




WUSKWATIM IMPLEMENTATION NEWS


April 2008




NCN is Protected from Changes that Could Affect the Wuskwatim Project


Over the past two years, several factors have affected the Wuskwatim project and contributed to changes in project costs. The revised project cost estimate is \$1.6 billion, up from \$1.2 billion at the time we signed the PDA. Some of these factors are:

 **The Strong Demand for Resources**, propelled by growth in Asia, has increased the cost of basic commodities including petroleum, steel and concrete that are essential to constructing the project.


 **The Robust Canadian Economy** particularly in western Canada fuelled by Alberta's hot petroleum-based economy has created high demand for skilled workers. This has created shortages elsewhere and forces up labour costs, making it hard to attract and retain workers. Contractors have several projects to choose from and may increase their bid prices to hedge against rising costs or to sell their services to the highest bidder. On the other hand, the recent cooling of the American and Canadian economy could have a broader effect and temper the demands on the construction industry.


 **The Canadian Dollar** over the past 19 months since the PDA was signed has fluctuated 21.6 percent with an overall upward trend. This increase is caused by the falling US dollar but also, in part by the high prices of commodities like oil and

metals, which Canada produces and sells to the world, as well as the sub-prime mortgage fiasco in the US banking system. A benefit of the rising dollar to the project is that any items paid for in US dollars are less expensive. The weakened US dollar results in lower export revenues.

 **Demand for Energy is Growing** On the positive side the demand for clean electrical energy is growing, as is its value, not only in Manitoba but also within the huge American market south of the border. Just this January, Minnesota Power announced it is considering a long-term agreement for 250 megawatts of power from Manitoba Hydro. It is looking at an initial purchase of surplus energy to begin this year, with a second 15-year-term purchase beginning in 2020.

This would be in addition to the current agreement with Northern States Power Company (an Xcel Energy company) for \$1.7 billion which is expected to be replaced by a new 10-year \$2.2 billion contract as of 2015. Furthermore, it is anticipated export rates may also increase once the overall increases in construction become fully factored into the cost of producing energy.

 **What About the Future?** Considering the many changes that have occurred in less than two years since the project started, trying to predict the economic environment over the four years remaining to complete the project is difficult.






 **We're Protected** Regardless of what happens in the next four years, the PDA is structured to protect NCN's investment and it is not necessary to make any decision to fully invest in the project until the final costs and energy prices are known.

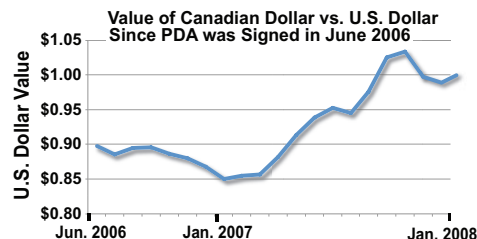
MESSAGE FROM CHIEF AND COUNCIL

It's been more than a year and a half since NCN signed the Wuskwatim Project Development Agreement (PDA) with Manitoba Hydro to become partners in developing the 200-megawatt hydroelectric generating station on the Burntwood River. Considerable progress has been made on the project since then. However changes to the business environment including such factors as the rising Canadian dollar could eventually impact the project positively, negatively or both. This newsletter is intended to provide useful information to update members on the project and the impact on NCN so read on to gain some insight into what's happening.

Chief Jim Moore and Councillors Ron D. Spence, Shirley L. Linklater, D'Arcy Linklater, Patrick Linklater, Agnes M. Spence, Marcel Moody.

Some Factors That Affect the Wuskwatim Project

-  Demand for Resources/Materials ↑
-  North American Economy ↑
-  Canadian Dollar ↑
-  Labour Demand ↑
-  Energy Demands ↑





Project Development Agreement (PDA) Safeguards NCN's Investment

Thanks to the foresight and diligence of our past and present Chiefs and Council, our Future Development Team and the full participation of NCN Members, many safeguards are in place in the PDA and related arrangements to protect NCN's interests and investments. These arrangements take into account the changes that can occur over the life of a multi-year project.

NCN is Not Required to Commit to Ownership Until 2012

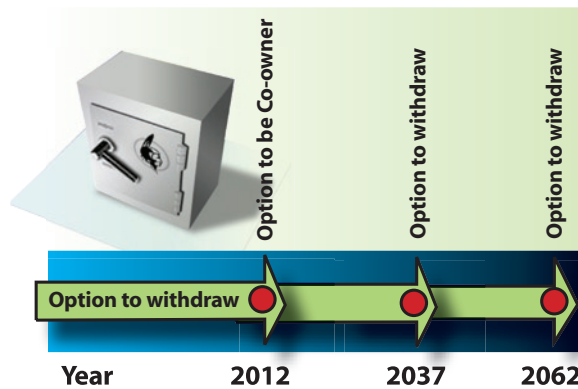
Primary among our safeguards is the provision allowing NCN to wait until the first Wuskwatim Power Generator is turned on in 2012 before deciding whether it still offers a sound business investment and if we want to continue being a partner in the Wuskwatim Power Limited Partnership.

The Project Development Agreement only required an initial investment of \$1 million at the time we signed the agreement and, if we decide not to proceed, this money and any other moneys we pay in the meantime will be refunded. The only thing we would forego is the interest on those moneys, but with interest rates still very low, it currently makes more sense to continue enhancing our equity position. If we decide to proceed, we have further opportunities on the 25th and 50th anniversaries of the date the PDA was signed to withdraw from the partnership.

Potential Changes to Economic Environment Prompted Safeguards

The safeguards were put in place with the knowledge that many things can change over the project's six-year construction

NCN's Wuskwatim Investment Options



period, like the widespread increase in construction costs or currency fluctuations currently being experienced.

In the remaining four years before the project is completed, circumstances may change again, including the possibility of increases in the value of energy, which could offset increased construction costs. On the other side of the coin, it's possible alternative sources of energy may reduce the price for hydroelectric power.

By the time the project is complete however we will know the actual construction costs and the energy markets at that time providing a better basis for making our final decision to participate as a full partner with access to profits from the sale of electricity.

Few opportunities in life match this kind of arrangement.

Further Protections After 2012

Even after 2012 if NCN decides to own up to one third of the project there are further protections and safeguards for NCN. Here are some of them:

- ✔ If NCN decides not to be a partner after construction NCN would still be entitled to adverse-effects compensation, annual payments from the Transmission Development Fund and job and business opportunities.
- ✔ Through Taskinigaahp Power Corporation (TPC), NCN's assets are insulated from the partnership's operations and NCN's maximum exposure is capped at its out-of-pocket investment for up to 50 years.
- ✔ No other assets or sources of NCN funding would have to be used to repay any loans.
- ✔ 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 if NCN does not have the cash.
- ✔ If unanticipated events (such as extended droughts, a decline in export markets or prices, project repair work, currency fluctuations etc.) result in no profits, or even losses, Manitoba Hydro is obliged to purchase all the power regardless of whether it is able to sell it.
- ✔ NCN can withdraw from the project at the 25- or 50-year anniversary. If it does, 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 plus interest in ATEC loans are repayable. The \$1 million plus interest loan is being repaid in annual payments as per an agreement between NCN, Hydro and the Province. At Initial Closing, NCN repaid a loan for \$800,000 plus interest.
- ✔ If a future provincial government were to sell Manitoba Hydro, like MTS was privatized several years ago, a privatized Hydro would still be bound by the terms of the PDA.



Wuskwatim Project Benefits Flowing to NCN

Wuskwatim is expected to generate financial benefits long into the future once the generating station is operating. In the meantime, we have already experienced considerable benefits prior to the signing of the PDA and are continuing to experience benefits during construction.

Some of these benefits include:

■ Project Employment for NCN Members

Since construction started, just over 200 NCN members have been employed on the project. The project is expected to generate several million dollars in wages to NCN Members during construction. Manitoba Hydro has hired several NCN Members directly for jobs created by the Wuskwatim project.

■ NCN Businesses and Joint Ventures Involvement

NCN businesses and NCN joint-venture business partnerships could realize \$100 million in revenues for direct-negotiated project contracts for: access road construction, main camp sewer and water construction, site preparation and maintenance, security services, catering services, cross-cultural training and on-site counselling and transmission-line clearing.

■ Funding Advances for ATEC

Advances of \$4.5 million have been received for the Atoskiwin Training and Employment Centre of Excellence (ATEC) with an additional advance of \$1.2 million for building the recently completed ATEC teacherages.

■ Substantial Funding for Training NCN Members

Training opportunities valued at \$11.5 million are being made available to NCN Members and others living in the Nelson House Northern Affairs Community to acquire skills for jobs on the Wuskwatim and Keyask projects. These skills will be transferable to other projects as well.

■ Funding for Wuskwatim Transition and Implementation

As agreed to in the PDA, \$2.7 million in funding is being provided to NCN to finance Implementation activities, including member communication, partnership and project committee costs and costs to operate the Implementation Office (successor to the Future Development office).

■ Added Benefits Available Even If We Don't Become a Co-Owner

Even if we decide in 2012 that the project no longer makes economic sense for us and we do not continue to be partners in the project, we will be entitled to additional compensation, including:

- \$5.7 million in adverse-effects compensation which will be directed to the Taskinigahp Trust created to hold NCN's share of financial benefits from the project. \$1.5 million plus interest has already been paid into the trust.
- An annual payment for the life of the Transmission Project from the transmission development fund.

■ Some Other Long-term Benefits of the Project

- Creation for NCN of a large database of information on the resources in the Nelson House Resource Management Area obtained through environmental studies for the project. This included NCN's input of Traditional Knowledge and Wisdom (Ethinesewin) along with Western Science.
- Development of capability within the NCN Community to conduct environmental monitoring activities in the north. We hope to be able to educate some members so we can sell this service to others. We also hope to establish successful employment agency service as part of the monitoring functions, not only for Wuskwatim but for other projects.
- Recognition and accommodation of Aboriginal Ceremonies for the Wuskwatim project including hiring an on-site cultural liaison officer to oversee cultural activities and assist all workers on the project, including Aboriginal People. NCN's customary laws were also recorded and are being brought to the attention of all workers on the project.

Current and Past Benefits of the Wuskwatim Project





Looking for a Wuskwatim Job?

We can help.

Contact Fred Prince at the Atoskiwin Training and Employment Centre of Excellence (ATEC)

PH: (204) 484-2886



WUSKWATIM IMPLEMENTATION OFFICE

NCN Portfolio Holder

Councillor Marcel Moody

Staff

Norman Linklater

Implementation Coordinator

Alvin Yetman

Associate Implementation Coordinator

D'arcy Linklater Jr.

Contract/Finance Administrator

Crystal Wood

Finance/Administrative Assistant

Susan Kobliski

Cultural Coordinator

Eva Linklater

NCN Archaeologist

Joe Moose

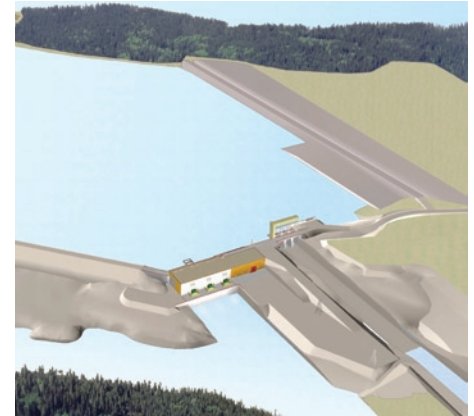
Site Counselor

Christine Sawatsky

Site Counselor

Search for General Contractor to Build the Generating Station is Underway

You may have seen recent media reports saying that negotiations had ended between Manitoba Hydro and Peter Kiewit & Sons Ltd. (PKS) for the role of general contractor to build the project's concrete structures, earth-fill dams, dykes, channel excavation and other related works. PKS initially came closest to meeting Manitoba Hydro's requirements following a call for tenders that closed last fall, however, PKS and Hydro were not able to reach a mutually acceptable agreement for this work. This situation is somewhat unusual but just part of doing business.



Work Continues on the Project

This has not stopped work on the project and infrastructure. Instead, separate work packages have been created so that project construction is not delayed. Site preparation work continues and must be completed before the remainder of the work to be undertaken by the general contractor can begin. PKS, under a separate contract, is already working on the Stage I cofferdam and structures-area excavation work and Hydro expects this work to be completed this spring.

Hydro is Confident a Solution Will Be Found

Hydro is addressing this situation and pursuing several options including initiating discussions with other large contractors who are capable of building the project including some which had initially expressed interest but did not submit a formal bid. Hydro is confident a contractor(s) will

be found that will meet construction requirements, timelines and costs. Since the first tender calls went out, a lot has changed. With the downturn in the US economy and project cancellations elsewhere in Canada, the overheated construction industry is cooling and contractors are more interested in the project.

NCN through its representation on the Wuskwatim Power Limited Partnership board is being kept fully informed on progress in finding a general contractor and special meetings are held to provide updates and ensure that NCN's views are made known as the process unfolds.

In-service Date Still on Target

The projected 2012 in-service date should not be affected because considerable lead-time is factored into the building schedule to accommodate unforeseen circumstances. The overall project cost, based on the late-2007 revised estimate is \$1.6 billion.

For more information contact:



Nisichawayasihk Cree Nation

Wuskwatim Implementation Office

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



Nisichawayasihk Cree Nation • Box 405 Nelson House, MB
R0B 1A0 • Telephone: (204) 484 2414 • Fax (204) 484-2980