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Page 1

Government of Newfoundland and Labrador
Office of the Premier

November 12, 2010

Honourable Peter MacKay
Regional Minister for Nova Scotia and Newfoundland and Labrador
House of Commons
Ottawa, Ontario
K1A 0A6



Dear Minister MacKay:

The Government of Newfoundland and Labrador is in the final stages of negotiations to develop the Lower Churchill hydroelectric project and I anticipate a final agreement being concluded imminently. I am writing to inform you of the enormous benefits this project will have for Newfoundland and Labrador, and for Atlantic Canada and the country as a whole. I am also requesting the Government of Canada play a role in this project through the provision of a loan guarantee to the Government of Newfoundland and Labrador.

The Government of Newfoundland and Labrador, through our provincial energy crown corporation, Nalcor, will lead the development of the generating and transmission facilities, with Emera Energy of Nova Scotia partnering with us on the transmission portion of the project. The project concept is fully supported by the Government of Nova Scotia and is consistent with the energy objectives of all Atlantic Canadian provinces.

It is our intention to move forward with the Lower Churchill project in a responsible and phased approach consistent with the province's 2007 Energy Plan. As you know, the Lower Churchill River system is comprised of an 824 megawatt development at Muskrat Falls and a 2250 megawatt development at Gull Island. We intend to move forward with the development of Muskrat Falls first, with construction starting as early as next year pending release from the environmental assessment process. Given that agreements with the Innu nation have been reached regarding impacts and benefits related to the Lower Churchill, redress for the Churchill Falls development, and a land claim agreement in principle, we believe this schedule to be a realistic and achievable target. This agreement is subject to ratification.

Energy from Muskrat Falls will be shipped to the island of Newfoundland via a subsea link from Labrador and will be used to meet the growing energy needs of the population and eliminate non-renewable, expensive thermal generation on the Island. In fact, once Muskrat Falls is operational, more than 98% of the province's electrical energy generation will be from a renewable source. Furthermore, it will provide the people and businesses of Newfoundland and Labrador with stable rates for generations to come, in addition to an appropriate return to our provincial treasury.

A second subsea link will be built to export the remaining power from southwestern Newfoundland to Nova Scotia. This link will be a joint project between Nalcor and Emera, with whom Nalcor already has a proven working relationship in selling energy from the Upper Churchill project to the Maritime Provinces and the northeastern United States. Emera will use the power from Muskrat Falls to displace additional thermal generation in Nova Scotia and meet their legislated renewable energy target. Nalcor will use Emera's transmission infrastructure to sell the remaining power from Muskrat Falls to either New Brunswick, Prince Edward Island or the United States.

This development of the Lower Churchill is perfectly aligned with the objectives of the Atlantic Energy Gateway initiative which is intended to be a means for the Government of Canada to encourage the development of additional clean and renewable energy supplies in Atlantic Canada while actively promoting Atlantic Canadian renewable energy to new markets. The operational flexibility of the Lower Churchill will also facilitate the development of other renewable energy resources in Atlantic Canada.

National policy goals would be advanced with the development of the Lower Churchill Project. The combined production of Gull Island and Muskrat Falls could result in the displacement of up to 16 million tonnes of carbon dioxide emissions per annum, a significant contribution to Canada's commitments under the Copenhagen Accord to reduce carbon emissions by 17 percent below 2005 levels by 2020. It would improve Canada's energy security by lessening dependence on foreign sources of oil to generate electricity in Eastern Canada. The new transmission capacity would set the stage for more renewable energy from Atlantic Canada, including over 5,000 megawatts of wind energy from Newfoundland and Labrador, plus significant quantities of tidal and wind energy from Nova Scotia and other Maritime Provinces.

In addition to the energy benefits, the economic and fiscal benefits from the development of Muskrat Falls and associated transmission facilities are enormous. It will generate some 18,000 person years of direct, indirect and induced employment for Atlantic Canada residents, with more than 2,000 people employed at peak construction. In total, over 43,000 person years of employment will be generated in Canada, with Ontario and Quebec each receiving more than 10,000 person years of employment.

Total income to labour and business in my province will be \$1.4 billion, which averages over \$200 million a year during the seven year construction period. Canada-wide income to labour and business will be over \$3.36 billion, or almost \$500 million per year.

In terms of tax revenue, the single greatest beneficiary of this project will be the Government of Canada, which will secure in excess of \$500 million in direct, indirect and induced personal income taxes, corporate income taxes, sales taxes and other taxes. The Government of Newfoundland and Labrador will secure \$200 million in comparable tax revenue.

While the project is sound from a technical, environmental and financial perspective, the capital requirements to move the Muskrat Falls phase of the project

forward are significant – in excess of \$6 billion, with the bulk being sourced from Newfoundland and Labrador.

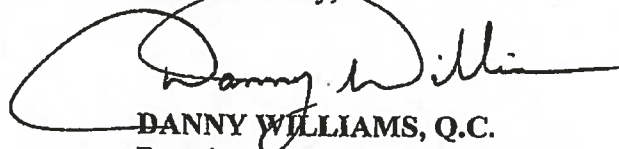
Due to the significant borrowing requirement necessary to move this phase of the project forward, I am seeking the support of the Government of Canada through the form of a loan guarantee for the generation facilities at Muskrat Falls and the Labrador – Newfoundland transmission link. Given that the federal government's tax revenue will be more than double that of the Government of Newfoundland and Labrador, and the extraordinary benefits that will be created for the entire country, the business case for a loan guarantee is sound.

Following his public commitments in December, 2005, and again in a letter to me in January 2006, I have discussed the matter of a loan guarantee with the Prime Minister on numerous occasions. He has stated his willingness to entertain the loan guarantee provided the Province provides an appropriate level of financial documentation. My government is prepared to provide full access to our economic analysis as soon as an agreement is finalized, which could be any day now.

Providing support for development of the Lower Churchill would be consistent with other Government of Canada initiatives. From a climate change perspective it would complement the significant federal spending and partnerships in Western Canada to advance carbon capture and storage projects. The Federal Government provided loan guarantees and financial support to the Trans Canada Pipeline in view of the perceived risks and the magnitude of capital required for that project. Hydroelectric and power transmission projects in Yukon and British Columbia have been approved under the Green Infrastructure Fund as part of the Federal Government's economic stimulus efforts. In the mid-sixties the Federal Government provided support to Manitoba for the development of the 1272 KW hydro electric project at Kettle Rapids on the Nelson River and associated HVdc transmission facilities. While the above supports relate specifically to the energy sector, we also note that the Federal Government has provided substantial supports for the aerospace and forestry industries in Quebec and the automotive industry in Ontario, among others.

Thank you in advance for your consideration of this proposal. We look forward to hearing from you at your earliest opportunity.

Yours sincerely,



DANNY WILLIAMS, Q.C.
Premier