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(Executive Council)

FRAMEWORK IN PLACE FOR CHURCHILL RIVER HYDRO DEVELOPMENTS

Newfoundland Premier Brian Tobin and Québec Premier Lucien Bouchard today announced that Newfoundland and Labrador Hydro and Hydro-Québec will commence formal negotiations toward an agreement to further develop the hydroelectric power potential of the Churchill River in Labrador, and related projects in Québec.

"This is an historic occasion. We have agreed on a set of parameters to facilitate the development of a 2,200-megawatt project on the Lower Churchill, as well as adding 1,000 megawatts of capacity at the Upper Churchill," said Premier Tobin. "Having agreed on this framework, officials can now focus on the task of concluding agreements that will result in significant benefits for both Newfoundland and Labrador and Québec."

"These projects will strengthen the position of Hydro-Québec as a North American leader in the energy sector," said Premier Bouchard. "These agreements will allow both our governments to create significant economic development."

With investments of approximately \$10 billion forecast over 10 years, the projects will increase power production so that both companies can better serve their respective domestic market and the North American market. The projects will create some 49,000 person-years of employment and at peak of construction in 2004, the projects will employ an estimated 6,200 people.

Hydroelectric power supports sustainable economic development with no greenhouse gases. The 3,200 megawatts of new hydroelectric generating capacity is expected to account for up to 15 per cent of Canada's commitment at Kyoto to reduce greenhouse gas emissions.

The framework for negotiations provides for the construction of a 2,200-megawatt generating station at Gull Island, to be owned 65.8 per cent by Newfoundland and Labrador Hydro, 34.2 per cent by Hydro-Québec. In addition, 1,000-megawatts of new capacity would be developed at Churchill Falls in conjunction with the partial diversions of the Saint-Jean and Romaine Rivers in Québec, into the Smallwood Reservoir. Two new 500-megawatts turbines would be added to the 11 already existing at Churchill Falls. The Churchill Falls expansion would also be owned 65.8 per cent by Newfoundland and Labrador Hydro, 34.2 per cent by Hydro-Québec. The partial diversions of rivers in Québec would be developed and owned by a Québec-based partnership of Hydro-Québec and local communities.

The framework for negotiations includes details of the construction of new power transmission infrastructure in Québec and Labrador. It establishes a joint venture to develop power transmission infrastructure in Labrador. It also provides for the completion of a feasibility study of the Muskrat Falls site.

"The expansion at Churchill Falls, combined with the sale of additional capacity from the existing units under a guaranteed winter availability contract with Hydro-Québec ensures the financial viability of CF(L)Co.," said William E. Wells, President and Chief Executive Officer of Newfoundland and Labrador Hydro. "With the additional revenues from the proposed developments, CF(L)Co will become a major contributor to the economic development of Newfoundland and Labrador."

André Caillé, President and Chief Executive Officer of Hydro-Québec said: "These projects are in line with our objective to increase our production by 25 per cent during the next 10 years. We are convinced that the

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Churchill River development will be profitable and environmentally acceptable. Projects of this nature will also involve local and aboriginal communities as partners."

The framework allows Newfoundland and Labrador Hydro to immediately recall 130 megawatts from current Churchill Falls production for the benefit of Newfoundland and Labrador as provided for under the Upper Churchill Power Contract.

When completed, the 3,200 megawatts of new generating capacity will supply up to 18 billion kilowatt hours of electricity -- equivalent to the annual electricity consumption of 550,000 households.


Premier Tobin also said that these developments between Newfoundland and Labrador Hydro and Hydro-Québec include the reservation of up to 1000 megawatts to meet the power requirements of Newfoundland and Labrador. This assures that the long term power needs of the province will be met.


Premier Tobin noted that separate from these arrangements with Hydro-Québec is the construction by Newfoundland and Labrador Hydro of an 800-megawatt transmission line from Labrador to the island of Newfoundland.


Both Premier Tobin and Premier Bouchard emphasized that development of these projects will proceed in a manner that is respectful of the legitimate rights, concerns and interests of Aboriginal and local communities. Both Newfoundland and Labrador and Québec wish to immediately engage in discussions with their respective aboriginal communities. The two premiers underlined the fact that these projects will be submitted to public consultation as provided for by all applicable environmental and regulatory review processes under the laws of Newfoundland and Labrador, Québec and Canada.

The parties look forward to completion of a Memorandum of Understanding by the end of 1998. Necessary technical, environmental and financial activities will commence immediately to allow the projects to be ready for the construction phase.

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FACT SHEET
Economic Impact

Total investment (current dollars) :

Gull Island	\$3.2 billion
Churchill Falls Capacity Addition and Partial diversion of Saint-Jean and Romaine Rivers	\$1.3 billion
Power transmission infrastructure	\$3.0 billion
Infeed to the Island¹	\$2.2 billion

Current Total:	\$9.7 billion
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Muskrat Falls (if developed)²	\$2.1 billion
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Canadian Employment (person/years) :	49,000
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Direct employment	16,900
Indirect employment	32,100

Industrial Benefits :

- **Regional hydroelectric industries ;**
- **Construction management ;**
- **Procurement ;**
- **Engineering (planning, design, construction) ;**
- **Environmental consulting ;**
- **Equipment manufacturing ;**
- **Service industries.**

1. **The infeed to the Island of Newfoundland from Labrador is separate from the above joint projects, and analysis of the feasibility and joint financing is being pursued by the Province of Newfoundland and Labrador.**
2. **Newfoundland and Labrador Hydro and Hydro-Québec will jointly spend up to 20 million dollars for studies to assess the feasibility of building 800 megawatts of capacity at Muskrat Falls. If deemed feasible this project would proceed on a basis similar to the Gull Island project.**

FACT SHEET
Gull Island Power development

Description:

The Gull Island power complex will be located on the Churchill River, about 200 kilometres downstream from the existing Churchill Falls station, and about 100 kilometres upstream from the community of Happy Valley-Goose Bay. The dam at Gull Island will be 100 metres high and 1.3 kilometres long. There will be minimal flooding for a project of this magnitude. Flooding will be confined to the narrow river gorge between Gull Island and Churchill Falls.

The power station will contain eight 283-megawatt generators for a total production capacity of 2,264 megawatts.

Gull Island has been ranked by the National Energy Board as the best undeveloped hydroelectric site in North America.

Production : Up to 13 billion kilowatt hours annually.

1,000 megawatts of capacity and 7.5 billion kilowatt hours annually will be purchased by Newfoundland and Labrador Hydro for use in Newfoundland and Labrador. Hydro-Québec will purchase the balance of the production on a market netback basis which reflects market conditions. A progressive royalty regime will be applicable.

Partnership: The project will be developed by a limited partnership formed by Newfoundland & Labrador Hydro (**65.8 per cent**) and Hydro-Québec (**34.2 per cent**).

Transmission: Power will be transmitted to the Hydro-Québec grid (operated by TransÉnergie, a division of Hydro-Québec) through a new 735 kV line from Gull Island to the Montagnais station in Québec. In addition, a 735 kV line from Gull Island to Churchill Falls will be constructed.

Power will also be transmitted from Gull Island to the Island of Newfoundland via an 800 MW HVDC line. This transmission line and associated facilities will be built and owned by Newfoundland and Labrador Hydro.

Completion: 2006 - 2008

FACT SHEET
Additional Capacity at Churchill Falls

Description: A new generating station with a capacity of 1,000 megawatts will be built within a kilometre of the existing Churchill Falls generating station. Two 500-megawatt turbines will be fed by the Smallwood Reservoir. The additional water associated with this new generating capacity will come from the partial diversion of the Romaine and Saint-Jean Rivers in Québec.

Production: Up to five billion kilowatt hours annually. Hydro-Québec will purchase the power on a market netback basis which reflects market conditions.

Partners: The project will be developed by Churchill Falls (Labrador) Corporation (CF(L)Co), which is jointly owned by Newfoundland & Labrador Hydro (**65.8 per cent**) and Hydro-Québec (**34.2 per cent**).

Transmission: Power from the additional turbines will be delivered to the Hydro-Québec grid (operated by TransÉnergie, a division of Hydro-Québec) using the existing upgraded 735 kV lines from Churchill Falls to the Montagnais station in Québec.

Completion: 2006-2007

None of these arrangements will alter the Upper Churchill Power Contract.

FACT SHEET Partial Diversion in Québec of the Saint-Jean and Romaine Rivers

Description: A limited portion of the flow of the Saint-Jean River will be diverted to the Romaine River basin. The level of the upper portion of the Romaine River will be raised to redirect water into the Smallwood Reservoir, which is the upper basin of the existing Churchill Falls development. This water will flow through the proposed new generating facilities at Churchill Falls and at Gull Island.

Saint-Jean River: A dam would be constructed on the Saint-Jean River, about 170 kilometres upstream from the mouth on the St. Lawrence River. This dam would direct between 20 and 25 per cent of the river's average annual flow, particularly the heavy spring runoff, through a bypass canal to the adjacent Romaine River. A reserved flow of water will be maintained at all times through the dam into the existing natural river bed.

Romaine River: A containment dam would be constructed along the Romaine River, about 190 kilometres upstream from the mouth on the St. Lawrence River. This would create a reservoir in Québec of 400 square kilometres of existing lakes and rivers and an additional flooded area of 700 square kilometres to direct the flow into the Smallwood Reservoir. This would direct approximately fifty percent of the Romaine river's average annual flow in addition to the flow from the Saint-Jean river's partial diversion, to the Smallwood Reservoir in Labrador. A reserved flow of water will be maintained at all times through the dam into the existing Romaine river bed.

Production: The additional water from the partial diversions will allow the production of up to approximately five billion kilowatt hours of electricity annually at the site of the new generating facility at Churchill Falls.

Partnership: The partial river diversion project will be developed by a limited partnership formed by Hydro-Québec. Local and aboriginal communities will be invited to participate through the partnership in the configuration, development and ownership of the partial river diversions.

Water Flow Arrangements: The arrangements regarding water flows from Québec will be renewable at Hydro-Québec's option at the end of the debt amortization period of CF(L)Co.'s newly installed capacity.

Environment: The Saint-Jean and Romaine Rivers and their watersheds have been studied for many years. Environmental analyses have also been conducted on regional ecosystems and on developments similar to the project under consideration.

- Full impact studies of the proposed projects will be conducted in compliance with applicable environmental review processes.

- The projects will also include a wide scope of environmental mitigation and protection measures and investments, planned and implemented in close consultation with local communities and aboriginal groups.

Completion: 2005 - 2006

FACT SHEET Transmission Infrastructure

Description: The new hydroelectric stations at Churchill Falls and Gull Island will be linked to each other, and with the Montagnais station in Québec on the TransÉnergie (a division of Hydro-Québec) transmission grid through 735 kV transmission lines. The Montagnais station and the TransÉnergie transmission grid will be equipped with additional facilities to accommodate the input from the new generating stations.

The new hydroelectric stations will also be linked to the island of Newfoundland by an 800-megawatt HVDC transmission line to be built by Newfoundland and Labrador Hydro. This transmission line and associated facilities from Labrador to Newfoundland will be built and owned by Newfoundland and Labrador Hydro.

Québec Transmission Infrastructure: TransÉnergie, a division of Hydro-Québec, will develop, build and own the transmission infrastructure in Québec related to these projects as part of its overall transmission grid in Québec.

Labrador Transmission Infrastructure: A limited partnership, formed on a 50/50 basis by Newfoundland & Labrador Hydro and Hydro-Québec will develop, build and own the transmission facilities in Labrador.

TransÉnergie, a division of Hydro-Québec, will include, in its overall cost of service, the cost of service of the new transmission facilities in Labrador under a rolled-in tolling methodology, subject to applicable filings and decisions.

The MOU will contain a "Shotgun" provision at the end of Labrador Transmission Limited Partnership's asset amortization period. Such provision, as may be modified by the parties, will provide an option to acquire, through the acquisition of partnership interests, the assets of Labrador Transmission Limited Partnership at net book value, thus allowing Newfoundland and Labrador Hydro to purchase the assets at such value.

Newfoundland and Labrador Hydro will construct the interconnection to the Island, crossing the Strait of Bell Isle through submarine cables, arriving at Soldiers Pond (near Holyrood, Nfld.)

Completion: 2006 - 2007

FACT SHEET

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Environmental Benefits

In the context of the recent Kyoto decision, the reduction of greenhouse gases has become an important global issue. In agreeing with the Kyoto protocol, Canada accepted the target of reducing its emissions to an average of 6 per cent below 1990 levels by the 2008-2012 time frame. The contemplated projects will significantly reduce greenhouse gas emissions and would make a substantial contribution toward meeting this target.

The hydro developments on the Churchill River system in Labrador and the related developments in Québec offer the single largest block of achievable greenhouse gas emission reductions in Canada, which could account for up to 15 per cent of Canada's Kyoto commitment.

The greenhouse gas emissions reductions associated with the Churchill River developments in Labrador will range between 13 million tons annually compared to gas, to 22 million tons annually, compared to coal.

Newfoundland and Labrador Hydro will receive 100 per cent of greenhouse gas emission credits accruing from Gull Island. Newfoundland and Labrador Hydro and Hydro-Québec will share 50/50 the credits accruing from the Churchill Falls expansion.

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