



# WUSKWATIM IMPLEMENTATION NEWS

## SPECIAL REPORT

*The purpose of this newsletter is to keep NCN Citizens informed and up to date about the various issues related to Wuskwatim rather than relying on mainstream media reports about what is happening at the Public Utilities Board (PUB) hearings currently underway in Winnipeg.*

***Chief and Council want to assure NCN Citizens that our goals remain the same as they were throughout our negotiations for the PDA and the PDA Supplement. We are working cooperatively with our partner, Manitoba Hydro, to address the impacts of global conditions on our project.***

## Wuskwatim Remains a Key to Our Social and Economic Sustainability

Our Vision for the Nisichawayasihk Cree Nation is to exercise sovereignty that sustains a prosperous socio-economic future.

We started our journey towards this vision when we ratified the 1996 NFA Implementation Agreement. Our intention at that time was to use our settlement with Manitoba Hydro as a stepping-stone to self-sufficiency. We bought the Mystery Lake Hotel and developed numerous programs and services to better the lives of our people.

### We are Committed to Long-term Benefits

In 1999 we made a monumental decision to take the steps necessary to build a new relationship with Manitoba Hydro. As a community we decided to consent to the development of a new hydro project within our traditional territory as long as there would be long-term benefits for our people.

In 2006 we voted to approve a new business relationship with Manitoba Hydro. The signing of the Wuskwatim Project Development Agreement provided the foundation for the planning and construction of the Wuskwatim Project. It established a partnership between NCN's wholly owned company, Taskinigahp Power Corporation and Manitoba Hydro. Our project began generating power last June and was fully operational by October.



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### Protecting our Assets and Interests from Negative Impacts

Unfortunately, during the construction period, the world economy has been struggling and the energy market has undergone major changes.

Throughout negotiations leading to the Project Development Agreement and during construction, NCN's goals have been:

- To acquire and maintain 33% ownership in the project
- To keep our investment for the life of the project while protecting NCN's assets and interests from catastrophic events
- To repay project loans
- To ensure benefits for our people now and seven generations from now.

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Although the world around us has changed, these remain our goals.

The Public Utilities Board, an independent body that regulates Manitoba Hydro is now hearing evidence and other submissions and will make decisions about applications for rate increases. The hearing underway is the first since Wuskwatim became operational and questions are being asked about our project, its finances and its relationship to Manitoba Hydro's finances.

### Dividend Loans Ensure Cash Flow in Early Years

Due to the high initial capital costs involved in developing hydro-electric projects, they generally lose money initially as the loans are being paid off. Historically, they make money over time. Wuskwatim was expected to follow this

pattern, which is why we negotiated the Dividend Loan provisions in the original PDA to establish a mechanism to provide a cash flow to the community in those early years.

### Other Options Provide Benefits

We also negotiated other options including payment of an annuity if a decline in revenue was anticipated between 2006 projections when the PDA was signed and updated projections at the time the first turbine generator went into service. As we discussed with the community last spring, based on the projections, we anticipated an annuity would indeed be paid. Since then we have been discussing the interpretation and application of our agreements with our partner to ensure our goals can be met.

## Risk has Always Been a Factor But Safeguards Exist

The Wuskwatim investment is still sound. From the time negotiations on Wuskwatim began in the late 1990s, various potential risks of investing in the project have been identified and reported many times to NCN Citizens at Meet and Greet meetings and in earlier editions of the Wuskwatim Implementation News. Knowing the potential risks allowed NCN to build safeguards into its agreements with Hydro.

These risks and their impact include:

### Construction Risk Resulting in Capital Cost Escalation

Since construction began, the cost of construction more than doubled, which escalated the amount NCN was required to pay for its investment. This resulted in developing additional loan options for NCN to keep the investment affordable.



### Interest Rate Risk

If interest rates escalate during the period NCN is repaying its project loans to Hydro, NCN loan repayments would increase. Fortunately interest rates are at historic lows and not currently a factor.

### Exchange Rate Risk

Since Wuskwatim power revenues are based on export sales they are affected by the Canada/U.S. dollar exchange rate. Higher-value Canadian dollars cut into Wuskwatim profits. Since negotiations began the Canadian dollar has fluctuated between a low 60-cent U.S. range to as high as \$1.10 but has been sitting around par with the U.S. dollar for many months.

### Export Sales Risk

There are factors in the U.S. economy that may cause export prices to stay low for many years. The PDA provides a minimum dividend to NCN.

### Demand Risk

Related to export sales risk, reduced demand for power reduces the amount Hydro can charge for the power, which cuts into profits and may result in selling power at less than the cost to produce it. Fortunately, domestic demand for power is increasing by 80 megawatts per year which means Manitoba will be able to absorb Wuskwatim's production.



*In spite of the risks and significant changes in the energy marketplace in recent years, Wuskwatim continues to offer value as an investment.*

## Risk Protection for NCN is Evolving to Meet Changing Market Conditions

The original PDA included a number of downside risk protections for NCN, which have been discussed many times before. Prominent among them is that NCN can get out of the project at years 25 and 50 without debt and with all of its invested cash returned without interest. It can also get out at any other time with no remaining debt but with the loss of its equity investment.

### ■ Changing External Factors Resulted in the PDA Review and Supplementary Agreement

Escalating construction costs, a dramatic increase in the value of the Canadian dollar and the global recession that threatened the viability of the NCN investment, resulted in the PDA review in 2009/10. That process concluded with the PDA Supplementary Agreement with additional options available for NCN to ensure the investment remained viable and benefits continued, including a

preferred-unit option and a 10-year annuity. The annuity ensures NCN's income at levels projected in the 2006 Project Development Agreement. NCN continues to receive water rental payments from the Province.

### ■ Additional Factors Lead to Further Negotiations

Since the Supplementary Agreement was concluded in 2010, additional factors in the energy marketplace that could negatively affect NCN's Wuskwatim investment have resulted in further negotiations, which are still underway. These include residual effects of the recession that continue to reduce demand for, and revenues from export power. As well, the large increase in low-cost natural gas supplies from fracking gives electric utilities the option to cost-effectively build their own gas generators to produce cheap electricity close to home, rather than buying power from Manitoba Hydro.

## Wuskwatim Continues to Be a Valuable Investment

In spite of the risks and significant changes in the energy marketplace in recent years, Wuskwatim continues to offer value as an investment for NCN.

Wuskwatim is a business deal just like our hotel. The amount of revenue we receive depends on the amount of cash we invest. As we discussed last spring, based on export projections a year ago and by fully using the 10-year annuity Wuskwatim would create significant benefits for NCN.

During the community meetings, a large majority of Citizens completing our informal survey told Chief and Council they wanted to pursue investing the \$40-million bond held in Nisichawayasihk Trust and the additional \$2.5 million from Taskinigahp Trust into Wuskwatim – provided the original amount would be repaid within 10 years. Third-party loans were also considered but respondents were not as keen on using further loans.

### New Options to Protect NCN's Investment

Since May, NCN and Manitoba Hydro have been in discussions to finalize the investment, but discovered that because of ambiguity in the Supplementary Agreement language, each side has a different interpretation of how the annuity formula would work. Both parties decided the most prudent approach was to negotiate a resolution. NCN is currently negotiating a further series of options that would replace the annuity to ensure NCN continues to receive benefits for the life of the project for current and future generations.

In addition, NCN received the 2012 export projections and the close-to-final capital costs, which further clarify the financial and investment picture.



## Steps to a Final Decision on the Wuskwatim Investment

NCN hopes to have the PDA Supplementary Agreement #2 completed within the next two months. After that, NCN will proceed with amendments to the Election Code and Referendum Rules and conduct community consultations on the new PDA Supplementary Agreement to review options available for our investment decision.

In the end, NCN Citizens will need to vote in a referendum on using the assets in the two trusts. Chief and Council ask NCN Citizens to support this approach since we stand to achieve greater benefits by continuing to invest our assets in Wuskwatim rather than in the marketplace where the returns remain around only two percent.

***Please do not hesitate to contact a member of Chief and Council so we can try to answer any questions you may have about these very complex issues.***

### Wuskwatim Implementation Office

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Wishing You  
A Joyous  
Holiday Season



**From  
Management  
and Staff of  
the Wuskwatim  
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Nisichawayasihk Cree Nation

**Wuskwatim Implementation Office**

Ensuring the Future of Our Children & Our Children's Children...



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