

- 1 Q. It has been announced that Navigant Consulting is completing a review for Nalcor of
2 the Muskrat Falls-Labrador-Island Link Project and the Isolated Island Options.
3 Provide the terms of reference for this review.
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6 A. The Terms of Reference are included on pages 2 and 3.



Overview

Nalcor's Decision Gate process is designed to ensure decisions are made at appropriate times, with the appropriate level of information, and at appropriate levels of expenditure. Nalcor's Decision Gate process focuses on key milestones to achieve gateway readiness and builds in "cold eyes" reviews at key decision points throughout the process.

The Lower Churchill Project Phase 1 (the "Project") recently passed through Decision Gate 2 ("DG2") which is Concept Selection. At that time, to select a preferred concept, Nalcor completed the appropriate activities and gathered the required information including field work, engineering and design, finalization of Labrador Innu Impacts and Benefits Agreement ("IBA"), environmental assessment progression, execution of water management agreement, completion of the Emera Term Sheet, financing preparation and economic analysis.

Decision Gate 3 ("DG3") which is Project Sanction requires the advancement of project activities and work streams to a level of progression which provides the certainty needed to sanction the Project (e.g. ratification of the IBA, receipt of environmental permits and approvals, completion of detailed engineering and design, market confirmation of financing strategy, finalization of definitive commercial agreements, etc.). The intent of DG3 is to validate the concept selected before committing the largest dollars.

Independent reviews are carried out in accordance with established Nalcor decision-making processes with each Decision Gate having differing requirements. For DG3, one such independent review is an independent review of the reasonableness of the Island supply decision as described below (the "Supply Decision Review") using the latest available project cost and schedule information.

Terms of Reference

The Supply Decision Review will be conducted by an external consultant (the "Consultant") with a focus on the reasonableness of the Island supply decision. For purposes of clarification, the scope of the Supply Decision Review does not extend to a review of the financing decision or the monetization of the excess power.

The Consultant will review the following:

- Reasonableness of the long-term (~60 years) Island supply options considered;
- Reasonableness of the process followed to screen and evaluate the appropriate Island supply options; and
- Assumptions used by Nalcor in assessing the Island supply options.

Based upon this review, the Consultant will provide an opinion on:



- whether the Project represents the least cost Island supply option which also fulfills the additional criteria requirements of security of supply and reliability, environmental responsibility, and risk and uncertainty; and
- the accuracy of the rate projections.

To complete the necessary work to provide their opinion, the Consultant will complete their review using the following inputs:

- necessary internal financial and engineering models, reports, and discussions with management and personnel;
- the 2007 Energy Plan (available at www.nr.gov.nl.ca/nr/energy/plan/) that forms the policy framework used by Nalcor in determining the Island supply option;
- the Island supply option evaluation criteria used by Nalcor; and
- generally accepted utility practices for the evaluation of Island supply options.

The Island supply option evaluation criteria used by Nalcor are:

- Security of supply and reliability;
- Cost to ratepayers;
- Environmental responsibility; and
- Risk and uncertainty.

The Consultant will provide a report using DG2 estimates. The Consultant will provide a second report using DG3 estimates and assumptions prior to the conclusion of the DG3 process. These reports will be made public.

As part of the comprehensive evaluation process to move the development of Muskrat Falls and the Labrador Island Link projects to final sanction, the Provincial Government has asked the Board of Commissioners of Public Utilities (PUB) to provide a supplemental review of the process used to determine that Muskrat Falls represents the least-cost option for the supply of power to Island Interconnected Customers compared to the Isolated Island development option. Please refer to: <http://www.releases.gov.nl.ca/releases/2011/nr/0617n04.htm> for the reference question. The Consultant may be required to act as a witness as part of any related PUB process.