



CEO Speaking Notes

Muskrat Falls

Cost and Schedule Update

News Conference

Friday, June 24 @ 11:00 am

Hydro Place, BDE Room



Opening:

- Good morning everyone and thanks for coming.
- In late April I accepted Premier Ball's offer to take on the role of CEO of Nalcor Energy.
- Since that time much of my focus and attention has been squarely on reviewing all aspects of the Muskrat Falls project to assess the current situation.
- I wanted to take the necessary time to gather and analyze the information and meet with the people who are leading and building the project before I provided a full update on the project and associated cost and schedule.
- I've undertaken extensive reviews of the project from a construction as well as project management perspective and, in particular, how those two factors are affecting the project.
- I've dug into the way the project was set up from the start, including the original rationale, analysis and estimate for the project, the contractual arrangements, and financing terms.



- I've undertaken a thorough review of the contractual arrangements currently in place with Emera and met with the CEO Chris Huskison.
- My review also included looking at the power purchase arrangements that are in place for Newfoundland and Labrador Hydro to buy the power.
- Finally, I've reviewed the financing arrangements and met with our Federal Government counterparts who provided the \$5 billion federal loan guarantee on the project. And, I've spent countless hours with the leadership team at Nalcor.
- In short, my focus has been on looking at the decisions that were made four years ago...assessing where we are today....understanding what the issues are on the project....and determining what needs to be adjusted or changed.

What have I found?

- My assessment, based on my reviews, confirms what I have stated before publicly....that the Muskrat Falls project was not the right choice for the power needs for this province.



- My overall assessment is that the decision to proceed with Muskrat Falls was based on analysis that did not reflect a complete picture of the costs, risks and obligations placed upon Newfoundland and Labrador taxpayers and ratepayers, and that we find ourselves in the situation we are in today as a result of that thinking and analysis.

- I make this conclusion based on several factors including:
 - the generation and transmission projects are not the right size to meet energy needs of the province and Newfoundlanders and Labradorians assumed the full cost of the projects;

 - the original capital cost analysis, estimate and schedule was very aggressive and overly optimistic and this capital cost estimate didn't account for the many risks that were known at the time;

 - the analysis also relied on the price of oil staying high which would continue to drive our electricity prices up and, and unfortunately we've seen dramatic changes over the last year or so; and finally,

 - while not accounted for in the economics of the project, it was assumed that the excess electricity would be sold



to export market and return value to our province. While this remains the case, the value we will receive is less than the cost of the power from Muskrat Falls.

- Other contributing factors include:
- Our deal with Emera was based on construction of the Maritime Link from Newfoundland to Nova Scotia and transmission rights through to New England for a cost of \$1.58 billion in return for 20% of the energy produced at Muskrat Falls for 35 years at no cost....and additional 5% electricity provided during the first five years to be delivered during off-peak hours. After 35 years, ownership of the link reverts to NL. This arrangement means that NL taxpayers have paid the full cost to produce power at Muskrat Falls yet provide 20% of power at no cost for 35 years to Emera.
- In addition, as you are aware, we saw during the early execution of the project poor performance by some contractors due to the lack of experience working in Labrador which has also had an impact on cost and schedule.

SLIDE 12 – LOAD PROJECTION - FROM CABINET BRIEFING DECK



- Many people have unfairly assumed that the increasing costs and schedule for this project are *wholly related* to project execution when that in fact is not the case.
- I have full confidence in the team around me. They are experienced, dedicated, and capable people and have managed and executed the construction project despite the challenges they faced given the pressure to achieve an unrealistic cost and schedule.
- As a result of this assessment, last week I announced changes to Nalcor Energy, Hydro and the project execution team to bring additional focus and resources to the generation and transmission projects.
- I have separated the project into two components, Power Supply which is the transmission components of the project, and Power Generation which is the completion of the hydroelectricity generating facility at Muskrat Falls including the powerhouse and spillway components.
- I am confident these changes will facilitate success as we continue to progress the construction of the projects.



What does it mean for cost and schedule?

- With respect to cost, based on the information we have at this time, the overall projected cost for the project is \$9.1 billion.

SLIDE 15 – MF PROJECTED IN-SERVICE COST FROM CABINET BRIEFING DECK

- This projected cost is just that... *projected*. It is an estimate based on the information and identified risks on the project we know today.
- I can assure the people of the province that I have worked with the project team to have a thorough understanding of the risks we can foresee at this point in time.
- I believe the new projected capital cost is a more realistic figure and is also consistent with the recommendations outlined in EY's interim report reviewing project cost, schedule and related risks.
- With respect to schedule, we anticipate that the transmission line – from Churchill Falls to Muskrat Falls and the Labrador-Island Link – will be complete and in-service in the second quarter of 2018, approximately 2 years *ahead of generation*



from Muskrat Falls, and one-year beyond the schedule projected at sanction.

MUSKRAT FALLS PROJECTED IN-SERVICE DATES

- With respect to the Muskrat Falls generating facility, 'first-power' is now projected during the third quarter of 2019. The projected in-service date at sanction was the fourth quarter of 2017. This results in an approximately two year change in schedule.

What does this mean?

- What does this mean for the people of the province and for electricity customers?
- To date, we have spent or are contractually committed to spending over \$6.7 billion on this project. If we were to halt the project, we would have spent over \$6.7 billion and we would not have a source of power, which we need. It is important to note that Holyrood is also at the end of life performance and a replacement plan for that energy is required.
- As well, we are contractually bound to provide Emera with power for the next 35 years.



- So stopping the project is not an option.
- As of Budget 2016, Government's projected equity investment was \$3.2 billion. With the projected cost of \$9.1 billion, an additional \$2 billion of equity is required.
- The projected cost with financing is now 11.4 billion.

PROVINCIAL EQUITY REQUIREMENTS FOR MF PROJECT

- At sanction, the equity investment was projected at \$1.8 billion.
- The additional equity to complete the project will require more borrowing on behalf of the Government and the associated costs of borrowing.
- And, the corresponding electricity rates are simply not affordable.
- Today electricity rates in 2021 are projected at roughly 21.4 cents per kilowatt hour (kWh), which is approximately an additional 6.3 cents per kWh than the rate forecasted when the project was sanctioned in December 2012.



What can we do about it?

- Over the next four years, my job is to close the equity gap which has been created.
- And, I will continue to work with the Provincial Government to look for ways to reduce the impact of project costs on Newfoundlanders and Labradorians
- My job as CEO is to find ways to earn more money and to deliver that back to the province to offset this investment and the cost of borrowing.

How do I plan to do that?

- I will focus on getting the most value from the excess power, and exploring new arrangements and longer term agreements to secure as much additional revenue as possible.
- I will work with the Province to seek out options with respect to financing arrangements, potentially working with the Federal Government to secure backing for the additional equity required for the project.



- I will ensure all of our plants are operating at peak performance so that we take full advantage of all of our energy sources to utilize for our own needs and sell when we can.
- In short, as CEO... my challenge is to ensure we are not in this situation come 2021.
- Thank you.