

Date : 5/10/2011 12:11:08 AM

From : "Thompson, Robert"

**To : "Maclean, Heather" , "Skinner, Shawn" , "Wardle, Richard" , "Bown, Charles W." , "'Emartin@nalcorenergy.com"' ,
 "'DawnDalley@nalcorenergy.com"' , "'AuburnWarren@nalcorenergy.com"' , "'GBennett@nalcorenergy.com"' ,
 "'Dsturge@nalcorenergy.com'"**

Subject : RE: REVISED DRAFT - news Release - LCP PUB Exemption

Thanks Heather. In order to build a bridge between the latest letter to PUB and the news release, we need the two narratives to be very close. The following needs to be shaped, but would be consistent with the letter. No doubt more discussion needed.

Province announces regulatory policy for Muskrat Falls project and details of additional independent review.

The Muskrat Falls project is the least cost solution for the energy capacity deficits on the Island that are forecast for 2015 and 2019. Therefore, we have to proceed now with a construction decision to meet these requirements. The extent and timing of the deficits were set out in a Generation Planning Issues Report submitted by Newfoundland and Labrador Hydro ("NLH") to the Board of Commissioners of Public Utilities (the "PUB") in July, 2010.

A key element of meeting these timelines is commencing the arrangement of favourable financing terms over the next several months. This situation means we must ensure regulatory certainty prior to engaging the financial community. As a review process by the PUB does not facilitate this timeframe, the provincial government has decided to issue an exemption order under the Electrical Power Control Act, 1994 ("EPCA") and the Public Utilities Act ("PUA") to proceed with the Project without further review by the PUB. This exemption order will provide for the inclusion of capital costs, operating costs, taxes, and financing costs associated with the project in rates recovered from provincial ratepayers.

While the Government is confident that the analysis conducted by Nalcor provides justification for proceeding with the Project as the least cost alternative, another layer of independent review has been embedded in the decision making process. As part of Nalcor's standard practice, a series of "cold eyes" independent reviews will be conducted prior to project sanction. One such review is an independent review of the reasonableness of the Island supply decision (the "Supply Decision Review"). Nalcor will retain, under a request for proposals, an external consultant (the "Consultant") to review key aspects of the Project using the latest available cost and schedule information. The terms of reference for the Supply Decision Review is attached. The report will be released to the public.

In addition to this review, the Government will ensure additional monitoring and oversight of the project as follows:

- 1) Requesting Nalcor to provide to the PUB an annual update on the construction project in terms of progress against schedule, expenditures to date, and revised capital cost estimates;
- 2) Requesting the PUB to conduct an annual review of the prudence of costs incurred by Nalcor during the construction phase, to be used by the provincial government as an aid in determining whether any costs should not be recovered from provincial ratepayers; and
- 3) Ensuring the PUB will be responsible for normal oversight of operating costs of the project after the construction phase is completed.

Robert

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

From: Maclean, Heather

Sent: Mon 5/9/2011 5:23 PM

To: Skinner, Shawn; Wardle, Richard; Bown, Charles W.; Thompson, Robert; 'Emartin@nalcorenergy.com'; 'DawnDalley@nalcorenergy.com'; 'AuburnWarren@nalcorenergy.com'; 'GBennett@nalcorenergy.com'; 'Dsturge@nalcorenergy.com'

Subject: REVISED DRAFT - news Release - LCP PUB Exemption

For review and comment, please find revised DRAFT #2 attached and noted below.

Heather

Natural Resources

May xx, 2011

Lower Churchill Project to be Exempt

from Traditional Regulatory Review

To secure the provinces electricity future, and support economic development in Newfoundland and Labrador, an external review process has been established for the Lower Churchill Project.

"Given the broad policy implications for the province on the development of the Lower Churchill, the project will be exempt from regulatory review by the Public Utilities Board (PUB)," said the Honourable Shawn Skinner, Minister of Natural Resources. "The development has been determined to be a project of economic significance, and would include broader considerations outside the scope of a traditional regulatory review."

The Electrical Power Control Act and the Public Utilities Act were amended in 1999 to allow the Lieutenant Governor in Council to exempt specific capital projects from regulatory approval by the Public Utilities Board. The Act allows for an exemption where projects are of significant economic benefit, and as a matter of general policy are in the best interests of the province.

"Our Energy Plan identified that our renewable electricity resources will be the foundation for a sustainable economy, and that the people of the province will be the principal beneficiaries," said Minister Skinner. "The development of the Lower Churchill will double the amount of renewable electricity available to the province and dramatically increase the amount of power available for economic development in Labrador and on the Island."

In accordance with responsible development and prudent utility practice, a formalized bi-annual update during the construction phase will be established to allow all stakeholders, including the Public Utilities Board information into the ongoing management of the development. (INSERT INFO PUB - transition for PUB into process)

Nalcor Energy has completed two independent studies, and issued a Request for Proposals to provide a third independent analysis on the merits of development of Muskrat Falls to supply electricity to the Island.

"The Lower Churchill project represents a significant economic development opportunity for the province, and we are confident that the independent review of the decision to develop Muskrat Falls will validate our business case which identified the project as the least-cost option to meet the provinces growing electricity demands," said Minister Skinner. "Legislation requires that Nalcor Energy, and its subsidiary, Newfoundland and Labrador Hydro, undertake projects which best serve the interests of the province, and we are confident that the development of Muskrat Falls will secure our electricity future while providing opportunities for economic spin-offs which will benefit the people of the province."

The consultant will review the analysis completed by Nalcor Energy and assumptions used to assess Island supply options. The report is expected to be completed in July, and will be made public at that time, prior to final sanction of the project.

"It's important to ensure that even though the project will be exempt from the PUB process that stakeholders are engaged, informed and confident in the decision," said Minister Skinner. "We will continue to make it a priority to be open and transparent throughout the planning and construction stages of the project and ensure that regular updates and information are made public on a timely basis."

-30-

Media contact:

Heather MacLean

Director of Communications

Department of Natural Resources

709-729-5282, 697-4137

heathermaclean@gov.nl.ca