

Date : 11/13/2009 9:15:57 PM

From : "Thompson, Robert"

To : "Bown, Charles W."

Subject : FW: Letter re Grimes COmments.doc

Did you have a chance to look at these edits. I will need to discuss my questions with you and then we can give to Ed/Todd to review.

Robert Thompson
Deputy Minister
Department of Natural Resources
709.729.2766 (p)
709.682.8946 (c)

From: Thompson, Robert
Sent: Sunday, November 08, 2009 10:01 PM
To: Bown, Charles W.
Subject: RE: Letter re Grimes COmments.doc

Charles

Thanks for the letter. You will note in my edits a greater timidity.

Please have a look to ensure continued accuracy.

Only one point I need to discuss with you – on the issue of overruns and security. Did you source this paragraph in a specific document? Would you bring it by in the morning?

Once we chat I will send to Ed for his review; and you should send to Todd (if he has not yet reviewed). Thanks

Robert

Dear XXXXX

I write in response to comments made on [open line – specific reference?] by former Premier Roger Grimes, regarding the agreements that were drafted with Quebec for development of the Lower Churchill, or more specifically, Hydro-Quebec, under his administration in late 2002, and referring to comments I had previously made.

Mr. Grimes denied that his agreements contained what I described as a “poison pill,” by which I meant that Hydro-Quebec would have been the sole lender to the project, and in return the Government of NL would have pledged all the rights and assets as security. This means that if there were unforeseen circumstances that impacted the project and we were unable to complete the project or to meet the repayment obligations, Hydro-Quebec would be able to realize that security and take over the project. In fact, with Hydro Quebec as the sole lender, the Grimes deal would have seen Hydro Quebec having the shared right to select the major project construction contractor, exclusive right to hire the project engineering firm and to approve all project budgets.

In his statements, Mr. Grimes indicated the plan was to borrow necessary funds “at the best rate available in the market at the time.” On the contrary, the draft agreements state that Hydro Quebec would be the sole lender, and the borrowing rates would be tied to Hydro-Quebec’s average weighted cost of debt, plus a risk premium; not the current market rates.

Mr. Grimes further denied that his agreements would have resulted in sale of all the Lower Churchill power to Hydro-Quebec at low rates, pointing out that the agreements contained a mechanism for us to share in the profit if electricity prices increased significantly. That too is not completely accurate. The draft agreement states that the price paid for Lower Churchill power would be indexed to the average escalation in the price Hydro-Quebec received for all its generation, inclusive of the electricity sold in Quebec. Since Hydro-Quebec is obligated by law to sell a huge amount of power to Quebec customers (more than 80%) at a low price fixed by legislation, this arrangement would have dragged down the average price of Lower Churchill power. It would have prevented NL from benefiting from the full “upside” of higher US prices, which is the real market value of its electricity.

The path that this government has taken on the Lower Churchill Project is significantly different than the previous government for one particular reason; we are willing to do a deal that is best for the people of Newfoundland and Labrador for now and into the future. We came into government with a commitment of “no more resource give-aways”. We have the right people and the right approach. This project will only be developed if it provides the best return to the people of this province.

With respect to Mr. Grimes assertion that we are not prepared to pay our way to access transmission lines through Quebec, he is again grossly mistaken. Three years ago, Nalcor Energy made application for access through Quebec on the Hydro Quebec TranEnergie (HQT) transmission system to markets in Ontario, the US and the Maritimes. To date, HQT has thrown procedural obstacles in front of Nalcor to delay these applications. We are prepared to pay a fair tariff to HQT and will do so if our application is successful. However, having Lower Churchill power wheeled through Quebec by Nalcor is not the preferred outcome of the Quebec government or Hydro Quebec.

We are prepared to continue with the process of gaining transmission access through Quebec and New Brunswick. We have filed four official complaints to the Quebec electricity regulator and we will watch New Brunswick very closely as it plans to merge its electricity system with

Quebec. We understand the rules for the North American electricity marketplace and will abide by them, even as other attempt to manipulate the process.

Robert Thompson
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From: Bown, Charles W.
Sent: Sunday, November 08, 2009 2:09 PM
To: Thompson, Robert
Subject: Letter re Grimes COmments.doc

Draft letter enclosed