

INTRODUCTION

Michael J. Wilson, CA, FCA - prior to my retirement in 2013, I was an executive partner with a global professional services firm. I have significant experience in negotiating and/or reviewing complex multi-entity, multi-jurisdictional contracts and agreements. I also have significant experience in designing and deploying effective oversight mechanisms focused on critical corporate functions and initiatives.

I was appointed to the Independent Churchill River Oversight Panel (the Panel) because of my independence, orientation, skills and experience. I resigned on May 12, 2025 because, in my view, the independence of the Panel became impaired and I no longer believed the Panel's reports would meet the public's expectations and need for an independent analysis supported by a full and frank commentary.

My objectives in providing this commentary and analysis are: to provide a healthy challenge to published information; facilitate a more informed discussion; and encourage a more balanced outcome. This commentary and analysis is limited by the content of public information and the facts and assumptions stated herein, it should be read with the appropriate caveat. It was prepared after the release of the Panel's second quarterly report. I was not involved with the preparation of the second report released in July 2025.

The July report does not provide any findings arising from a detailed review of the MOU; it does not provide any insight as to the reasonableness of projected costs, risks or if the projected benefits are fairly stated; it does not identify open items to be negotiated or key decisions to be made during ongoing negotiation process; and it provides little insight as to the specific oversight mechanisms deployed by the Panel to ensure public policy and commercial objectives will be achieved.

The MOU is long and it's complicated therefore it is unlikely many would take the time to unravel its complex verbiage, identify information gaps and develop a perspective as to *if* the economic benefits are balanced or would materialize as projected. Consequently, the public at large is dependent upon those who have the time, interest and skills to review the MOU in detail and assess the fairness of the value sharing between the parties. My analysis, while limited in scope, indicates there may be significant opportunities to improve the anticipated outcomes for the province, in particular with respect to **pricing**.

Issues for discussion include but are not limited to:

1. What is the justification for selling 40% of the "value" of Gull Island (GI), the most valuable undeveloped resource in the province, without an independent valuation? The transaction "price" and other commercial terms require an enormous amount of scrutiny.
2. What is the justification for selling existing Churchill Falls (CF) power to Hydro Quebec (HQ) at a "price" at least 50% lower than the current replacement "cost"? How does this represent fair "value"?
3. What is the justification for selling 100% of the power from all new developments to HQ for a "price" equal to the "cost" to generate, without a "price" escalation clause tied to the

increase in the “value” of the power? The proposed pricing mechanism provides a lower rate of return than the 1969 contract.

The opportunity to renegotiate the 1969 CF contract and monetize the potential of the proposed new developments could be transformational *if* the full value is captured by the province.

CONFUSION AND FEAR

The MOU debate has resulted in much confusion and expressions of fear. The MOU is very confusing, to a large extent because it intertwines two distinctly different types of negotiations into one agreement.

- The first, a renegotiation of the existing CF power purchase agreement (PPA) is inherently a distributive negotiation in that CF(L)co generates the power needed by both HQ and Newfoundland and Labrador Hydro (NLH) and the primary issues to be agreed are “price” and volume allocations. All Parties have access to CF(L)co information, so it is difficult to accept the existence of commercially sensitive information in this situation.
- The second, is inherently an integrative negotiation in that NLH and HQ agreed to: cooperate and collaborate *transparently* to create the maximum value from the new developments and agree how that value is to be shared in a fair and equitable manner going forward (ie. 60/40) and then agree to “price” and volume allocations. Given the expressed and agreed need for *transparency*, it is difficult to accept the existence of commercially sensitive information at this stage of negotiations.

The industry, commercial and accounting terms used throughout the MOU are unfamiliar to many and may cause confusion. Many press releases, including direct quotes from politicians and both senior hydro officials, have also added to the confusion and highlight the frequent misuse and possible misunderstanding of terms such as cost, price and value. To clarify, “*cost*” is an accounting term, a calculated number that may be audited to ensure its accuracy and completeness. “*Price*” is the transactional amount agreed between a buyer and a seller paid to acquire a commodity. “*Value*” is an estimate of the monetary worth of the commodity to be acquired. “*Value*” may differ significantly from both “*cost*” and “*price*”.

Added to this confusion is the great fear expressed by many that:

- the lessons learned from previous mega projects may not be heeded;
- the posture and negotiating tactics of HQ may dominate the structure and flow of ongoing negotiations and balance the outcomes in favor of HQ;
- HQ will have 100% control over the design, construction, financing and timing of any new development on the Churchill River (CR) until 2041;
- entities with existing business relationships with HQ may have a significant competitive advantage in obtaining contracts;
- the NLH preliminary cost projections are dated therefore likely unreliable;
- HQ has not publicly agreed to NLH preliminary cost projections and significant differences may occur upon the completion of new and or updated studies;
- the NLH benefit projections are based upon a significant number of hypothetical assumptions long into the future and consequently may not materialize as projected;

- the potential for management and political bias is ever present in public representations (Fact Sheet, press releases etc.);
- effective oversight mechanisms have not been and may never be effectively deployed; and
- scheduled reports and updates may not meet the needs and expectations of the public.

KEY FINDINGS – it's all about Price, Price and Price

Renegotiation of the 1969 CF PPA

A detailed review of the terms of the MOU and other publicly available information related to the 1969 CF PPA renegotiation result in the following key findings:

- ***The CEO of NLH stated “the worth of CF to HQ is between 11-13 cents” however the power will be sold to HQ for an agreed average price of 5.9 cents (pv).***
- According to the MOU the “price” paid for CF power is intended to reflect the projected fair “value” of the power, however it is unclear how and when this objective will be accomplished.
- HQ will not pay 11 cents until 2050 – 25 years hence.
- The initial 1969 price of approximately .03 cents equates to approximately 2.6 cents today. HQ will continue to pay less than 2.7 cents until 2030 – 61 years later.
- The new CF PPA appears to be a firm price contract as the stream of payments set out on Schedule G have been predetermined to target \$33.8 billion (pv).
- The MOU is unclear as to the relationship between the amounts paid by HQ to CF(L)co prior to 31/12/41 (\$19.8B - 10%) and the amounts to be paid thereafter (\$174.8B - 90%).
- It would appear that the payments prior to 2042 may simply be an advance (perhaps to help address the GNL short-term fiscal needs) of payments otherwise payable thereafter.
- In any event, ***it is questionable if the financial benefits accruing to the GNL arising from HQ payments payable after 2041 (amounting to 90% of the projected benefits) can reasonably be attributed to the early termination of the 1969 CF PPA.***

The shared economic benefits from the renegotiation of the CF 1969 PPA may be summarized as follows:

- Depending upon the true nature of the relationship between the pre and post 2042 payments, CF(L)co may receive between zero and \$19.8 billion in “additional” revenue from HQ throughout the term of the new CF PPA.
- The price of 5.9 cents (pv) is considered to be approximately half the cost of clean renewable energy alternatives available in North America thus saving HQ approximately \$194.6 billion throughout the term of the new CF PPA.

The CR New Developments

A detailed review of the terms of the MOU and other publicly available information related to the proposed new developments on the CR result in the following key findings:

1. CF Upgrade and Expansion

- ***Similar to the 1969 contract, there is no mechanism in the MOU to provide for an escalation in “price” should the fair “value” of power from the CF upgrade and CF expansion increase in future years.***

- Construction cost overruns for the CF upgrade and CF expansion will not be “funded by HQ”, rather they will be capitalized in the financial accounts of CF(L)co and funded by new CF(L)co debt.
- At the end of the contract approximately 23% of the original capital cost including cost overruns for the CF expansion will remain on the books of CF(L)co to be recovered from future off-takers.
- The projected return on investment (ROI) for NLH from the CF upgrade and CF expansion is approximately \$90 million per year or approximately \$4.5 billion over 50 years.

2. Gull Island Joint Venture (GIJV)

- ***The MOU provides that HQ will acquire certain rights and a 40% interest in the future value of GIJV, the most valuable undeveloped resource in the province. It would be helpful if a fairness opinion or discounted cash flow calculation was provided to support the transaction price, but such is not the case.***
- ***Similar to the 1969 contract, there is no mechanism in the MOU to provide for an escalation in “price” for the GI power should the fair “value” of power increase in future years.***
- The MOU sets out the agreed volume allocations and provides that the “price” shall equate to the “cost” (as set out in the new GI PPA’s) estimated by HQ to be 11 cents on average.
- It should be noted that the HQ 11 cents estimate appears to be a nominal dollar estimate not a present value (pv) estimate.
- NLH have not provided a nominal dollar or present value estimate.
- ***Using a discount rate of 5.822%, for 51 years, an 11-cent average equates to a present value average of approximately 3.5 cents – 2.4 cents less than the very low average price to be paid for the CF power.***
- The present value of 11 cents in 2085, discounted at 5.822% is .037 cents.
- The MOU provides that HQ will have 100% control over the design, construction, financing and timing of the Gull Island (GI) development until 2041.
- The MOU provides the power block (2250 MW’s) generated by the GI development will be allocated 100% to HQ throughout the term of the contract.
- Cost overruns for GI project will not be “funded by HQ” rather they will be capitalized in the accounts of GIJV and funded by new GIJV debt.
- At the end of the contract approximately 23% of the original capital cost including cost overruns will remain in the accounts of GIJV to be recovered from future off-takers.
- For the GIJV investment NLH will receive a ROI of approximately \$317 million per year or approximately \$16 billion over 50 years.

The shared economic benefits from the new developments may be summarized as follows:

The CEO of HQ has stated “the price paid for the power from the new developments is the lowest price possible for HQ and will provide over \$200 billion of cost savings compared to existing alternatives”. Approximately \$4 billion per year.

The total projected ROI for NLH related to the new developments will amount to an estimated \$20.5 billion or on average \$410 million per year, with zero possibility of a “price” increase resulting from an increase in the fair “value” of the power.

Should one apply the commercial terms set out in the MOU for the proposed new GIJV to the 1969 CF(L)co project the following would result:

- ***Cost of approximately \$1 billion***
- ***75/25 debt to equity ratio; and 65% ownership***
- ***equity investment required = \$1B x 25% x 65% = \$163 million***
- ***Annual return of 8.5% per year = \$13.8 million for 56 years = \$773 million total ROI.***

The total return related to the ill-fated 1969 contract for GNL is estimated to be \$2 billion while QC is estimated to have received an estimated \$28 billion. The MOU proposes a lower rate of return for the GIJV than the province received from the 1969 contract.

CONCLUSION

As confusing as the MOU may be, in part resulting from there being two significantly different agreements rolled into one and the lack of information and/or explanation of many key issues, the actual outcomes of the MOU will have significant impact on the wellbeing of every Newfoundlander and Labradorian for many years to come.

The GNL has an overwhelming responsibility to ensure the definitive agreements maximize the benefits and capture the *full value* of the CR for future generations.