The payment of this fee has been calculated into the savings of approximately 1.5 cents per kWh for electricity customers on the Island.

Amendment of Agreements

7. There are other related agreements that must be amended to give effect to the FLG2: the Intergovernmental Agreement (IGA) and the Master Definition Agreements (MDAs).
8. The proposed amendments to the IGA will extend the scope of the IGA to include the FLG2, but will not change its overall principles.
9. The MDAs will be amended to update terms and add any new terms that require legal definition related to the FLG2. The MDAs will also be amended to provide for (i) the establishment, funding of, and disbursements from the new equity pre-funding reserve accounts contemplated by the FLG2, and (ii) the additional COREA payments. Although these changes will not require amendments to the Equity Support Guarantees, the effect of the MDAs amendments will indirectly amend the terms of the Guarantees to ensure the Province's guarantee of Nalcor's equity funding commitments continue.



11. IA, MPO, PIAO, IGA, OLA, CPEB have no concerns.


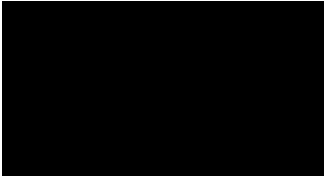
Department of Finance



The Department of Finance has no concerns.

Secretariat Recommendation

Cabinet Secretariat recommends approval of the Submission subject to the Minister for Intergovernmental Affairs entering into an agreement with the Government of Canada for an additional federal loan guarantee; and the Minister of Finance, as designate for the Minister for Intergovernmental Affairs, to enter into amendments to the MF/LTA Amended and Restated Master Definition Agreement and the LIL Amended and Restated Master Definition Agreement.

CO/KQ
March 10, 2017



Attach to: NR2017-
EPC2017-

Economic Policy Committee Recommendation

Additional Federal Loan Guarantee for Muskrat Falls

The Submission of the Minister of Natural Resources seeking approval of Additional Federal Loan Guarantee for Muskrat Falls was considered by the Economic Policy Committee.

The Minister recommends as follows:

It is recommended that authority be provided:

1. For the issuance of an Order in Council, under the authority of sections 10 and 11 of the *Executive Council Act* and section 7 of the *Intergovernmental Affairs Act*, for the Minister for Intergovernmental Affairs to enter into an agreement with the Government of Canada for an additional federal loan guarantee, substantially along the lines of that attached in Annex B;
2. For the issuance of an Order in Council, under the authority of sections 10 and 11 of the *Executive Council Act* and section 7 of the *Intergovernmental Affairs Act*, for the Ministers of Natural Resources, Finance, and Intergovernmental Affairs to approve and enter into an amendment and restatement of the Intergovernmental Agreement with the Government of Canada, dated November 29th, 2013, pursuant to the terms of the enhanced federal loan guarantee attached in Annex B;
3. For the issuance of an Order in Council, under the authority of sections 10 and 11 of the *Executive Council Act*, section 7 of the *Intergovernmental Affairs Act*, and sections 25 and 27 of the *Energy Corporation Act*, for the Minister of Finance, as designate for the Minister for Intergovernmental Affairs, to enter into amendments to the MF/LTA Amended and Restated Master Definition Agreement and the LIL Amended and Restated Master Definition Agreement required pursuant to the terms of the additional federal loan guarantee attached in Annex B, the effect of which will be to alter the mechanic and timing for the funding of equity set out in the Muskrat Fall Equity Support Guarantee, the Labrador Transmission Assets Equity Support Guarantee, the Muskrat Falls Equity Support Agreement and the Labrador Transmission Assets Equity Support Agreement, among other agreements;
4. For the issuance of an Order in Council, under the authority of section 18 of the *Energy Corporation Act*, for Nalcor Energy to enter into amendments to the MF/LTA Amended and Restated Master Definition Agreement and the LIL Amended and Restated Master Definition Agreement required pursuant to the terms of the enhanced federal loan guarantee attached in Annex B;

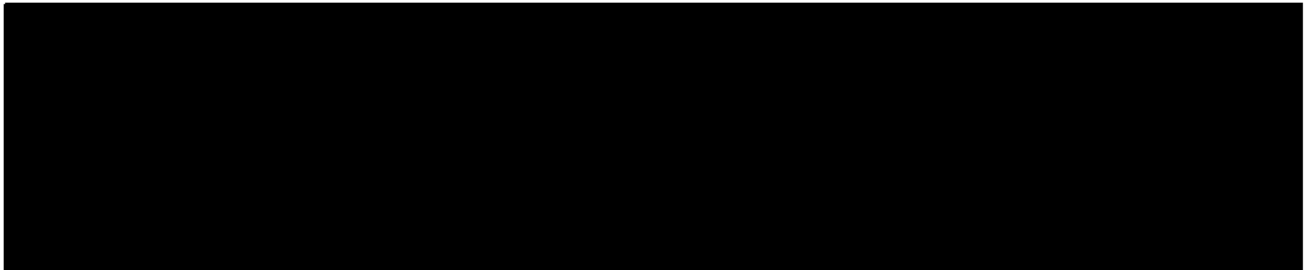
5. For the issuance of an Order in Council, under the authority of sections 18 and 14.1 of the *Energy Corporation Act*, for Nalcor Energy and its subsidiaries established in connection with the Labrador-Island Link, the Muskrat Falls Generation Facility, and the Labrador Transmission Assets projects, acting in their own right and not as agents of the Crown, to:
 - a. Raise debt financing of up to CAD \$1,850 million for the Muskrat Fall/Labrador Transmission Assets project and up to CAD \$1,050 million for the Labrador-Island Link project;
 - b. Secure payment and performance of all obligations arising in connection with the financings referenced in paragraph (a), through the issuance of bonds, debentures and other security interests or other encumbrances over property of every nature and kind, both present and future, and the entry into, execution, delivery and performance of trust deed, trust indentures, debentures, pledges, assignments and all other agreements with respect to the financing (including without limitation, project finance agreements, master definition agreements, guarantees, guarantee assurance agreements, blocked account agreements, step-in agreements and related financing documents);

Subject to:

 - c. Except with respect to its equity support agreements for each Project and its limited recourse pledge of its ownership interests in its subsidiaries, the debt financing structure having no ultimate liability accrue to Nalcor Energy; and
 - d. The receipt of approval from the Minister of Finance as to the terms of such financing.
6. For the issuance of an Order in Council, under the authority of section 18 of the *Energy Corporation Act*, for the delegation to the Minister of Finance of the authority to approve the terms of the financing commitment described in paragraph 5(a) with such institution(s) as the Minister shall approve, and any necessary documentation related to the financing commitment.

The Committee recommends approval of the Submission, subject to the Minister for Intergovernmental Affairs entering into an agreement with the Government of Canada for an additional federal loan guarantee; and the Minister of Finance, as designate for the Minister for Intergovernmental Affairs, to enter into amendments to the MF/LTA Amended and Restated Master Definition Agreement and the LIL Amended and Restated Master Definition Agreement.

March 14, 2017



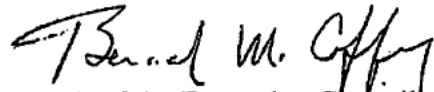
2017/03/16

MC2017-██████

NR/DM
Deputy Clerk
File

NR2017-██████. EPC2017-██████

The Submission of the Minister of Natural Resources respecting Additional Federal Loan
Guarantee for Muskrat Falls was deferred.


Clerk of the Executive Council

2017/03/17

MC2017-██████████

Deputy Clerk
File

NR2017-██████████ EPC2017-██████████

The Submission of the Minister of Natural Resources respecting Additional Federal Loan Guarantee for Muskrat Falls was considered.

The following direction was provided:

- 1) Approval was given for the issuance of an Order in Council, under the authority of sections 10 and 11 of the Executive Council Act and section 7 of the Intergovernmental Affairs Act, to authorize the Minister of Natural Resources, the Minister of Finance, and the Minister for Intergovernmental Affairs to:
 - a) enter into an agreement with the Government of Canada for an additional federal loan guarantee, substantially along the lines as attached at Annex B to the Minister's submission;
 - b) approve and enter into an amendment and restatement of the Intergovernmental Agreement with the Government of Canada, dated November 29th, 2013, pursuant to the terms of the enhanced federal loan guarantee attached at Annex B to the Minister's submission;
- 2) Approval was given for the issuance of an Order in Council, under the authority of sections 10 and 11 of the Executive Council Act, section 7 of the Intergovernmental Affairs Act, and sections 25 and 27 of the Energy Corporation Act, to authorize the Minister of Natural Resources, the Minister of Finance, and the Minister for Intergovernmental Affairs to enter into amendments to the Muskrat Falls/Labrador Transmission Assets Amended and Restated Master Definition Agreement and the Labrador-Island Link Amended and Restated Master Definition Agreement required pursuant to the terms of the additional federal loan guarantee attached at Annex B to



2017/03/17

the Minister's submission;

- 3) Approval was given for the issuance of an Order in Council, under the authority of section 18 of the Energy Corporation Act, to authorize Nalcor Energy to enter into amendments to the Muskrat Falls/Labrador Transmission Assets Amended and Restated Master Definition Agreement and the Labrador-Island Link Amended and Restated Master Definition Agreement required pursuant to the terms of the enhanced federal loan guarantee attached at Annex B to the Minister's submission;
- 4) Approval was given for the issuance of an Order in Council, under the authority of sections 18 and 14.1 of the Energy Corporation Act, to authorize Nalcor Energy and its subsidiaries established in connection with the Labrador-Island Link, the Muskrat Falls Generation Facility, and the Labrador Transmission Assets projects, acting in their own right and not as agents of the Crown, to:
 - a) raise debt financing of up to CAD \$1,850 million for the Muskrat Fall/Labrador Transmission Assets project and up to CAD \$1,050 million for the Labrador-Island Link project;
 - b) secure payment and performance of all obligations arising in connection with the financings referenced in paragraph (a), through the issuance of bonds, debentures and other security interests or other encumbrances over property of every nature and kind, both present and future, and the entry into, execution, delivery and performance of trust deed, trust indentures, debentures, pledges, assignments and all other agreements with respect to the financing (including without limitation, project finance agreements, master definition agreements, guarantees, guarantee assurance agreements, blocked account agreements, step-

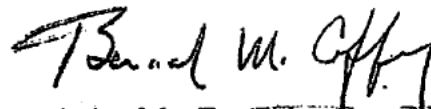
2017/03/17

in agreements and related financing documents);

Subject to:

- c) except with respect to its equity support agreements for each Project and its limited recourse pledge of its ownership interests in its subsidiaries, the debt financing structure having no ultimate liability accrue to Nalcor Energy; and
 - d) the receipt of approval from the Minister of Finance as to the terms of such financing; and
- 5) Approval was given for the issuance of an Order in Council, under the authority of section 18 of the Energy Corporation Act, to authorize the delegation to the Minister of Finance of the authority to approve the terms of the financing commitment described in paragraph 4(a) with such institution(s) as the Minister shall approve, and any necessary documentation related to the financing commitment.

(NO ACTION TO BE TAKEN IN ITEMS 1-5 UNTIL AN ORDER IN COUNCIL IS ISSUED)


Clerk of the Executive Council

2017/03/27


OC2017-110

NR/DM
IIAS-IGA/DM
FIN/DM
TB/Secretary
AG
Deputy Clerk
File

MC2017-██████. NR2017-██████. EPC2017-██████

Under the authority of sections 10 and 11 of the Executive Council Act and section 7 of the Intergovernmental Affairs Act, the Lieutenant-Governor in Council is pleased to authorize the Minister of Natural Resources, the Minister of Finance, and the Minister for Intergovernmental Affairs to:

- a) enter into an agreement with the Government of Canada for an additional federal loan guarantee, substantially along the lines as attached at Annex B to the Minister's submission; and
- b) approve and enter into an amendment and restatement of the Intergovernmental Agreement with the Government of Canada, dated November 29th, 2013, pursuant to the terms of the enhanced federal loan guarantee attached at Annex B to the Minister's submission.


Clerk of the Executive Council


2017/03/27

OC2017-111

NR/DM
FIN/DM
TB/Secretary
IIAS-IGA/DM
AG
Deputy Clerk
File

MC2017- [REDACTED] NR2017- [REDACTED] EPC2017- [REDACTED]

Under the authority of sections 10 and 11 of the Executive Council Act, section 7 of the Intergovernmental Affairs Act, and sections 25 and 27 of the Energy Corporation Act, the Lieutenant-Governor in Council is pleased to authorize the Minister of Natural Resources, the Minister of Finance, and the Minister for Intergovernmental Affairs to enter into amendments to the Muskrat Falls/Labrador Transmission Assets Amended and Restated Master Definition Agreement and the Labrador-Island Link Amended and Restated Master Definition Agreement required pursuant to the terms of the additional federal loan guarantee authorized in OC2017-110.


Clerk of the Executive Council

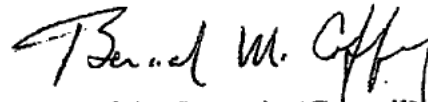
2017/03/27

OC2017-112

NR/DM
FIN/DM
TB/Secretary
IIAS-IGA/DM
Nalcor/CEO
AG
Deputy Clerk
File

MC2017-██████. NR2017-██████. EPC2017-██████

Under the authority of section 18 of the Energy Corporation Act, the Lieutenant-Governor in Council is pleased to authorize Nalcor Energy to enter into amendments to the Muskrat Falls/Labrador Transmission Assets Amended and Restated Master Definition Agreement and the Labrador-Island Link Amended and Restated Master Definition Agreement required pursuant to the terms of the enhanced federal loan guarantee authorized in OC2017-110.


Clerk of the Executive Council

2017/03/27

OC2017-113

NR/DM
FIN/DM
TB/Secretary
Nalcor/CEO
AG
Deputy Clerk
File


MC2017-. NR2017-. EPC2017-

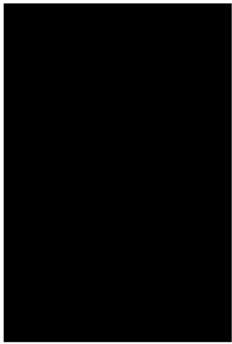
Under the authority of section 18 and 14.1 of the Energy Corporation Act, the Lieutenant-Governor in Council is pleased to authorize Nalcor Energy and its subsidiaries established in connection with the Labrador-Island Link, the Muskrat Falls Generation Facility, and the Labrador Transmission Assets projects, acting in their own right and not as agents of the Crown, to:

- a) raise debt financing of up to CAD \$1,850 million for the Muskrat Fall/Labrador Transmission Assets project and up to CAD \$1,050 million for the Labrador-Island Link project;
- b) secure payment and performance of all obligations arising in connection with the financings referenced in paragraph (a), through the issuance of bonds, debentures and other security interests or other encumbrances over property of every nature and kind, both present and future, and the entry into, execution, delivery and performance of trust deed, trust indentures, debentures, pledges, assignments and all other agreements with respect to the financing (including without limitation, project finance agreements, master definition agreements, guarantees, guarantee assurance agreements, blocked account agreements, step-in agreements and related financing documents);

Subject to:

- c) except with respect to its equity support agreements for each Project and its limited recourse pledge of its ownership interests in its subsidiaries, the debt financing structure having no ultimate liability accrue to Nalcor Energy; and
- d) the receipt of approval from the Minister of Finance as to the terms of such financing.


Clerk of the Executive Council



2017/03/27

OC2017-114

NR/DM
FIN/DM
TB/Secretary
AG
Deputy Clerk
File

MC201[REDACTED]. NR201[REDACTED] EPC2017-[REDACTED]

Under the authority of section 18 of the Energy Corporation Act, the Lieutenant-Governor in Council is pleased to authorize the delegation to the Minister of Finance of the authority to approve the terms of the financing commitment described in paragraph (a) of OC2017-113 with such institution(s) as the Minister shall approve, and any necessary documentation related to the financing commitment.

Clerk of the Executive Council

Email Message

From: [Batten, Dean \[EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=DEANBATTEN\]](mailto:Batten,Dean@psnl.gov.ni)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.ni.ca\]](mailto:Osmond,ChristineM@gov.ni.ca)
Cc:
Sent: 3/9/2017 at 7:40 AM
Received: 3/9/2017 at 7:41 AM
Subject: RE: NR2017-[REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Excellent!

Â

Thanks Christine,

Â

Dean

Â

From: Osmond, Christine M
Sent: Thursday, March 09, 2017 8:18 AM
To: Batten, Dean
Subject: FW: NR2017-[REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi Dean

Received from NR.

Â

Christine

Â

From: Parsons, Walter
Sent: Wednesday, March 08, 2017 5:47 PM
To: Osmond, Christine M
Subject: Fw: NR2017-[REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

FYI

Â

Sent from my BlackBerry 10 smartphone on the Bell network.

From: HYPERLINK
"mailto:ElizabethLewis@nalcoreenergy.com"ElizabethLewis@nalcoreenergy.com

Sent: Wednesday, March 8, 2017 5:45 PM

To: Parsons, Walter

Cc: HYPERLINK "mailto:DaveJones@nalcoreenergy.com"DaveJones@nalcoreenergy.com

Subject: Fwd: NR2017-██████████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi Walter. The 4% is meant to approximate the Province's cost of borrowing while the 7.5% is Newfoundland and Labrador Hydro's weighted average cost of capital (i.e. Including both the cost of borrowing and return on equity).Â

Let me know if you need any further information.Â

Â

Thanks!

Sent from my iPhone

Begin forwarded message:

From: "Dave Jones" <HYPERLINK "mailto:DaveJones@nalcoreenergy.com"DaveJones@nalcoreenergy.com>
Date: March 8, 2017 at 3:18:37 PM NST
To: "Elizabeth Lewis" <HYPERLINK "mailto:ElizabethLewis@nalcoreenergy.com"ElizabethLewis@nalcoreenergy.com>
Cc: "Walter Parsons" <HYPERLINK "mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca>
Subject: Fwd: NR2017-██████████ "Additional Federal Loan Guarantee for Muskrat Falls"

Elizabeth

Â

Can you get back to Walter on this? Â

Â

Thanks

Â

Dave

Sent from my iPhone

Begin forwarded message:

From: "Parsons, Walter" <HYPERLINK "mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca>
Date: March 8, 2017 at 12:18:44 PM EST
To: "'HYPERLINK "mailto:DaveJones@nalcoreenergy.com"DaveJones@nalcoreenergy.com'" <HYPERLINK "mailto:DaveJones@nalcoreenergy.com"DaveJones@nalcoreenergy.com>
Subject: FW: NR2017-██████████ "Additional Federal Loan Guarantee for Muskrat Falls"

Dave,

Â

Can you please answer the question in red below?

Â

Walter

Â

From: Osmond, Christine M
Sent: Wednesday, March 8, 2017 11:30 AM
To: Parsons, Walter <HYPERLINK
"mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca>
Subject: FW: NR2017- [REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi,

Received from FIN for your response.

Â

Thanks

Â

From: Batten, Dean
Sent: Wednesday, March 08, 2017 10:03 AM
To: Osmond, Christine M
Cc: Hanrahan, Denise; Martin, Craig; Jones, Sharlene; Blanche, Pauline; Fleming, Lori; Penney, Jodi
Subject: NR2017- [REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Christine,

Â

The Department of Finance (Finance) has reviewed the submission entitled "Additional Federal Loan Guarantee for Muskrat Falls" and based on the information provided, has no concerns from a financial perspective.Â Finance did however have the following questions as it relates to FLG2:

Â·Â Â Â Â Â Â Â Â Is payment of the loan guarantee fee of 0.5 per cent factored in the 1.5 cent per kilowatt-hour savings for rate payers?

Â·Â Â Â Â Â Â Â Â Under Annex D, how were the discount rates of 4% and 7.5% determined?Â I am assuming the 4% reflects governmentâs cost of borrowing.Â Does 7.5% represent Nalcorâs cost of borrowing?

Â·Â Â Â Â Â Â Â Â At what point will the Province begin realizing savings on borrowings?

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Fiscal Policy will be providing comments shortly.

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Please let me know if you have any questions.

Â

Dean

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Dean Batten, MBA, CPA, CMA
Treasury Board Officer
Â
Treasury Board Support
Government of Newfoundland and Labrador

P.O. Box 8700
St. John's, NL A1B 4J6
Â
Direct Line: (709) 729-7416 | Fax: (709) 729-3054
Email: [HYPERLINK "mailto:DeanBatten@gov.nl.ca"](mailto:DeanBatten@gov.nl.ca)DeanBatten@gov.nl.ca

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âThis email and any attached files are intended for the sole use of the primary and copied addressee(s) and may contain privileged and/or confidential information. Any distribution, use or copying by any means of this information is strictly prohibited. If you received this email in error, please delete it immediately and notify the sender.â

Email Message

From: [Batten, Dean \[EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=DEANBATTEN\]](mailto:Batten,Dean@psnl.gov.nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond,ChristineM@gov.nl.ca)
Cc:
Sent: 3/8/2017 at 11:11 AM
Received: 3/8/2017 at 11:11 AM
Subject: RE: NR2017-██████████ "Additional Federal Loan Guarantee for Muskrat Falls"

No further concerns.

Â

Thanks,

Â

Dean

Â

From: Osmond, Christine M
Sent: Wednesday, March 08, 2017 12:11 PM
To: Batten, Dean
Subject: FW: NR2017-██████████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi Dean,

Received from NR

Â

From: Parsons, Walter
Sent: Wednesday, March 08, 2017 12:10 PM
To: Osmond, Christine M
Subject: RE: NR2017-██████████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

See below.

Â

From: Osmond, Christine M
Sent: Wednesday, March 8, 2017 11:30 AM
To: Parsons, Walter <[HYPERLINK "mailto:WalterParsons@gov.nl.ca" WalterParsons@gov.nl.ca](mailto:WalterParsons@gov.nl.ca)>
Subject: FW: NR2017-██████████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi,

Received from FIN for your response.

Â

Thanks

Â

From: Batten, Dean
Sent: Wednesday, March 08, 2017 10:03 AM
To: Osmond, Christine M
Cc: Hanrahan, Denise; Martin, Craig; Jones, Sharlene; Blanche, Pauline; Fleming, Lori; Penney, Jodi
Subject: NR2017- [REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Christine,

Â

The Department of Finance (Finance) has reviewed the submission entitled "Additional Federal Loan Guarantee for Muskrat Falls" and based on the information provided, has no concerns from a financial perspective.Â Finance did however have the following questions as it relates to FLG2:

Â·Â Â Â Â Â Â Â Â Is payment of the loan guarantee fee of 0.5 per cent factored in the 1.5 cent per kilowatt-hour savings for rate payers? Yes

Â·Â Â Â Â Â Â Â Â Under Annex D, how were the discount rates of 4% and 7.5% determined?Â I am assuming the 4% reflects governmentâs cost of borrowing.Â Does 7.5% represent Nalcorâs cost of borrowing? I will need to confer with Nalcor on this one.

Â·Â Â Â Â Â Â Â Â At what point will the Province begin realizing savings on borrowings? Placement of Canada-guaranteed debt will begin immediately after signing the agreement.

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Fiscal Policy will be providing comments shortly.

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Please let me know if you have any questions.

Â

Dean

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Dean Batten, MBA, CPA, CMA
Treasury Board Officer
Â
Treasury Board Support
Government of Newfoundland and Labrador

P.O. Box 8700
St. John's, NL A1BÂ 4J6

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Direct Line: (709)729-7416 | Fax: (709)729-3054

Email: HYPERLINK "mailto:DeanBatten@gov.nl.ca"DeanBatten@gov.nl.ca

Â

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Email Message

From: [Batten, Dean \[EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=DEANBATTEN\]](mailto:Batten,Dean@psnl.gov.nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond.Christine.M@gov.nl.ca)
CC: [Hanrahan, Denise \[SMTP:Hanrahand@gov.nl.ca\]](mailto:Hanrahan.Denise@gov.nl.ca), [Martin, Craig \[SMTP:CMartin@gov.nl.ca\]](mailto:Martin.Craig@gov.nl.ca), [Jones, Sharlene \[SMTP:SharleneJones@gov.nl.ca\]](mailto:Jones.Sharlene@gov.nl.ca), [Blanche, Pauline \[SMTP:PaulineBlanche@gov.nl.ca\]](mailto:Blanche.Pauline@gov.nl.ca), [Fleming, Lori \[SMTP:LoriFleming@gov.nl.ca\]](mailto:Fleming.Lori@gov.nl.ca), [Penney, Jodi \[SMTP:jodipenney@gov.nl.ca\]](mailto:Penney.Jodi@gov.nl.ca)
Sent: 3/8/2017 at 9:02 AM
Received: 3/8/2017 at 9:02 AM
Subject: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

Christine,

Â

The Department of Finance (Finance) has reviewed the submission entitled "Additional Federal Loan Guarantee for Muskrat Falls" and based on the information provided, has no concerns from a financial perspective.Â Finance did however have the following questions as it relates to FLG2:

Â·Â Â Â Â Â Â Â Â Is payment of the loan guarantee fee of 0.5 per cent factored in the 1.5 cent per kilowatt-hour savings for rate payers?

Â·Â Â Â Â Â Â Â Â Under Annex D, how were the discount rates of 4% and 7.5% determined?Â I am assuming the 4% reflects governmentâs cost of borrowing.Â Does 7.5% represent Nalcorâs cost of borrowing?

Â·Â Â Â Â Â Â Â Â At what point will the Province begin realizing savings on borrowings?

Â

Fiscal Policy will be providing comments shortly.

Â

Please let me know if you have any questions.

Â

Dean

Â

Â

Dean Batten, MBA, CPA, CMA
 Treasury Board Officer
 Â
 Treasury Board Support
 Government of Newfoundland and Labrador

P.O. Box 8700
 St.John's, NL A1BÂ 4J6
 Â
 Direct Line: (709)729-7416 | Fax: (709)729-3054
 Email: [HYPERLINK "mailto:DeanBatten@gov.nl.ca"](mailto:DeanBatten@gov.nl.ca)DeanBatten@gov.nl.ca

Â

Â

Email Message

From: [Batten, Dean \[EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=DEANBATTEN\]](#)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](#)
Cc:
Sent: 3/9/2017 at 3:38 PM
Received: 3/9/2017 at 3:38 PM
Subject: FW: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

FYI

Â

From: Martin, Craig
Sent: Thursday, March 09, 2017 4:38 PM
To: Batten, Dean
Subject: RE: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Dean,

Sorry meant to get back to you.Â No further comments on this one.

Craig

Â

From: Batten, Dean
Sent: Wednesday, March 08, 2017 4:37 PM
To: Martin, Craig
Subject: RE: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Thanks,

Â

Dean

Â

From: Martin, Craig
Sent: Wednesday, March 08, 2017 4:36 PM
To: Batten, Dean
Subject: RE: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Tomorrow AM, but likely none.Â Iâve already seen multiple drafts.

Â

From: Batten, Dean
Sent: Wednesday, March 08, 2017 4:24 PM
To: Martin, Craig

Subject: FW: NR2017-[REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Craig,

Â

Did you have anything to add on this one?

Â

Dean

Â

From: Osmond, Christine M
Sent: Wednesday, March 08, 2017 3:50 PM
To: Batten, Dean
Subject: RE: NR2017-[REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi Dean,

Have you heard any updates on when Craig may be sending his comments?

Â

Thanks

Â

From: Batten, Dean
Sent: Wednesday, March 08, 2017 12:11 PM
To: Osmond, Christine M
Subject: RE: NR2017-[REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

No further concerns.

Â

Thanks,

Â

Dean

Â

From: Osmond, Christine M
Sent: Wednesday, March 08, 2017 12:11 PM
To: Batten, Dean
Subject: FW: NR2017-[REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi Dean,

Received from NR

Â

From: Parsons, Walter
Sent: Wednesday, March 08, 2017 12:10 PM
To: Osmond, Christine M
Subject: RE: NR2017- [REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

See below.

Â

From: Osmond, Christine M
Sent: Wednesday, March 8, 2017 11:30 AM
To: Parsons, Walter <HYPERLINK "mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca">
Subject: FW: NR2017- [REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi,

Received from FIN for your response.

Â

Thanks

Â

From: Batten, Dean
Sent: Wednesday, March 08, 2017 10:03 AM
To: Osmond, Christine M
Cc: Hanrahan, Denise; Martin, Craig; Jones, Sharlene; Blanche, Pauline; Fleming, Lori; Penney, Jodi
Subject: NR2017- [REDACTED] "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Christine,

Â

The Department of Finance (Finance) has reviewed the submission entitled "Additional Federal Loan Guarantee for Muskrat Falls" and based on the information provided, has no concerns from a financial perspective.Â Finance did however have the following questions as it relates to FLG2:

Â·Â Â Â Â Â Â Â Â Is payment of the loan guarantee fee of 0.5 per cent factored in the 1.5 cent per kilowatt-hour savings for rate payers? Yes

Â·Â Â Â Â Â Â Â Â Under Annex D, how were the discount rates of 4% and 7.5% determined?Â I am assuming the 4% reflects government's cost of borrowing.Â Does 7.5% represent Nalcor's cost of borrowing? I will need to confer with Nalcor on this one.

At what point will the Province begin realizing savings on borrowings? Placement of Canada-guaranteed debt will begin immediately after signing the agreement.

Fiscal Policy will be providing comments shortly.

Please let me know if you have any questions.

Dean

Dean Batten, MBA, CPA, CMA
Treasury Board Officer
Treasury Board Support
Government of Newfoundland and Labrador

P.O. Box 8700
St. John's, NL A1B 4J6
Direct Line: (709) 729-7416 | Fax: (709) 729-3054
Email: [HYPERLINK "mailto:DeanBatten@gov.nl.ca"DeanBatten@gov.nl.ca](mailto:DeanBatten@gov.nl.ca)

Email Message

From: [Downey, Claudia \[EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=CLAUDIADOWNEY\]](mailto:Downey.Claudia@psnl.gov.nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond.Christine.M@gov.nl.ca)
Cc: [Harvey, Brian \[SMTP:brianharvey@gov.nl.ca\]](mailto:Harvey.Brian@gov.nl.ca), [Gover, Aubrey \[SMTP:aubreygover@gov.nl.ca\]](mailto:Gover.Aubrey@gov.nl.ca)
Sent: 3/7/2017 at 12:39 PM
Received: 3/7/2017 at 12:39 PM
Subject: RE: NR2017-██████████

Hello,

Â

Indigenous Affairs has reviewed the signed submission "Additional Federal Loan Guarantee for Muskrat Falls" and has no concerns with the Recommendations.

Â

However, we would like to note the following:

Â

Â·Â Â Â Â Â Â Â Â Methylmercury remains a key issue with the Muskrat Falls project, particularly with Indigenous groups.

Â·Â Â Â Â Â Â Â Â In October 2016, the Government of Newfoundland and Labrador, Innu Nation, Nunatsiavut Government, and the NunatuKavut Community Council committed to resolving several key issues surrounding the pending flooding of the Muskrat Falls reservoir, which included the establishment of an Independent Expert Advisory Committee (IEAC), comprised of representatives of the Innu Nation, Nunatsiavut Government, the NunatuKavut Community Council, the federal, provincial and municipal governments. The IEAC has still not been finalized.

Â·Â Â Â Â Â Â Â Â The NunatuKavut Community Council continues to press for a land claim and IBA.

Â·Â Â Â Â Â Â Â Â Indigenous issues continue to remain important given the federal government's commitment to a renewed nation-to-nation relationship with Indigenous people.

Â

Cheers,

Â

Claudia

Â

Claudia Downey

tÂ (709) 729-0510

eÂ HYPERLINK "mailto:claudiadowney@gov.nl.ca"claudiadowney@gov.nl.ca

Â

Â

From: "Osmond, Christine M" <HYPERLINK "mailto:ChristineOsmond@gov.nl.ca"ChristineOsmond@gov.nl.ca>
Date: March 6, 2017 at 5:16:43 PM NST
To: "Jones, Sharlene" <HYPERLINK "mailto:SharleneJones@gov.nl.ca"SharleneJones@gov.nl.ca>, "Joyce, Luke" <HYPERLINK "mailto:LukeJoyce@gov.nl.ca"LukeJoyce@gov.nl.ca>, "Jacobs, Heather" <HYPERLINK "mailto:heatherj@gov.nl.ca"heatherj@gov.nl.ca>, "Hearn, Patricia A. (Deputy Minister)" <HYPERLINK "mailto:PatriciaAHearn@gov.nl.ca"PatriciaAHearn@gov.nl.ca>, "Cowan, John" <HYPERLINK "mailto:JCowan@gov.nl.ca"JCowan@gov.nl.ca>, "Gover, Aubrey" <HYPERLINK "mailto:aubreygover@gov.nl.ca"aubreygover@gov.nl.ca>, "Bown, Charles" <HYPERLINK "mailto:CBown@gov.nl.ca"CBown@gov.nl.ca>
Cc: "Fleming, Lori" <HYPERLINK "mailto:LoriFleming@gov.nl.ca"LoriFleming@gov.nl.ca>, "Batten, Dean" <HYPERLINK "mailto:DeanBatten@gov.nl.ca"DeanBatten@gov.nl.ca>, "Nolan, Paul" <HYPERLINK "mailto:paulnol@gov.nl.ca"paulnol@gov.nl.ca>, "Mackenzie, Dan" <HYPERLINK "mailto:DanM@gov.nl.ca"DanM@gov.nl.ca>, "Clarke, Greg" <HYPERLINK "mailto:GregClarke@gov.nl.ca"GregClarke@gov.nl.ca>, "Bailey, Bev" <HYPERLINK "mailto:bbailey@gov.nl.ca"bbailey@gov.nl.ca>, "O'Brien, Michelle" <HYPERLINK "mailto:MichelleObrien@gov.nl.ca"MichelleObrien@gov.nl.ca>, "Callan, Lana" <HYPERLINK "mailto:lanacallan@gov.nl.ca"lanacallan@gov.nl.ca>, "Bowles, Ron" <HYPERLINK "mailto:rabowles@gov.nl.ca"rabowles@gov.nl.ca>
Subject: NR2017-██████████

Hello all,

Â

Cabinet Secretariat has received the above noted Cabinet paper entitled, "Additional Federal Loan Guarantee for Muskrat Falls."

Â

Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

Â

This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

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Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Pages 74 to 79 of this document have been fully redacted and replaced with this page.



From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-██████████

Â

Hello all,

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Â

Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

Â

This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

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Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Pages 82 to 86 of this document have been fully redacted and replaced with this page.



From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-██████████

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Would you kindly review and provide comments Â to me by 10:00 am, Wednesday, March 8, 2017.

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Thanks very much.

Â

Christine

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Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

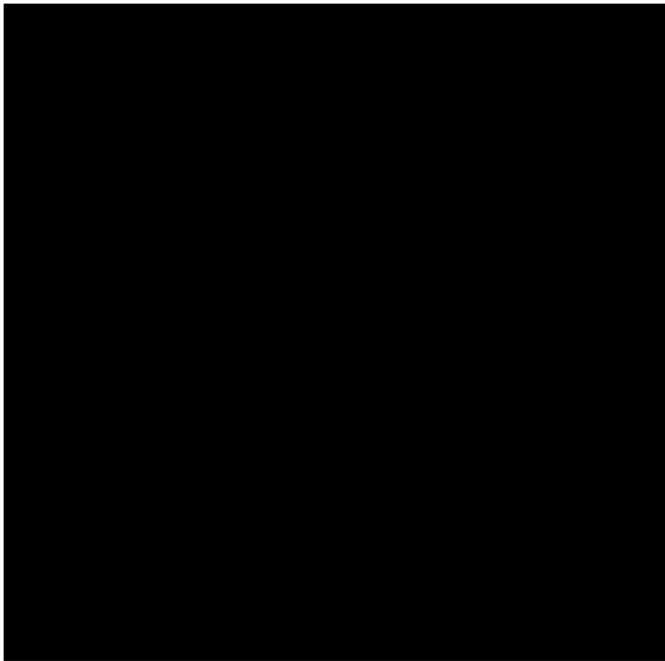
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Pages 89 to 92 of this document have been fully redacted and replaced with this page.



From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-██████

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Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

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This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

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Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

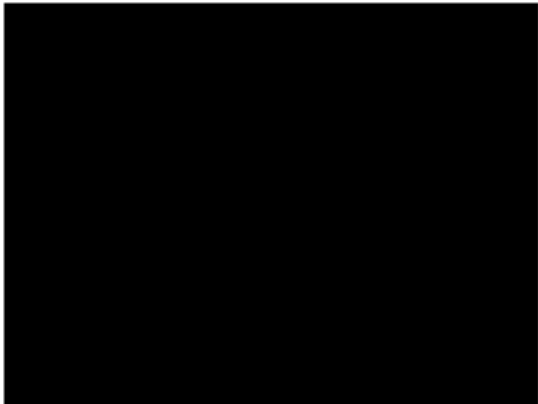
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Pages 95 to 101 of this document have been fully redacted and replaced with this page.



From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-

Â

Hello all,

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Cabinet Secretariat has received the above noted Cabinet paper entitled, "Additional Federal Loan Guarantee for Muskrat Falls."

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Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

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This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

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Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](#)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](#)
Cc:
Sent: 3/9/2017 at 12:37 PM
Received: 3/9/2017 at 12:37 PM
Subject: RE: NR2017-██████████

Nalcor will have to make the first of the \$184 million pre-funded equity payments in March 2017 (when the agreement is signed). This is included in Nalcor's budget allocation from the province.

^

Correct the text of those agreements will not change.

^

From: Osmond, Christine M
Sent: Thursday, March 9, 2017 1:01 PM
To: Parsons, Walter <WalterParsons@gov.nl.ca>
Subject: NR2017-██████████

^

Hi Walter,

I believe the first guarantee payment is due in March 2017 (when the agreement is signed). How much will this payment be? Does Nalcor have the money to cover this or where will the money come from to make the payment?

^

Just to confirm: there are no changes that need to be made to the Equity Support Guarantees (MF, LTA, LIL) as a result of amendments to the MDAs? Is it that the changes that will be made to the MDAs will impact the how (mechanics) and the when (timing) of the funding of equity in these agreements? ^

^

Thanks

Christine

^

^

^

Christine Osmond

Cabinet Officer

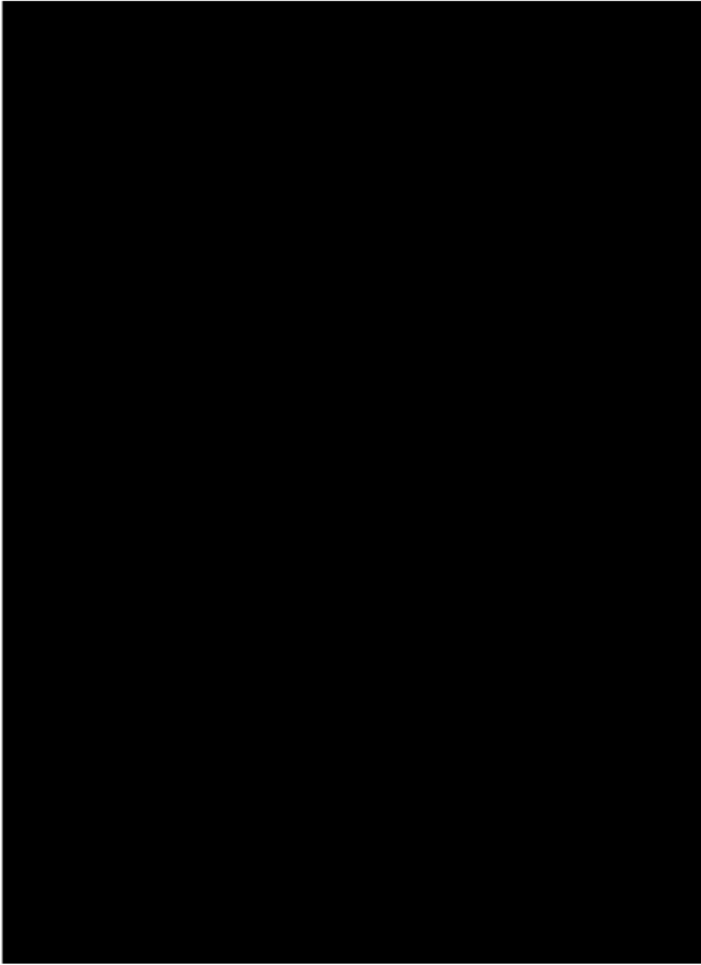
Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

^

Pages 105 to 107 of this document have been fully redacted and replaced with this page.



From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-██████████

Â

Hello all,

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Cabinet Secretariat has received the above noted Cabinet paper entitled, "Additional Federal Loan Guarantee for Muskrat Falls."

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Would you kindly review and provide comments Â to me by 10:00 am, Wednesday, March 8, 2017.

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This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

Â

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Â

Subject: FW: NR2017-██████████

Â

I reviewed the draft, and did not identify any issues. Could one of you please review.

Â

Thanks

John

Â

From: Osmond, Christine M
Sent: Monday, March 6, 2017 5:17 PM
To: Jones, Sharlene <HYPERLINK "mailto:SharleneJones@gov.nl.ca"SharleneJones@gov.nl.ca>; Joyce, Luke <HYPERLINK "mailto:LukeJoyce@gov.nl.ca"LukeJoyce@gov.nl.ca>; Jacobs, Heather <HYPERLINK "mailto:heatherj@gov.nl.ca"heatherj@gov.nl.ca>; Hearn, Patricia A. (Deputy Minister) <HYPERLINK "mailto:PatriciaAHearn@gov.nl.ca"PatriciaAHearn@gov.nl.ca>; Cowan, John <HYPERLINK "mailto:JCowan@gov.nl.ca"JCowan@gov.nl.ca>; Gover, Aubrey <HYPERLINK "mailto:aubreygover@gov.nl.ca"aubreygover@gov.nl.ca>; Bown, Charles <HYPERLINK "mailto:CBown@gov.nl.ca"CBown@gov.nl.ca>
Cc: Fleming, Lori <HYPERLINK "mailto:LoriFleming@gov.nl.ca"LoriFleming@gov.nl.ca>; Batten, Dean <HYPERLINK "mailto:DeanBatten@gov.nl.ca"DeanBatten@gov.nl.ca>; Nolan, Paul <HYPERLINK "mailto:paulnol@gov.nl.ca"paulnol@gov.nl.ca>; Mackenzie, Dan <HYPERLINK "mailto:DanM@gov.nl.ca"DanM@gov.nl.ca>; Clarke, Greg <HYPERLINK "mailto:GregClarke@gov.nl.ca"GregClarke@gov.nl.ca>; Bailey, Bev <HYPERLINK "mailto:bbailey@gov.nl.ca"bbailey@gov.nl.ca>; O'Brien, Michelle <HYPERLINK "mailto:MichelleObrien@gov.nl.ca"MichelleObrien@gov.nl.ca>; Callan, Lana <HYPERLINK "mailto:lanacallan@gov.nl.ca"lanacallan@gov.nl.ca>; Bowles, Ron <HYPERLINK "mailto:rabowles@gov.nl.ca"rabowles@gov.nl.ca>
Subject: NR2017-██████████

Â

Hello all,

Â

Cabinet Secretariat has received the above noted Cabinet paper entitled, "Additional Federal Loan Guarantee for Muskrat Falls."

Â

Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

Â

This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

Â

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

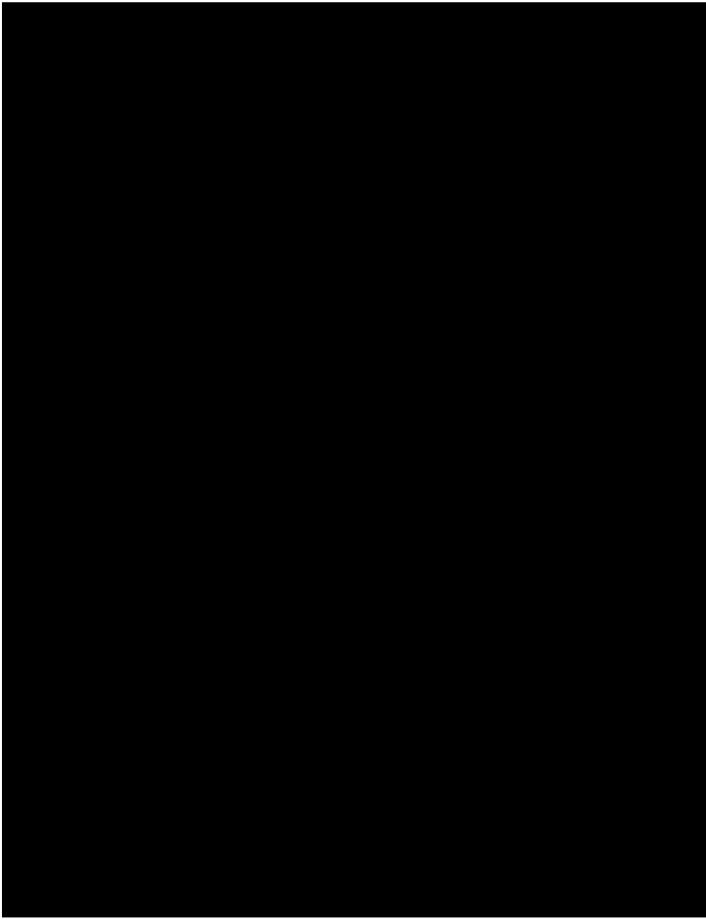
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Pages 113 to 119 of this document have been fully redacted and replaced with this page.



From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-██████████

Â

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Cabinet Secretariat has received the above noted Cabinet paper entitled, "Additional Federal Loan Guarantee for Muskrat Falls."

Â

Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

Â

This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

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Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Email Message

From: [Clarke, Greg \[EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=GREGCLARKE\]](mailto:Clarke.Greg@PSNL.FIRSTADMINISTRATIVEGROUP.RECIPIENTS.GREGCLARKE)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond.ChristineM@SMTP.ChristineOsmond.gov.nl.ca)
Cc: [Hearn, Patricia A. \(Deputy Minister\) \[SMTP:PatriciaAHearn@gov.nl.ca\]](mailto:Hearn.PatriciaA.(DeputyMinister)@SMTP.PatriciaAHearn.gov.nl.ca)
Sent: 3/8/2017 at 9:06 AM
Received: 3/8/2017 at 9:06 AM
Subject: RE: NR2017-██████████

Hi Christine, IIAS has reviewed the submission and has no comments. Â

Â

In reviewing Annex A (communications plan), I noted under The Announcement that the preference is to have a quote from the Government of Canada in the news release. I take this to mean that there will be at least minimal engagement with the federal government as a communications plan is prepared and rolled out on the FLG2 announcement, and I think this is a sensible approach.

Greg

Â

From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-██████████

Â

Hello all,

Â

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Would you kindly review and provide comments Â to me by 10:00 am, Wednesday, March 8, 2017.

Â

This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

Â

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](mailto:Parsons.Walter@psnl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond.ChristineM@gov.nl.ca)
Cc:
Sent: 3/8/2017 at 3:32 PM
Received: 3/8/2017 at 3:32 PM
Subject: Re: NR2017-██████████

They wanted to mirror terms that would be included in a purely commercial arrangement, i.e. not involving a government.

Sent from my BlackBerry 10 smartphone on the Bell network.

From: Osmond, Christine M
Sent: Wednesday, March 8, 2017 4:06 PM
To: Parsons, Walter
Subject: NR2017-██████████

Hi Walter,

What was the Federal Gov rationale for imposing the fee on the guarantee?

Â

Thanks

Christine

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](mailto:Parsons, Walter [EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4]@gov.nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond, Christine M [SMTP:ChristineOsmond@gov.nl.ca])
Cc:
Sent: 3/8/2017 at 10:24 AM
Received: 3/8/2017 at 10:24 AM
Subject: RE: NR2017-██████████

The FLG agreement was signed in 2012 and debt was issued in 2013.

Â

From: Osmond, Christine M
 Sent: Wednesday, March 8, 2017 9:51 AM
 To: Parsons, Walter <WalterParsons@gov.nl.ca>
 Subject: RE: NR2017-██████████

Â

Hi Walter,

The attached Â Agreement says âIn 2013 the federal government provided a Federal Loan Guaranteeâ.Â You noted yesterday it was Nov 2012, so I just wanted to confirm the actual date. Was it signed in 2012 and in effect in 2013?

Â

Thanks

Â

From: Parsons, Walter
 Sent: Tuesday, March 07, 2017 11:54 AM
 To: Osmond, Christine M
 Subject: RE: NR2017-██████████

Â

Please see below. Happy to discuss any in more detail â I am at 1406.

Â

From: Osmond, Christine M
 Sent: Tuesday, March 7, 2017 10:58 AM
 To: Parsons, Walter <HYPERLINK "mailto:WalterParsons@gov.nl.ca" WalterParsons@gov.nl.ca>
 Subject: NR2017-██████████

Â

Hi Walter,

I am reviewing the above noted submission and have a few questions:

Â·Â Â Â Â Â Â Â Â Recommendations: I need wording on these recommendations, basically exactly how it will be written in the OC, for #3, #4,#5, and # 6.Â ██████████

[REDACTED] Where money is mentioned it also needs to be specified that it is in Canadian dollars. ^

^

[REDACTED]

^

^·^ ^ ^ ^ ^ ^ ^ ^ How much was the FG1 for?^ When was it signed? ^

^

It was for \$5 billion in debt and was signed in November 2012.

^

^·^ ^ ^ ^ ^ ^ ^ ^ The FLG2 is for an up to amount of \$2.9 billion.^

o^ ^ What is the actual amount as of June, 2016?

^

The project debt requirements were up to \$7.9 billion as of June 2016 (i.e. an additional \$2.9 billion was required).

^

o^ ^ Why do we need a FLG2?^ Why are there so many cost overruns? ^ Is it anticipated that there will be future cost overruns? If yes what will be the plan for to cover this?

^

Without the FLG2, any debt contributions would be at a much lower credit rating and would come with higher costs. Yes, there will be more cost overruns beyond the June 2016 number as we already know that the Astaldi deal adds \$270 to the project budget. These will be covered by additional equity from the province (i.e. the FLG2 does not guarantee debt above what was identified in June 2016)

^

o^ ^ Why was the date of June , 2016 selected as the new baseline?^ Are their additional project overruns known since June, 2016?^ If yes for what amount and why wouldnât there be an attempt to have this covered by the FLG2? Has the federal government refused to cover past a certain date or set a limit to the amount they will cover?

^

June 2016 was the last full re-baselining for the projects. When negotiations for the FLG2 began, the additional overruns were not yet known and Canada was not interested in keeping the guarantee open-ended. The new dates and limits in the FLG2 are the limit set by Canada.

^

^·^ ^ ^ ^ ^ ^ ^ ^ Page 4: COREA:

o^ ^ It notes that COREA has been reset ^ is the 4 payments of 184 million being

made to address the previously identified cost overruns covered in the FLG1 ,or cost overruns since the FLG1? How was a reset accomplished (i.e. discussions, an agreement?)

o it references 4 payments of \$184 million. Is that the only payments that will need to be made to COREA? If not what will the payments be (and what schedule) after these payments are made?

o If the payments can be accessed the month after payment (without the need for project debt to be exhausted) what is the purpose of actually depositing this money? (is it accurate that on a go forward you can access the funds without exhausting debt? there is reference on page 18 to once the FLG Debt is fully drawn)

^

Yes, the payments deal with the overruns since the beginning of the project (since FLG1). In negotiations, NL sought to have the COREA completely suspended but this was presented by Canada as a compromise later in the negotiations.

Those are the only payments that need to be made to address the previous overruns. Any new overruns would be subject to the original COREA concept however.

The purpose was to show that the COREA payments are not being avoided. The old COREA obligation was smoothed over four payments, which causes much less hardship for the province, but by continuing to require them, Canada can say that the original principle (i.e. ensuring that the Province plans to make adequate equity available in each year to cover previously-identified cost overruns) remains.

^

^ In the current FLG1 does the federal gov share in any export sales that exceed market price forecasts or was that just raised in the FLG2 negotiations?

^

Just raised in FLG2 negotiations.

^

^ Legislative / Legal Sections 25, 27 and 14.1 are also referenced in the paper. Could you summarize these sections?

^

ECA 25 allows the Minister of FIN to issue guarantees on behalf of Nalcor; ECA 26 allows Cabinet to advance funds to Nalcor to carry out its business; ECA 14.1 outlines that Nalcor subsidiaries are not agents of the Crown.

^

^ Financial:

o Could you clarify the last sentence of the section? Will this be a positive for the Province?

^

By putting in less equity, the Province will get less return. I wouldn't say it is positive or negative.

^

^·^ ^ ^ ^ ^ ^ ^ ^ Interdepartmental^ it references they were consulted , do any of them have any concerns? Are they all in agreement? ^

^

No concerns.

^

^·^ ^ ^ ^ ^ ^ ^ ^ Intergovernmental: Does NS have to enter into an amended intergovernmental agreement as a result of the FLG2?

^

No, Emera is not seeking additional guaranteed debt ^ the FLG2 only impacts Nalcor and NL.

^

If you have any questions, please let me know.

^

Thanks,

Christine ^

^

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

^

^

^

^

^

Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](mailto:Parsons.Walter@psnl.gov.nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:ChristineOsmond@gov.nl.ca)
Cc:
Sent: 3/8/2017 at 4:47 PM
Received: 3/8/2017 at 4:47 PM
Subject: Fw: NR2017-██████ "Additional Federal Loan Guarantee for Muskrat Falls"

FYI

Sent from my BlackBerry 10 smartphone on the Bell network.
 From: ElizabethLewis@nalcoreenergy.com
 Sent: Wednesday, March 8, 2017 5:45 PM
 To: Parsons, Walter
 Cc: DaveJones@nalcoreenergy.com
 Subject: Fwd: NR2017-██████ "Additional Federal Loan Guarantee for Muskrat Falls"

Hi Walter. The 4% is meant to approximate the Province's cost of borrowing while the 7.5% is Newfoundland and Labrador Hydro's weighted average cost of capital (i.e. including both the cost of borrowing and return on equity).
 Let me know if you need any further information.

Thanks!

Sent from my iPhone

Begin forwarded message:

From: "Dave Jones" <[HYPERLINK "mailto:DaveJones@nalcoreenergy.com"DaveJones@nalcoreenergy.com](mailto:DaveJones@nalcoreenergy.com)>
 Date: March 8, 2017 at 3:18:37 PM NST
 To: "Elizabeth Lewis" <[HYPERLINK "mailto:ElizabethLewis@nalcoreenergy.com"ElizabethLewis@nalcoreenergy.com](mailto:ElizabethLewis@nalcoreenergy.com)>
 Cc: "Walter Parsons" <[HYPERLINK "mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca](mailto:WalterParsons@gov.nl.ca)>
 Subject: Fwd: NR2017-██████ "Additional Federal Loan Guarantee for Muskrat Falls"

Elizabeth

Can you get back to Walter on this? ^

Thanks

Dave

Sent from my iPhone

Begin forwarded message:

From: "Parsons, Walter" <[HYPERLINK "mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca](mailto:WalterParsons@gov.nl.ca)>

Date: March 8, 2017 at 12:18:44 PM EST
 To: "'HYPERLINK "mailto:DaveJones@nalcenergy.com"DaveJones@nalcenergy.com'"
 <HYPERLINK "mailto:DaveJones@nalcenergy.com"DaveJones@nalcenergy.com">
 Subject: FW: NR2017-██████ "Additional Federal Loan Guarantee for Muskrat Falls"

Dave,

Â

Can you please answer the question in red below?

Â

Walter

Â

From: Osmond, Christine M
 Sent: Wednesday, March 8, 2017 11:30 AM
 To: Parsons, Walter <HYPERLINK
 "mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca">
 Subject: FW: NR2017-██████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi,

Received from FIN for your response.

Â

Thanks

Â

From: Batten, Dean
 Sent: Wednesday, March 08, 2017 10:03 AM
 To: Osmond, Christine M
 Cc: Hanrahan, Denise; Martin, Craig; Jones, Sharlene; Blanche, Pauline; Fleming,
 Lori; Penney, Jodi
 Subject: NR2017-██████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Christine,

Â

The Department of Finance (Finance) has reviewed the submission entitled "Additional Federal Loan Guarantee for Muskrat Falls" and based on the information provided, has no concerns from a financial perspective.Â Finance did however have the following questions as it relates to FLG2:

Â·Â Â Â Â Â Â Â Â Is payment of the loan guarantee fee of 0.5 per cent factored in the 1.5 cent per kilowatt-hour savings for rate payers?

Â·Â Â Â Â Â Â Â Â Under Annex D, how were the discount rates of 4% and 7.5% determined?Â I am assuming the 4% reflects governmentâs cost of borrowing.Â Does

7.5% represent Nalcor's cost of borrowing?

At what point will the Province begin realizing savings on borrowings?

Fiscal Policy will be providing comments shortly.

Please let me know if you have any questions.

Dean

Dean Batten, MBA, CPA, CMA
Treasury Board Officer
Treasury Board Support
Government of Newfoundland and Labrador

P.O. Box 8700
St. John's, NL A1B 4J6
Direct Line: (709) 729-7416 | Fax: (709) 729-3054
Email: [HYPERLINK "mailto:DeanBatten@gov.nl.ca"](mailto:DeanBatten@gov.nl.ca) DeanBatten@gov.nl.ca

This email and any attached files are intended for the sole use of the primary and copied addressee(s) and may contain privileged and/or confidential information. Any distribution, use or copying by any means of this information is strictly prohibited. If you received this email in error, please delete it immediately and notify the sender.

Email Message

From: [Smith, Franca \[EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=FRANCASMITH\]](mailto:Smith.Franca@nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond.Christine.M@nl.ca)
Cc: [Bowles, Ron \[SMTP:rabowles@gov.nl.ca\]](mailto:Bowles.Ron@nl.ca), [Barnes, Janice \[SMTP:janicebarnes@gov.nl.ca\]](mailto:Barnes.Janice@nl.ca), [Watkins, Michelle \[SMTP:michellewatkins@gov.nl.ca\]](mailto:Watkins.Michelle@nl.ca), [Hearn, Patricia A. \(Deputy Minister\) \[SMTP:PatriciaAHearn@gov.nl.ca\]](mailto:Hearn.Patricia.A@nl.ca), [Keats, Janet \[SMTP:janetkeats@gov.nl.ca\]](mailto:Keats.Janet@nl.ca)
Sent: 3/8/2017 at 9:39 AM
Received: 3/8/2017 at 9:39 AM
Subject: NR2017-██████████

Good Morning Christine:

Â

The Office of Labrador Affairs (OLA) has reviewed the Memorandum to Executive Council entitled "Additional Federal Loan Guarantee for Muskrat Falls: (NR2017-██████████) and concurs with the recommendation to approve an additional federal loan guarantee for the Muskrat Falls project, extending the guaranteed debt by \$2.9 billion and providing partial relief on the cost overrun escrow account payments.Â OLA notes there are no Labrador specific concerns associated with the submission as it deals with Government's approach for project financing. Â OLA has no additional comments for consideration.

Â

Thank you,

Franca

Â

Franca Smith

Senior Analyst

Executive Council

Office of Labrador Affairs

Government of Newfoundland and Labrador

709-896-1780 (t)

709-897-5473 (c)

709-896-0045 (f)

HYPERLINK "mailto:FrancaSmith@gov.nl.ca"FrancaSmith@gov.nl.ca

Â

P Please consider the environment before printing this email

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Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](mailto:Parsons, Walter [EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4]@gov.nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond, Christine M [SMTP:ChristineOsmond@gov.nl.ca])
Cc:
Sent: 3/8/2017 at 11:09 AM
Received: 3/8/2017 at 11:09 AM
Subject: RE: NR2017-██████████

No concerns.

Â

From: Osmond, Christine M
Sent: Wednesday, March 8, 2017 11:32 AM
To: Parsons, Walter <WalterParsons@gov.nl.ca>
Subject: FW: NR2017-██████████

Â

Received from IGA

Â

From: Clarke, Greg
Sent: Wednesday, March 08, 2017 10:06 AM
To: Osmond, Christine M
Cc: Hearn, Patricia A. (Deputy Minister)
Subject: RE: NR2017-██████████

Â

Hi Christine, IIAS has reviewed the submission and has no comments. Â

Â

In reviewing Annex A (communications plan), I noted under The Announcement that the preference is to have a quote from the Government of Canada in the news release. I take this to mean that there will be at least minimal engagement with the federal government as a communications plan is prepared and rolled out on the FLG2 announcement, and I think this is a sensible approach.

Greg

Â

From: Osmond, Christine M
Sent: Monday, March 06, 2017 5:17 PM
To: Jones, Sharlene; Joyce, Luke; Jacobs, Heather; Hearn, Patricia A. (Deputy Minister); Cowan, John; Gover, Aubrey; Bown, Charles
Cc: Fleming, Lori; Batten, Dean; Nolan, Paul; Mackenzie, Dan; Clarke, Greg; Bailey, Bev; O'Brien, Michelle; Callan, Lana; Bowles, Ron
Subject: NR2017-██████████

Â

Hello all,

Â

Cabinet Secretariat has received the above noted Cabinet paper entitled, "Additional Federal Loan Guarantee for Muskrat Falls."

Â

Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

Â

This paper is now available via DCP.

Â

Thanks very much.

Â

Christine

Â

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Jordan, Melissa

From: Parsons, Walter
Sent: Tuesday, March 07, 2017 11:54 AM
To: Osmond, Christine M
Subject: TRIM: RE: NR2017-[REDACTED]

Categories: Red Category

Please see below. Happy to discuss any in more detail – I am at 1406.

From: Osmond, Christine M
Sent: Tuesday, March 7, 2017 10:58 AM
To: Parsons, Walter <WalterParsons@gov.nl.ca>
Subject: NR2017-[REDACTED]

Hi Walter,

I am reviewing the above noted submission and have a few questions:

- Recommendations: I need wording on these recommendations, basically exactly how it will be written in the OC, for #3, #4, #5, and # 6. [REDACTED]

- How much was the FG1 for? When was it signed?

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- Why do we need a FLG2? Why are there so many cost overruns? Is it anticipated that there will be future cost overruns? If yes what will be the plan for to cover this?

Without the FLG2, any debt contributions would be at a much lower credit rating and would come with higher costs. Yes, there will be more cost overruns beyond the June 2016 number as we already know that the Astaldi deal adds \$270 to the project budget. These will be covered by additional equity from the province (i.e. the FLG2 does not guarantee debt above what was identified in June 2016)

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June 2016 was the last full re-baselining for the projects. When negotiations for the FLG2 began, the additional overruns were not yet known and Canada was not interested in keeping the guarantee open-ended. The new dates and limits in the FLG2 are the limit set by Canada.

- Page 4: COREA:
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 - If the payments can be accessed the month after payment (without the need for project debt to be exhausted) what is the purpose of actually depositing this money? (is it accurate that on a go forward you can access the funds without exhausting debt? – there is reference on page 18 to “once the FLG Debt is fully drawn”)

Yes, the payments deal with the overruns since the beginning of the project (since FLG1). In negotiations, NL sought to have the COREA completely suspended but this was presented by Canada as a compromise later in the negotiations. Those are the only payments that need to be made to address the previous overruns. Any new overruns would be subject to the original COREA concept however.

The purpose was to show that the COREA payments are not being avoided. The old COREA obligation was smoothed over four payments, which causes much less hardship for the province, but by continuing to require them, Canada can say that the original principle (i.e. ensuring that the Province plans to make adequate equity available in each year to cover previously-identified cost overruns) remains.

- In the current FLG1 does the federal gov share in any export sales that exceed market price forecasts – or was that just raised in the FLG2 negotiations?

Just raised in FLG2 negotiations.

- Legislative / Legal Sections 25, 27 and 14.1 are also referenced in the paper. Could you summarize these sections?

ECA 25 allows the Minister of FIN to issue guarantees on behalf of Nalcor; ECA 26 allows Cabinet to advance funds to Nalcor to carry out its business; ECA 14.1 outlines that Nalcor subsidiaries are not agents of the Crown.

- Financial:
 - Could you clarify the last sentence of the section? Will this be a positive for the Province?

By putting in less equity, the Province will get less return. I wouldn't say it is positive or negative.

- Interdepartmental” it references they were consulted , do any of them have any concerns? Are they all in agreement?

No concerns.

- Intergovernmental: Does NS have to enter into an amended intergovernmental agreement as a result of the FLG2?

No, Emera is not seeking additional guaranteed debt – the FLG2 only impacts Nalcor and NL.

If you have any questions, please let me know.

Thanks,
Christine

Christine Osmond
Cabinet Officer
Cabinet Secretariat, Executive Council
Government of Newfoundland and Labrador
Tel: 709.729.3524

Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](#)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](#)
Cc:
Sent: 3/8/2017 at 11:09 AM
Received: 3/8/2017 at 11:09 AM
Subject: RE: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

See below.

Â

From: Osmond, Christine M
 Sent: Wednesday, March 8, 2017 11:30 AM
 To: Parsons, Walter <WalterParsons@gov.nl.ca>
 Subject: FW: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Hi,

Received from FIN for your response.

Â

Thanks

Â

From: Batten, Dean
 Sent: Wednesday, March 08, 2017 10:03 AM
 To: Osmond, Christine M
 Cc: Hanrahan, Denise; Martin, Craig; Jones, Sharlene; Blanche, Pauline; Fleming, Lori; Penney, Jodi
 Subject: NR2017-████ "Additional Federal Loan Guarantee for Muskrat Falls"

Â

Christine,

Â

The Department of Finance (Finance) has reviewed the submission entitled "Additional Federal Loan Guarantee for Muskrat Falls" and based on the information provided, has no concerns from a financial perspective.Â Finance did however have the following questions as it relates to FLG2:

Â·Â Â Â Â Â Â Â Â Is payment of the loan guarantee fee of 0.5 per cent factored in the 1.5 cent per kilowatt-hour savings for rate payers? Yes

Â·Â Â Â Â Â Â Â Â Under Annex D, how were the discount rates of 4% and 7.5% determined?Â I am assuming the 4% reflects governmentâs cost of borrowing.Â Does 7.5% represent Nalcorâs cost of borrowing? I will need to confer with Nalcor on this one.

Â·Â Â Â Â Â Â Â Â At what point will the Province begin realizing savings on borrowings? Placement of Canada-guaranteed debt will begin immediately after signing

the agreement.

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Fiscal Policy will be providing comments shortly.

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Please let me know if you have any questions.

Â

Dean

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Dean Batten, MBA, CPA, CMA
Treasury Board Officer

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Treasury Board Support
Government of Newfoundland and Labrador

P.O. Box 8700

St. John's, NL A1B 4J6

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Direct Line: (709) 729-7416 | Fax: (709) 729-3054

Email: [HYPERLINK "mailto:DeanBatten@gov.nl.ca"DeanBatten@gov.nl.ca](mailto:DeanBatten@gov.nl.ca)

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Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS,WALTERFE4\]](mailto:Parsons.Walter@psnl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond.ChristineM@gov.nl.ca)
Cc:
Sent: 3/7/2017 at 1:02 PM
Received: 3/7/2017 at 1:02 PM
Subject: Re: NR2017-██████████

No concerns.

Sent from my BlackBerry 10 smartphone on the Bell network.

From: Osmond, Christine M
 Sent: Tuesday, March 7, 2017 1:57 PM
 To: Parsons, Walter
 Subject: FW: NR2017-██████████

Hi Walter

For your information comments received from IA.

Â

Christine

Â

From: Downey, Claudia
 Sent: Tuesday, March 07, 2017 1:40 PM
 To: Osmond, Christine M
 Cc: Harvey, Brian; Gover, Aubrey
 Subject: RE: NR2017-██████████

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Hello,

Â

Indigenous Affairs has reviewed the signed submission Additional Federal Loan Guarantee for Muskrat Falls and has no concerns with the Recommendations.

Â

However, we would like to note the following:

Â

Â·Â Â Â Â Â Â Â Methylmercury remains a key issue with the Muskrat Falls project, particularly with Indigenous groups.

Â·Â Â Â Â Â Â Â In October 2016, the Government of Newfoundland and Labrador, Innu Nation, Nunatsiavut Government, and the NunatuKavut Community Council committed to resolving several key issues surrounding the pending flooding of the Muskrat Falls reservoir, which included the establishment of an Independent Expert Advisory Committee (IEAC), comprised of representatives of the Innu Nation, Nunatsiavut Government, the NunatuKavut Community Council, the federal, provincial and municipal

governments. The IEAC has still not been finalized.

Â·Â Â Â Â Â Â Â The NunatuKavut Community Council continues to press for a land claim and IBA.

Â·Â Â Â Â Â Â Â Indigenous issues continue to remain important given the federal governmentâs commitment to a renewed nation-to-nation relationship with Indigenous people.

Â

Cheers,

Â

Claudia

Â

Claudia Downey

tÂ (709) 729-0510

eÂ HYPERLINK "mailto:claudiadowney@gov.nl.ca"claudiadowney@gov.nl.ca

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From: "Osmond, Christine M" <HYPERLINK "mailto:ChristineOsmond@gov.nl.ca"ChristineOsmond@gov.nl.ca>
 Date: March 6, 2017 at 5:16:43 PM NST
 To: "Jones, Sharlene" <HYPERLINK "mailto:SharleneJones@gov.nl.ca"SharleneJones@gov.nl.ca>, "Joyce, Luke" <HYPERLINK "mailto:LukeJoyce@gov.nl.ca"LukeJoyce@gov.nl.ca>, "Jacobs, Heather" <HYPERLINK "mailto:heatherj@gov.nl.ca"heatherj@gov.nl.ca>, "Hearn, Patricia A. (Deputy Minister)" <HYPERLINK "mailto:PatriciaAHearn@gov.nl.ca"PatriciaAHearn@gov.nl.ca>, "Cowan, John" <HYPERLINK "mailto:JCowan@gov.nl.ca"JCowan@gov.nl.ca>, "Gover, Aubrey" <HYPERLINK "mailto:aubreygover@gov.nl.ca"aubreygover@gov.nl.ca>, "Bown, Charles" <HYPERLINK "mailto:CBown@gov.nl.ca"CBown@gov.nl.ca>
 Cc: "Fleming, Lori" <HYPERLINK "mailto:LoriFleming@gov.nl.ca"LoriFleming@gov.nl.ca>, "Batten, Dean" <HYPERLINK "mailto:DeanBatten@gov.nl.ca"DeanBatten@gov.nl.ca>, "Nolan, Paul" <HYPERLINK "mailto:paulnol@gov.nl.ca"paulnol@gov.nl.ca>, "Mackenzie, Dan" <HYPERLINK "mailto:DanM@gov.nl.ca"DanM@gov.nl.ca>, "Clarke, Greg" <HYPERLINK "mailto:GregClarke@gov.nl.ca"GregClarke@gov.nl.ca>, "Bailey, Bev" <HYPERLINK "mailto:bbailey@gov.nl.ca"bbailey@gov.nl.ca>, "O'Brien, Michelle" <HYPERLINK "mailto:MichelleObrien@gov.nl.ca"MichelleObrien@gov.nl.ca>, "Callan, Lana" <HYPERLINK "mailto:lanacallan@gov.nl.ca"lanacallan@gov.nl.ca>, "Bowles, Ron" <HYPERLINK "mailto:rabowles@gov.nl.ca"rabowles@gov.nl.ca>
 Subject: NR2017-██████████

Hello all,

Â

Cabinet Secretariat has received the above noted Cabinet paper entitled, âAdditional Federal Loan Guarantee for Muskrat Falls.â

Â

Would you kindly review and provide comments to me by 10:00 am, Wednesday, March 8, 2017.

This paper is now available via DCP.

Thanks very much.

Christine

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](#)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](#)
Cc:
Sent: 3/7/2017 at 10:54 AM
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Subject: RE: NR2017-[REDACTED]

Please see below. Happy to discuss any in more detail â I am at 1406.

Â

From: Osmond, Christine M
 Sent: Tuesday, March 7, 2017 10:58 AM
 To: Parsons, Walter <WalterParsons@gov.nl.ca>
 Subject: NR2017-[REDACTED]

Â

Hi Walter,

I am reviewing the above noted submission and have a few questions:

Â·Â Â Â Â Â Â Â Â Recommendations: I need wording on these recommendations, basically exactly how it will be written in the OC, for #3, #4, #5, and # 6.Â [REDACTED]

[REDACTED] Where money is mentioned it also needs to be specified that it is in Canadian dollars. Â

Â

Â

Â·Â Â Â Â Â Â Â Â How much was the FG1 for?Â When was it signed? Â

Â

It was for \$5 billion in debt and was signed in November 2012.

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Â·Â Â Â Â Â Â Â Â The FLG2 is for an up to amount of \$2.9 billion.Â

oÂ Â What is the actual amount as of June, 2016?

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The project debt requirements were up to \$7.9 billion as of June 2016 (i.e. an additional \$2.9 billion was required).

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Without the FLG2, any debt contributions would be at a much lower credit rating and would come with higher costs. Yes, there will be more cost overruns beyond the June 2016 number as we already know that the Astaldi deal adds \$270 to the project budget. These will be covered by additional equity from the province (i.e. the FLG2 does not guarantee debt above what was identified in June 2016)

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Yes, the payments deal with the overruns since the beginning of the project (since FLG1). In negotiations, NL sought to have the COREA completely suspended but this was presented by Canada as a compromise later in the negotiations.

Those are the only payments that need to be made to address the previous overruns. Any new overruns would be subject to the original COREA concept however.

The purpose was to show that the COREA payments are not being avoided. The old COREA obligation was smoothed over four payments, which causes much less hardship for the province, but by continuing to require them, Canada can say that the original principle (i.e. Â ensuring that the Province plans to make adequate equity available in each year to cover previously-identified cost overruns) remains.

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Â·Â Â Â Â Â Â Â Â In the current FLG1 does the federal gov share in any export sales

that exceed market price forecasts or was that just raised in the FLG2 negotiations?

^

Just raised in FLG2 negotiations.

^

^·^ ^ ^ ^ ^ ^ ^ ^ Legislative / Legal Sections 25, 27 and 14.1 are also referenced in the paper.^ Could you summarize these sections? ^

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ECA 25 allows the Minister of FIN to issue guarantees on behalf of Nalcor; ECA 26 allows Cabinet to advance funds to Nalcor to carry out its business; ECA 14.1 outlines that Nalcor subsidiaries are not agents of the Crown.

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By putting in less equity, the Province will get less return. I wouldn't say it is positive or negative.

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^·^ ^ ^ ^ ^ ^ ^ ^ Interdepartmental^ it references they were consulted , do any of them have any concerns? Are they all in agreement? ^

^

No concerns.

^

^·^ ^ ^ ^ ^ ^ ^ ^ Intergovernmental:^ Does NS have to enter into an amended intergovernmental agreement as a result of the FLG2?

^

No, Emera is not seeking additional guaranteed debt ^ the FLG2 only impacts Nalcor and NL.

^

If you have any questions, please let me know.

^

Thanks,

Christine ^

^

Christine Osmond

Cabinet Officer

Cabinet Secretariat, Executive Council

Government of Newfoundland and Labrador

Tel: 709.729.3524

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Email Message

From: [Parsons, Walter \[EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP \(FYDIBOHF23SPDLT\)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4\]](mailto:Parsons, Walter [EX:/O=PSNL/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=PARSONS, WALTERFE4]@gov.nl.ca)
To: [Osmond, Christine M \[SMTP:ChristineOsmond@gov.nl.ca\]](mailto:Osmond, Christine M [SMTP:ChristineOsmond@gov.nl.ca])
Cc:
Sent: 3/7/2017 at 2:15 PM
Received: 3/7/2017 at 2:15 PM
Subject: RE: NR2017-██████████

Please see below.

Â

From: Osmond, Christine M
 Sent: Tuesday, March 7, 2017 2:52 PM
 To: Parsons, Walter <WalterParsons@gov.nl.ca>
 Subject: RE: NR2017-██████████

Â

H Walter,

Â

Â·Â Â Â Â Â Â Â Â The agreement allows for a delay in making sinking fund payments until Dec 2020. This is a benefit because there will be more cash flow available to make payments once the project achieves full power?

Â

Yes there will be no cash flow at all before the power is flowing.

Â

Â·Â Â Â Â Â Â Â Â the date by which the project must be completed to comply with the loan agreement has been extended to February 2021 (from?)Â

Â

This was originally Feb 2019.

Â

Â·Â Â Â Â Â Â Â Â can you read Â the following for accuracy and to provide info and make any necessary edits as required:

Â

Relief is provided from the pre-funded equity contributions that were required to be made into the cost overrun escrow account (COREA) as a result of cost overruns that have occurred up to June, 2016.

Â

Nothing incorrect but I think wording could be simplified.

Â

Without this relief the Province would have needed to borrow and contribute an additional \$875 million in December, 2016. The Province will now be required to make four payments of \$184 million (March 2017, December 2017, December 2018 and December 2019)

Â

OK

Â

plus funds already deposited in the original COREA

Â

no, this is already accounted for in the \$184

Â

(HOW MUCH ? or can I say which will total 875 million).

Â

I would look to the calculations done in Annex C.

Â

These particular funds (just the 4 x 184 million payments? yes) may be accessed in the month following payment. Any new project overruns (incurred after June, 2016) will be subject to the original COREA process (payments made in December of each year to cover any projected project overruns.Â Â Â Â

Â

OK

Â

Thanks

Christine

Â

From: Parsons, Walter
Sent: Tuesday, March 07, 2017 11:54 AM
To: Osmond, Christine M
Subject: RE: NR2017-[REDACTED]

Â

Please see below. Happy to discuss any in more detail â I am at 1406.

Â

From: Osmond, Christine M
Sent: Tuesday, March 7, 2017 10:58 AM
To: Parsons, Walter <HYPERLINK
"mailto:WalterParsons@gov.nl.ca"WalterParsons@gov.nl.ca>
Subject: NR2017-[REDACTED]

^

Hi Walter,

I am reviewing the above noted submission and have a few questions:

^·^ ^ ^ ^ ^ ^ ^ ^ Recommendations: I need wording on these recommendations, basically exactly how it will be written in the OC, for #3, #4,#5, and # 6.^

Where money is mentioned it also needs to be specified that it is in Canadian dollars. ^

^

^

^·^ ^ ^ ^ ^ ^ ^ ^ How much was the FG1 for?^ When was it signed? ^

^

It was for \$5 billion in debt and was signed in November 2012.

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