

Date : 5/25/2009 7:04:42 PM

From : "Thompson, Robert"

To : "KONeill@nalcenergy.com" , "Barron, Tracy B." , "Bown, Charles W."

Cc : "Derrick Sturge" , "EMartin@nalcenergy.com"

Subject : RE: Release - Hydro restructuring

I understand the logic here, though we have to be aware that the Minister will be asked questions about the impact of the decisions. The most likely question is what impact these items will have on rate increases. Therefore, we still need to work together on phrasing the right answer, and the Minister will need to decide whether this answer should be held in reserve to respond to questions, or placed directly in the release. I concur with leaving out the issue of restructuring.

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

From: KONeill@nalcenergy.com [<mailto:KONeill@nalcenergy.com>]

Sent: Mon 5/25/2009 4:42 PM

To: Barron, Tracy B.; Bown, Charles W.; Thompson, Robert

Cc: Derrick Sturge; EMartin@nalcenergy.com

Subject: Re: Release - Hydro restructuring

Hi Tracy,

I had a chat with Derrick. Here are our suggested changes. We had concerns over leaving in the restructuring part and also tying this to Nalcor Energy's acquisitions. Also, we deleted the reference to not Hydro not filing for any rate increases in 2010.

Karen

Province Positions Hydro to Make Critical Investments in Infrastructure

The Provincial Government is implementing measures to improve Newfoundland and Labrador Hydro's (Hydro) financial position to bring it in line with other Canadian regulated utilities and enable it to make appropriate ongoing investments in infrastructure to ensure reliable service.

"These measures bring Hydro's return on equity and capital structure in line with that Newfoundland Power and many other Canadian regulated utilities," said the Honourable Kathy Dunderdale, Minister of Natural Resources. "It is important that all parts of Nalcor Energy are strong and financially sound to enable our energy corporation to meet its mandate."

To accomplish these objectives, the Public Utilities Board (PUB) is being directed to permit Hydro to earn a return on equity equal to that of Newfoundland Power. The Provincial Government has also agreed to waive its annual debt-guarantee fee (valued at approximately \$13 million a year) until 2010. A \$100-million equity injection into Hydro's capital structure allocated in Budget 2008 is also assisting in retiring debt.

"These measures are necessary to ensure Hydro is able to service its own debts and maintain a stable financial structure, thereby allowing it to weather unexpected fluctuations in its business," said Minister Dunderdale. "This will support the financial viability and stability of Hydro and its ability to make necessary capital investments and upgrades, comparable to other regulated utilities in providing reliable service to its customers."

"Hydro will now be provided with an appropriate return on regulated equity comparable to other Canadian regulated utilities and its debt will be lessened through the \$100 million equity injection," said Minister Dunderdale.

Karen O'Neill
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From: "Barron, Tracy B." [tracybarron@gov.nl.ca]

Sent: 05/25/2009 09:38 AM NDT

To: "Bown, Charles W." <cbown@gov.nl.ca>; "Thompson, Robert" <rthompson@gov.nl.ca>; Karen O'Neill

Subject: Release - Hydro restructuring

Hi there,

Last paragraph revised based on discussions with Charles.

Karen: Can you get signoff over your way for release tomorrow?

Tracy

Natural Resources

May 26, 2009

Province Positions Hydro to Make Critical Investments in Infrastructure

The Provincial Government is implementing measures to improve Newfoundland and Labrador Hydro's (Hydro) financial position to bring it in line with other Canadian regulated utilities and enable it to make appropriate ongoing investments in infrastructure to ensure reliable service.

"These measures bring Hydro's return on equity and capital structure in line with that Newfoundland Power and many other Canadian regulated utilities," said the Honourable Kathy Dunderdale, Minister of Natural Resources. "It is important that all parts of Nalcor are strong and financially sound to enable our energy corporation to meet its mandate, which includes new acquisitions and the development of the Lower Churchill project, as well as a reliable supplier of low-cost electricity through its regulated line of business, Hydro."

To accomplish these objectives, the Public Utilities Board (PUB) is being directed to permit Hydro to earn a return on equity equal to that of Newfoundland Power. The Provincial Government has also agreed to waive its annual debt-guarantee fee (valued at approximately \$13 million a year) until 2010, at which point the full effect of these measures will be implemented. A \$100-million equity injection into Hydro's capital structure allocated in Budget 2008 is also assisting in retiring debt.

"These measures are necessary to ensure Hydro is able to service its own debts and maintain a stable financial structure, thereby allowing it to weather unexpected fluctuations in its business," said Minister Dunderdale. "This will support the financial viability and stability of Hydro and its ability to make necessary capital investments and upgrades, comparable to other regulated utilities in providing reliable service to its customers."

The structure of Hydro is changing with the planned transfer of its former subsidiaries - the Churchill Falls (Labrador) Corporation and Gull Island Power Corporation - to the new energy corporation, Nalcor Energy. This change will result in a transfer of non-regulated revenue of approximately \$70 million from Hydro to Nalcor Energy, primarily from the sale of Upper Churchill "recall" power to Hydro Quebec.

"Hydro will now be provided with an appropriate return on regulated equity comparable to other Canadian regulated utilities and its debt will be lessened through the \$100 million equity injection," said Minister Dunderdale. "As a result of these measures, Hydro will not file for any change in rates in 2010."

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