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March 14, 2012

Ms. Cheryl Blundon

Board Secretary

Board of Commissioners of Public Utilities

Dear Ms. Blundon

Re: The Muskrat Falls Review

We are in receipt of a copy of a letter from Thomas J. O'Reilly Q.C. to the Board, dated March 9, 2012, with respect to the decision of the Board to enter into record the Report of the Joint Review Panel on the Lower Churchill Hydro Generation Project, which was released in August, 2011.

In our submission to the Board of February 20, 2012, we argued that the Board should allow the Report to be put into evidence and to post it on the Board's website. Nalcor objected to our argument at the hearing on February 23, 2012 and further argued in Mr. O'Reilly's letter of March 9, 2012 that the report should be "given little weight".

We do not agree with how the Report of the Joint Review Panel has been characterized in the letter or the argument made with respect to the weight to be given to the report.

The Terms of Reference required the Panel to "assess the environmental effects of the Project, including consideration of the need for and the purpose of the Project; (and) alternatives to the Project and alternative means of carrying out the Project". It had a very broad mandate.

The Panel reviewed the information provided by Nalcor and other participants and held a 30 day public hearing in nine locations in the Province and in Quebec. Contrast this with the 2 days of hearings only held in St. John's on the Reference, through no fault of the Board.

Following this process "the Panel concluded that Nalcor had not demonstrated the justification of the project as a whole in in energy and economic term and that there are outstanding questions related to both Muskrat Falls and Gull Island regarding their ability to deliver the projected long-term benefits to the Province even if other sanctioning requirements were met." It also recommended "that the Government of Newfoundland and Labrador carry out separate formal financial reviews before sanctioning either Muskrat Falls or Gull Island to confirm whether the component being considered for sanction would in fact deliver the projected long-term benefits."

In considering alternatives to the project the panel concluded "that Nalcor's analysis, showing Muskrat Falls to be the least-cost way to meet domestic demand requirements was inadequate and recommended a new independent analysis based on economic, energy and environmental

considerations. The analysis would address domestic demand projections, conservation and demand management, alternate on-Island sources, the role of power from Churchill Falls, Nalcor's cost estimates and assumptions with respect to its no-Power thermal option, the possible use of offshore gas as a fuel for the Holyrood generating facility, cash flow projections for Muskrat Falls, and the implications for the province's ratepayers and regulatory systems."

We made many of the same arguments in our presentation to the Board.

The Report was entered into the record on February 29, 2012 so Nalcor did have an opportunity to critically examine its evidentiary underpinnings. We also note that the Panel reported last August so Nalcor has no doubt given careful consideration to its findings in the intervening period. The environmental recommendations did address the issues of Project need and alternatives to the Project, as the Terms of Reference required, and did consider many of the issues now before the Board.

As a result we submit that the Board should give significant weight to the Report of the Joint Review Panel given its extensive mandate and hearing process and its relevance to the Reference Question, and, more importantly, to the broader question of how best to meet the future energy needs of the province and by ensuring that due diligence occurs on the most significant and costly capital project ever proposed for Newfoundland and Labrador.

Furthermore, the decisions which both governments will take with respect to the recommendations of the Joint Panel are likely to impact on the capital cost of the Interconnection Option. In addition, implementation of the Joint Panel's recommendations for mitigation of environmental damage, which are different than those proposed by Nalcor, has the potential to alter the selection of the least cost option. We note that neither government has responded to the recommendations of the Joint Panel with respect to the generation component of the project.

We raise similar concerns with respect to the environmental assessment of the Labrador-Island sub-sea crossing and transmission line, which may lead to decisions which might increase the overall costs of the Interconnection Option beyond those presently before the Board.

We note that the Reference Question is linked directly to a comparison of the overall costs of the two energy alternatives.

Yours truly

Ronald G. Penney and David Vardy

Ratepayers

c.c.

Thomas J. O'Reilly Q.C.

Mr. Thomas Johnson