

*Letter to the Editor submitted to the Telegram Feb 2014*

**Wangersky incorrect: Muskrat Falls underwent intensive due diligence from Canada for loan guarantee**

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I am writing in response to a recent opinion letter by Russell Wangersky (Compare – and contrast) on February 8, 2014, which discussed the financing arrangements for the Muskrat Falls Project.

I write to provide comprehensive information and context for readers regarding the level of external due diligence undertaken by the Government of Canada (Canada) that gave them the confidence and satisfaction they required prior to issuing a federal loan guarantee to back the \$5 billion financing for the Muskrat Falls Project. Contrary to Mr. Wangersky's opinion, this does say a lot about the confidence and strength of the Muskrat Falls Project.

This due diligence was extremely comprehensive and mirrored the level of diligence that financing lenders would have completed for a large construction project. This diligence effort by Canada was supported by experienced external legal advisors, financial advisors, an independent engineer, and an independent insurance consultant all engaged directly by Canada. This analysis gave Canada comfort in the strength of the business case, financing structure and the engineering and execution capability of the project team.

On two occasions (Decision Gate 2 and 3), Nalcor Energy obtained indicative credit ratings that demonstrated to Canada's satisfaction that the Muskrat Falls Project was a credit-worthy, investment grade project even without the backing of a federal loan guarantee. When Nalcor approached Canada to obtain a federal loan guarantee we did so on the basis that the project could be financed without the guarantee. However, obtaining a federal guarantee would enable us to get lower financing costs with the benefit being passed on directly to our electricity customers. The benefit we obtained for electricity consumers is in excess of \$1 billion.

It is on the basis of this work and other requirements laid out in the November 2012 federal loan guarantee agreement that Canada satisfied itself that the risks it was taking in providing the guarantee were prudent and acceptable.

Once the federal loan guarantee was issued by Canada in December 2013, Nalcor went back to the credit rating agencies and obtained confirmation that the project debt would be rated AAA. On the basis of the AAA credit ratings, lenders then executed and placed the \$5 billion financing for the Muskrat Falls Project at rates that reflected Canada's AAA credit rating (the best credit rating available).

This financing arrangement has provided the best available financing terms to Nalcor and electricity customers in the province and protected the interests of Canada as the guarantor of the debt. It also enabled the lenders to focus on the execution of the financing arrangement as Canada had already completed an analysis on the merits of the underlying project.

The federal loan guarantee has added significant value to the project, but the underlying key driver that provided comfort to Canada, Nalcor and the Government of Newfoundland and Labrador from the outset was that the project was credit worthy without a federal loan guarantee. We started from a position of considerable strength and the federal guarantee made the project even stronger and the financing more attractive to lenders.

Nalcor has a standing invitation to Mr. Wangersky and others to contact us at any time to obtain information so we can help inform a constructive dialogue on the Muskrat Falls Project.