

# BENEFITS, RISKS and SAFEGUARDS



W U S K W A T I M

# PROJECT DEVELOPMENT AGREEMENT

Between Nisichawayasihk Cree Nation  
and Manitoba Hydro and Others

March 2006

[ For complete details please refer to the full Project Development Agreement and related documents. ]

**The Wuskwatim Project Development Agreement (PDA)** is the result of discussions and negotiations between Manitoba Hydro and Nisichawayasihk Cree Nation (NCN) to jointly develop a 200-megawatt hydroelectric generating station at Taskinigahp Falls on the Burntwood River in the Nelson House Resource Management Area. The low-head design of the dam is expected to cause less than one-half square kilometre of flooding.

The PDA and its related agreements define and govern the ownership, financing, construction, operation, management and other aspects of the Wuskwatim Generation Project.

The PDA is subject to a ratification vote by NCN Members and approval by Hydro's Board of Directors. The provincial government will also have to approve certain transactions described in the PDA. The provincial and federal governments will have to make their own decisions about whether to licence the project.

If NCN Members reject the PDA in a ratification vote, the project will not proceed.

To assist NCN Members in understanding the PDA, there will be meetings, workshops and presentations to help Members make an informed decision. In addition, information materials have been prepared to explain the PDA. This document focuses specifically on the benefits, risks and safeguards of the project as defined by the PDA, and should be read in context with other available interpretive documents.



IF THERE ARE DISCREPANCIES between this document and the full PDA, the full PDA will prevail.

Like any investment, the Wuskwatim Generation Project comes with a mix of benefits and risks. The PDA has been negotiated to maximize the benefits and reduce the risks wherever possible.

# INTRODUCTION

The PDA incorporates NCN's Ethinewin (Traditional Knowledge and Wisdom) along with western scientific knowledge. NCN's Future Development Team has used the expertise of its negotiators, resource harvesters and community consultants, representing a cross-section of NCN's membership, including youth and elders, to develop a project that will minimize environmental impacts and maximize the potential for financial and social benefits for Members.

NCN has also employed an independent team of professional advisors to provide legal, financial, technical, engineering, scientific and communications advice, to ensure it has negotiated the best agreement possible for Members to consider.

Risks have been carefully assessed and safeguards have been put in place to ensure adverse or unforeseen impacts will be reasonably minimized and managed.

Independent advisors have assisted NCN in the process, and the project has been comprehensively reviewed and scrutinized by independent review agencies, including the Manitoba Clean Environment Commission (CEC).

The CEC found Manitoba Hydro and NCN have adequately justified the Wuskwatim Generation Project and concluded that it is viable and economical. In addition, the Comprehensive Study Report prepared by Fisheries and Oceans Canada under the Canadian Environmental Assessment Act, concluded the Wuskwatim Generation Project isn't likely to cause significant adverse environmental effects.

This brochure provides a brief description of some of the project's important benefits, risks and safeguards. More detail is available in the PDA Overview, the Guidebook (Q & A) the PDA and scoping summaries and the full PDA.

# Benefits and ADVANTAGES

## Financial Returns

- Over the long-term, Wuskwatim is expected to generate tens-of-millions of dollars each year in profits based on current projections. This is not a guarantee since there are many factors that could affect profits, including capital costs, potential labour shortages, currency fluctuations, export sales and other factors, which have been considered by NCN, Hydro and the CEC.
- If NCN, through its company Taskinighp Power Corporation (TPC), chooses to become a 33 percent partner in the Generation Project, TPC will receive up to 33 percent of the cash distributions from the Wuskwatim Power Limited Partnership that will own the generating station. These distributions will be directed into the Taskinighp Trust and used to benefit the community, once equity and other loans to finance NCN's investment (through TPC) are fully repaid.
- While the loans are being repaid (as long as TPC is a limited partner), current projections are that NCN will be eligible to receive dividend loans of about \$1 million a year from Hydro (secured by TPC's shares in the operating partnership), assuming NCN chooses to become a 33 percent partner through TPC. In addition, over a period of 25 years after construction, the province will pay approximately \$27 million to NCN, based on TPC's proportionate share of water power rental and land payments, actually paid by the partnership to Manitoba. These funds would be used to pay for community projects and programs.
- The electricity Wuskwatim generates will be sold at export rates to Manitoba Hydro. Export rates are expected to continue to be higher than domestic power rates within Manitoba.
- NCN will get \$5.7 million for adverse effects compensation (which will be directed to the Taskinighp Trust), up to \$2.7 million for implementation, up to \$1 million in transition costs and an additional \$1.2 million in advances for the Atoskiwin Training and Employment Centre of Excellence (ATEC).
- NCN has already received advances for ATEC of \$4.5 million.

## Estimated Economic Benefits to NCN

- Potential total economic benefits of \$216.5 million over the first 25 years.
- \$11.5 million to train NCN Members and people living in the Nelson House Northern Affairs Community for jobs on the Wuskwatim and Keeyask projects.
- \$100 million in revenues for direct-negotiated contracts for NCN businesses and NCN joint-venture business partnerships.
- \$5 million in wages to NCN Members over the construction period.
- \$100 million distributions in the first 25 years of operation (assuming NCN owns 33 percent through TPC).
- Annual payment from the transmission development fund of roughly \$100,000 for the life of the Transmission Project.



Projections and forward-looking statements are based on estimates and current information. They are subject to change and cannot be guaranteed.



Atoskiwin Training and Employment Centre of Excellence.

### **Community Economic Benefits**

- From available cash (profits), TPC receives from the Wuskwatim Power Limited Partnership, it will, after taking into account its expenses and prudent reserves, pay dividends to a new trust called the Taskinigahp Trust (through the assignment by NCN of TPC's dividends). The Trust will be a community-directed trust fund, much like the existing Nisichawayasihk Trust.
- Unlike the Nisichawayasihk Trust, the Taskinigahp Trust will have multi-year planning for projects that are funded.
- The Taskinigahp Trust, unlike the Nisichawayasihk Trust, will allow for the possibility of making financial payments directly to NCN Members under restricted circumstances (if annual dividends are over \$10 million annually, and if there is more than \$100 million in the Seven Generations Growth Account or long-term savings funds).

### **Training Benefits for NCN Members**

- Training programs, funding and facilities have been put in place to provide NCN Members with the employment skills required for job opportunities on the Wuskwatim Generation Project. ATEC is the most high-profile result of that program. Project-related training and on-the-job experience have been underway since 2003 and over 300 NCN Members have already participated in training and many have found work in their areas of study.

- Job training programs also include life skills training, to ensure trainees not only have the necessary technical knowledge to perform their jobs, but also know and understand performance and attendance expectations of their employers. This is designed to reduce the high rate of job losses experienced by Aboriginal employees during hydroelectric construction projects in the 1960s and 70s.
- Training opportunities build and strengthen the overall skill level of NCN Members and the community. This will provide economic security and a higher standard of living for Members long after and beyond the construction of the Wuskwatim project.

### **Jobs and Business Opportunities for NCN**

- NCN businesses working on the project will be able to directly hire NCN Members and other northern Aboriginal people.
- Qualified Aboriginal people, including NCN Members, who are residents of northern Manitoba within the Churchill, Burntwood, Nelson River areas, will be included in the first hiring preference for certain jobs on the project. (If qualified northern Aboriginal people or others included in the first hiring preference are not available, these jobs will be filled by other qualified people.)
- Over the past seven years, many good-paying jobs at Nelson House have been created by the Future Development Office to assist in the initial project development phase and community consultation process.



Over 300 NCN Members have taken part in Wuskwatim-related training.

- Qualifying NCN businesses and joint venture partnerships or other business arrangements with non-NCN businesses have been established and have negotiated with Hydro to enter into contracts to supply a range of services to the project, without having to compete against other entities in the open tender process. Contracts include:
  - Access road construction
  - Main camp sewer and water construction
  - Site preparation and maintenance
  - Security services
  - Catering services
  - Cross-cultural training and on-site counselling
  - Transmission-line clearing.
- NCN intends to create an implementation office to manage TPC, TPC's interest as a partner and ensure the PDA will be implemented from NCN's perspective. A few new positions will be included in that structure.

### **Cultural and Social Development Opportunities**

- The Wuskwatim project recognizes and accommodates Aboriginal ceremonies and cultural awareness activities.
- A cultural liaison officer will be available at the construction camp to oversee cultural activities and assist Aboriginal people.

- Special ceremonies will be held for significant project milestones, such as stream crossings and for possible discovery of human or cultural remains and camp construction.
- A sweat lodge will be located at the construction camp.

### **Environmental Benefits**

- Environmental studies related to the project have provided NCN with a large database on the resources found within the Nelson House Resource Management Area based on Ethinsewin (Traditional Knowledge and Wisdom) and Western Science. NCN has documented its customary laws, which have been included as a schedule to the PDA. This information would not have been collected without the proposed Wuskwatim project.
- NCN negotiated a low-head design for the generating station that will flood less than one-half of one square kilometre, for minimal environmental impact. This is the smallest amount of flooding for any existing Manitoba Hydro hydroelectric generating station development.



www.ncncre.com serves community and project needs.

### Capacity Building

- Participation of NCN leaders at the boardroom level in large-scale industrial resource projects/businesses has built negotiating capacity and team-building skills, as well as knowledge that can be used for other projects.
- Employment through the Future Development Office has given many NCN Members employment experience in consultation, organizational and logistical projects and negotiations. This knowledge and capability wouldn't have been possible without the development process for Wuskwatim.
- Access to training in ATEC's state-of-the-art facility gives NCN Members an opportunity to acquire the skills they need to compete in the larger economy, without having to leave home.

### Community Image and Profile

- The project reinforces NCN's leadership role in defining and implementing ground-breaking, effective ways for First Nations to participate in resource and economic development – providing a contemporary way of living off the land.
- The success of the negotiations and involvement of the NCN community has helped build the ability and capacity of the First Nation to take part in other development projects, such as the potential establishment of an urban reserve in Thompson and pursuit of other business opportunities.

### Community Consultation and Communication

- The process involved an extensive community-driven process with considerable opportunity for Member involvement and consultation.
- As part of the extensive and comprehensive Wuskwatim development and consultation process, NCN has developed a website, which has expanded to serve both project and community needs, including the delivery of administrative and government information.

# Risks and SAFEGUARDS

The Wuskwatim Generation Project has environmental and financial risks, but in each case, the project has been developed in a way that attempts to minimize adverse effects and risks to the extent possible and provide safeguards.

The following are some of the risks that have been identified and the safeguards that have been implemented to minimize those risks.

## The Environment

▼ **Risk:** *The project will generate some adverse environmental effects (e.g. some flooding, temporary increased erosion on Wuskwatim Lake, temporary increased mercury in Wuskwatim Lake fish, loss of vegetation for road and transmission lines).*

▲ **Safeguard:** Environmental protection plans are being developed with input from NCN to address the concerns raised by the CEC and other environmental review agencies. Regulations and licencing requirements will ensure these safeguards are implemented.

## Financial

▼ **Risk:** *In the event of an unexpected or unforeseen major expenditure, after final closing of the Project Development Agreement, significant cash calls might be required.*

▲ **Safeguard:** If a major expenditure is required and the partners are called on to invest more money, Manitoba Hydro is prepared to lend NCN's company, TPC, additional funds to cover any such cash calls, if NCN does not have the cash.

▼ **Risk:** *Although planning and feasibility studies for the project indicate a high likelihood of substantial profits from the project, unforeseen circumstances could result in no profits or even losses. This might occur from unanticipated weather events (such as extended droughts), a decline in export markets or prices, unanticipated project costs or repair work, currency fluctuations and other factors.*

▲ **Safeguard 1:** Manitoba Hydro is obliged to purchase all power from the Wuskwatim Power Limited Partnership, regardless of whether it is able to sell the power.

▲ **Safeguard 2:** Because project conditions can change over time, NCN has been given opportunities to withdraw from the project as follows:

- Upon completion of construction, NCN's company, TPC, can withdraw and get back all of NCN's \$1 million down payment, without interest.
- TPC can also withdraw at the 25th or 50th anniversary of the date Wuskwatim becomes operational and get a refund of its own invested cash, in the Wuskwatim Power Limited Partnership. If TPC fully withdraws, neither TPC nor NCN would have to repay its loans to Manitoba Hydro, including the dividend loans, which could amount to millions of dollars. Only \$1.8 million in ATEC loans would be repayable. Of that amount, \$1 million plus interest would be repaid over time from annual funding provided to ATEC, pursuant to negotiated agreements.

## SAFEGUARDS FOR NCN

The flexible investment structure provided for in the PDA offers significant advantages and safeguards for NCN. It allows TPC to make a small, refundable down payment at the beginning of the project when most costs and revenues are only projected. NCN can wait until project construction is completed when all capital costs, electricity pricing, and projected sales and revenues are more certain, before deciding whether to remain a partner through TPC.

With these known numbers, NCN can reassess the viability of the deal. If the deal no longer works to its advantage, TPC can withdraw and get its down payment back for NCN.

The remaining \$785,000 plus interest would be repayable by NCN as its contribution to this state-of-the-art post-secondary facility.

- If Wuskwatim were to become unprofitable at any point after the 50th anniversary withdrawal opportunity, NCN and Hydro would discuss the situation and, if mutually agreed, could decommission the power station. If NCN doubts the ongoing profitability of the power station after 50 years, it could give up its units (shares) in the project to Hydro. After 50 years, it would not be possible for NCN to get its money back, however NCN would retain any benefits and profits it had received up to that point.

### NCN Ownership

▼ **Risk:** *NCN, through TPC, may not be able to raise its required investment to own 33 percent of the project.*

▲ **Safeguard 1:** TPC needs only to commit \$1 million at the commencement of the project to confirm its participation. NCN already has saved these funds.

▲ **Safeguard 2:** NCN has about six years to raise the balance of its estimated \$28-million commitment (or more if construction costs increase before completion) to own 33 percent of the project.

▲ **Safeguard 3:** At completion of the project's construction, NCN, through TPC, can change its level of ownership if it decides not to own the



maximum 33 percent of the project. This would result in a lower level of the required investment. For example, based on current projections, to own 25 percent, NCN would need to invest around \$15 million.

▼ **Risk:** *Manitoba Hydro becomes insolvent and there would be no more money for the project.*

▲ **Safeguard:** This is a very remote possibility. Manitoba Hydro is a major Manitoba Crown Corporation and the chief energy supplier for the province. It has been in existence in one form or another for almost 60 years. As a Crown corporation, the Province of Manitoba secures Manitoba Hydro's debt, so a default by Manitoba Hydro would imply greater problems in the Manitoba economy that would effect everyone.

▼ **Risk:** *The partnership could default on its loan resulting in Manitoba Hydro taking the assets of the partnership provided as security – the power station, the land it occupies and the access road – leaving the partnership unable to repay TPC for its investment.*

▲ **Safeguard:** NCN has obtained independent financial advice that has confirmed that the potential returns with the attached guarantees make the project an opportunity with acceptable risk. In addition, if it ever became clear to NCN/TPC that Wuskwatim was unsuccessful, TPC could withdraw at the 25- or 50-year anniversaries and get back all of its own funds invested in the Wuskwatim Partnership, as mentioned earlier. In the meantime,

NCN will have access to dividends or dividend loans (which would not have to be repaid if NCN exercises its option to withdraw at the 25- or 50-year anniversaries).

▼ **Risk:** *TPC/NCN defaults on Wuskwatim agreements resulting in Hydro or the Wuskwatim Power Limited Partnership taking action to recover losses, which causes TPC/NCN to lose its investment.*

▲ **Safeguard 1:** TPC/NCN has retained professional legal, financial, engineering and business advisors to assist it in making prudent decisions and will continue to do so.

▲ **Safeguard 2:** TPC is a limited liability company and its participation in the Wuskwatim Power Limited Partnership is as limited partner, which means that NCN's assets are insulated from the partnership's operations and so NCN's maximum exposure is capped at its out-of-pocket investment. No other assets or sources of NCN funding would have to be used to repay these loans.

▼ **Risk:** *TPC could lose limited liability due to participation in the management of the business.*

▲ **Safeguard 1:** TPC will employ NCN Members and will retain professional legal and business advisors to assist it in making prudent business decisions.

▲ **Safeguard 2:** TPC is itself a limited liability company, which further insulates NCN's assets from the partnership's operations and risks.

▼ **Risk:** *A future provincial government could sell Manitoba Hydro, like MTS was privatized several years ago.*

▲ **Safeguard:** A privatized Hydro would still be bound by the terms of the PDA.



Training acquired for Wuskwatim can also be used to secure jobs on other projects planned to take place in northern Manitoba.

▼ **Risk:** *Hydro's right to act in the best interests of the integrated power system, without specific regard for maximizing Wuskwatim's potential, could result in lower returns than otherwise possible.*

▲ **Safeguard:** In exercising this right, Hydro must act in good faith and for legitimate purposes, tied to the best interests of the integrated power system, of which Wuskwatim is a part.

### Community Change

▼ **Risk:** *The six-year period of construction could create social change in Nelson House and among NCN Members as a result of a potential influx of people, money and social problems into the community.*

▲ **Safeguard:** Planning for the project has included an assessment of potential social impacts on the community and contingencies have been developed:

- An NCN Coordinated Response Committee will be established to monitor impacts in the community, review results and recommend adjustments in approaches to issues as they arise.
- The committee will help manage health and social well-being effects.
- Involving NCN service providers will be important to improve opportunities for NCN Members and minimize community difficulties.
- The committee will facilitate effective communication among key organizations and with NCN Members.

### Employment

▼ **Risk:** *While the project provides job preferences and direct-hiring opportunities for NCN Members, there is no guarantee of a specific number of jobs.*

▲ **Safeguard 1:** Over 300 NCN Members have already received training and have gained skills and experience necessary to qualify for jobs related to the Wuskwatim project.

There will be more jobs in the later years than in the first couple of years and more jobs in the summer season than in the winter season. During the busy months, the project workforce will peak at about 150-350 workers, falling to about 50-180 workers in the slower months.

After construction is completed, there will be few jobs and business opportunities directly related to Wuskwatim, although there will be some ongoing monitoring work, and some NCN Members will likely get jobs doing some of the field studies.



Personal commitment is a key factor in long-term employment success.

The key to long-term job security is the training, skills and experience gained by NCN Members, which can be used to secure jobs on other projects planned to take place in northern Manitoba in the coming years.

A key factor in securing jobs and long-term opportunities is the personal commitment of NCN Members to completing training programs and understanding and meeting employer expectations on the job.



Culture and traditions will be respected and shared during the Wuskwatim construction phase.

▲ **Safeguard 2:** Cultural liaison officers will be on site to provide counselling and to conduct cultural events and cross cultural activities. A defined program is in place.

### **Project Presence**

▼ **Risk:** *If NCN decides not to be a partner after construction is completed, there will still be a hydroelectric generating facility within NCN's territory that can't be removed.*

▲ **Safeguard:** NCN would still be entitled to adverse-effects compensation, annual payments from the Transmission Development Fund and job and business opportunities. ATEC would remain in Nelson House and NCN Members would continue to benefit from the training and education offered at the centre.

This document uses simple terms rather than technical ones. For example, it may say "NCN and Hydro" or "the partnership" rather than "the Wuskwatim Power Limited Partnership", or "NCN" rather than the "Taskinigahp Power Corporation", or "shares" instead of "partnership units", or "profits" instead of "distributions on partnership units". Please consult the PDA directly for precise legal drafting.



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