

Minister of Finance



Ministre des Finances

Ottawa, Canada K1A 0G5

The Honourable Dwight Ball
Premier
Government of Newfoundland and Labrador
Office of the Premier
Confederation Building, East Block
PO Box 8700
St. John's, NL
A1B 4J6

Dear Premier Ball:

I would first like to recognize your leadership in working to ensure that all residents of Newfoundland and Labrador are safe coming out of the recent state of emergency. We as a government, and my cabinet colleagues the Hon. Seamus O'Regan, Hon. Bill Blair and Hon. Harjit Sajjan, in particular, have worked together to deploy personnel and assets of the federal government to support you, municipal leaders and others on the ground. We remain committed to working with you on this and other critical issues of shared interest to all Newfoundlanders and Labradorians.

Regarding our joint work related to the Lower Churchill Projects (the "Projects"), I am encouraged by the hard work done by our respective officials to help identify options in our joint short and long-term interests.

Following extensive discussions between our governments, and in recognition of the province's objective to protect ratepayers, we acknowledge the need to negotiate a permanent long-term solution. In particular, as guarantor of the Projects' debt, Canada supports negotiating a financial restructuring to reduce the cost of the capital structure of the Projects, such that they are financially sustainable over the long term. As part of the financial restructuring negotiations, Canada is prepared to consider options to change the Muskrat Falls/Labrador Transmission Assets' (MFLTA) revenue model, such as to a Cost of Service (COS) model, and redirecting equity returns from Nalcor to ratepayers. Also as part of the financial restructuring negotiations, Canada is prepared to consider options by which the province could monetize its assets such as expected income from the Labrador-Island Link.

In the immediate term, I acknowledge that Newfoundland and Labrador is seeking measures to reduce its cash requirements related to servicing the Projects' debt. Therefore, as a first step toward a full financial restructuring, the Government of Canada is willing to allow Nalcor and its subsidiaries to defer making payments into the Sinking Fund through to the end of 2021 or until the Project is commissioned whichever comes first. Canada is also willing to waive requirements that the Province prefund any additional cost overruns into the Cost Overrun Escrow Account (COREA).

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As the implementation of the results of our negotiations will require substantial financial and legal analysis, I will instruct my officials to engage with yours immediately so that we are in a position to reach and implement an agreement by the time of the Projects' commissioning. As this proceeds, it is important to remember these are provincial Projects, in provincial jurisdiction, and the Province bears responsibility to ensure they are delivered economically.

Separate from the financial restructuring negotiations, Canada is prepared to continue to work with the province to consider opportunities for further electrification and decarbonization, just as we are engaged with all provinces and territories on these priorities.

I will also instruct my officials to begin engaging immediately with yours to prepare a joint news release summarizing the foregoing.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Bill Morneau", followed by a period.

The Honourable Bill Morneau, P.C., M.P.