Re: Your request for access to information under Part II of the Access to Information and Protection of Privacy Act (File # NR-27-2017)

On March 9, 2017, the Department of Natural Resources received your request for access to the following records/information:

Please provide any communications (emails, letters, bbms, text messages, etc) sent or received by the Minister or Senior Staff of the Department regarding the investments or ownership in the Labrador Island Link between Feb 1, 2017 and March 8, 2017 (inclusive)

I am pleased to inform you that a decision has been made by the Department of Natural Resources, confirmed by the Deputy Minister, to provide access to some of the requested information. Access to the remaining information contained within the records, has been refused in accordance with the following exceptions to disclosure, as specified in the Access to Information and Protection of Privacy Act (the Act):

29 Policy advice or recommendations

(1) The head of a public body may refuse to disclose to an applicant information that would reveal

(a) advice, proposals, recommendations, analyses or policy options developed by or for a public body or minister

It should be noted as well that some information was found to be non-responsive to the request and, therefore, was not disclosed.
As required by 8(2) of the Act, we have severed information that is unable to be disclosed and have provided you with as much information as possible. In accordance with your request for a copy of the records, the records have been included with this correspondence.

Right to Request Review/File Appeal

As set out in section 42 of the Act you may ask the Information and Privacy Commissioner to review the department’s decision to provide partial access to the requested information. A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your request should identify your concerns with the department’s response and why you are requesting a review.

The request for review may be addressed to the Information and Privacy Commissioner as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P.O. Box 13004, Stn. A
St. John’s, NL. A1B 3V8

Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500

Pursuant to section 52 of the Act, you may also appeal directly to the Supreme Court Trial Division within 15 business days after receiving the department’s decision.

Response to be Made Public

Please be advised that responsive records will be published following a 72 hour period after the response is sent electronically to you or five business days in the case where records are mailed to you. It is the goal to have the responsive records posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.
If you have any further questions, please feel free to contact me by telephone at 729-3214 or by e-mail at andreamarshall@gov.nl.ca. Alternatively, please contact Rod Hynes, the department's primary access to information coordinator at 729-0463 or rhynes@gov.nl.ca.

Sincerely,

[Signature]

Andrea Marshall
ATIPP Coordinator
Thanks

Sent from my BlackBerry 10 smartphone on the Bell network.

FYI, Schedule 1 of the MF PPA between NLH and MF Corp defines the Assigned Internal Rate of Return equal to 8.4%.

See page 84...

Walter,

I think you are correct – the PUB has no say in MFP return on equity as the project is exempt from PUB oversight. I thought the rate of return was set in the MFP agreements in the range of around 8.4%?

-Corey

Corey Snook
Director of Electricity and Alternative Energy (Acting)
Department of Natural Resources
Government of Newfoundland and Labrador
St. John's, NL, Canada  A1B 4J6
coreysnook@gov.nl.ca
O: 709.729.3131 / M: 709.725.8186
From: Parsons, Walter  
Sent: Monday, March 06, 2017 1:47 PM  
To: Quinton, Diana  
Cc: Snook, Corey  
Subject: RE: Response to Uncle Gnarley blog  

I am not sure that last bullet is accurate in this case. Corey, can you advise?  

From: Quinton, Diana  
Sent: Monday, March 6, 2017 1:37 PM  
To: Trimper, Perry <PerryTrimper@gov.nl.ca>; Budgell, Marc <MarcBudgell@gov.nl.ca>  
Cc: Coady, Siobhan <SiobhanCoady@gov.nl.ca>; McIntosh, Gordon <GordonMcIntosh@gov.nl.ca>; Parsons, Walter <WalterParsons@gov.nl.ca>; Hollett, Nancy <NancyHollett@gov.nl.ca>  
Subject: Response to Uncle Gnarley blog  
Importance: High

Uncle Gnarley posted a blog today: EMERA - SILENTLY BUILDING THEIR OWN NL ENERGY WAREHOUSE  
(http://unclegnarley.blogspot.ca/2017/03/emera-silently-building-their-own-nl.html#more)

In the blog it states: “Following last week’s post, a colleague of mine directed me to the most recent investor relations presentation from Emera. It contained an infographic on the Muskrat Falls project together with the quote – “Emera to invest 600 Million, for a 59% partnership capital in the Labrador Island Link”. Although I have determinedly followed the machinations of the Muskrat Falls project since 2011, I have never heard of or seen reference to 59% of the Partnership Capital. It having been brought to my attention, I could only wonder what it meant.”

Mike Connors has followed up with Nalcor and asked: Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

Here is the draft response Nalcor will be sending Mike:

• Nalcor Energy, through its wholly owned subsidiary, has ownership and control of the Labrador-Island Link (LIL) and will also own 100% of the transmission rights of that link. Emera Inc. is an investor in this transmission asset providing equity funding.

• Under the LIL arrangements with Emera, as outlined in the Newfoundland and Labrador Development Agreement and LIL Limited Partnership Agreement (both of which are available on the Muskrat Falls website), Nalcor and Emera are each entitled to contribute a portion of the equity capital required to fund LIL construction expenditures along with the debt guaranteed by the Government of Canada.

• As outlined in the provisions of these Nalcor/Emera agreements, the percentage of equity funding that Emera is permitted to contribute will vary over the period of LIL construction from sanction in December 2012, following Financial Close in December 2013, and through to final completion and in service of the LIL project.

• Currently, Emera’s equity contributions in LIL is 62.7% of the LIL Limited Partnership capital account.
(If asked about Emera's return on its investment: The Public Utilities Board approves the regulated return that companies are permitted to earn on their investments in Newfoundland and Labrador's electricity infrastructure.)

Diana Quinton
Director of Communications
Natural Resources
Government of Newfoundland and Labrador
709-729-5282
Premier Ball says Emera’s stake in the Link means more money from ratepayers is going to the company’s profits.


Sent from my BlackBerry 10 smartphone on the Bell network.
Marshall, Andrea

From: Bown, Charles
Sent: Tuesday, March 07, 2017 9:10 AM
To: McIntosh, Gordon; Parsons, Walter; Quinton, Diana
Subject: FW: Question from NTV re: Emera LIL investment
Attachments: Calculation of ENL Initial LIL Cash Call.pdf

From: Stanley, Todd
Sent: Tuesday, March 7, 2017 8:55 AM
To: Bown, Charles <CBown@gov.nl.ca>
Cc: Pelletier, Randy <RandyPelletier@gov.nl.ca>
Subject: FW: Question from NTV re: Emera LIL investment

Sending this to you in case you were not aware VOCM was asking these questions. Randy and I can brief you on how answer (although below sets it out very well) but I don’t have a lot of confidence this is going to translate accurately into a VOCM news story.

Todd Stanley, QC
Special Counsel
Human Resource Secretariat
Government of Newfoundland and Labrador
709.729.3559 709.729.2123

This e-mail (including any attachments) is confidential and is intended only for the use of the addressee(s). The contents of this e-mail may contain personal information and/or be covered by various forms of privilege, including solicitor/client privilege. Any unauthorized copying, distribution, publication or disclosure is prohibited. Receipt of this e-mail by anyone other than the intended recipient does not constitute waiver of privilege. If you have received this e-mail in error, please notify the sender or the Department of Justice and Public Safety, Government of Newfoundland and Labrador and delete all versions of same. Thank you.

From: JamesMeaney@lowerchurchillproject.ca
Sent: Tuesday, March 07, 2017 2:22 AM
To: karenoneill@nalcorenergy.com
Cc: DeanneFisher@nalcorenergy.com; DaveJones@nalcorenergy.com; AuburnWarren@nalcorenergy.com; DSurgeon@nalcorenergy.com; Stanley, Todd; Pelletier, Randy
Subject: Re: Question from NTV re: Emera LIL investment

Hi Karen,

Here some background points:

1. Emera’s participation in the LIL is outlined in the NLDA and LIL LPA, both found on the MF website (as noted below).

2. At LIL Sanction the calculation found in the attached was done to determine Emera’s equity funding obligation during the LIL development period (ie. construction). The $910M divided by the total LIL capital cost estimate at that time of $2,609M is where the original 35% came from, however this does not represent the LIL LP partnership capital account contributions (equity) that Emera was permitted to fund. Their target Debt-to-Equity (DER) of 55/45 meant the equity they could contribute was actually 45% x $910M or $409M.

3. In accordance with the NLDA, the calculation noted in #1 above is done again following full commissioning of the entire project based on final costs of the LIL, LTA and ML in the event Emera’s %
of the transmission asset costs (based on the ML and their LIL additional investment) is less than 49%,
they would have to pay a cash "true up" to Nalcor in return for more LIL partnership capital account
units to address this. Based on the LTA and LIL estimates included in the $9.1B from the June 2016
update and the current $1.57B ML estimate, that would mean a payment of around $190M, so Emera's
total equity investment in LIL would end up at around $600M. This is the amount noted in their
investor presentation.

4. As outlined in the provisions of the NLDA and LIL LPA, the percentage of the LIL LP partnership capital
account that Emera is permitted to contribute will vary over the period of LIL construction from
sanction in December 2012, following Financial Close in December 2013, and through to final
completion and in service of the LIL project. It is currently at 62.7% but once the $409M cap is hit, it
will begin to decline.

5. With the June 2016 cost increase to $9.1B, and assuming no FLG2, Nalcor/NL would have been
required to fund all the LIL cost overruns. As a result, Emera's % of the LIL LP partnership capital
account at completion would have ended up around 35%.

6. However, with FLG2, approximately $1B of LIL capital account contributions that Nalcor/NL would have
needed to fund will be now be replaced with lower cost Canada guaranteed debt. This is of significant
benefit to ratepayers given 3.5-4.0% cost of debt vs. 8.5% cost of equity, and it also benefits taxpayers
due to lower borrowings required by NL to fund the LIL equity and therefore lower interest costs.
Meanwhile, Emera’s equity investment of around $600M remains the same, so instead of them having
contributed 35% of the LIL capital account, it’s actually around 59%. This is the other amount noted in
their investor presentation.

7. While Emera will have contributed more of the required LIL equity capital than Nalcor through the
arrangements noted above (and will therefore get a greater % of the partnership distributions during
the operating period), Nalcor still maintains 100% control of the LIL given that (i) LIL General Partner
Co., which is responsible for the management of the LIL LP, is a wholly owned subsidiary, and (ii)
through another Nalcor wholly owned sub, LIL Operating Co., we also own 100% of the transmission
rights over the LIL in accordance with the terms of the LIL Lease (also on the MF website).

I have cc'd Todd and Randy from NL Justice on this email because we had this same conversation last Friday
and I believe they were working on a briefing as well.

I have also made some refinements to your proposed response below to reflect above, which is now
highlighted in blue. Let me know if any questions and by all means feel free to refine it further.

Regards
Jim

James Meaney
General Manager, Finance
PROJECT DELIVERY TEAM
Lower Churchill Project
t. 709 737-4860  c. 709 727-5283  f. 709 737-1901
You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

---

From: Karen O'Neill/NLHydro
To: James Meaney/NLHydro@NLHYDRO, Deanne Fisher/NLHydro@NLHYDRO, Dave Jones/NLHydro@NLHYDRO, Auburn Warren/NLHydro@NLHYDRO, Derrick Sturge/NLHydro
Date: 03/06/2017 12:53 PM
Subject: Question from NTV re: Emera LIL investment

Mike Connors has asked the following question below.

Here's a draft reply to Mike.

Nalcor Energy, through its wholly owned subsidiaries, has full control of the Labrador-Island Link (LIL) and will also own 100% of the transmission rights of that link. Emera Inc. is an investor in this transmission asset providing equity funding in the form of partnership capital account contributions to the LIL Limited Partnership (LIL LP).

Under the LIL arrangements with Emera, as outlined in the Newfoundland and Labrador Development Agreement and LIL Limited Partnership Agreement (both of which are available on the Muskrat Falls website), Nalcor and Emera are each entitled to contribute a portion of the equity capital required to fund LIL construction expenditures along with the debt guaranteed by the Government of Canada.

As outlined in the provisions of these agreements, the percentage of the LIL LP capital account that Emera is permitted to contribute will vary over the period of LIL construction from sanction in December 2012, following Financial Close in December 2013, and through to final completion and in service of the LIL project.

Currently, Emera's contributions in LIL represent approximately 63% of the LIL LP capital account. Based on the cost of the LIL included in the $9.18 estimate from June 2016, Emera's current estimate of $1.68 for the ML, and the successful completion of additional debt financing for the MF, LTA and LIL of up to $2.98 that will benefit from an additional federal loan guarantee from the Government of Canada per their November 2016 commitment (which will reduce the amount of additional equity Nalcor/NL needs to contribute to fund the increased costs, thereby benefiting both ratepayers and taxpayers), it is estimated that Emera's contributions will represent approximately $600M or 59% of the LIL LP capital account upon completion of the project.

If asked about Emera's return on its investment:

The Public Utilities Board approves the regulated return that companies are permitted to earn on their investments in Newfoundland and Labrador's electricity infrastructure.
You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?  

--- Forwarded by Karen O'Neill@NLHydro on 03/06/2017 12:32 PM ---

From: Mike Connors <mconnors@symply.ca>
To: "karenoneill@naloenergy.com" <karenoneill@naloenergy.com>
Date: 03/06/2017 11:33 AM
Subject: Emera stake in LIL

Hi,

Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

Michael Connors
## Determination of Initial Cash Call to Emera NL
### Relating to Emera NL Investment in the Labrador Island Link
**per Section 5.8(a)(iii)(A) of the NL Development Agreement**

<table>
<thead>
<tr>
<th>Estimated Capital Costs - Transmission Assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Labrador Island Link (&quot;LIL&quot;)</td>
<td>$2,609,748,893</td>
<td></td>
</tr>
<tr>
<td>Labrador Transmission Assets (&quot;LTA&quot;)</td>
<td>$691,582,487</td>
<td></td>
</tr>
<tr>
<td>Maritime Link (&quot;ML&quot;)</td>
<td>$1,388,485,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total Transmission Assets</strong></td>
<td>$4,689,816,380</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Multiplied by 49%</th>
<th>$2,298,010,026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: ML Estimated Capital Costs</td>
<td>$(1,388,485,000)</td>
</tr>
<tr>
<td><strong>Emera NL Additional Investment</strong></td>
<td>$909,525,026</td>
</tr>
<tr>
<td><strong>Emera NL Funding Obligation %</strong></td>
<td>34.9%</td>
</tr>
</tbody>
</table>

| **LIL Capital Balance at January 31, 2013** | $126,613,699 |
| **Emera NL Initial Cash Contribution** | $67,731,273 |

| **LIL Capital Account Balances Following Emera NL Contribution** |   |   |
| Nalcor                                                      | $126,613,699 | 65.1% |
| Emera                                                       | $67,731,273  | 34.9% |
| **Total**                                                   | $194,344,972 | 100.0% |

**Emera NL Permitted Equity Contribution @ 45%** | $409,286,262 |
Charles, I have a staff briefing at 9:30 so will give you a call later.
Regards
G

From: Bown, Charles
Sent: Tuesday, March 07, 2017 9:04 AM
To: McIntosh, Gordon; Parsons, Walter; Quinton, Diana
Subject: FW: Meeting Today

Gordon;
Please see Nalcor's response to question from NTV on Emera's ownership of LIL.
Charles

From: Stanley, Todd
Sent: Tuesday, March 7, 2017 8:56 AM
To: Bown, Charles <CBown@gov.nl.ca>
Subject: RE: Meeting Today

Sure

Todd Stanley, OC
Special Counsel
Human Resource Secretariat
Government of Newfoundland and Labrador
1709 729 3599 / 709 729 2129

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From: Bown, Charles  
Sent: Tuesday, March 07, 2017 8:40 AM  
To: Pelletier, Randy; McConnell, Meaghan; Stanley, Todd  
Subject: RE: Meeting Today

Randy;  
I'm back in the office this morning. Can we get together at 9:30?  
Charles

From: Pelletier, Randy  
Sent: Friday, March 3, 2017 4:40 PM  
To: McConnell, Meaghan <MeaghanMcConnell@gov.nl.ca>; Bown, Charles <CBown@gov.nl.ca>; Stanley, Todd <toddstanley@gov.nl.ca>  
Subject: Re: Meeting Today

Charles,

I'm just leaving Nalcor now.

I think we got a good explanation from Jim and his group as to how this works.

I need to review some materials I got from them today with Todd (who was on the phone for the discussion).

I should also make sure he (Todd) and I are on the same page (I'm sure that we are but I need to make sure).

We will definitely need GTS at any de-brief we do.

Can we do Monday afternoon?

Randy

Randy Pelletier  
Civil Division  
Department of Justice and Public Safety  
Government of Newfoundland and Labrador

From: McConnell, Meaghan  
Sent: Friday, March 3, 2017 4:09 PM  
To: Pelletier, Randy  
Subject:

Charles I wondering if you can brief him on the meeting this afternoon, not sure if you want to wait until Mon? thanks!

Meaghan W. McConnell  
Solicitor – Corporate & Commercial Unit  
Civil Division  
Department of Justice & Public Safety  
Government of Newfoundland & Labrador  
4th Floor, East Block  
Confederation Building  
P.O. Box 8700
St. John’s, NL A1B 4J6
(709) 729-1336
mcaghanmeconnell@gov.nl.ca

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Thanks Walter

Sent from my BlackBerry 10 smartphone on the Bell network.

Nalcor just advised that the rate of return on Muskrat Falls is 8.4% but it is 8.8% on the Labrador-Island Link. Sorry I wasn’t aware of that distinction when we spoke earlier.
Follow Up Flag: Follow up
Flag Status: Flagged

Regards
Gordon

From: Quinton, Diana
Sent: Tuesday, March 07, 2017 9:36 AM
To: Parsons, Walter; Bown, Charles; McIntosh, Gordon
Subject: Response to NTV: Emera stake in LIL

I asked Karen to hold on this until we have discussed.

From: karenoneill@nalcorenergy.com [mailto:karenoneill@nalcorenergy.com]
Sent: Tuesday, March 07, 2017 9:18 AM
To: DeanneFisher@nalcorenergy.com; Quinton, Diana
Subject: Fw: Emera stake in LIL

Final response to go back to Mike re: Emera equity.

Nalcor Energy has full control of the Labrador-Island Link (LIL) and will also own 100% of the transmission rights of that link. Emera Inc. is an investor in this transmission asset providing equity funding in the form of partnership capital account contributions to the LIL Limited Partnership (LIL LP).

Under the LIL arrangements with Emera, as outlined in the Newfoundland and Labrador Development Agreement and LIL Limited Partnership Agreement (available on the Muskrat Falls website), Nalcor and Emera are each entitled to contribute a portion of the equity capital required to fund LIL construction costs along with the debt guaranteed by the Government of Canada.

As outlined in these agreements, the percentage of the LIL LP capital account that Emera is permitted to contribute will vary over the period of LIL construction from sanction in December 2012, following financial close in December 2013, and through to final completion and in service of the LIL project.

Currently, Emera's contributions in LIL represent approximately 63% of the LIL LP capital account.

It is estimated that Emera's contributions will represent approximately $600M or 59% of the LIL LP capital account upon completion of LIL. This is based on: 1) the cost of LIL included in the $9.1B project estimate from June 2016; 2) Emera's current estimate of $1.6B for the Maritime Link; and 3) the successful completion of
additional debt financing for the Muskrat Falls generation project, Labrador Transmission Assets (transmission line from Churchill Falls to Muskrat Falls), and LIL of up to $2.98B that will benefit from an additional federal loan guarantee from the Government of Canada per their November 2016 commitment (which will reduce the amount of additional equity Nalcor/Newfoundland and Labrador needs to contribute to fund the increased costs, thereby benefiting both ratepayers and taxpayers).

Thanks
Karen

---

Hi,

Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

Michael Connors
Deep background from December 2012
Nalcor-Eme ra Sanction Agreement Narrative

• On July 31, 2012 Nalcor and Emera entered into Formal Agreements which established the terms and conditions under which power and energy would be delivered from Newfoundland and Labrador to Nova Scotia and beyond. One of these agreements set the contractual framework within which Emera could pay the 20% of the costs of the overall Project, through its construction of the Maritime Link and investment in the LIL, in exchange for 20% of the energy output of Muskrat Falls.

• On November 30, 2012, the Federal Loan Guarantee agreement was concluded. It established conditions precedent that must be met prior to the execution and delivery of the Loan Guarantee. These conditions apply either to individual borrowers or “all Projects”, namely: the Muskrat Falls Plant, the Labrador Transmission Assets, the Labrador Island Link and the Maritime Link.

• The all Projects category of conditions precedent requires that all components of the MF project, including the Maritime Link, must be sanctioned before the Federal Loan Guarantee can be delivered.

• Under the Sanction Agreement, Nalcor and Emera agree to sanction all components of the Project, including the Maritime Link. The Sanction Agreement includes provisions dealing with:
  • Emera’s commitment to file into the UARB, and the provisions to deal with the results of the UARB decision. These include provisions that if the result of the UARB decision is that Emera’s return on equity on the ML is lower than a certain threshold, Nalcor will invest in Emera subsidiaries relating to the Maritime Link through the acquisition of preferred shares. Nalcor’s investment may be $15 Million or $25 Million, depending upon the deficiency.
  • The Sanction Agreement also includes provisions dealing with the circumstance of unresolvable conditions in UARB decision, or a denial of Emera’s UARB application, including:
    i. continued work to achieve a ML project that would be approved
    ii. provision that if Emera satisfies its FLG requirements and invests in the LIL, Nalcor will enjoy the negotiated transmission access rights into NB and the US
  • Emera’s date-specific commitment to start seeking indicative credit ratings per the FLG commitment, and otherwise pursue satisfaction of its FLG conditions precedent.
  • If the costs of the ML vary cause Emera’s interest in the Project to vary from the 20%, to adjust back to the 20%, the parties will have a “true-up” transaction to ensure the overall 80/20 project investment split is maintained. The true-up compensation can be through cash contribution and/or a pro rata adjustment to the NS Block, as the option of the party required to pay.

• The Federal Loan Guarantee also provides that the governments of NL and NS are to meet certain conditions precedent prior to the delivery of the Federal Loan Guarantee. However neither province is a party to the Sanction Agreement. As a result the Provinces have signed a Project Operating Agreement (“POA”). The purpose of the POA is to provide processes by which NL and NS as well as Nalcor and Emera ensure that all Federal Loan Guarantee conditions precedent are met on a timely basis.

• The POA establishes a joint committee consisting of the CEO of Nalcor and Emera as well as a senior representative from each of NL and NS, to oversee the completion of the “all projects” conditions precedent of the Federal Loan Guarantee, as well as a provision of Formal Agreements which contemplates that appropriate changes to regulations and legislation will have to occur before sanction.
Yes, that reflects Charles’ recommendation.

---

**Natural Resources**

**Emera's Ownership of Labrador Island Transmission**

*March 8, 2017*

**Summary:**
Uncle Gnarley posted a blog on Monday, March 6: EMERA - SILENTLY BUILDING THEIR OWN NL ENERGY WAREHOUSE. In the blog it states: “... a colleague of mine directed me to the most recent investor relations presentation from Emera. It contained an infographic on the Muskrat Falls project together with the quote - “Emera to invest 600 Million, for a 59% partnership capital in the Labrador Island Link”. Although I have determinedly followed the Muskrat Falls project since 2011, I have never heard of or seen reference to 59% of the Partnership Capital. It having been brought to my attention, I could only wonder what it meant.”

Mike Connors has followed up with Nalcor and asked: Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

**Key messages:**
- The deal with Emera was signed under the former government.
- Increased costs of the transmission projects have led to increased Emera participation in the Labrador Island Link
- Nalcor maintains 100 percent control of the Labrador Island Link and all of the transmission rights.

Diana Quinton  
Director of Communications  
Natural Resources  
Government of Newfoundland and Labrador  
709-729-5282
Hollett, Nancy

From: Quinton, Diana
Sent: Tuesday, March 07, 2017 12:48 PM
To: Coady, Siobhan; McIntosh, Gordon; Parsons, Walter; Hollett, Nancy
Subject: KMS - Emera's Ownership of Labrador Island Transmission
Attachments: KMs - UPDATE Emera and LL.doc
Importance: High

We are seeking more info on this issue. Here is a holding statement in case it comes up today.

Natural Resources
Emera's Ownership of Labrador Island Transmission
March 8, 2017

Summary:
Uncle Gnarley posted a blog on Monday, March 6: EMERA - SILENTLY BUILDING THEIR OWN NL ENERGY WAREHOUSE. In the blog it states: "... a colleague of mine directed me to the most recent investor relations presentation from Emera. It contained an infographic on the Muskrat Falls project together with the quote – "Emera to invest 600 Million, for a 59% partnership capital in the Labrador Island Link". Although I have determinedly followed the Muskrat Falls project since 2011, I have never heard of or seen reference to 59% of the Partnership Capital. It having been brought to my attention, I could only wonder what it meant."

Mike Connors has followed up with Nalcor and asked: Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

Key messages:
• The deal with Emera was signed under the former government.

• Increased costs of the transmission projects have led to increased Emera participation in the Labrador Island Link.

• Nalcor maintains 100 percent control of the Labrador Island Link and all of the transmission rights.
These are getting complicated again. Need to simplify to explain to the people of the province.

Sent from my BlackBerry 10 smartphone on the Bell network.

From: Bown, Charles
Sent: Tuesday, March 7, 2017 2:24 PM
To: Parsons, Walter; McIntosh, Gordon; Quinton, Diana
Subject: FW: Gov'ts KMs

FYI

Sent from my iPhone

Begin forwarded message:

From: "James Meaney" <JamesMeaney@lowerchurchillproject.ca>
Date: March 7, 2017 at 10:36:18 AM MST
To: "Karen O'Neill" <karenoneill@nalcorenergy.com>
Cc: "Deanne Fisher" <DeanneFisher@nalcorenergy.com>, "Derrick Sturgeon" <DSturgeon@nalcorenergy.com>, "Dave Jones" <DaveJones@nalcorenergy.com>, "Auburn Warren" <AuburnWarren@nalcorenergy.com>
Subject: Re: Gov'ts KMs

Revised

- The Nalcor/Em-era agreements were signed in July 2012. Emera’s participation in the LIL is defined under the NL Development Agreement (NLDA) and the LIL Limited Partnership (LIL LP) Agreement, both of which are available on the MF website.
- As part of these arrangements, Nalcor maintains 100 percent control of the LIL and all of the transmission rights.
- At LIL Sanction it was estimated that Emera was permitted to make equity contributions to the LIL LP partnership capital account of $409M. This was based on the cost estimates of LIL, LTA and ML at that time, a calculation under the NLDA whereby Nalcor’s portion of these transmission assets was 51% and Emera’s 49%, and that for Emera’s LIL investment they would fund 45% of it based on equity per their target Debt-to-Equity Ratio (DER) of 55:45.
- In accordance with the NLDA, the calculation noted above is done again following full commissioning of the entire project based on final costs of the LIL, LTA and ML. In the event Emera's % of the transmission asset costs (based on the ML and their LIL additional investment) is less than 49%, they would have to pay a cash "true up" to Nalcor in return for more LIL LP partnership capital account units to address this. Based on current cost estimates for these transmission assets, this amount is expected to be approximately $190M.

- As a result of the cost increases announced in June 2016, and the decision to seek the additional FLG of up to $2.9B to alleviate the amount of LIL equity that Nalcor/NL will need to fund (to the benefit of both NL ratepayers and taxpayers), Emera will get a greater percentage of the LIL partnership distributions during the operating period because they will have contributed more of the required equity to the LIL LP partnership capital account than Nalcor during the development period.

- Based on current cost estimates and the provisions of the NLDA, including the true-up noted above, Emera total equity contributions to the LIL will total around $600M, which would represent approximately 59% of the LIL LP partnership capital account.

Dave/Auburn feel free to chime in with anything else.....

James Meaney
General Manager, Finance
PROJECT DELIVERY TEAM
Lower Churchill Project
t. 709 737-4860 c. 709 727-5283 f. 709 737-1901
e. JamesMeaney@lowerchurchillproject.ca
w. muskratfalls.nalcorenergy.com

You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?
Karen O'Neill—03/07/2017 12 09.21 PM—Jim/Derrick, DNR has drafted the following KMs in relation to the Emera LIL equity question. Derrick

From: Karen O'Neill/NL.Hydro
To: James Meaney/NL.Hydro@NLHYDRO  Derrick Sturge/NL.Hydro
Cc: Deanne Fisher/NL.Hydro@NLHYDRO
Date: 03/07/2017 12 09 PM
Subject: Gov'ts KMs

Jim/Derrick, DNR has drafted the following KMs in relation to the Emera LIL equity question.

Derrick are you able to review and correct any misinformation?

I've already added a few points in red below.

Thanks
Karen
Natural Resources
Emera’s Ownership of Labrador Island Transmission
March 8, 2017

Summary:
Uncle Gnarley posted a blog on Monday, March 6: EMERA - SILENTLY BUILDING THEIR OWN NL ENERGY WAREHOUSE. In the blog it states: “...a colleague of mine directed me to the most recent investor relations presentation from Emera. It contained an infographic on the Muskrat Falls project together with the quote – “Emera to invest 600 Million, for a 59% partnership capital in the Labrador Island Link”. Although I have determinedly followed the Muskrat Falls project since 2011, I have never heard of or seen reference to 59% of the Partnership Capital. It having been brought to my attention, I could only wonder what it meant.”

Mike Connors has followed up with Nalcor and asked: Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

Key messages:
- The deal with Emera was signed at project sanction in 2012 under the former government.
- Nalcor maintains 100 percent control of the Labrador Island Link and all of the transmission rights.
- However, Emera will get a greater percentage of the partnership distributions during the operating period because they will have contributed more of the required equity capital than Nalcor on the Labrador Island Link.
- To put this into context, Nalcor has a 51 per cent share of all transmission assets including the Labrador Island Link, Labrador Transmission Assets and Maritime Link. Emera has a 49 per cent share.
- When the Labrador Island Link (LIL) was sanctioned in 2012, the equity that Emera was permitted to contribute to the LIL capital account was $409 million which is the equity share of Emera’s total investment of $910 million. (The $910 million on the LIL comes from Emera contributing 49 per cent share of all assets).
- It is estimated that Emera's total equity investment in Labrador Island Link will be around $600 million, or around 59% of the capital account. This is the amount noted in their investor presentation.
You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

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Revised

• The Nalcor/Emera agreements were signed in July 2012. Emera's participation in the LIL is defined under the NL Development Agreement (NLDA) and the LIL Limited Partnership (LIL LP) Agreement, both of which are available on the MF website.

• As part of these arrangements, Nalcor maintains 100 percent control of the LIL and all of the transmission rights.

• At LIL Sanction it was estimated that Emera was permitted to make equity contributions to the LIL LP partnership capital account of $409M. This was based on the cost estimates of LIL, LTA and ML at that time, a calculation under the NLDA whereby Nalcor's portion of these transmission assets was 51% and Emera's 49%, and that for Emera's LIL investment they would fund 45% of it based on equity per their target Debt-to-Equity Ratio (DER) of 55:45.

• In accordance with the NLDA, the calculation noted above is done again following full commissioning of the entire project based on final costs of the LIL, LTA and ML. In the event Emera's % of the transmission asset costs (based on the ML and their LIL additional investment) is less than 49%, they would have to pay a cash "true up" to Nalcor in return for more LIL LP partnership capital account units to address this. Based on current cost estimates for these transmission assets, this amount is expected to be approximately $190M.

• As a result of the cost increases announced in June 2016, and the decision to seek the additional FLG of up to $2.9B to alleviate the amount of LIL equity that Nalcor/NL will need to fund (to the benefit of both NL ratepayers and taxpayers), Emera will get a greater percentage of the LIL partnership distributions during the operating period because they will have contributed more of the required equity to the LIL LP partnership capital account than Nalcor during the development period.
Based on current cost estimates and the provisions of the NLDA, including the true-up noted above, Emera total equity contributions to the LIL will total around $600M, which would represent approximately 59% of the LIL LP partnership capital account.

Dave/Auburn feel free to chime in with anything else.......

James Meaney
General Manager, Finance
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w. muskratfalls.nalcorenergy.com

You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

Karen O'Neill—03/07/2017 12:09:21 PM—Jim/Derrick. DNR has drafted the following KMs in relation to the Emera LIL equity question. Derrick

Jim/Derrick, DNR has drafted the following KMs in relation to the Emera LIL equity question.

Derrick are you able to review and correct any misinformation?

I've already added a few points in red below.

Thanks
Karen

Karen O'Neill
Communications Manager
Lower Churchill Management Corporation
Nalcor Energy - Lower Churchill Project
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1.888.576.5454

You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

---------- Forwarded by Karen O'Neill@NLHydro on 03/07/2017 12:06 PM ----------

From "Quinton, Diana" <DianaQuinton@gov.nl.ca>
To "koneill@nalcorenergy.com" <koneill@nalcorenergy.com>
Date 03/07/2017 12:04 PM
Subject RE: Test
Natural Resources
Emera’s Ownership of Labrador Island Transmission
March 8, 2017

Summary:
Uncle Gnarley posted a blog on Monday, March 6: EMERA - SILENTLY BUILDING THEIR OWN NL ENERGY WAREHOUSE. In the blog it states: “... a colleague of mine directed me to the most recent investor relations presentation from Emera. It contained an infographic on the Muskrat Falls project together with the quote - “Emera to invest 600 Million, for a 59% partnership capital in the Labrador Island Link”. Although I have determinedly followed the Muskrat Falls project since 2011, I have never heard of or seen reference to 59% of the Partnership Capital. It having been brought to my attention, I could only wonder what it meant.”

Mike Connors has followed up with Nalcor and asked: Is it true that Emera has increased its ownership stake in the Labrador-Island Link to 59%. When and why did this happen?

Key messages:
• The deal with Emera was signed at project Sanction in 2012, under the former government.

• Nalcor maintains 100 percent control of the Labrador Island Link and all of the transmission rights.
• However, Emera will get a greater percentage of the partnership distributions during the operating period because they will have contributed more of the required equity capital than Nalcor on the Labrador Island Link.
• To put this into context, Nalcor has a 51 per cent share of all transmission assets including the Labrador Island Link, Labrador Transmission Assets and Maritime Link. Emera has a 49 per cent share.
• When the Labrador Island Link (LIL) was sanctioned in 2012, the equity that Emera was permitted to contribute to the LIL capital account was $409 million which is the equity share of Emera’s total investment of $910 million. (The $910 million on the LIL comes from Emera contributing 49 per cent share of all assets).
• It is estimated that Emera’s total equity investment in Labrador Island Link will be around $600 million, or around 59% of the capital account. This is the amount noted in their investor presentation.

From: karenoneill@nalcorenergy.com [mailto:karenoneill@nalcorenergy.com]  
Sent: Tuesday, March 07, 2017 12:04 PM  
To: Quinton, Diana  
Subject: Test
You owe it to yourself, and your family, to make it home safely every day. What have you done today so that nobody gets hurt?

“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.”
FYI

Sent from my BlackBerry 10 smartphone on the Bell network.

From: karenoneill@nalcorenergy.com
Sent: Tuesday, March 7, 2017 2:35 PM
To: Quinton, Diana
Subject: Fw: Gov'ts KMs

Key Points:

- The Nalcor/Emera agreements were signed in July 2012.
- Emera's participation in the Labrador Island Link is defined under specific agreements which are publically available on the Muskrat Falls website.
- As part of these arrangements, Nalcor maintains 100% control and operation of the LIL and all of the transmission rights on the link.
- Based on current cost estimates and the provisions of the existing agreements, including a true-up, Emera's total equity contributions to the LIL will total around $600M, which would represent approximately 59% of the LIL LP partnership capital account.

Additional points:

- At LIL sanction it was estimated that Emera was permitted to make equity contributions to the LIL LP partnership capital account of $409M. This was based on the cost estimates of LIL, LTA and ML at that time, a calculation under the NLDA whereby Nalcor's portion of these transmission assets was 51% and Emera's 49%, and that for Emera's LIL investment they would fund 45% of it based on equity per their target Debt-to-Equity Ratio (DER) of 55:45.
- In accordance with the NLDA, the calculation noted above is done again following full commissioning of the entire project based on final costs of the LIL, LTA and ML. In the event Emera's % of the transmission asset costs (based on the ML and their LIL additional investment) is less than 49%, they would have to pay a cash "true up" to Nalcor in return for more LIL LP partnership capital account units to address this. Based on current cost estimates for these transmission assets, this amount is expected to be approximately $190M.
- As a result of the cost increases announced in June 2016, and the decision to seek the additional FLG of up to $2.9B to alleviate the amount of LIL equity that Nalcor/NL will need to fund (to the benefit of both NL ratepayers and taxpayers), Emera will get a greater percentage of the LIL partnership distributions during the operating period because they will have contributed more of the required equity to the LIL LP partnership capital account than Nalcor during the development period.
LABRADOR-ISLAND LINK LIMITED PARTNERSHIP and LABRADOR-ISLAND LINK OPERATING CORPORATION and NEWFOUNDLAND AND LABRADOR HYDRO LIL LEASE

3.9 RROE (a) The RROE to be earned by the Partnership in respect of any Fiscal Year shall be determined in accordance with the following principles and shall be changed whenever a reference rate of return is made effective by the PUB or other Authorized Authority, with the prior reference rate of return applying during the part of the Fiscal Year before the change and the new reference rate of return applying during the portion of the Fiscal Year after the change: (i) if during such Fiscal Year there is only one privately-owned regulated electrical utility in NL, the RROE shall be equal to the rate of after-tax return on equity approved by the PUB in respect of such utility for such Fiscal Year; and (ii) if during such Fiscal Year there is more than one privately-owned regulated electrical utility in NL, the RROE shall be the average of the rates of after-tax return on equity approved by the PUB in respect of all such utilities for such Fiscal Year. (b) If during such Fiscal Year there are no privately-owned regulated electrical utilities in NL, the RROE shall be the average of the rate of after-tax return on equity approved for such Fiscal Year for the four largest (measured by asset base), privately-owned regulated electrical utilities in Canada (but excluding both Nalcor and Emera and their Affiliates), provided that if there are fewer than four such utilities, the average referred to above shall be the average of all such utilities.
I will update these shortly. The summary is that the rate is fixed at 8.4 percent for MF and the LTA, and is pegged to the Newfoundland Power rate for the LIL (which was 8.8 at sanction but can be varied by the PUB).

Sent from my BlackBerry 10 smartphone on the Bell network.

Hi Walter:

Could you provide some answers regarding the rate of return for the transmission assets? Will the PUB review?

Thanks,
Diana

Will the PUB review the rate of return that Emera will get? Or is it fixed at 8.8 per cent?

The proposed rate of return on Muskrat Falls is 8.4% but it is 8.8% on the Labrador-Island Link. The Public Utilities Board ultimately approves the regulated return that companies are permitted to earn on their investments in Newfoundland and Labrador’s electricity infrastructure.

How will the rate of return on equity be determined for transmission assets?

The Labrador Transmission Assets earns the assigned Internal Rate of Return (IRR) of 8.4% and is included in the Base Block Payments. The rate of return on equity for Labrador Island Link will be commensurate with returns achieved by other regulated investor-owned utilities in Newfoundland and Labrador.

Q. How will the rate of return on equity be determined for generation assets?

The rate of return on equity is the Assigned Internal Rate of Return (IRR) of 8.4% per Schedule 1 of the PPA.
Good Morning Folks,
Here’s the top 3 KM’s for the HOA today.
Cheers
C.

Natural Resources
Emera’s Ownership of Labrador Island Transmission
March 8, 2017

Summary:
Uncle Gnarley posted a blog on Monday, March 6: EMERA - SILENTLY BUILDING THEIR OWN NL ENERGY WAREHOUSE. In the blog it states: “... a colleague of mine directed me to the most recent investor relations presentation from Emera. It contained an infographic on the Muskrat Falls project together with the quote – “Emera to invest 600 Million, for a 59% partnership capital in the Labrador Island Link”. Although I have determinedly followed the Muskrat Falls project since 2011, I have never heard of or seen reference to 59% of the Partnership Capital. It having been brought to my attention, I could only wonder what it meant.” This issue was raised in the House of Assembly on March 8; the Premier was then interviewed by media.

Key messages:
• The deal with Emera was signed under the former government in 2012.

• As a result of the agreements, Nalcor’s portion of transmission assets is 51 per cent. That includes the Labrador Island Link, Labrador Transmission Assets and Maritime Link. Emera’s portion is 49 per cent.

• Nalcor owns 100 per cent of the Labrador Transmission Asset. Emera owns 100 per cent of the Maritime Link. Both Nalcor and Emera own the Labrador Island Link; the percentage varies to ensure overall participation remains at 51 per cent and 49 per cent.

• As outlined in June 2016, both the Labrador Transmission Asset and Labrador Island Link are over budget. Increased costs of these transmission projects have led to increased
Emera participation in the Labrador Island Link to ensure they maintain the original 49 per cent.

- Nalcor maintains 100 percent control of the Labrador Island Link and all of the transmission rights.

- However, Emera will get a greater percentage of the partnership distributions during the operating period because they will have contributed more of the required equity capital than Nalcor on the Labrador Island Link.

- It is estimated that Emera's total equity investment in Labrador Island Link will be around $600 million, or around 59% of the capital account. This is the amount noted in their investor presentation.

- We are going to consider all options going forward. Key is to mitigate rates and lower costs. I remind everyone we are not responsible for this mess but we are focused on fixing it.
Hi Walter,

Hopefully you can help facilitate this.

Thanks,
Jim

Sent from my iPhone

On Mar 8, 2017, at 10:47 AM, Parsons, Walter <WalterParsons@gov.nl.ca> wrote:

without much scope and prep time I think the best we can do is be prepared to provide and overview of the financing, but hard to anticipate what might be specific questions. In any case we will try to
Unfortunately I don't have any parameters for the briefing. I spoke with the Premier yesterday about the Emera participation in the projects generally, and how the rates of return are established.

I am back in St John's late tonight (1 am Thursday). Departing Vancouver in 2 hours.

I could be available for a briefing either tomorrow or Friday.

Walter, it would be helpful to more specifically understand what type of information people might be looking for relating to Emera participation in the project. Are you specifically referring to LIL?

If there's an ability to do the briefing in the afternoon, if it is tomorrow, that might be best in order to give us an opportunity to have a checkpoint in the morning and get any required material together.

Thanks
Jim

Sent from my iPhone

On Mar 8, 2017, at 9:36 AM, Derrick Sturge <DSturge@nalcorenergy.com> wrote:
Walter, we likely have some material, but JIM is the keeper of it, so will need JIM to provide it. Believe JIM is travelling most of the day on the way back from Western Canada.

Derrick
Derrick Sturge
EVP, Finance & CFO
Nalcor Energy

Sent from my iPhone

On Mar 8, 2017, at 2:04 PM, Parsons, Walter <WalterParsons@gov.nl.ca> wrote:
Yes, understandable. I would expect that the briefing will be tomorrow. I can lead the discussion but will certainly need you guys to help answer any specific questions related to the financing structure. In the meantime, do you have any slides that summarize the Nalcor and Emera participation in the project components? I think that would be helpful as a reference tomorrow.

From: DSturge@nalcorenergy.com
Sent: Wednesday, March 8, 2017 1:56 PM
To: Parsons, Walter <WalterParsons@gov.nl.ca>
Cc: JamesMeaney@lowerchurchillproject.ca
Subject: Re: Phone message from Walter Parsons....

Walter, I can be available, but would also want JIM Meaney to participate. I believe JIM is travelling back home tonight.

Derrick
Derrick Sturge
EVP, Finance & CFO
Nalcor Energy

Sent from my iPhone

On Mar 8, 2017, at 1:46 PM, Kathy Knight <KathyKnight@nalcorenergy.com> wrote:
... they (NR) have to give a briefing to the Premier either tomorrow or Friday regarding Nalcor's financing of Muskrat Falls. He would like for you to go if at all possible so he is looking for your availability. His number is 729-1406

Kathy

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