



Via Email

May 28, 2014

Mushuau Innu First Nation
PO Box 190
Natuashish, NL AOP 1A0

Attention: Band Council

Band Council:

Mushuau Innu First Nation (“MIFN”) Electrification

The purpose of this letter is to outline the process of electrification of Natuashish as currently understood.

Asset Overview

Electricity is currently provided by a diesel generating station located in the community. The generating station was constructed at the same time the community was constructed (approximately 2002) and consists of four (4) diesel generating units:

- Unit 2068; 671 Kw; purchased in 2002
- Unit 2069; 945 Kw; purchased in 2002
- Unit 2070; 945 Kw; purchased in 2002
- Unit 2076; 671 Kw; purchased in 2005

Operation and maintenance of the power facility is outsourced to Newfoundland Labrador Hydro.

The power facility is supplied by diesel via truck. The delivery truck(s) are operated by the MIFN Operations and Maintenance (“O&M”) Department. O&M schedules and manages the associated staff.

Natuashish maintains a tank farm used for the purposes of storing petroleum products. There are three (3) primary diesel fuel storage tanks – 2 one million litre tanks and 1 five hundred and fifty thousand litre tank. Effective capacity is 92% to account for expansion and contraction, before accounting for heel inventory. Effective capacity for the winter order delivery is 94% to maximize the fuel stored for the winter season. O&M is responsible for tank farm maintenance.

The tank farm is connected, by pipeline, to the Natuashish wharf and offloading infrastructure. O&M is responsible for pipeline maintenance.

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Electrification Costs

All electrification costs are the responsibility of the MIFN. No costs associated with the system are paid directly by third parties. The primary costs associated with electrification are the purchase of diesel fuel, the operating contract with Newfoundland Labrador Hydro (“NL Hydro”), and O&M costs associated with the infrastructure.

The MIFN is responsible for the purchase of diesel fuel for use in the power facility. Fuel is purchased twice a year due to logistics associated with the remote community. It is transported by ship before ice closes the shipping season for the winter, and at the beginning of the shipping season, generally in late October and early June, subject to ice conditions. The storage tanks are normally filled to capacity at each delivery for safety purposes. Fuel is invoiced on delivery.

NL Hydro prepares an operating and capital (sustaining capital only) budget for the MIFN fiscal year. The budgeted expenses are meant to recover the actual costs associated with the operation and maintenance of the power plant, distribution system and applicable infrastructure. NL Hydro invoices monthly for operating costs and as capital projects are completed.

O&M is responsible for operating the delivery system and tank farm maintenance.

Electrification Funding

The largest funder of electrification in Natuashish is Aboriginal Affairs and Northern Development Canada (“AANDC”). The balance of the funding comes from revenue generated to third parties, Health Canada (“HC”) and own source revenue. Own source revenue is revenue generated by the MIFN from its own activities (i.e., not government funding).

AANDC

AANDC funds electrification in two (2) ways:

- O&M funding provided annually for operation and maintenance of the tank farm and delivery system.
- Standalone electrification agreement between MIFN and AANDC. This agreement is meant to cover costs associated with the purchase of diesel and the operating costs of NL Hydro.

Excluded from the funding commitment are the following:

- Diesel sold / delivered to third parties;
- Diesel delivered to buildings not completely funded by AANDC;
- Diesel / power invoices associated with buildings funded by HC;
- Invoices issued to third parties for estimated power consumption; and
- Capital costs associated with the facility.



The MIFN does not receive annual funding dedicated to paying the capital cost of the electrical system. The only current government agency that has programs where the capital costs associated with the electrical system may be eligible is AANDC. This funding is discretionary. The program is proposal-based and open to many First Nations. Approval is subject to funding being allocated by the department, funding being available at the time of the request, AANDC eligibility requirements, etc. Funding amounts may vary significantly and may not even be available. The MIFN have accessed this program in the past as follows:

FY13 - \$163,000
FY14 - \$314,363

Costs over and above approved project funding are the responsibility of the MIFN and must be paid out of own sourced revenue.

Health Canada

In general, HC provides \$375,950 per annum to cover all O&M costs for its facilities in each of FY13, FY14 and FY15. This funding is not sufficient to cover actual O&M, fuel and electrification charges incurred. The funding has been allocated to O&M charges and fuel. The deficiency (electrification) is paid through own source revenue.

Own Source Revenue

Those electrification costs not funded by either HC or AANDC are covered by own source revenue. Own source revenue has historically been invested in civic infrastructure such as housing and recreation; and spending on social programs such as education and training, health care and social support.

Third Party Invoicing

The community of Natuashish does not have a reliable metering system to monitor consumption. There is significant uncertainty as to whether certain or all buildings are actually metered, if so, if the meters are read, and where potential meter data goes. Electrical usage is not reported to the MIFN.

Third party invoicing for electrical consumption is based on historical estimates of actual costs. Electrical invoices to third parties (FY13 - \$252,947; FY12 - \$196,176) include:

- Bell Aliant Inc.
- CAI
- Health Canada - Healing Lodge
- Health Canada - Nursing Clinic/Wellness Center
- Health Canada / AANDC - Safehouse
- Government of Newfoundland and Labrador - Airport
- Innu Nation
- Labrador Grenfell Health
- Mushuau Innu General Store Inc.
- RCMP



Reporting

As a funding condition, both AANDC and HC have reporting requirements under their funding agreement. Fuel / electrification reporting is required quarterly and annually to AANDC. There are annual reporting requirements to HC.

In the event a capital project is approved, there are often reporting requirements specific to that project, as agreed through the proposal/approval process.

Regards,

A handwritten signature in black ink, appearing to be 'Phil Clarke', is written over a vertical dashed line.

**PwC LLP, in its capacity as
Co-Manager of the Mushuau Innu First Nation**

Phil Clarke, CA, CIRP