Creating Long-Term Value from the Churchill River for the People of Newfoundland & Labrador

Technical Briefing on the Report of the Independent Churchill River Review Committee

May 19th, 2026

Sample Reference to Report Page Numbers

Disclaimer

- This technical briefing is not intended to substitute the full report. Where possible, page numbers have been provided for your reference to allow the full context in the Committee’s own words.

- This briefing is for background only.

Outline

1. Process of the Independent Review Committee (IRC)
2. Overview of MOU
   - Churchill Falls power purchase agreement (CF PPA)
   - Churchill Falls Upgrades (CFU) and Churchill Falls Expansion (CFX)
   - Gull Island
     - 2% Revenue Escalation Clause
     - Power Purchase Agreement/Amortization Mismatch
3. Governance of Negotiations
4. Economic Growth Benefits of Churchill Falls Power
5. Conclusions
6. Recommendations

Section 1- Process of the IRC

Process of the IRC

- Appointed on December 15, 2025.
  - Chris Huskilson (Chairperson), Guy Holburn, and Michael Wilson (Appendix 2, page 59, contains biographies)
  - Supported by four full-time staff
- Report delivered to government on April 30, 2026. Report has been reviewed for commercial sensitivity and is to be released to the public with redactions.
- Core mandate:

"determine whether the 2024 Memorandum of Understanding is in the best long-term interest of the people of the province."

Process of the IRC

- To perform its work, the IRC:
  - Gathered evidence and written answers from Newfoundland & Labrador Hydro (NLH), its expert advisors, and government (employees and elected officials).
  - Interviews were conducted with key stakeholders.
  - Public submissions were solicited through the IRC's website, www.churchillriverreview.ca. The IRC received over 350 submissions from concerned individuals, industry representatives, Indigenous groups, and elected officials.
  - The report is a unanimous report from the three IRC members based on the evidence reviewed.

Statements

- **Statement on the Use of AI:**

"The content of this report was written by the Independent Review Committee (IRC) members and staff. AI tools were used only for the purpose of grammatical editing. The final report was prepared and edited by the IRC and staff."

- **Statement on Redactions**:

"Redactions have been applied to safeguard third-party commercially sensitive and confidential information, as well as privileged cabinet records of a former administration, in order to preserve the integrity of future negotiations."

Structure of the Report

- The report is generally divided into two sections:
    1. The IRC's analysis of the individual projects and the negotiation process.
    2. Answers to 15 questions suggested to the IRC in its Terms of Reference.
        - Of particular relevance is Question B (page 46) which describes the IRC's views on how certain numbers were reported in the media, including omissions, underestimates, and overestimates.

- For the purposes of this presentation, only the first section is summarized.

Finding of the IRC

"The Memorandum of Understanding (MOU) has several important aspects that are beneficial for the province of Newfoundland and Labrador. Despite these benefits, however, the IRC finds, based on the evidence it has reviewed, that the MOU as currently configured **is not in the overall best long-term interest of the people of the province**.

[...] In our view, the government of Newfoundland and Labrador has several significant decisions to make that could ultimately make the MOU serve the public interest."

Section 2 - Overview of the MOU

Churchill Falls
Power Purchase Agreement
(CF PPA)

CF Power Purchase Agreement - Overview

- NLH and HQ agreed to target payments of **$33.8 billion** (present value, PV) to be made to CFLCo.

- **Total forecast financial benefit of CF Power Purchase Agreement to GNL treasury: <u>$31.2 billion</u> (PV).**
  - $8.2 billion (PV) comes from payments made by NLH, not HQ.
  - Does not include any cost for rate mitigation or negative impact on federal equalization payments.

CF Power Purchase Agreement - Overview

- In its analysis, the IRC divided the CF Power Purchase Agreement into two regimes:
  - **2024-2041:** $7.3 billion (PV), with an average price of 3.8 ¢/kWh*.
  - **2042-2075:** $15.7 billion (PV), for an average price of 16.7 ¢/kWh*.
    - Under existing agreement, rate is 0.2 ¢/kWh.

- In the IRC's view, **2024-2041 period** represents a sharing of the residual value that HQ currently has for the **existing** CF Power Purchase Agreement.
- In the IRC's view, the price of 16.7 ¢/kWh for **2042-2075 period** is similar to the price HQ would need to pay to replace CF power with new generation construction that has the same attributes as CF.

*These prices are expressed as a Levelized Costs of Electricity. See Page 82 for a discussion on how these values are calculated.

CF Power Purchase Agreement Pricing Concern #1 – Structure

- CF Power Purchase Agreement prices are intended to target payments totaling $33.8 billion (PV) (Schedule G of MOU) but ultimately would be decided by a yet-to-be-agreed pricing formula (Schedule F) which incorporates a mix of energy cost and price indices (“block pricing”).

- Current proposals for block-pricing formulae are heavily weighted on prices regulated within Québec. This represents a risk to the province as there will need to be robust protections in contractual language and increases likelihood of dispute.

CF Power Purchase Agreement Pricing Concern #2 – Timing

- Per Schedule G, the target payments of $33.8 billion (PV) are more heavily weighted to the back-end of the contract term.
  - Delaying payments delays benefits and exposes the province to some inflation risk.
  - If CF Power Purchase Agreement prices in later years are much higher than market rates, industrial customers may require significant rate mitigation.
  - At the end of the CF Power Purchase Agreement, the Churchill Falls plant will be over 100 years old, representing operational risk in the highest price CF Power Purchase Agreement years.

CF Power Purchase Agreement Pricing Concern #3 – Complexity

- The block-pricing model is intended to capture movements in the market while also targeting $33.8 billion (PV).
- To make the two principles agree, proposed block-pricing models are complex.
- There is risk that block-pricing model will differ from $33.8 billion (PV). This represents a potential for ongoing disputes between NLH and HQ regarding “fairness” of pricing.

CF Power Purchase Agreement Pricing Concern #4 – Transmission

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- The proposed CF Power Purchase Agreement does not include NLH gaining access to HQ transmission to markets beyond QC.
- The IRC finds that this limitation reduces NLH's ability to receive full market value, as it cannot contract directly with external customers.
  - Any power not used within NL is to be sold to HQ at terms not yet agreed upon.

CF Power Purchase Agreement - Summary

- The MOU CF Power Purchase Agreement represents financial benefit to the provincial treasury of **$31.2 billion (PV).**
- Block-pricing approach is risky, complex, and in tension with targeted value of Schedule G payments; would likely result in disputes.
- The IRC finds a simpler pricing model would be more durable and still able to provide fair pricing over the term.
- The IRC finds that back-loading of payments to later years per Schedule G is not reasonable and creates unnecessary risk.

Churchill Falls Upgrades and Expansion (CFU and CFX)

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CFU and CFX - Output

- The CF developments are designed to produce less than 9% of their total potential output.
  - 1.3 TWh of 14.5 TWh possible.
  - Capacity projects to supply power on-demand during high demand periods, not continuous production.
- "As the primary off-taker of power from Churchill Falls, Hydro-Québec will be the main beneficiary of the new capacity and enhanced system reliability that CFU and CFX provide. Additional capacity is particularly valuable to Hydro-Québec during the winter season when power demand peaks in Québec."

CFU and CFX – Financial Benefits

- **CFU: $0** to the GNL treasury.
- **CFX: $68 million (PV)** to the GNL treasury.
- These numbers are low due to prices being set by the ultimate construction costs (“cost-of-service model”) so that the debt is paid off.
- The CFU and CFX Power Purchase Agreements have a 2% revenue escalation model included.
- The CFU Power Purchase Agreement term and amortization term are matched at 51 years, whereas CFX has a 50-year Power Purchase Agreement and 65-year amortization (mismatched).

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CFU and CFX – Opportunity Cost

- Due to CFX and CFU being financed by up to 100% CFLCo debt, CFLCo loses the opportunity to leverage its existing asset and pay a large dividend to its shareholders (NLH 65.8%, HQ 34.2%).
- The IRC asked NLH's financial advisors to estimate the amount of debt that could reasonably be leveraged by CFLCo if CFU and CFX were **not** financed by debt.
    - Expert advisors estimate that the **CF Power Purchase Agreement could support $8 billion** (PV) in debt from 2025-2030, with more in later years.
    - This **$8 billion could immediately be paid** to shareholders as a dividend (NLH receiving 65.8% per their ownership stake).

Geotechnical Risk and Planning

- Building CFX within 250 meters of the existing CF facility represents a risk to operations and to water management, which may impact Muskrat Falls as well.

- CFU and CFX add additional complexity to the MOU and the IRC finds may be more appropriately handled through an asset management process by CFLCo.

Gull Island
(GI)

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GI - Construction & Development Fee

- Construction costs for Gull Island are only preliminary estimates and range from $15 billion to $25 billion (PV).
    - P85 cost estimates ongoing.
- The IRC finds that NLH **does** have risk exposure to any cost over-runs.
- HQ to lead construction and will pay a **$3.5 billion** (PV) ‘development fee’ for the right to construct Gull Island.
    - NLH has committed to use all or part of this fee to cover its equity investment in the Gull Island Joint Venture (GIJV).
    - NLH’s ownership stake in GIJV would be fixed at 60% and could not be diluted.
- The development fee is intended to share the value of avoided cost HQ gains by not having to construct another, more expensive project.
- The IRC finds that $3.5 billion is a low share of the value HQ is gaining.

GI – Financial Value

- As a 60% owner of the GIJV, the GNL treasury is forecast to receive **$4.1 billion** (PV) from the first Power Purchase Agreement (ending 2085).
    - This value is lower than the CF Power Purchase Agreement because the GIJV must pay back construction costs.
- GI Power Purchase Agreement is required to have a **2% escalating revenue clause**.
- GI Power Purchase Agreement term is fixed at 50 years with an amortization period of 65 years (**mismatched**).

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GI - 2% Revenue Escalation Clause

- Included in the Power Purchase Agreements for CFU, CFX, and Gull Island.
- Under a traditional cost-of-service (“declining balance”) model, the price of electricity for *new* electricity generation projects goes down over time.
  - The initial price is set based on the final construction costs of the project so that the full cost can be recovered (assuming Power Purchase Agreement and amortization periods match). As the debt is paid off over time, the price required to cover debt payments decreases.
- This does not apply to the CF Power Purchase Agreement as there is no debt associated with new construction, so it does not utilize a cost-of-service model.

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GI - 2% Revenue Escalation Clause

- The 2% revenue escalation clause was a requirement added late in MOU negotiations by GNL to ensure that prices increased over time rather than decreased.
- However, this requirement has **significant** impacts that the IRC finds may not have been fully understood by GNL.
  - GNL were advised by NLH, NLH's advisors, and the MOU negotiating team that the 2% revenue escalation clause should not be included.
- To have revenues increase over time, prices in early years are **artificially deflated**. Under proposed models reviewed by the IRC, GIJV revenues would not cover costs for the first 45 years of the 50-year Power Purchase Agreement.
  - NLH and HQ have not agreed on the model to be used.

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GI - 2% Revenue Escalation Clause

- If NLH wished to purchase power from GIJV for economic development, it would be in later years when prices are at its highest.

- Due to the lack of solvency and deferral of payments until later years in the Power Purchase Agreement, NLH's financial advisors believe that requiring a 2% revenue escalation clause will result in more expensive financing terms.

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GI - Power Purchase Agreement/Amortization Mismatch

- 50-year Power Purchase Agreements were requirements added to CFX and Gull Island by GNL to avoid 65-year contracts (the length of the 1969 CF Power Contract).
- However, to secure more reasonable financing terms, NLH and HQ agreed to a 65-year amortization period.
    - GNL were advised by NLH and the MOU negotiating team that the terms should match.
- By having the Power Purchase Agreement term shorter than the amortization period, CFX and Gull Island will still have outstanding debt, dividends, and equity when they are negotiating their second Power Purchase Agreement.
    - **CFX**: $5.6 billion (nominal), **$0.2 billion** (PV) remaining balance.
    - **GI**: $30.8 billion (nominal), **$1.0 billion** (PV) remaining balance.
        - Initial cost estimate for GI construction is $15-25 billion (PV).

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GI - Power Purchase Agreement/Amortization Mismatch

- To repay these outstanding balances, prices for the second Power Purchase Agreements for CFX and GI will have to increase.
  - It is not certain that these increased prices will be tolerated by the market at that time.

- The IRC finds that this may expose NLH to construction cost over-run risks. As construction costs will not be fully paid at the end of the first Power Purchase Agreement, the next off-taker will be bearing those costs.
  - It is likely that NLH will be seeking to purchase more power from GIJV in the second Power Purchase Agreement term.

GI - Ownership

- Under the MOU, NLH and HQ intend to form a joint venture owned 60% by NLH and 40% by HQ to operate the facility.
- The IRC finds that entering into a joint venture is a major, long-term and likely permanent decision.
- As with CFLCo, HQ will be the primary off-taker and a minority shareholder, creating a conflict of interest.

GI - Ownership

- The IRC described other ownership models that have been used in other jurisdictions.
  - Participation Agreements: share of power equal to ownership %, no need to consult shareholders on price.
  - Public-Private-Partnership: HQ subsidiary builds, owns, and operates for a term, but transfers 100% ownership back to NLH.

- The IRC does not conclude which model is best but does find that NLH and GNL did not adequately consider alternative ownership structures.

GI - Summary

- The $3.5 billion (PV) development fee for GI is at the low end of value sharing.
- The 2% escalating revenue clause and mismatched Power Purchase Agreement/amortization create substantial challenges in securing favorable financing terms, disincentivizes NLH from buying GI power in later years, and weakens the ability to negotiate a second Power Purchase Agreement due to outstanding debt, dividends, and equity.
- Other ownership models beyond another joint venture with HQ should be considered.

NL Transmission Assets

Transmission - Overview

- NLH is required to finance and lead construction on transmission assets within the province and will incur costs before any revenue is generated.
- Initial cost estimates are **$3.6 billion** (nominal).
- The IRC forecasts financial benefits to the GNL treasury from transmission assets to be **$820 million** (PV), with $128 million (PV) occurring before 2042.
- Should the $3.5 billion GI development fee not cover GNL's equity requirements for all projects, then NLH will be required to source additional equity funding, potentially impacting GNL credit rating.

Section 3 - Governance of Negotiations

Governance of Negotiations

- Initially, GNL sought balance between NLH Board of Directors and GNL providing oversight.

- As time progressed, the IRC found that GNL assumed a greater degree of control.
  - Some key decisions were eventually subject to government approval but did not require board approval.

- The IRC finds that the governance of negotiations did not meet the high standards required for a project of this value, complexity, and importance.

NLH Board of Directors

- The IRC finds that the NLH Board of Directors did not exercise appropriate oversight.
  - Negotiation mandate was broad and principles-based with no subsequent development of targets or trade-offs.
  - Board only met with NLH CEO, no other negotiators.
  - Board did not retain its own independent expert advisors, nor did it directly consult with negotiating teams' advisors.
  - Formal oversight sub-committee of Board was only established after MOU was signed.

Government Oversight

- By contrast, the IRC found that GNL exercised hands-on oversight.
- GNL actively directed negotiation targets and parameters, including the 2% escalating revenue clause and mismatched Power Purchase Agreement/amortization terms.
- The IRC did not identify any external energy experts GNL retained to advise it in its oversight capacity.
- Government's approach to oversight may have resulted in a riskier and more expensive deal.

Section 4 - Economic Development

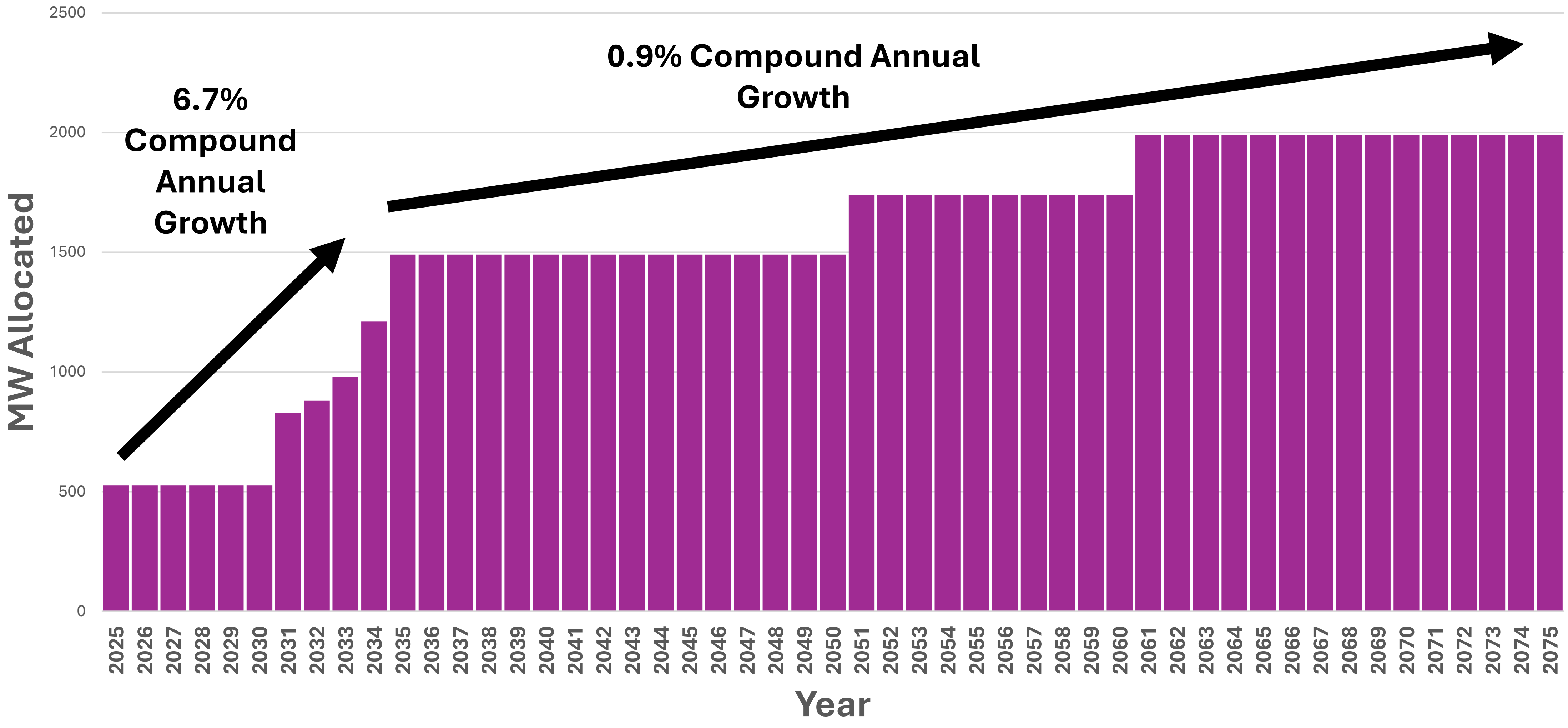
Using Electricity to Drive Economy

- Currently, 25 of 31 minerals identified as “critical” by the Government of Canada are present in the province.
- In particular, the province has deposits of high-quality, low-impurity iron ore located in the Labrador trough.
- In 2025, iron ore mining accounted for **$2.6 billion** (PV) in direct annual GDP contribution (6% of provincial GDP).
  - The IRC estimates a value of $1,400 in GDP impacts per 1 MWh of new energy.
- Currently, mining efforts in Labrador are limited by access to electricity.

Iron Ore Mining

- On the QC side of the border, iron ore mining in the Labrador trough has grown 125% (in GDP terms) since 2007.
- In the same period, NL mining efforts in the same geographic area have grown by 45% (in GDP terms).
- A key outcome of the MOU is more immediate access to power in Labrador West – an additional 605 MW before 2041 (when the current 1969 CF Power Purchase Agreement expires).
  - This is over double the electricity volume used currently for mining.
- However, post-2041, access to new power is more restricted (500 MW over 34 years).

Energy Allotment to Newfoundland & Labrador Hydro



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Economic Development in the MOU

- The IRC found through its analysis that the 1,465 MW of energy retained in the MOU for economic activity within NL would have a GDP impact of **$161 billion** (PV) from 2025-2075.

- However, access to power from the existing CF facility is tied to milestones related to the construction of Gull Island and Churchill Falls Expansion (per Schedule I and J of the MOU).
  - The IRC finds this not an acceptable risk to the provincial economy.

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Strategic Planning

- The IRC did not identify any long-term economic development strategy to inform NLH and the negotiating team in identifying the appropriate amount of power volume to retain for in-province use.

- The Department of Finance provided estimates of economic benefits from construction in 2024 but did not include ongoing production estimates until after the MOU was signed.

Strategic Planning

- The IRC notes that economic development is riskier than directly selling power to HQ.

- The IRC is unable to conclude the appropriate balance between export sales and in-province use but does recommend that this analysis and planning be performed before any negotiations resume.

Section 5 - Conclusions

Conclusions of the IRC

- The IRC finds that the MOU does offer financial and economic benefits to the province.
  - Increased payments to CFLCo are reasonable in the post-2041 period (subject to improvement of payment timings).
  - NLH will gain access to new power before 2041.
  - The province will gain majority ownership of a joint venture operating a currently undeveloped asset (Gull Island) while reducing (but not eliminating) construction-cost risk exposure.
- However, as currently configured, the MOU has several limitations that make it “not in the overall best long-term interest of the people of the province.”

Decisions for GNL

1. What is the appropriate balance for power to be retained for in-province use, and how much should be exported?
    - Economic strategy would need to be developed.
    - Financial benefits can be improved through commercial details, such as removal of 2% revenue escalation requirement, aligning Power Purchase Agreement and amortization terms, moving payment stream to earlier, and simplifying CF Power Purchase Agreement payment model.

Decisions for GNL

- 2. What is the appropriate ownership model for Gull Island?
  - Another joint venture with HQ is likely a permanent decision.
  - Adequate consideration was not given to alternative models, such as a Participation Agreement or Public-Private-Partnership.

Decisions for GNL

- 3. How should future negotiations be overseen?
  - NLH Board of Directors did not exercise appropriate oversight, and GNL over-reached.
  - A clear governance model should be adopted which clarifies roles, responsibilities, and accountabilities for all parties.
  - Those providing oversight should retain their own external experts to provide challenge to negotiators.

Decisions for GNL

4. How does the province wish to utilize the balance sheet of CFLCo?
    - CFLCo is debt-free.
    - CFU and CFX may be financed up to 100% using debt on CFLCo's balance sheet, which is a financial risk.
    - Another approach could be considered, such as leveraging a new CF Power Purchase Agreement to issue a large, one-time dividend to the shareholders.

Section 6 - Recommendations

- **Recommendation 1:** GNL should determine, based on a comprehensive analysis of long-run economic development options, the extent to which power generation from the Churchill River should provide financial versus economic value to the province over time.

- **Recommendation 2:** GNL should sanction and support NLH construction of new transmission line capacity between Churchill Falls and Labrador West in order to enable economic growth of the province's energy-intensive industries.

- **Recommendation 3:** GNL and NLH should remain committed to the objective of building respectful relationships with and consulting Indigenous communities in connection with future developments on the Churchill River and in Labrador.

- **Recommendation 4:** GNL should rigorously evaluate alternative ownership, operating, and right-of-use models for new hydroelectric generation at Gull Island that are consistent with the province being the primary beneficiary of the financial and economic value created.

- **Recommendation 5:** GNL and NLH should prepare for future negotiations with HQ by preparing a fully articulated negotiation strategy and best-practice governance process.