



Government of Newfoundland and Labrador
Office of the Premier

October 18, 2011

Mr. Edmund J. Martin
President and CEO
Nalcor Energy
500 Columbus Drive
St. John's, NL
A1B 0C9

Dear Mr. Martin:

This letter outlines the objectives and intentions of the Government of Newfoundland and Labrador (the "Government") in support of the Lower Churchill Projects (the "Projects") being undertaken by Nalcor Energy ("Nalcor") in association with Emera Inc. ("Emera") and its subsidiaries, as described below.

The Projects are:

- The Muskrat Falls generation facility ("MF") and Labrador transmission assets ("LTA"), comprising a 345 kV HVAC transmission interconnect between MF and Churchill Falls, which Nalcor will be responsible to develop;
- The Labrador-Island Link, a HVDC transmission line connecting the Island of Newfoundland to generation facilities in Labrador, including any associated upgrades to the island interconnected system funded as part of this project component (the "LIL"). Nalcor will develop the LIL and provide Emera with an opportunity to invest in it; and
- The Maritime Link, a HVDC transmission line connecting the Island interconnected system to Nova Scotia (the "ML"). Emera or an entity which it controls and Nalcor will jointly develop the ML. In exchange for Emera funding 100% of the construction cost of the ML, and providing Nalcor with long-term transmission services over the ML, Nalcor will provide approximately 1 TWh of energy annually to Nova Scotia for 35 years.

The Government is committed to supporting the development of the Projects as a matter of Government policy of the highest importance, consistent with its *2007 Energy Plan*. To that end, upon the final sanctioning of the Projects, Government's policy will be to revise the framework governing the electricity industry in the Province to align that

framework with the requirements of the successful completion of the Projects. As part of this process, Government is committed to do the following:

1. Approve the creation of those subsidiaries or entities controlled by Nalcor which are required in order to facilitate the development and operation of MF, the LIL and the LTA, and to ensure Nalcor and existing and new subsidiaries or entities have the authorized borrowing powers required to implement the Projects and meet any related contractual or reliability obligations.
2. Provide the base level and contingent equity support that will be required by Nalcor to support successful achievement of in-service for MF, the LTA and the LIL, in cases with and without the participation of Emera.
3. Ensure that, upon MF achieving in-service, the regulated rates for Newfoundland and Labrador Hydro ("NLH") will allow it to collect sufficient revenue in each year to enable NLH to recover those amounts incurred for the purchase and delivery of energy from MF, including those costs incurred by NLH pursuant to any applicable power purchase agreement ("PPA") between NLH and the relevant Nalcor subsidiary or entity controlled by Nalcor that will provide for a recovery of costs over the term of the PPA and relate to:
 - (a) initial and sustaining capital costs and related financing costs (on both debt and equity), including all debt service costs and a defined internal rate of return on equity over the term of the PPA;
 - (b) operating and maintenance costs, including those costs associated with transmission service for delivery of MF power over the LTA (as described further in 5 below);
 - (c) applicable taxes and fees;
 - (d) payments pursuant to any applicable Impact & Benefit agreements;
 - (e) payments pursuant to the water lease and water management agreements; and
 - (f) extraordinary or emergency repairs.
4. Ensure that, upon the LIL achieving in-service, the regulated rates for NLH will allow it to collect sufficient revenue in each year to enable NLH to recover those amounts incurred for transmission services, including those costs incurred by NLH pursuant to any applicable agreements between NLH, the LIL operating entity and/or the entity holding ownership in the LIL assets, that will provide for a recovery of costs over the service life of the LIL and relate to:
 - (a) initial and sustaining capital costs of the LIL and related financing and debt service costs, including a specified capital structure and regulated rate of return on equity equal to, at least, a minimum value required to achieve

the debt service coverage ratio agreed to in lending agreements by the LIL borrowing entity;

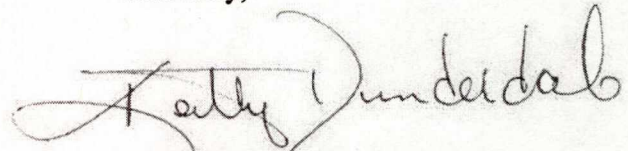
- (b) operating and maintenance costs;
- (c) applicable taxes and fees; and
- (d) extraordinary or emergency repairs;

and that any entity which is associated with the investment of Emera in the LIL will be treated as a "public utility" under the Public Utilities Act and the Electrical Power Control Act, 1994;

5. Ensure that, upon LTA achieving in-service, the regulated rates for the provision of transmission service over the LTA will provide for a recovery of costs over the service life of the LTA including initial and sustaining capital costs, operating and maintenance costs, extraordinary or emergency repairs, applicable taxes and fees and financing costs (on both debt and equity), including all debt service costs and a defined internal rate of return on equity over the term of any applicable agreement.

The means undertaken to implement these policies and objectives will be at the sole discretion of the Government, but may include legislative amendments, regulatory rulings, and orders under current legislation.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Kathy Dunderdale', with a stylized flourish at the end.

KATHY DUNDERDALE
Premier