

From: [Clift, Thomas](#)
To: [Thompson, Robert](#)
Subject: FW: Board Compensation - New & Old
Date: Wednesday, September 26, 2012 10:03:28 AM
Attachments: [Scan001.PDF](#)

Good Morning Robert,

On Friday of this week the Board of Directors of NALCOR will convene for their 54th meeting. No doubt one of the members will ask me about the status of the Board compensation discussions. In your last message to me you indicated that these discussions were 'on the government agenda'.

Attached is a pdf copy of a letter which I wrote to then Energy Corporation/NALCOR Chair John Ottenheimer, outlining our concerns about the Board appointment process. This letter was subsequently forwarded to the provincial government, via the Department of Natural Resources (I think that was the route).

I am sending this letter to help you gain additional insight and perspective in this matter; based on the assumption that you have not seen it previously.

On page 3 of this letter I draw specific attention to the amount of time that has passed since NALCOR President Ed Martin had indicated to the Board that government was intending to remedy this situation.

As October 2012 will mark the fifth anniversary of the inception of this Board and as it has now been more than 4 years since I wrote this letter (September, 4th, 2012), we as a group feel an update is warranted.

Robert, We all realize that this issue started with a previous administration and you may not have been involved in this at that time and we are indeed grateful for the recent board appointments, at this time we are looking for some closure on the last remaining issue.

Also, please note that in recent months two additional Boards have been added to our portfolio: Labrador Island Link Corporation and The Labrador Island Link Holding Corporation. I assume any decision that will be forthcoming will also include the directors of these corporations?

Thanks for your time and consideration, any additional information that you can share on this point would be appreciated.

Let's hope the Federal Loan Guarantee discussions conclude quickly!

Tom

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NALCOR

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-----Original Message-----

From: buslab@mun.ca [<mailto:buslab@mun.ca>]
Sent: September-07-12 10:25 AM
To: Clift, Thomas
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**ENERGY CORPORATION OF NEWFOUNDLAND
AND LABRADOR**

P.O. Box 12400, Hydro Place
St. John's, NL, A1B 4K7

September 2nd, 2008

Mr. John Ottenheimer
Chairperson
Newfoundland and Labrador Hydro
Hydro Place
500 Columbus Drive
P.O. Box 12400
St. John's, NL
A1B 4K7

Dear Mr. Ottenheimer,

At a recent meeting of the Board Governance committee of Newfoundland and Labrador Hydro and at a subsequent in-camera session of the Board of Directors of Newfoundland and Labrador Hydro, it was brought to my attention (as Chairperson of the Board Governance committee), that the majority of Committee and Board members are quite concerned about a number of ongoing issues related to the governance of the Boards of Directors of both Newfoundland and Labrador Hydro and the Energy Corporation of Newfoundland.

These concerns relate primarily to the current process that is being employed to recruit and select prospective members to these boards and the amount of time that it has taken to replenish these Boards. In particular, Board members appear to be most concerned about the following issues:

- 1) The amount of time (9-12 months) that it is taking to find and appoint people to each of these boards;
- 2) The potential negative impact that could arise from the loss of continuity on these Boards (and on Board committees) as individual appointments expire and replacement appointments are slow to be processed; associated with this is the need for remaining Board members to sit on additional sub-committees as the total number of members is diminished;

3) The subsequent pressure that is being experienced by remaining board members to accommodate additional sub-committee responsibilities – not all of which they feel qualified for. In recent months, remaining members often have had to make costly changes to their own busy travel schedules (or participate via teleconference from as far as 4 time zones away, while on vacation, in order to allow these boards and sub-committees to achieve quorum status and conduct their business in a timely and efficient manner;

4) The absence of Board level expertise in a number of specialized areas deemed to be ‘of significance’ to NL Hydro and the Energy Corporation of Newfoundland. Notable areas where board level expertise would be beneficial include: large-scale or mega-project project management; specialized hydro generation engineering; large-scale environmental project management; and legal affairs (including Labour Relations), all of which will increase in importance as a number of the large-scale development projects (presently under development or in the final negotiation stages) at Newfoundland and Labrador Hydro and the Energy Corporation of Newfoundland come to fruition.

Background to Our Concerns: The Board Governance Committee of NL Hydro is, itself, a good example of the current challenges facing these two Boards as we move forward. From its inception in the spring of 2006 to the end of 2006 this Board Committee worked diligently to establish an effective set of Board Governance Policies and Procedures. If you recall, in many cases these policies were designed specifically to address many of the concerns noted above. At the end of 2006 the Board appointment of the Chair of the Board Governance Committee expired. As a result, little progress was made in moving the NL Hydro Board Governance agenda forward from that time until that person was re-appointed (some 9 months later), in September of 2007. In the interim, no Board Governance meetings were held and very little progress was made in advancing the Board Governance agenda within the Hydro Group of Companies. Yet, at a national level many organizations were moving quickly to establish such governance procedures - in an attempt to come in line with current government regulations, industry standards and investor expectations.

In 2006, as Chairperson of the Board Governance Committee I wrote to the Chair of NL Hydro, Dean MacDonald, to provide feedback and make suggestions as to how we might improve the Board appointment and governance process. While these suggestions have moved slowly forward through NL Hydro and on to the Shareholder (the Provincial Government), to date we have seen little evidence of progress on these matters.

The Board recruitment and selection process, while having been approved internally by NL Hydro, does not appear to have been adopted (at least formally) by the Shareholder. As a result we find ourselves without the benefit of council in the critical areas noted above.

Additionally, it should be noted that while recommendations with respect to Board compensation (for both NL Hydro and the Energy Corporation of Newfoundland) have been approved by the Board Governance Committee, and subsequently approved by the Board, to date no decision on this matter has been forthcoming from the shareholder.

Just last week the Board of Directors of the Energy Corporation of Newfoundland was called to the tenth meeting of this Board (in the past 11 months), yet no decision has been forthcoming with respect to Board compensation or complement. It seems quite reasonable to me that decisions on such matters should be resolved before the first anniversary of the appointment of this Board passes (in early October 2008).

In short, it concerns the Board Governance committee that nearly a full year has passed and to date no decisions have been made with respect to: additional appointments; the Board replacement process; or the Board compensation issue.

While we might reasonably assume that at some point in time Board members will be compensated for their services (and that this compensation will likely be retroactive to the date of each board members original appointment), once again information on this aspect of Board Governance has yet to be communicated to the Board Governance Committee of either of these Boards.

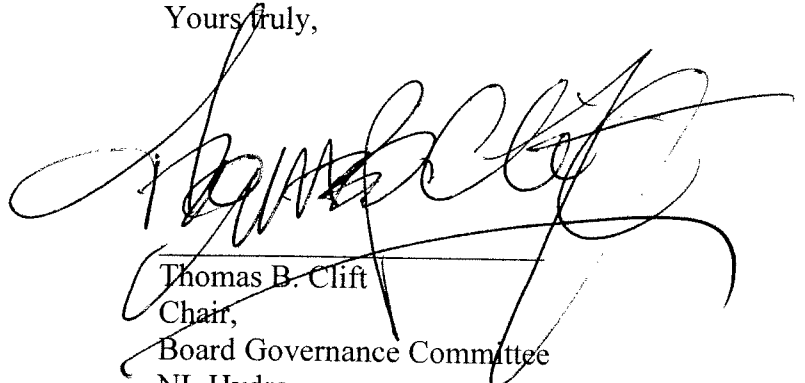
Implications: From a more broadly based governance perspective, what is perhaps most unfortunate in all of this is that during this same time period (when Board governance activities were minimized and appointments to these boards were slow in coming), NL Hydro was itself actively engaged in negotiations with a number of large-scale international petroleum companies and also engaged in the ongoing development of the Lower Churchill project and in each case the Board of Directors would have benefited greatly from additional expertise in the areas noted previously in this document.

Mr. Chairman, one could reasonably argue that when projects of this magnitude are actively being negotiated, we owe it to our constituent publics to exercise the highest possible level of diligence and governance. At the present time we are in a sub-optimal position in this regard.

Once again, I wish to reiterate, it is not our wish to be alarmist here, rather it is our desire to point out that the members of the Boards of both NL Hydro and the Energy Corporation of Newfoundland appear to be legitimately concerned about the time that it has taken to resolve these issues – particularly in light of the magnitude (and potential impact) of the decisions that are presently being made by this relatively small group of individuals.

As always, we have the best interests of NL Hydro, the Energy Corporation of Newfoundland and the Shareholder at heart. We want to make sound, effective decisions on behalf of the people of Newfoundland and Labrador. To this end, we ask that you, in conjunction with the CEO of NL Hydro, intervene with the Shareholder in an attempt to seek a resolution to these matters.

Yours truly,



Thomas B. Clift
Chair,
Board Governance Committee
NL Hydro