

STATEMENT OF EDMUND MARTIN MARCH 11, 2020

Statement from Ed Martin (Former CEO of Nalcor Energy) regarding the Commission of Inquiry Respecting the Muskrat Falls Project (the “Inquiry”) including the recently released final report of the Commissioner:

As a Party with Standing, I have followed the progress of the Inquiry since its inception in November 2017. Initially, I expressed conditional support for the Inquiry provided the process was based on a fair, open-minded and balanced approach, and provided the Inquiry considered the full suite of inputs and criteria impacting any evaluation of an investment of this magnitude. However, as the process began to unfold, it became clear that the Inquiry was focusing on proposing and aggressively pursuing various unsubstantiated negative hypotheses. The commission was clearly focused on only perceived negative aspects of the Muskrat Falls Project (MFP) while at the same time they aggressively limited discussion and disclosure of any positive elements and benefits of the MFP, including the ability to fairly mitigate the short-term rate impacts through a series of rate mitigation opportunities laid out in detail during my tenure as CEO of Nalcor.

The problem with such a one-sided approach is that the outcome flows from an improper, weak foundation at the expense of a balanced perspective of the overall issues, merits and net benefits associated with such a significant investment in the future of Newfoundland and Labrador. One thing is certain – for long term projects like the MFP or Hibernia investments, associated costs and benefits have to be considered over a long period of time. It is essential to ensure your assumptions are not based on what is happening as a short term “snapshot” of today or one year, but what is happening over the actual life cycle of the project, which in this case is 50–100 years. Since I left Nalcor, public support for the MFP has declined significantly from the consistent 60–65% level of support to what it is today. Since the change in Government and my departure, there has been no person or entity presenting a balanced view of the net benefits on the project, only a significantly increased focus on the perceived negative aspects. In addition, there has been a continuation of negativity from relatively uninformed opponents to the Project.

Therefore, the purpose of this statement is three-fold:

1. Provide a perspective on the balance and fairness of the Inquiry hearings and final report.
2. Provide a fulsome, comprehensive and balanced perspective comprised of consideration of a full suite of key factors impacting an assessment of an investment of this magnitude.
3. Outline how we secure the future.

1. Balance and Fairness of the Inquiry Hearings and Final Report.

Over a 40-year business career with major corporations, primarily involved with large construction mega-projects and operating major energy infrastructure entities, I have always conducted myself professionally and diligently, treating people and my responsibilities with respect and dedicated effort,

driven by what I considered the most ethical approach. I have never avoided or deferred the difficult decisions that had to be addressed and always brought the relevant facts and realities to the table necessary to finalize a decision, of which there have been many. Always with the understanding that “no decision” is actually a decision to do nothing – putting your “head in the sand” is not an acceptable approach, issues have to be faced straight up. I did not, and do not, find this approach difficult or easy, just necessary. My approach within Nalcor was similar to my approach with the other major companies in which I worked over my career.

In this context, having reviewed the Commission Report, I offer the following comments. The suggestion that I did not perform properly in areas such as disclosure, cost estimating, schedule development, options analysis and leading people and organizations are unfounded, and should not be accepted. As an example, the report suggests I did not inform the Government of Newfoundland and Labrador (GNL) or Nalcor’s Board of Directors (Board) of the \$300 million increase in the Project’s cost estimate prior to Financial Close. I find this suggestion incomprehensible as the report and evidence record that senior bureaucrats were aware, the Independent Engineer and the Federal Government were aware and Premier Dunderdale noted the following in her final submission: “It is Dunderdale’s recollection that she, and other senior officials, knew, at the time of financial close, that the capital cost estimate for the MFP had increased from \$6.2 billion to \$6.5 billion, but that there was a plan for this cost increase to be mitigated, and that the increase was offset by additional financing savings and benefits,” (p. 4, paragraph 11). In addition, from a Board perspective, in the transcript from the Chair of the Board, Mr. Ken Marshall, he states, “Certainly, this period of time, prior to financial close, we had discussed the 6.5”, (p. 23).

I also find it disconcerting, for example, that extremely important information regarding the overall benefits and merits of this project were summarized “deep” in the body of the report, Volume 2, pages 136-147; however, no mention was made of these facts in the Executive Summary – the only section many people may read from this large volume of documents. Such benefits include very significant financial and other benefits, including the following statement from the Commissioner: “I accept that the Project may well strengthen the Province’s negotiating position in preparation for 2041 and that this may result in a significant benefit.”

I addressed such topics in an in-depth, fact-based manner during my time on the stand, providing a logical, well-supported summary of each issue discussed even though in many cases an incorrect hypothesis was proposed and allowed to promulgate until I finally reached the stand, with no regard for evidence that contradicted this festering hypothesis.

The very early stage of the Inquiry – outlining terms of reference, interpretation of the terms of reference – appeared to present a balanced approach which was my understanding and expectation of the Inquiry process. However, once the hearings began it became rapidly apparent that Commission Counsel were pursuing an aggressive validation of a series of negative hypotheses, moving from one to another as facts proved to not support the negative hypothesis of the moment. The two, so-called “forensic audit” reports from Grant Thornton included several factual errors and multiple instances of incomplete and incorrect summaries of key information that Commission Counsel utilized to pursue several negative hypotheses before being disproven. Different “experts” had different and often

conflicting viewpoints, with any negative offerings clearly garnering favor and emphasis during the examination process. In any event, I endeavored to see the process through, seeking to dispel some of the incorrect perceptions when I had the opportunity to take the stand.

It is at this point, when I took the stand, my expectations of a fair, open-minded and balanced approach to the Inquiry were fully dashed, particularly when the Commissioner himself abandoned professionalism and openly attacked me, a willing and enthusiastic witness to the Inquiry, on the stand, as I fielded a myriad of questions from multiple parties to the best of my ability. I realized the Commissioner had made up his mind well before hearing all the evidence, and that the content, tone and direction of the report was already formed, thereby providing an indication of early bias and a harbinger of what was to come.

The fact that Commission Counsel(s), most entities with standing and their lawyers, and the Commissioner had limited knowledge and experience with mega-project execution and related processes, coupled with the extreme time pressure to complete the Inquiry in a timely manner and the sheer volume of material, drove the approach of Commission Counsel which focused on attempting to validate a series of negative hypotheses. The approximately 4500 documents entered as exhibits out of a total of nearly 6 million documents provided to the Commission primarily focused on promulgating a negative view of the Project. The majority of the 6 million documents were never made available to the Parties, significantly hindering the ability for Parties to present positions other than put forward by Commission Counsel. The documents that were provided to Parties were typically made available some twenty-four to thirty-six hours prior to commencement of a witness's testimony, and in some cases as late as 11:00 p.m. for an early morning witness or when the witness was on the stand. It is these types of issues and shortcomings that prevent us from taking the Commission's findings as an objective, well informed, balanced final statement of the Project's overall value to the province over the life of the Project.

2. Project Rationale

It is essential to consider the full suite of impacts the Muskrat Falls Project, including the Labrador Island Link and the Maritime Link (the Project) will provide to the people of Newfoundland and Labrador, summarized as follows:

1. We, as a province, need the power to meet increasing demand and replace the aging, Holyrood Thermal Plant – we cannot avoid addressing our future.
2. The Project provides the best overall net benefits to the Province compared to other options which, at mitigated shorter term rates that are reasonable and affordable, will lead to some of the lowest rates in the country over time.
3. Climate change leadership and green energy benefits – power generation in NL will now be 98% greenhouse gas (GHG) free with Holyrood broad array of pollution emissions eliminated, contributing to climate change mitigation and avoiding future risk of “cost of carbon” to the ratepayer – good for environment. Also displacing coal-fired generation in Nova Scotia (one of the first win-win inter-provincial energy agreements in Canada in decades, as opposed to the

Western Canadian pipeline stalemate or the long standing dispute between NL and Quebec over the fairness of the Upper Churchill arrangements).

4. Energy self-sufficiency – Province will be energy self-sufficient for generations to come – a 100-year asset.
5. Historic “New Dawn” agreement with Innu achieved.
6. Stabilization of electricity rates over a 50+ year period as we have removed our dependence on oil-fired electricity, subject to the volatility of global oil market pricing.
7. Increased electricity reliability – island now connected to North America both ways and no longer an isolated island.
8. Strategic benefit – positions us properly for the first time in history for the upcoming Upper Churchill negotiations with Quebec – we have proven our ability to provide two separate transmission paths to electricity markets, through both Atlantic Canada via subsea link and Quebec.
9. Jobs/employment/NL business opportunities/economic growth, particularly through the construction phase. (It is also important to note that a very substantial part of the increase in capital cost experienced by the project was actually paid to Newfoundlanders and Labradoreans in additional wages to the workers and economic benefits to the Province through payments to local businesses. In addition, income taxes associated with these wages and businesses were paid directly into NL Government coffers to benefit the people of the Province).
10. Buying not renting – investing in an asset we will own outright when the debt is paid off over 35 years similar to a mortgage on a house. The money we pay on rates used to pay down a mortgage as opposed to covering cost of oil to outside companies to generate electricity which is money gone when spent. We leave a fully owned, debt free asset for future generations with no more “mortgage payments” .
11. Interest rates – locked in at historic lows, coupled with a Federal Government loan guarantee saving greater than \$6 billion in interest over life of project.

3. Project Background

Fundamentally, Newfoundland and Labrador requires more power due to continuing load growth and the need to replace the aging Holyrood Generating station, a thermal-based generating facility which is reaching its end of life. In answer to this need, a detailed alternatives analysis was completed with independent external review and guidance resulting in the clear preference for MFP.

It is important to understand we are not alone with the need for new generating capacity as historically the North American electrical industry has gone through (and is currently going through) cycles of intensive capital expenditure to build and/or refurbish the electricity system. In December 2015, the President and CEO of the Canadian Electricity Association stated “Canada’s electricity grid is at an inflection point today.... Quite simply, much of the system built a generation ago needs to be replaced or refurbished.”

For instance, other jurisdictions, such as British Columbia and Manitoba, have also completed comparative analysis, and major hydro and transmission projects are currently in progress in those provinces (Site C dam project in BC and Keeyask Dam and Bipole 3 transmission projects in Manitoba) which, by the way, have also been experiencing cost and schedule changes as has the Hebron Project for instance. In addition, continuing closure and replacement of nuclear and coal plants throughout North America further demonstrates that the point of electricity renewal is once again upon us throughout the continent. It is important to note that during the 1960's and 70's, NL experienced rate increases greater than 70% as the electricity grid system on the Island was built and expanded to bring electricity to the full Province.

The MFP was sanctioned at a facilities capital cost of \$6.2 billion (\$7.4 billion including Interest During Construction "IDC"). Prior to my departure, I expected the project would be completed for a facilities capital cost under \$9 billion (\$10.8 billion with IDC). The turnaround of contractor performance had already been demonstrated and recorded in the year preceding my departure, and things were on track for a strong finish. Since my departure, a significant series of decisions and actions were undertaken in which I had no input or involvement, many which have significantly increased project cost.

Currently, it appears the stated facilities capital cost has grown to \$10.1 billion (\$12.7 billion with IDC), a significant increase (however, to be clear, still not a "doubling" of costs when comparing "apples to apples", i.e. facilities capital costs then to facilities capital cost now), and the schedule for first power has slipped 24 months, driven in many instances by decisions not expected or foreseen when the original budget was built and approved. Is this ideal or preferable? Absolutely not. Have other projects of this magnitude experienced cost overruns and schedule delays? Yes, others have, and the MFP is not out of line with cost and time overruns experienced by some other similar projects, possibly for different reasons. Is the Project still the right decision? Absolutely – the overall total net benefits to the Province continue to favor Muskrat Falls as the best option for the people of Newfoundland and Labrador.

When considering the cost of MFP, the all-in net cost to each person's monthly power bill is the relevant number to focus on, which includes not only the up-front facilities capital cost but also financing costs and operating costs over the life of the project, less amounts generated by the MFP which are available to be used to reduce rates – items such as return on equity (built into the rates that we are in essence paying to ourselves), excess sales revenue, and water rental charges.

The amounts generated by MFP available for rate mitigation are very significant, in the tens of billions of dollars over the project life. If these amounts are properly coupled with other demand-related factors, sensible operating cost reductions and financing adjustments, then the rate impact during the earlier years of Muskrat Falls can be mitigated to a reasonable level, at which point we will then enjoy some of the lowest rates in the country over the longer term, as we pay down the debt and own the facilities outright. These facts existed and were documented when I was still at Nalcor, and portions have been outlined recently at the Public Utilities Board by their consultants, The Liberty Consulting Group and Synapse Energy Economics, Inc. In addition, as noted in the Energy Plan, the goal of

investing some of our non-renewable (oil/gas) revenue into a renewable energy future was clearly stated and discussed – this opportunity still exists.

4. Securing the Future

It is essential we do not “lose sight of the forest for the trees” as we plan for the future generations of Newfoundlanders and Labradoreans. We are 500,000 people, blessed by an abundance of energy natural resources both hydroelectricity and oil/gas. We have port access to all international oil/gas markets (as opposed to Alberta landlocked status) and we have now established dual transmission access to one of the largest electricity markets in the world, Eastern North America. We have massive hydroelectricity resources remaining to be developed well past Muskrat Falls, and Nalcor’s oil/gas exploration strategy initiated during my tenure has yielded a “Near-record investment expected as ‘bow wave’ of activity heads for Newfoundland offshore, [with] \$4 Billion worth of exploration commitments in the works.” (CBC News Oct 10, 2019). We have an experienced, skilled and dedicated Newfoundland and Labrador workforce and managers who have a demonstrated ability to deliver in spite of roadblocks and challenges.

Our vision has been to develop both our non-renewable (oil/gas) energy resources and our renewable (hydro/wind) resources, with the objective of investing non-renewable revenues into renewable infrastructure to ensure future generations will always be prosperous even when the oil/gas is depleted because renewable hydro/wind will never cease. To this end, establishing existence of an alternative transmission access to markets other than through Quebec has been essential and successful. This means that NL’s negotiating position regarding Upper Churchill as we approach 2041 and the end of the current agreement is reasonable – we are well positioned and need to be vigilant in that we do not squander this position or surrender ownership of MFP.

Financial projections documented during my tenure as CEO of Nalcor clearly indicate that if we stick to the plan laid out by the Province and executed during my tenure, the combined net revenue to the people of Newfoundland and Labrador as we approach and surpass the 2041 Upper Churchill contract renegotiation will grow from hundreds of millions to billions of dollars. On a per capita basis, Newfoundland and Labrador will be one of the wealthiest and well-positioned jurisdictions in the world. It is essential we retain ownership and control of our strategic assets, including the most important, water rights.

We, as a people, need to stick to the plan. It will work. Look forward, not back – this is our time. Stay the course.