Muskrat Falls Project
Development Cost – Sources & Uses of Funds Summary

The Muskrat Falls Project was sanctioned in December 2012 with direct capital costs (facilities costs) of $6.20 billion plus financing costs to be capitalized during the construction period up to in-service of the generation and transmission projects. In June 2014, the direct facilities capital cost for the projects was updated.

External market pressures, combined with strategic investments to enhance system reliability, operation and productivity throughout construction, have resulted in an updated capital cost forecast for the project of $6.99 billion.

Since construction of the hydroelectric development at Muskrat Falls began, changing market conditions in an extremely competitive construction industry locally, nationally and globally, have increased the facilities capital costs on the project by approximately four per cent. Since sanction, several design enhancements have been made to improve system quality and reliability, construction productivity and operational efficiencies, which increased the facilities capital costs on the project by an additional nine per cent.

The following summarizes the sources and uses of funds for capital and financing costs associated with the development of the Muskrat Falls generation facility (MF), the Labrador Transmission Assets (LTA) and the Labrador-Island Link (LIL) projects (the Muskrat Falls Project).

Muskrat Falls Project Costs (Uses) & Sources of Funds ($CAD)

PROJECT COSTS (USES)

Facilities Costs
$6.99B
Facilities cost estimate for MF, LTA and LIL, as of June 2014

Interest During Construction (IDC)/Allowance for Funds Used During Construction (AFUDC) (1)
$1.1B

Other Financing Amounts (2)
$0.2B
Includes other costs required as part of the project's financing arrangements

Total Uses = $8.3B

SOURCES OF FUNDS TO BUILD & FINANCE THE PROJECT

Debt
$5.0B
AAA rated bonds issued Dec. 2013

Equity Provided by Nalcor/GNL
$2.8B (3)
Contributed for MF, LTA and LIL

Equity Provided by Emera (4)
$0.5B
Contributed for LIL

Total Sources = $8.3B

Notes:
(1) IDC (or capitalized interest) is the interest cost on a loan incurred during the construction period that is capitalized to the asset along with the direct capital costs. IDC is capitalized until the project begins to generate revenue and/or when the company financing the project begins to service its debts. AFUDC is a component of the capitalized costs representing the estimated costs of debt and equity necessary to finance the construction of facilities. AFUDC is capitalized until the project is placed into service or operation.

Capitalized costs are incurred when building or financing fixed assets. Capitalized costs are not expensed in the period they are incurred, but recognized over a period of time. Since the Muskrat Falls Project has long-life assets, their costs will be amortized over a long period.

(2) Includes cash reserves that are set aside at in-service as part of the financing arrangements, but refunded over the debt repayment period.

(3) Includes $0.1 billion in AFUDC on Nalcor/NL contributed equity for LIL.

(4) Includes $0.1 billion in AFUDC on Emera contributed equity for LIL.

Project Financing

In December 2013, Nalcor secured $5 billion in Government of Canada (AAA rated) guaranteed debt through the issuance of long-term bonds with a weighted average interest rate of approximately 3.8%. The interest cost on this debt for the MF/LTA and LIL projects is fixed for the next 35 and 40 years, respectively.

The guaranteed debt amount for the Muskrat Falls Project is $5 billion. Costs above this amount will be funded through equity or additional non-guaranteed debt in accordance with the provisions of the November 2012 Federal Loan Guarantee Agreement. Equity will be provided by Nalcor/Government of Newfoundland and Labrador (GNL) for MF and LTA components of the project, and by Nalcor/GNL and Emera (in proportion to their ownership interests) for LIL. This is in accordance with the provisions of the MF, LTA and LIL Equity Agreements and the Newfoundland and Labrador Development Agreement, available on the Muskrat Falls Project website (muskratfalls.nalcorenergy.com).

Impact of Potential Costs & Schedule Changes on Financing Costs

Changes in capital expenditures during construction or operating and maintenance expenditures during operations will not result in changes to the total interest cost on the $5 billion of bonds issued in December 2013 as it is locked in for the term of the debt noted above.

Changes in the completion of the construction schedule will not result in changes in this total interest cost, but whether these interest costs will be treated as: (i) ***during construction*** - a cost capitalized to the asset (referred to as IDC); or (ii) ***during operations*** - an expense paid by the revenue agreements with Newfoundland and Labrador Hydro that commence upon commissioning. In either case, these costs will be fully recovered from ratepayers.

In the event additional equity is contributed to fund expenditures during construction, or a delay in commissioning the project is experienced, additional AFUDC on the equity required for LIL will accumulate to the capitalized cost of this asset and be recovered following the achievement of commissioning. For MF/LTA there is no AFUDC on equity. If additional equity is required to fund expenditures during construction of these components, this will result in higher equity returned to Muskrat Falls Corporation over the life of the power purchase agreement it has with Newfoundland and Labrador Hydro.