

SECTION 9: ITER CANADA PLAN TO HOST ITER

FINANCIAL

9.1 INTRODUCTION

Iter Canada has prepared a business plan, with an associated financial plan based on available information from the Joint Central Team and other Iter sources, that forms the basis for the Iter Canada Plan to host Iter at the Clarington site. This financial plan is also completely compatible with the Iter Joint Implementation Agreement structure proposed by Iter Canada in Section 3 of this Plan.

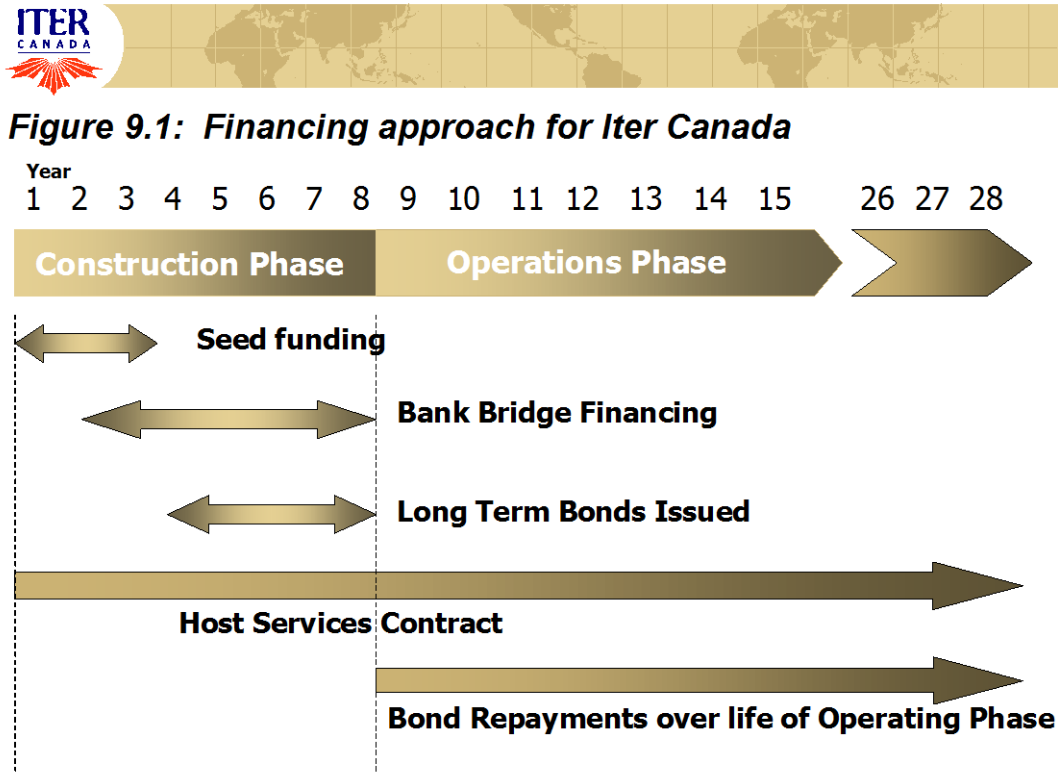
The innovative Iter Canada financial plan provides all the necessary financial resources required to host Iter. As presented here, this plan allows Iter Canada to meet the scope requirements expected of a host. The Plan also includes options for the Iter Parties with respect to Common Element scope being conducted in Canada, where Canadian scientists, engineers and corporations have unique capabilities and experience, or where common scope activities are more effectively conducted in conjunction with the base host scope activities (see also Section 5.4).

The financial Plan presented here is capable of accommodating changes in scope and short and long term delays and/or an acceleration in the Iter Project schedule during the currently planned eight year Construction Phase. While the Iter Parties and the Joint Central Team do not necessarily anticipate these events occurring, a sound financial agreement must accommodate these eventualities.

The financial requirements of Iter Canada to host Iter will be provided through a financing plan that combines government and private funds, with the following major elements:

- Iter Canada will acquire from Ontario Power Generation the Clarington site and tritium for the Iter project.
- The Government of Ontario has indicated a willingness to commit funding to support Iter being sited in Ontario, subject to satisfactory terms and conditions in the final Iter project agreements.
- Iter Canada's financial group, led by the Royal Bank Financial Group, will be responsible for raising the funds required to complete the Canadian Construction Phase scope in the international financial markets.
- Iter Canada will enter into a Host Services Contract with the Iter Legal Entity to provide host related goods and services including, but not limited to, licensing support, electricity, tritium, operating staff, and operating & maintenance services. (See Section 8 and Section 9.2.5.).

The overall Iter Canada financing approach is shown in Figure 9.1 below.



The Iter Canada financing would be raised under a Capital Markets Platform in the Canadian and/or international capital markets during the construction phase, on the basis of the Iter Parties' commitment to build and operate the Iter facility over a designated period. This platform allows for the placement of a variety of senior debt instruments (eg. bank debt, bonds, commercial paper, swaps) on a common basis, governed by a Master Trust Indenture.

The Iter Canada financing approach anticipates the issuance of bonds and therefore in order to secure this long term financing and assure bondholders that the project will be funded, a group of international banks, likely from Canada, Japan and Europe, would back stop the bond issues by way of a bank bridge facility for the full amount of the Canadian Construction Phase requirements and over the entire construction period. The bonds would be issued in numerous tranches, as soon as sufficient funds have been borrowed under the bridge facility.

As noted in Section 3.3 and 3.6, the Joint Implementation Agreement would include payment guarantees from the non-host Iter Parties to the host party.

We believe the security and guarantee requirements of the private financing component will bring additional rigor to the legal structure and Iter Joint Implementation Agreements (Section 4). Iter Canada believes these strong commitments for the entire project life by the participating Iter Parties are required, not just to support the Iter Canada financial Plan, but to ensure the overall Iter Project will be completed successfully. Iter Canada would welcome the opportunity to enter into discussions with banks and other financial institutions from the Iter Parties' countries to participate in the Iter Canada financing arrangements.

It is a major financial commitment by Iter Canada to undertake the responsibilities for hosting Iter. While it will be shown that the financial resources being provided by Iter Canada are substantial, and our Plan will give the Iter Parties a very large cost saving compared to any of the other Iter Parties interested in hosting Iter (see Section 12.8, 12.9, and 12.10), the Iter Canada contribution must, by necessity, be based on an "allowance" for the Construction Phase contributions. (Section 9.2.6.)

The main reason for this qualification is that the current state of the technical information is for a "generic" site, and site specific designs have not been completed. Hence, there remain uncertainties as to the final cost of the defined Iter Canada scope. This, however, should not be seen as an impediment to proceeding with negotiations. Iter Canada assumes that the site specific details will commence and continue to be defined throughout the negotiations for siting Iter at the Clarington site. We anticipate that the financial arrangements will only become finalized well after the site selection process is completed, and perhaps not until just before the Iter Implementation Agreements are finalized, towards the end of 2002.

9.2 FINANCIAL AGREEMENTS BETWEEN ITER CANADA AND THE ITER LEGAL ENTITY

This Plan is based on a number of financial arrangements and obligations between the Iter Legal Entity and Iter Canada and/or Iter Canada Host Inc.

The following defines the financial obligations between the Iter Legal Entity and Iter Canada:

- 9.2.1. **The Site and Site Infrastructure:** Subject to Section 9.2.4 and 9.2.6 below, Iter Canada will be fully responsible for providing a fully developed site and external infrastructure for Iter, as defined in Section 5.2.1.
- 9.2.2. **Host Scope during the Construction Phase:** Subject to Section 9.2.4 and 9.2.6 below, Iter Canada will be fully responsible for providing the "non-transportable" scope as defined in Section 5.2.2.
- 9.2.3. **Host Scope during the Operating Phase:** Iter Canada will provide up to 20 fusion scientists to the Iter Legal Entity as described in Section 5.5, as



part of Iter Canada's contribution to the scientific development of fusion technology, subject to Section 9.2.4. and 9.2.6. As described in the Host Services Contract (Section 9.2.5.), Iter Canada also makes a considerable financial commitment for the provision of a portion of the defined goods and services during the Operating Phase.

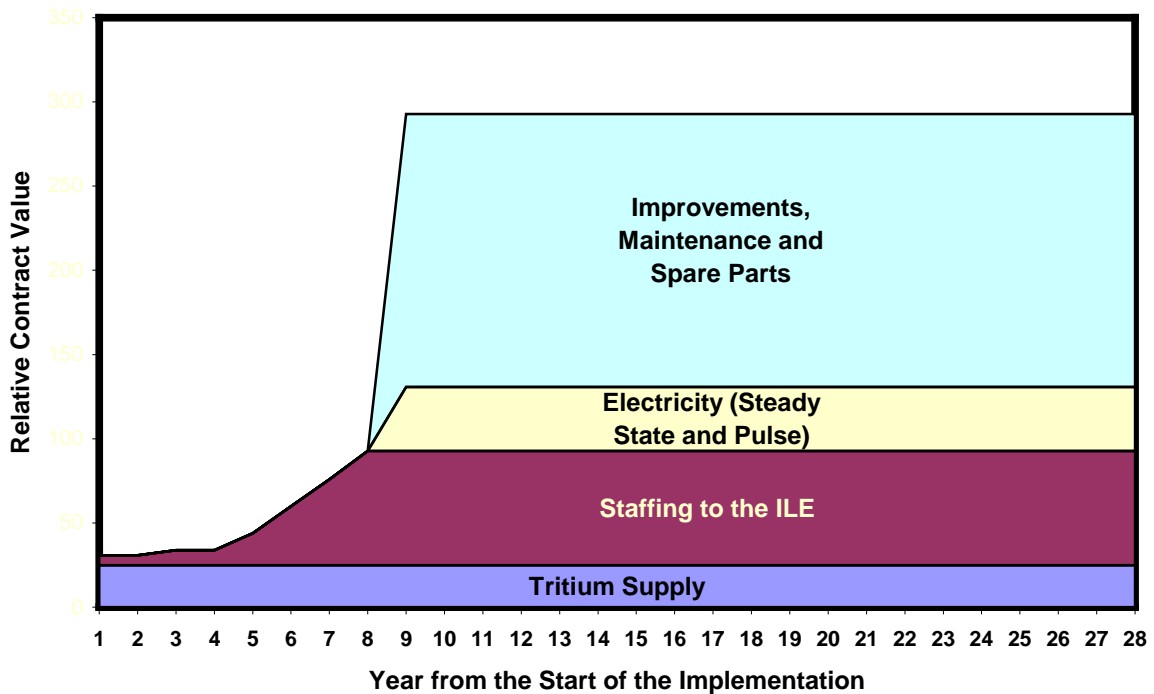
- 9.2.4. **Project Changes and Schedule Changes:** The basis of this Iter Canada Plan is that any changes, not under the control of Iter Canada, to the Iter project scope and/or schedule changes that impact the costs of Iter Canada during the Construction Phase cannot be allocated to Iter Canada, and must be borne by the other Iter Parties. This means that if there are any actions by the non-host Iter Parties, including, but not limited to design changes, specification changes, standards changes, function or performance changes, regulatory changes, or any other like change without limitation, including *force majeure*, related to the defined Iter Canada scope in Section 5, then Iter Canada Host Inc. will only undertake the necessary work to affect the change on receipt of an appropriate approved Change Order from the Iter Legal Entity. Similarly, if there are changes, due to the Iter Parties, that result in a schedule change to the site activities, including, but not limited to changed delivery times of Iter Party supplied equipment or scope changes, a Change Order will be issued to pay Iter Canada for this additional cost.

If possible, Iter Canada will submit a firm price for the required work to be undertaken or the impact of any schedule change. If a quoted firm price is not possible due to any unknowns, then the work will be carried out on the basis of a "cost plus" contract with the Iter Legal Entity, at unit rates for labour and materials agreed to from time-to-time. This work will be carried out by Iter Canada Engineering & Construction Consortium members or their sub-contractors as appropriate.

The Change Orders agreed to between Iter Canada and the Iter Legal Entity will be invoiced to the Iter Legal Entity for payment to Iter Canada Host Inc. under the provisions of defined terms and conditions to be established.

- 9.2.5. **The Host Services Contract:** During the life of the Iter project, including the Construction, Operating, Deactivation and Decommissioning Phases, there will be a Host Services Contract between Iter Canada Host Inc. and the Iter Legal Entity as defined by the Iter Joint Implementation Agreement (See Section 3). This Host Services Contract will cover the four major operating cost items for Iter, as defined below, that will be provided by Iter Canada to the Iter Legal Entity on the cost basis as defined, subject to the provisions of Section 9.2.6. Figure 9.2 illustrates the overall Host Services Contract concept and the timing of each of the items.

Figure 9.2: Host Services Contract Concept
(Excluding escalation)



9.2.5.1. **Tritium Supply:** Iter Canada Host Inc. will provide, subject to the availability from Ontario Power Generation, up to 21 kilograms of tritium over the defined life of the Iter project, at mutually agreed upon delivery schedules and shipment quantities. As Iter Canada must commit to the purchase of this quantity of tritium at the start of the Iter project, the cost for this service will be equalized over the life of the project, starting in Year 1 and ending in Year 28. The cost to the Iter Legal Entity, in Year 2000 Canadian dollars, is \$24.8 million per year. This value will be escalated from year 2000 to the date of the annual payments under an appropriate escalation factor to be established. During the negotiations period, Iter Canada will give the negotiation team back-up information showing the anticipated quantities of tritium available from Ontario Power Generation that meet the needs of Iter.

9.2.5.2. **Electricity Supply:** Iter Canada Host Inc. will provide under this Host Services Contract, the electricity for the Iter project during the Construction Phase and Operating Phase, including both the operating steady state and operating peak pulse load requirements. The electricity will be supplied directly or indirectly from Ontario Power Generation at commercial rates, subject to a surcharge by

Iter Canada. As described in Section 12, this Iter Canada surcharge still results in a cost savings to the Iter Parties.

9.2.5.3. **Staffing to the Iter Legal Entity:** The assumed overall detailed staffing requirements by personnel category and timing for the Iter Legal Entity will be finalized during the initial part of discussions on this Iter Canada Plan to Host Iter. The staffing of the Iter Legal Entity will commence at the start of the project, ie. Year 1, ramping up to the full complement of 400 support staff and 200 professionals by the end of the Construction Phase. In addition to a permanent staff complement of 600, there will be up to 300 “visiting” scientists at Iter for short duration assignments, conducting specific experimental activities.

Support Staff: As part of this Plan, Iter Canada Host Inc. will provide Canadian personnel for all the support staff positions to the Iter Legal Entity during the life of the Iter project. These staff members will be provided to the Iter Legal Entity at a cost of Cdn \$150,000 per annum (equivalent to 75 IUA¹) for each support staff person provided, less 10% to reflect a direct contribution from Iter Canada to support the Operating Phase of the Iter project.

Professional Staff: Iter Canada Host Inc. will provide Canadian professional personnel to complement the professionals that are seconded to the Iter Legal Entity from the Iter Parties, to make up the full complement of approximately 200 full time professionals during the operating phase. Note that Iter Canada will be providing, separate from this Host Services Contract, 20 of the seconded fusion scientists to the Iter project as described in Section 9.2.3.

It is anticipated that the number of professionals supplied by Iter Canada under the Host Services Contract will build up over the Construction Phase, to approximately 50 during the operational phase of the project. The cost to the Iter Legal Entity for this service will be Cdn \$300,000 per annum (equivalent of 150 IUA) for each professional staff member provided, less 10% to reflect a

¹ IUA is an “Iter Unit of Account”. Cost estimates established by the Joint Central Team are expressed in relation to a specific reference date and currency (US\$ at January 1989 values), so as to eliminate variations arising from fluctuating exchange rates or the various rates of domestic inflation.

1 IUA is equivalent to US \$1000 as at January 1989, and 1 kIUA is equivalent to US \$1 million as at January 1989.

For comparison purposes, 1 IUA is closely equivalent to Cdn \$2080 as at January 2000, and 1 kIUA is closely equivalent to Cdn \$2.08 million as at January 2000.

direct contribution from Iter Canada to support the operations of the Iter project

The personnel costs noted here include salary and benefits, and will be escalated from year 2000 to the date of payment under the appropriate escalation factor to be established.

- 9.2.5.4. **Capital Improvements, Maintenance, Spare Parts:** The Iter project will have considerable operations and maintenance requirements over the life of the project. These activities will commence during the initial eight year Construction Phase, as facilities are completed and become operational.

The scope of these activities are still not well defined, but the overall cost estimate from the draft Iter Final Design Report is 90 kIUA per annum during the first ten years of the operational phase. In current year 2000 Canadian dollars this is equivalent to Cdn \$187 million.

As part of this Plan, Iter Canada will undertake to provide these services to the Iter Legal Entity under this Host Services Contract at a 10% discounted cost of Cdn \$168 million per annum. This value will be escalated from year 2000 to the date of payment under the appropriate escalation factor to be defined by Iter Canada. In addition, this base amount is subject to change, as the specific scope of work under this category is better defined during the negotiation period.

- 9.2.5.5. **Licensing and Environmental Assessment:**

Due to the lead time required for the licensing of the Iter project, Iter Canada has initiated the licensing process for siting Iter at Clarington, as discussed in Section 7, on behalf of the Iter Legal Entity, which will be the licensee. As this would be a normal expense of the Iter Legal Entity, this activity is to be reimbursed to Iter Canada by the Iter Legal Entity under this Host Services Contract. The total costs associated with the licensing activity, including the associated environmental assessment is estimated to be less than Cdn \$20 million.

Iter Canada would like to discuss this issue at an early date with the Iter Parties, to explore ways to accelerate the licensing in Canada even beyond that discussed in Section 7.

- 9.2.5.6. **Project Changes and Schedule Changes:** The basis of this Iter Canada Plan is that any changes not under the control of Iter

Canada to the Iter project scope and/or schedule changes that impact the costs of Iter Canada providing the commitments under the Host Services Contract cannot be allocated to Iter Canada, and must be borne by the non-host Iter Parties. This means that if there are any actions by the Iter Parties, including, but not limited to program changes, design changes, specification changes, standards changes, function or performance changes, regulatory changes, or any other like change without limitation, including *force majeure*, related to the defined Iter Canada Host Services Contract, then Iter Canada will only undertake the necessary work to affect the change on receipt of an appropriate approved Change Order from the Iter Legal Entity. Similarly, if there are changes, due to the Iter Parties, that result in a schedule change to the site activities, a Change Order will be issued to pay Iter Canada for this addition cost.

If possible, Iter Canada will submit a firm price for the required work to be undertaken or the impact of any schedule change. If a quoted firm price is not possible due to any unknowns, then the work will be carried out on the basis of a “cost plus” contract with the Iter Legal Entity, at unit rates for labour and materials agreed to from time-to-time.

The Change Orders agreed to between Iter Canada and the Iter Legal Entity will be invoiced to the Iter Legal Entity for payment to Iter Canada Host Inc. under the provisions of defined terms and conditions to be established.

- 9.2.6. **Maximum Iter Canada Contribution during the Construction Phase and the Minimum Guaranteed Payment under the Host Services Contract:** As noted in the introduction to this Financial Plan Section, the direct contributions from our government bodies will not be sufficient to fully fund the defined Canadian scope as host to Iter, and therefore Iter Canada will incur a debt from the Construction Phase of the project. This debt will be serviced during the Operating Phase utilizing a portion of the funds resulting from the Host Services Contract.

Therefore, notwithstanding the value of the defined payments to Iter Canada from the Iter Legal Entity under the terms of Section 9.2.5., if there are not sufficient funds generated from the Host Services Contract during any given period of the Iter project, to service the Iter Canada debt from the Construction Phase of the project, the Iter Legal Entity will pay to Iter Canada a Supplemental Payment. To illustrate, this could be caused by there being a shortfall in the number of people provided by Iter Canada Host Inc. to the Iter Legal Entity, or less electricity being supplied due to a delay of the project.

Although the value of the Iter Canada scope during the construction phase is not defined at this time, due to the Procurement Package cost estimating process and the site specific design work not being completed, it is the anticipation of Iter Canada that the provisions of this Section 9.2.6. will not be exercised during the Iter project. This, however, will only be known after negotiations commence, and the assumptions contained within the Host Services Contract and the host construction scope of work, including final designs, are agreed upon between Iter Canada and the Iter Parties.

Furthermore, as must be defined in the Guarantees section of the Joint Implementation Agreement (see Section 3.3), there will be a requirement for the non-Host Iter Parties to provide the long term commitments over the full life of the Iter project, or alternatively, compensate Iter Canada as host for its financial obligations, if the termination provisions of the Joint Implementation Agreement are invoked.

9.2.7. Optional Canadian Procurement of Common Element Scope: As described in Section 5, there is Iter common element scope that may be more effectively procured in Canada under a contracting arrangement either between Iter Canada and the Iter Legal Entity or between Iter Canada and the non-Host Party responsible for the scope. It is anticipated that this would apply where Canadian scientists, engineers and corporations have unique capabilities and experience, or where common scope activities are more effectively conducted in conjunction with the base host scope activities

Iter Canada will undertake to provide on a preferred basis, competitive price, delivery, performance and quality proposals for conducting scope as requested by the Iter Legal Entity or another Iter Party. As is noted in Section 9.4 and 9.5 below, Iter Canada believes this could give the overall Iter Project a significant cost reduction.

The scope of work agreed to under this arrangement between Iter Canada and/or the Iter Legal Entity and other Iter Parties, will be invoiced to the contracting party for payment to Iter Canada under the provisions of defined terms and conditions to be established.

9.3 DECOMMISSIONING FUNDS

During the implementation of the Iter project, the Iter Legal Entity will be responsible for all licensing and environmental issues and remedies. The Iter Legal Entity will also be responsible for deactivation and decommissioning of the facility. As described in Section 3, the ultimate execution of the decommissioning phase will be the responsibility of Iter Canada, but the financial arrangements will be as described in this Section 9.3.

As described in Section 7, the Canadian regulatory regime will require a segregated fund to be established that will be utilized for the eventual decommissioning of the Iter facility. The quantum of the segregated fund will be determined by the Iter Legal Entity and the Canadian Nuclear Safety Commission as part of the licensing process, and it will be a license condition for the construction and operation of Iter in Canada. It should be noted that the initiation of the fund will be stipulated in the license and it could start as early as the start of the Construction Phase, rather than the start of the Operating Phase.

This segregated fund for decommissioning will be established by the Iter Legal Entity from funds provided by the non-Host Iter Parties. The actual funds will be put into a segregated trust account which will be held by a trustee and disbursed solely for the purpose of paying the costs of decommissioning.

For greater clarity and understanding of this aspect of the Iter Canada Plan to Host Iter, it should be noted that Iter Canada does not accept any of the cost responsibility associated with decommissioning, including: radwaste disposal, components and facilities salvage value after dismantling, non-active parts dismantling and salvage value, site restoration and financing-related costs, if spending is made at a later stage. The above mentioned segregated fund must provide for all foreseeable decommissioning costs, including returning the site to greenfield conditions if the project were to be abandoned by the Iter Parties at any stage during its construction and operations.

The details of the decommissioning funding arrangements proposed in this Section will be incorporated into the Joint Implementation Agreement.