

NLIS 8
Executive Council
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Premier Releases Response to Premier of New Brunswick

The letter below was sent to the Honourable Shawn Graham, Premier of New Brunswick today. The letter was written in response to Premier Graham's letter to the Honourable Danny Williams, Premier of Newfoundland and Labrador.

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Letter:

October 28, 2009

Honourable Shawn Graham
Premier of New Brunswick
P. O. Box 6000
Fredericton, NB E3B 5H1

Dear Premier Graham:

Thank you for your letter of October 27, 2009. I am pleased to respond to several points in your letter.

First of all, I would like to say that I am disappointed that our province was unaware of the depth of your negotiations with Hydro Quebec given that sometime ago our energy corporation, Nalcor Energy commenced good faith discussions with New Brunswick Power on potential components related to the development of the Lower Churchill. Obviously, there would be significant implications to those negotiations if you do indeed proceed with a sale of NB Power. I am also disappointed that after accommodating all premier's schedules you have indicated that you will not participate at next month's Council of Atlantic Premier's meeting. As you know, that meeting will be held in Churchill Falls where the primary objective was to discuss energy cooperation among Atlantic Provinces.

I understand you are facing great challenges in rebuilding the New Brunswick economy. So, please, do not interpret any of my comments to the media as an attempt to hinder the economic progress of New Brunswick. My comments, made solely in response to media questions, were simply meant to explain this province's negative experience in its relations

with Hydro Quebec and to urge New Brunswickers to seriously consider the long-term ramifications of selling this energy asset. I urge you to regard our experience as a relevant consideration when entering into an agreement with this corporation.

Our primary experience has been well known in the lop-sided and patently inequitable contract regarding the Upper Churchill hydroelectric development. Despite massively changed market and price circumstances that arose after the contract was signed, Hydro Quebec has prevented a fair distribution of benefits. As a result, the cumulative net value to Hydro Quebec since the generating station in Labrador commenced operations has been \$22 billion, while Newfoundland and Labrador has received only \$1 billion. In 2008 alone, the net value to Hydro Quebec of our project in Labrador was \$1.7 billion while a mere \$63 million flowed to Newfoundland and Labrador. It is somewhat ironic when you consider that in an indirect way the profits from a Newfoundland and Labrador project will help finance Hydro Quebec's purchase of any New Brunswick assets. Let us hope that future profits on the backs of New Brunswick rate payers will not see history repeat itself with Quebec Hydro. I caution you based on our experience with Hydro Quebec that a short term opportunity can turn into a long term loss of significant magnitude as they will most definitely find ways to recoup their investment and more from New Brunswickers who no longer control their energy destiny.

We are, however, looking to the future and our current strategy is to develop the next best sites on the Churchill River – known collectively as the Lower Churchill project. We have chosen to work within the open access regulatory systems of New Brunswick and Quebec to gain access for Lower Churchill power to the Maritime provinces, Ontario and the United States. Our expectation in making application for transmission access through Quebec was that the ground rules were established by Hydro Quebec and the Regie de l'Energie in response to United States regulatory requirements that Hydro Quebec offer the same open access in Canada as it enjoys in the United States, and Nalcor Energy would be treated with reciprocal fairness. Just as Hydro Quebec obtains open transmission access and pays a fair tariff in the U.S. for such service, Nalcor Energy expects to obtain open access transmission in Quebec in exchange for a fair tariff.

Despite our expectation of regulatory fairness, Nalcor Energy has encountered obstacles in Quebec. Nalcor has been forced to lodge four complaints with the regulatory authority in Quebec about the tactics being used by Hydro Quebec Transenergie that serve to delay and inhibit our progress. Hydro Quebec's aggressive efforts are also not limited to actions in Quebec. Recently, Hydro Quebec refused to endorse a water management agreement with Nalcor on our own Churchill River that would have permitted the optimum use of that river for hydroelectric development. This action has caused Nalcor to turn to our regulatory authority to arrive at a suitable agreement for the development of a project within our province. These delays are modern day evidence that Hydro Quebec is still standing in the way of the legitimate aspirations of a power-exporting province. I have great fears and reservations about the stranglehold that Hydro Quebec could put in place over the Atlantic region and I hope that you share this concern given your extensive statements on your desire to see your province as an energy hub.

One of the potential impacts of Hydro Quebec's dominance may be the premature cessation of current, good faith discussions between Nalcor Energy and NB Power to sell competitively priced Lower Churchill power to New Brunswick and jointly advance the long term, mutual interests of both of our provinces in conjunction with Nova Scotia and P.E.I. These discussions have not yet reached an advanced stage, so it is not possible to quantify the benefits that might be lost to our two provinces and all of Atlantic Canada if discussions are terminated. If New Brunswick narrows down its range of alternatives to a single-window with Hydro Quebec, full information may not be available to evaluate the opportunities that other alternatives may bring. I would reiterate that our province feels compelled to look into the potential of anti-competitive behaviour on the part of Hydro Quebec given the potential monopoly that could exist as the result of an agreement between them and NB Power.

I acknowledge your statement that "transmission lines running through New Brunswick are now, and will continue to be, open to any customer seeking transshipment rights." We take this commitment to mean that open access transmission rules, contained in your Electricity Act and administered by the New Brunswick System Operator, will continue to respect the ability of energy companies to obtain transmission access within and through New Brunswick in a fair and transparent manner. This is access, of course, to assets that will no longer be owned by New Brunswick but Hydro Quebec who have a track record of obstruction and delay.

I am not aware of the final terms of any deal with Hydro Quebec and my comments are offered in a spirit of good faith to warn you and your people about a decision that could have significant long-term negative impacts. I reciprocally fully respect and understand your obligation to represent the best interests of the people of New Brunswick.

You need look no further than Nalcor Energy – our crown hydro corporation was at one time in poor financial shape. But we took control of our own destiny and Nalcor Energy is now a crown jewel in our province's energy assets and is helping to shape our future. We hope our experiences in Newfoundland and Labrador can assist you in evaluating the options that lie before your government.

Sincerely yours,

DANNY WILLIAMS, Q.C.
Premier

C. Premier Darrell Dexter
Premier Robert Ghiz

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2:35 p.m.