

Date : 2/3/2011 1:08:12 PM

From : "Bown, Charles W."

To : "Wardle, Richard"

Subject : Draft Shareholder Letter of Expecations.doc

Attachment : Draft Shareholder Letter of Expecations.doc;

Dick;

I'd appreciate your review of this document. As noted in the title, it is a letter of expectations from the Shareholder to Nalcor and is a new element in our corporate governance activities. This document is particularly important at this time as Nalcor is engaged in is planning act ivies and is also preparing its Annual Report for Transparency and Accountability. We have also prepared a Shareholder Handbook that is in final draft.

My objective would be to have Robert review the letter after you have approved to ensure alignment with previous direction he provided to me. We would then discuss with Minister and consult with Nalcor before signing. Because this is strategic direction to Nalcor, Robert may want to have both these documents approved by Cabinet.

Charles

From: Noseworthy, Tanya

Sent: Thursday, February 03, 2011 12:57 PM

To: Bown, Charles W.

Cc: Pennell, Tracey

Subject: Draft Shareholder Letter of Expecations.doc

The revised Draft...

SHAREHOLDER'S LETTER OF EXPECTATION

Between

THE MINISTER OF NATURAL RESOURCES

(As representative of the Shareholder, the Government of Newfoundland and Labrador)

And

THE CHAIR OF NALCOR ENERGY

(As representative of the Corporation)

For Calendar Year 2011

BACKGROUND AND PURPOSE

The purpose of this Letter of Expectations between the Shareholder and Nalcor Energy is to set out the Shareholder's and the Corporation's expectations regarding the roles, responsibilities, policy direction and performance expectations for Nalcor Energy and enhance communication through the exchange of information and clarification of public policy objectives. This Letter does not and is not intended to affect the legal rights and obligations of Nalcor Energy or the Minister of Natural Resources and is intended to promote a cooperative working relationship.

NALCOR ENERGY ACCOUNTABILITIES

Government has provided the following mandate direction to Nalcor Energy:

- Pursuant to section 5 of the *Energy Corporation Act*, Nalcor Energy's mandate is to invest in, engage in, and carry out activities in all areas of the energy sector in the province and elsewhere, including:
 - the development, generation, production, transmission, distribution, delivery, supply, sale, export, purchase and use of power from wind, water, steam, gas, coal, oil, hydrogen or other products used or useful in the production of power;
 - the exploration for, development, production, refining, marketing and transportation of hydrocarbons and products from hydrocarbons;
 - the manufacture, production, distribution and sale of energy related products and services; and
 - research and development;

- Take a lead role in the Province's participation in the development of the Province's resources to ensure they are managed and used in the best interests of the people of the Province.

To achieve this mandate direction, and in response to the Shareholder's general direction, framework and principles, Nalcor Energy will:

- Ensure that Nalcor Energy's priorities, strategies, policies and plans support the achievement of and reflect the Shareholder's goals;
- Conduct its affairs to achieve its mandate and the performance expectations of the Shareholder including establishing and implementing corporate strategies, policies, programs, plans and financial outcomes consistent with the Shareholder's general direction;
- Conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by the Shareholder;
- Prepare a three year Strategic Plan designed to clearly outline the objective goals and performance measures of Nalcor Energy taking into account the strategic direction of the Shareholder in the area of Nalcor Energy's mandate and the financial resources of Nalcor Energy;
- Develop and implement strategies to manage financial and performance risks identified in the Strategic Plan;
- Provide the Shareholder with accurate reports and other information to enable the Shareholder to carry out its responsibilities;
- Inform the Shareholder immediately if Nalcor Energy is unable to meet the targets identified in its Strategic Plan; and
- Display its Annual Report and Annual Business and Financial Report, including audited consolidated financial statements, on its website;

The Shareholder also sets broad policy direction to ensure Nalcor Energy's operation and performance are consistent with Shareholder's strategic priorities and fiscal plan; as such Nalcor Energy will support the Shareholder's commitment to:

- **Increased exploration and development** of energy resources including the acquisition and promotion of geoscience data, increased exploration and development activity, and enhanced marketing and promotion of our natural resources
- **Responsible resource development** including the development of clean, renewable energy through the Lower Churchill project, and activities to support Social license through adequate stakeholder consultation.
- **Ensure maximum benefits to the province through the strategic development of our resources including** increased participation in energy developments, supporting increased local industrial and employment benefits, and the increased participation of women and underrepresented groups in natural resource projects
- **Stable and competitive energy supply for domestic use and export to market** with focus on alternative energy research and development, the advancement of renewable energy projects and related infrastructure, the development of

industrial electricity rates that support resource development, the export of surplus energy, and the development of innovative technology solutions for existing and new energy sources

In addition, the Shareholder directs Nalcor Energy to take the following specific actions:

- Manage equity interests in White Rose, Hebron and Hibernia Southern Extension projects;
- Pursue petroleum exploration opportunities associated with Parsons Pond leases;
- Actively pursue all actions necessary to implement the objectives of the Energy Plan;
- Actively pursue all actions necessary to finalize formal agreements regarding the Lower Churchill Project and to progress development activities; and
- Actively pursue extra-Provincial energy trading markets and explore and identify opportunities to facilitate access to sell electricity in markets outside of the Province;
- Establish an agreement on the management of Bull Arm for the Hebron Project that realizes both maximum value and enhanced integrity of the asset.

SHAREHOLDER'S RESPONSIBILITIES

The Shareholder is responsible for the legislative, regulatory and public policy framework in which Crown Corporations operate. In order to meet these responsibilities and support the achievement of the Shareholder's performance expectations, the Shareholder will:

- Establish, review, revise and communicate any changes to Nalcor Energy's mandate;
- Ensure Nalcor Energy meets its legislative reporting and planning requirements;
- Review and provide feedback and final approval of Nalcor Energy's Strategic Plan;
- Review Nalcor Energy's annual report;
- Provide broad policy direction and confirmation of general framework and principles to Nalcor Energy within which Nalcor Energy may establish and apply specific principles and processes;
- Advise Nalcor Energy of the Shareholder's strategic priorities, decisions and public policy and any performance expectations that may impact Nalcor Energy; and
- Issue directives or seek orders or sponsor submissions on behalf of Nalcor Energy that may be required to seek direction or decisions by the Lieutenant Governor in Council in order to facilitate Nalcor Energy in fulfilling its mandate and achieving the performance targets outlined in its Strategic Plan.

During the term of this Letter, the Shareholder may provide additional policy direction to Nalcor Energy and will communicate such direction including implementation expectations to Nalcor Energy as decisions are made.

The Shareholder will also monitor the achievement of the goals, objectives, performance and financial targets identified in Nalcor Energy's Strategic Plan.

AREAS OF SHARED ACCOUNTABILITY

Communications

It is agreed by the Shareholder and Nalcor Energy that, to ensure effective and efficient day-to-day communications and relationship building, representatives for both parties will be tasked with implementing the contents of this Letter and keeping the Minister of Natural Resources and the Board of Directors informed of progress in a timely fashion.

Reporting

The Shareholder and Nalcor Energy are committed to transparency and accountability to the public. The Shareholder has put in a place in public reporting structure which is set out in the *Transparency and Accountability Act* and the *Energy Corporation Act*. Nalcor Energy agrees that it will meet these financial and performance reporting requirements. If the Shareholder determines that changes to the reporting requirements are necessary, the Shareholder will communicate these to Nalcor Energy.

It is agreed that there will be advance discussions and review of key documents such as Strategic Plans, Annual Reports, and budgets. These discussions will be completed sufficiently in advance of deadlines to ensure the opportunity for effective and timely input by the Shareholder.

In addition to these financial and performance reporting requirements, Nalcor Energy agrees to provide information to the Shareholder related to the risks and opportunities anticipated in achieving financial forecasts and performance targets.

The parties agree that, as a matter of course, each will advise the other in a timely manner of any issues that may materially impact the business of Nalcor Energy and/or the interests of the Shareholder.

It is agreed that the Corporation will include the most recent signed copy of the Shareholder's Letter of Expectations in its Strategic Plan.

Review and Revision of this Letter

The Minister of Natural Resources is accountable for undertaking a review of this Letter and monitoring its implementation. It deemed necessary by either party, the Shareholder and Nalcor Energy will discuss any issues and may agree to amend this Letter as required.

Honourable Shawn Skinner
The Minister of Natural Resources

John Ottenhiemer
Chair, Nalcor Energy

Date

Date

cc. Honourable Kathy Dunderdale
Premier

Mr. Robert Thompson
Clerk of the Executive Council

Mr. Richard Wardle
Deputy Minister (A)
Natural Resources

Mr. Ed Martin
Chief Executive Officer and President
Nalcor Energy