

**MINUTES OF THE SIXTY-FOURTH MEETING OF THE BOARD OF DIRECTORS OF NALCOR ENERGY HELD IN THE BOARDROOM, SIXTH LEVEL, HYDRO PLACE, ST. JOHN'S, NEWFOUNDLAND AND LABRADOR ON FRIDAY, JANUARY 18, 2013 AT 11:00 A.M.**

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| <b>Present in Person:</b>     | <b>T. Styles, Chair<br/>L. Abbass<br/>T. Clift<br/>A. Hawkins<br/>K. Marshall<br/>E. Martin<br/>G. Shortall</b>                             |
| <b>Absent:</b>                | <b>E. Breen</b>   |
| <b>Present by Invitation:</b> | <b>D. Sturge, Vice-President Finance<br/>and Chief Financial Officer<br/>K. Legge, General Manager Finance &amp;<br/>Corporate Services</b> |
| <b>Secretary:</b>             | <b>W. Chamberlain</b>   |

**771. CONSTITUTION OF THE MEETING**

Notice of the meeting was sent to Directors on January 3, 2013. A quorum of Directors being present, the Chair declared the meeting duly called and validly constituted for the transaction of business.

**772. SAFETY MOMENT**

Mr. Sturge joined the meeting and provided a safety moment on snow blower safety. Mr. Sturge left the meeting.

**773. VERIFICATION OF MINUTES**

A copy of the minutes of the Fifty-fourth, Fifty-fifth, Fifty-sixth, Fifty-seventh, Fifty-eighth, Fifty-ninth, Sixtieth, Sixty-first, Sixty-second and Sixty-third meetings of the Board of Directors of Nalcor Energy held on September 28, 2012, October 16, 2012, November 5, 2012, November 13, 2012, November 20, 2012, November 25, 2012, December 3, 2012, December 4, 2012, December 5, 2012 and December 19, 2012 respectively, were included in the meeting papers circulated prior to the meeting.

On motion duly made by Mr. Abbass, seconded by Mr. Hawkins and unanimously carried, it was resolved:

**THAT** the minutes of the **FIFTY-FOURTH, FIFTY-FIFTH, FIFTY-SIXTH, FIFTY-SEVENTH, FIFTY-EIGHTH, FIFTY-NINTH, SIXTIETH, SIXTY-FIRST, SIXTY-SECOND AND SIXTY-THIRD** meetings of the Board of Directors of Nalcor Energy held on September 28, 2012, October 16, 2012, November 5, 2012, November 13, 2012, November 20, 2012, November 25, 2012, December 3, 2012, December 4, 2012, December 5, 2012 and December 19, 2012 respectively, as amended by the Secretary, be and they are hereby verified as being correct; and

**THAT** the Chairperson be and he is hereby authorized to verify the minutes by signing the Minute Book.

**774. BUSINESS ARISING**

There was no business arising.

**775. BOARD COMMITTEE REPORTS**

**776. Audit Committee**

Mr. Shortall reported that the Audit Committee met on November 29, 2012 and January 17, 2013. He advised that in the November meeting Management made a presentation and recommendation to the Committee that the Corporation continue to adopt IFRS and the Committee agreed. The Committee was also provided with an update from the external auditors regarding their review of the Nalcor-Emera agreements and in particular Phase 1 with respect to the issue of control of the Maritime Link. He stated that Deloitte has confirmed that the Corporation will control the Maritime Link and that Phase 2 will entail a review of the other agreements not related to the Maritime Link.

He further advised that the 2013 Internal Audit Plan was reviewed and approved and he noted that the Acting Manager was investigating and developing a framework with respect to the internal audit function for the Lower Churchill Project (Project) and was a work in progress.

Mr. Martin stated that with the sanction of the Muskrat Falls Project the Internal Audit function will have an increasing and significant role in best practice governance and financial controls. He advised that Mr. Mark Bradbury, who recently retired as General Manager Finance with the Project, has been engaged as Manager of Internal Audit Department and will have a line to the President and CEO and to the Audit Committee. He noted that Mr. Bradbury's financial and corporate background, experience and knowledge of the company and the Project will provide the required leadership, strategic thinking and oversight to ensure best practice governance and financial controls with respect to the Corporation and the Project.

Mr. Shortall advised that Management reviewed the 2013 Financial Risk Management Strategy (Strategy) for all of the companies in January and the Committee recommends that the Board approve the Strategy.

**777. Governance Committee**

Mr. Clift reported that the Governance Committee met on November 28, 2012 and reviewed annual work plans for the various Nalcor boards and committees and agreed that the work plans, as amended by the Committee, be provided to the respective boards and committees for review and adoption. He noted that the work plans will assist the respective boards and committees from a governance perspective to ensure that the mandates are carried out as required.

He advised that the Committee reviewed a Director's Charter which identifies the duties and responsibilities of Directors that are not specifically included in the board mandates. The Committee recommends that the Nalcor Board of Directors and the other respective boards of directors approve the Director's Charter.

There was discussion regarding the requirement to have independent directors for the subsidiary companies of Nalcor Energy and whether that requirement was suitable or appropriate with respect to the changing corporate structure. It was suggested that many, if not all, of the boards of the respective companies could or should have the same board members or have management appointed members. The Secretary provided a brief overview of the history and reasons for the legislative requirement for independent board members for the subsidiary companies and noted that the independence of board members arose when the new Lower Churchill companies were being incorporated, as a result of concerns raised by credit rating agencies. It was agreed that Management would revisit this requirement for independent directors of subsidiary companies and report back to the Board.

It was also agreed that Board members would be provided with a matrix that identifies the Board members of the Nalcor Energy subsidiary companies.

778.

**Compensation Committee**

Mr. Marshall reported that the Compensation Committee met on November 28, 2012 and advised that the Corporation will need to review and consider Government's position on labour and collective bargaining issues to ensure Nalcor is appropriately positioned. He provided a high level overview of the compensation and adjustments approved in 2012 and the status of the executive compensation review. He advised that there is no recommendation forthcoming from the Committee at this time and that further discussions are planned in the next few months.

779.

**PRESIDENT'S REPORT**

780.

**2013 Corporate Plan**

Mr. Martin reviewed the 2013 Corporate Plan that was included in the Board papers circulated prior to the meeting and advised that the Plan will be finalized before the next meeting. He reviewed the corporate plan highlights noting that

the safety targets remained unchanged since the 2012 targets were not achieved and noted that further analysis of the injuries in 2012 has revealed that approximately 5% of the employees of the corporate safety centers sustained 50% of the injuries. He noted that these employees were lines persons and meter readers and that the injuries were not related to high risk activities but rather more routine lower risk responsibilities. He advised that the approach going forward is to meet and support these employees in order to improve their safety performance. He stated that the safety performance of the other safety centers is trending in the right direction.

He reported that the Corporation has ISO certified facilities and the environmental performance metrics are structured to ensure that the ISO certification is maintained.

Mr. Sturge and Mr. Legge joined the meeting.

Mr. Martin stated that the financial targets have changed from last year to better reflect and measure the nature of the current state of the lines of business. He noted that project execution and asset management have detailed annual plans, the Hydro winter availability target is being developed, the General Rate Application (GRA) is ready to file in 2013 and the CF(L)Co GWAC target is reflective of GWAC historical performance.

He advised that the Muskrat Falls, Labrador- Island Link and Maritime Link projects will be a priority in 2013 to ensure that planned work is within approved costs and schedule. He noted that Phase 2 (Gull Island) will be progressed by Business Development and that the Labrador industrial rate policy has been approved and will be implemented.

Mr. Martin stated that an employee engagement survey is completed every two years and the Corporation analyzes the results and selects one or two areas to

focus on and respond to. He advised that the planned activities related to the Shareholder Strategy and Board of Directors Engagement Plan will be completed.

**781. FINANCIAL REPORT**

**782. Financial Risk Management Strategy**

Mr. Sturge reviewed the Financial Risk Management Strategy (Strategy) that was included in the Board papers circulated prior to the meeting. He advised that the proposed Strategy provides an overview of the management of interest rate, foreign exchange rate, commodity price, liquidity and credit risks with respect to the Corporation and its subsidiaries. He reviewed the executive summary and stated that a conservative to moderate approach with respect to cash flow volatility risk is appropriate, taking into consideration uncertainties related to oil production, GWAC earnings and oil and electricity price risks. He reviewed the financial risk recommendations for the lines of business noting the hedging of foreign exchange exposures for Energy Marketing and Bull Arm Fabrication, hedging of oil price exposures for Oil and Gas and the assessment of creditworthiness of potential contractors for Lower Churchill projects.

On motion duly made by Mr. Shortall, seconded by Mr. Martin and unanimously carried, it was resolved:

**THAT** the 2013 Financial Risk Management Strategy, as tabled and initialed by the Secretary for identification, be and it is hereby approved.

**783. 2013 Budget and Financing Plan**

Mr. Sturge reviewed the Budget and Financing Plan 2013 that was included in the Board papers circulated prior to the meeting.

He presented an IFRS net income and an adjusted net income to reflect the regulatory impacts not recognized under IFRS and net income for Hydro

assumes new rates being effective July 1, 2013 but if delayed to January 1, 2014, the impact on 2013 net income is minimal. He noted that the equity contribution assumes that the Lower Churchill Project has financial close by October 1<sup>st</sup> and need to ensure the Shareholder is aligned with respect to the management of risk if the financial close is delayed.

Mr. Sturge stated that with the repairs to Unit 2 being completed the CF(L)Co GWAC revenue target is budgeted at 92.5%. He reported that oil and gas production is expected to increase in 2013 and the price is expected to be slightly higher than the 2012 Budget. He advised that the Bull Arm Fabrication lease revenue will increase as a result of the sanctioning of the Hebron project and that the Lower Churchill capital program will be larger than prior years due to sanction and as noted earlier, assumes financial close on or before October 1, 2013.

He provided an overview of the 2013 segmented earnings of the respective lines of business compared to the 2012 budget and forecast, noting the regulated adjustments related to the treatment of RSP under IFRS. He reviewed the 2013 capital expenditures of the lines of business compared to 2012, noting the significant increase in capital expenditures with respect to oil and gas and Lower Churchill projects.

Mr. Sturge reviewed the highlights of the Financing Plan noting the equity investment required from the Province with respect to oil and gas and the Lower Churchill Project commitments, the increase in the operating line to provide added liquidity and the continued suspension of the dividend payments from the Corporation to the Shareholder. He also reviewed the financing strategy and equity requirement in 2013 and the first quarter of 2014 and noted that meetings will continue to be held with the Shareholder, Natural Resources and Finance to ensure there is alignment and understanding of the equity requirements, any contingency if the financial closing date is delayed and ensuring receipt of the equity investment when requested and required.

On motion duly made by Mr. Shortall, seconded by Mr. Clift and unanimously carried, it was resolved:

**THAT** the Nalcor Energy Operating and Capital Budgets for 2013 and the Financing Plan for 2013, as tabled and initialed by the Secretary for identification, be and they are hereby approved.

**784. Financial Performance Metrics**

Mr. Sturge reviewed the Financial Performance Metrics that was included in the Board papers circulated prior to the meeting and stated that Management decided to step back and evaluate the appropriateness of the existing financial performance metrics as a result of expected step changes in the business and determined that it was appropriate to make adjustments in 2013.

Mr. Legge advised that it was a good time to evaluate the existing financial performance metrics having recently sanctioned the Lower Churchill and Hebron projects, the increase in long term capital program for Hydro and CF(L)Co and the growth in the other lines of business. He reviewed the principles and expectations with respect to the development of Nalcor's financial performance metrics and the key stakeholders.

He reviewed the current and proposed changes to the financial performance metrics and advised that the new metrics are adjusted net income, operating expenditures (Opex) and Capital Expenditures (Capex), cash from operations and capital structure (range) and will be appropriately applied to the lines of business.

**785. Compliance Certificate**

Mr. Sturge referred to the Corporate Compliance Certificate for the period ended November 30, 2012 that was included in the Board papers circulated prior to the meeting.

**786. APPROVAL OF LOWER CHURCHILL  
AUTHORIZATION FOR EXPENDITURE**

Mr. Martin reviewed the Lower Churchill Project – Master Authorization for Expenditure (AFE) report that was included in the Board papers circulated prior to the meeting. He advised that the Master AFE is typical for large projects over several years and the Board is in effect approving the AFE budget for that time period whereby he, as President and CEO, would have authority to approve expenditures within the approved AFE budget.

On motion duly made by Mr. Shortall, seconded by Mr. Clift and unanimously carried, it was resolved:

**THAT** the Master Authorizations for Expenditure relating to each of the components of the Lower Churchill Project, said components being the Muskrat Falls Plant, the Labrador Transmission Assets and the Labrador-Island Link, presented to the Board of Directors at its meeting of January 18, 2013, be and they are hereby approved.

**787. EXECUTION OF LCP CONTRACTS AND INSTRUMENTS**

Mr. Martin reviewed and referred to the Lower Churchill Project Approval Limits Matrix (Matrix) that was included in the Board papers circulated prior to the meeting and advised that Management is seeking approval of the Matrix to permit the delegation of President & CEO's approval and signing authority to the specified key Project personnel within the prescribed approval levels.

He reported that the AFEs included in the Master AFE are anchored to the DG3 estimate and noted that safety, quality, cost and schedule are important performance metrics.

On motion duly made by Mr. Shortall, seconded by Mr. Hawkins and unanimously carried, it was resolved:

**WHEREAS** By-Law No.1 of the Corporation outlines the persons who are authorized to execute contracts and instruments on behalf of the Corporation;

**AND WHEREAS** By-Law No.1 of the Corporation provides that the Board of Directors may by a Resolution designate any other person or persons to execute contracts or instruments on behalf of the Corporation;

**BE IT RESOLVED**

**THAT** with respect to contracts and instruments relating to the Lower Churchill Project, including the Muskrat Falls Project, the Labrador Transmission Assets and the Labrador-Island Link, that in addition to the persons authorized to execute contracts and instruments on behalf of the Corporation pursuant to By-Law No.1 of the Corporation, contracts and instruments related to the Lower Churchill Project may be executed on behalf of the Corporation by persons so designated in the Approval Authority Limits Matrix of the Lower Churchill Project Capital Expenditure Authorization Procedure.

788.

**FORTIS & LENDER SETTLEMENT –  
EXPLOITS RIVER HYDRO PARTNERSHIP**



789.

**2013 MEETING SCHEDULE**

Mr. Shortall advised in an earlier Board meeting that he will be out of the country in March and would prefer that the March 15<sup>th</sup> meeting be scheduled in April. Secretary advised that he is considering Mr. Shortall's request and will determine if the meeting can be delayed to April.

790.

**OTHER BUSINESS**

There was no other business.

791.

**NEXT MEETING**

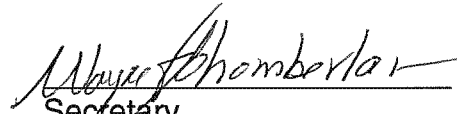
The Secretary advised that the scheduled March 15<sup>th</sup> meeting date may be moved into April if the request by Mr. Shortall can be accommodated. The Secretary will provide notice of the date for the next meeting.

**792.****IN CAMERA SESSION**

The Chair advised that the Board members held an in camera meeting at the conclusion of the meeting of the Board of Directors of Newfoundland and Labrador Hydro which immediately preceded this meeting and that it was agreed that a second in camera meeting was not required.


**793.****TERMINATION**

There being no further business, the meeting was terminated.

  
Secretary

Verified at a meeting held on

March 22, 2013

  
Chairperson