Churchill Falls Agreement

Gull Island Development

The Gull Island Development provides Newfoundland and Labrador with significant financial and energy benefits while reducing long-term project risk.

The approach to Gull Island follows the Independent Churchill River Review Committee (IRC) recommendations:

Previous Approach (2024 MOU)	2026 Agreement
Two per cent escalation rate	Traditional cost-of-service model
Approximately $30 billion nominal debt ($1B NPV) at the end of the PPA	Approximately $5 billion nominal debt ($160M NPV) at end of the PPA
Higher financing costs and risk	Lower financing costs and risk
Significant burden on future taxpayers	Debt substantially recovered over contract term
Criticized by IRC	Consistent with IRC recommendations

Overview

- Newfoundland and Labrador Hydro (NLH) will hold a 60 per cent equity interest in the project.
- Hydro-Québec (HQ) will pay NLH $3.5 billion (2024 NPV) for the right to develop Gull Island.
- NLH will use the $3.5 billion payment to fund its 60 per cent equity share of the project.
- HQ will fund its own equity share and will finance the project.
- NLH is expected to earn an 8.5 per cent return on equity on its equity interest.
- HQ will purchase approximately 84 per cent of Gull Island's energy output through a long-term Power Purchase Agreement (PPA), providing the revenue stream that supports repayment of project debt.
- NLH will have the option to take up to 16 per cent of the project's energy output to meet future electricity needs and support economic development opportunities in the province.

How is this different from the 1969 Churchill Falls contract?

- 50 years not 65 years
- Capital costs, return on investment and operating and maintenance costs will be recovered through ratepayer revenues.
- The projected structure ensures that project costs are paid down over time rather than deferred to future generations.
- This agreement is fundamentally different from the 1969 arrangement because project costs and returns are incorporated into the cost recovery framework.

Benefits for Newfoundland and Labrador

- Lower future offtake prices from Gull Island could help support electricity supply needs in Labrador and create opportunities for future economic development.
- Competitive pricing becomes increasingly important as Churchill Falls prices escalate over time.
- Debt and operating costs will be substantially recovered during the term of the Power Purchase Agreement (PPA).
- That remaining debt is expected to be recoverable through a subsequent PPA, which both NLH and HQ would have strong incentives to negotiate.
- During the last 15 years of the amortization period, NLH is expected to sell power at market prices, projected to generate approximately $623 million NPV, more than offsetting the remaining debt.

Why was the two per cent escalation removed?

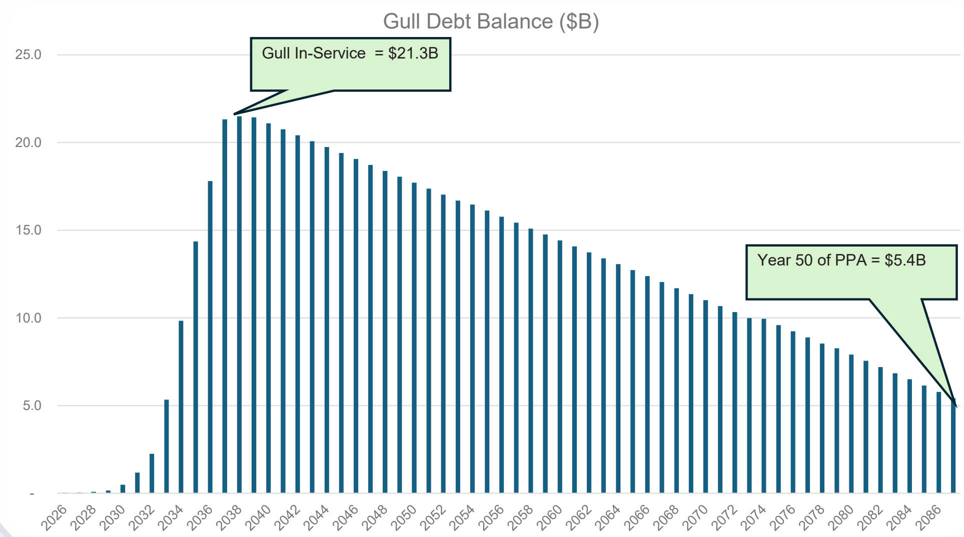
- The Independent Churchill River Review Committee (IRC) criticized the 2024 Memorandum of Understanding (MOU) because it applied a two per cent escalation rate to Gull Island.
- The IRC found that this approach would have left approximately $30 billion (nominal dollars) or $1 billion (NPV) in debt obligations at the end of the contract term, creating an unacceptable burden for future taxpayers.
- The IRC concluded that a traditional cost-of-service model would reduce financing costs, reduce risk, and decrease the overall cost of energy.

What is a cost-of-service model?

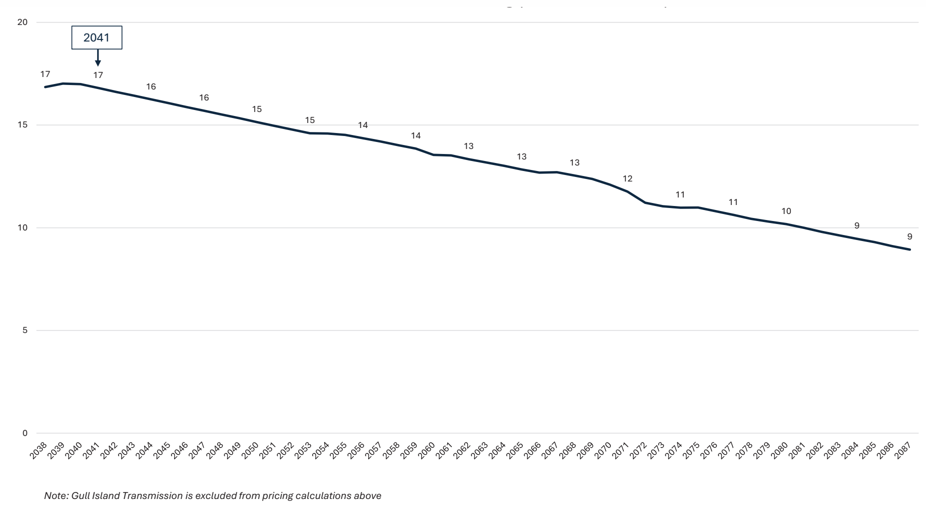
- The IRC report defines a cost-of-service pricing model as a regulatory framework in utility pricing that determines rates charged to customers on the basis of the utility recovering the total costs of providing a service, including depreciation, infrastructure, operation, maintenance and administrative costs, and a reasonable return of and on equity.

The 2026 agreement reduces long-term financial risk, lowers electricity costs, and avoids leaving future generations with significant debt obligations. It provides a more sustainable and financially responsible framework for the development of Gull Island while ensuring project costs are substantially recovered over the life of the agreement.

Gull Island Debt Balance Schedule ($B)



Gull Island Generation Pricing (Cents CAD / kWh)



a better deal for all of us

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