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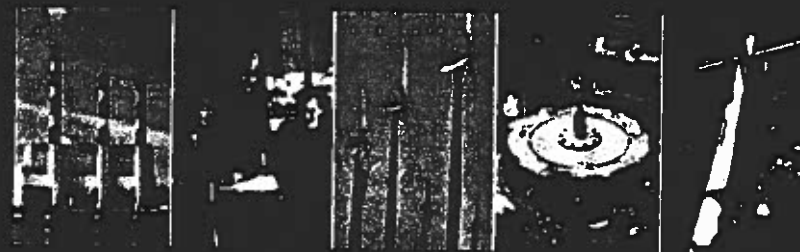
HYDRO
THE POWER OF
COMMITMENT

2006 Project Strategy

Lower Churchill Project
April 2006



HYDRO
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COMMITMENT

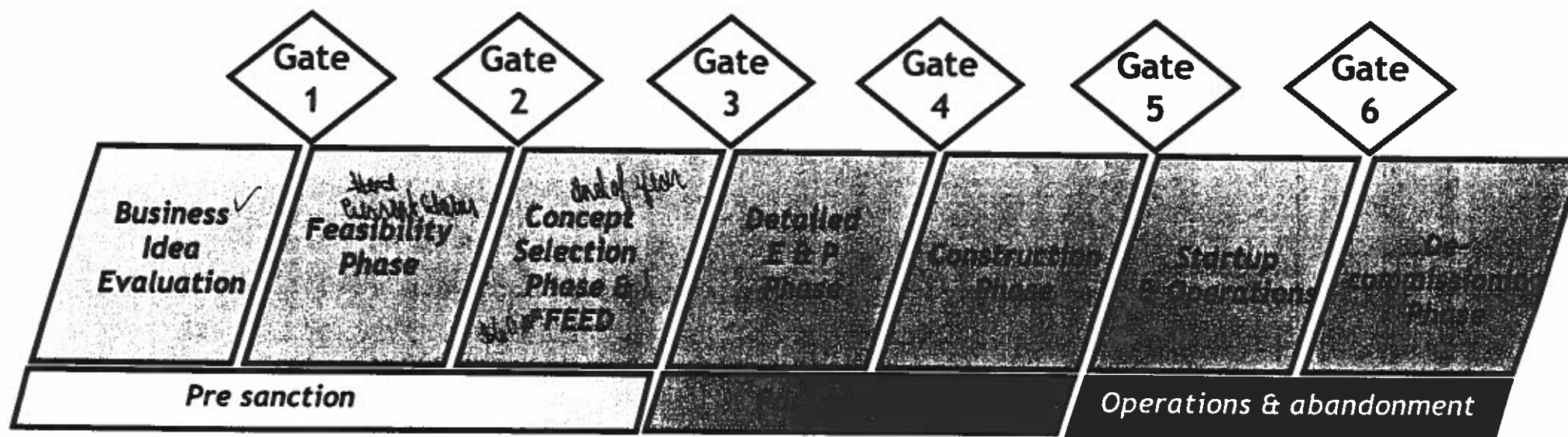


Framing Today's Discussion and Purpose/Outline of the Presentation

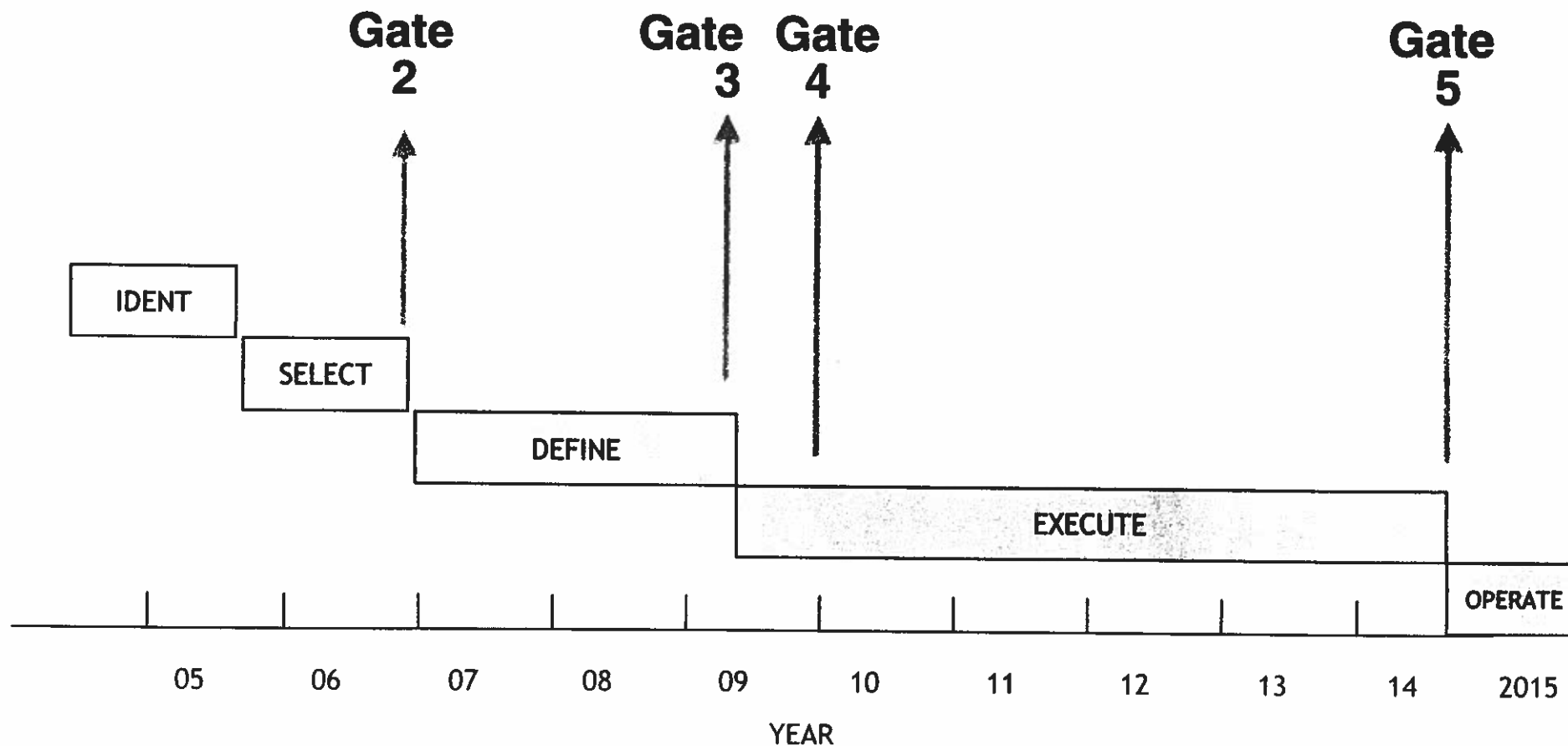
The Gateway Process

- The Project Gateway Process is a systematic approach to focus our decision making for planning and execution
- A series of Steps or Gates is laid out to actively control progress
 - ❖ The prerequisite conditions and analysis for progress through each gate is set out in advance and progress through the gate and into the next phase of work is conditional on meeting all prerequisites.
- The process ensures that progress to the next phase of planning or execution only takes place after a formal review and verification

Project Gateway Process



LCP Gates and Timelines



Pre Sanction Gates & Milestones

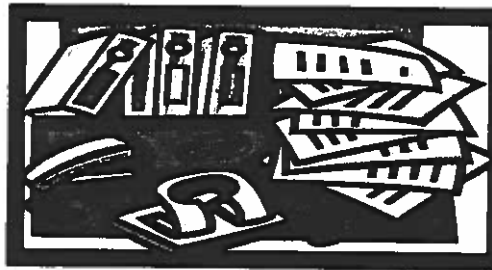
- | | |
|-------|------------------------------------|
| ▪ PS1 | Ready to pursue the NLH led option |
|-------|------------------------------------|
- PS2 Ready to proceed with Market Access Decision
 - Gate 2 Approval to Commence FEED - *end of year*
 - PS3 Ready to proceed with Engineering field work
 - PS4 Ready to proceed with PPA execution
 - PS5 Ready to proceed with financing
 - PS6 IBA Ratification
 - PS7 Ready to commence site preliminary works
 - PS8 Ready to issue RFP's for Main Contracts
 - Gate 3 Project Sanction

PS - Presentation

The Readiness Process

- The Readiness Process is used in conjunction with the NLH Gateway Process.
- The Readiness Process is used to measure progress and verify Readiness at Project Milestones and Gates.
- The Readiness Process consists of a verification of our readiness to undertake future work

People Readiness...Process Readiness...System Readiness

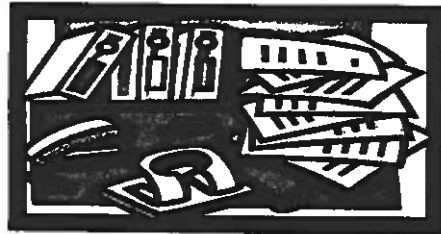


Scope of Readiness Process



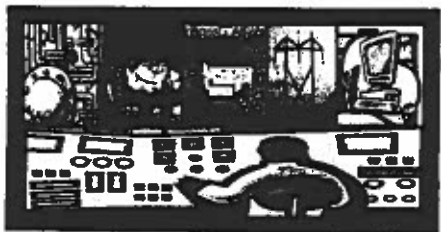
1 People Readiness

Have the people related requirements been met for the Readiness Milestone or Gate?



2 Process Readiness

Are the necessary processes and procedures and documentation in place and functioning appropriate for the Readiness Milestone or Gate?



3 Systems Readiness

Are the necessary systems required to support the Readiness Milestone or Gate at the required level of completion and functioning?

Readiness Milestone Approval



Purpose of This Meeting

- Section 1 - Seek approval to for PS1 Decision
 - ❖ Third party ownership (BOOT) vs. NL Led Project
- Section 2 - Review and Approval of EOI Next Steps
- Section 3 - Project Execution Update and 2006 Objectives
 - ❖ Overall Project Plan
 - ❖ 2006 work plan
 - ❖ 2006 budget
- Section 4 - Communication strategy

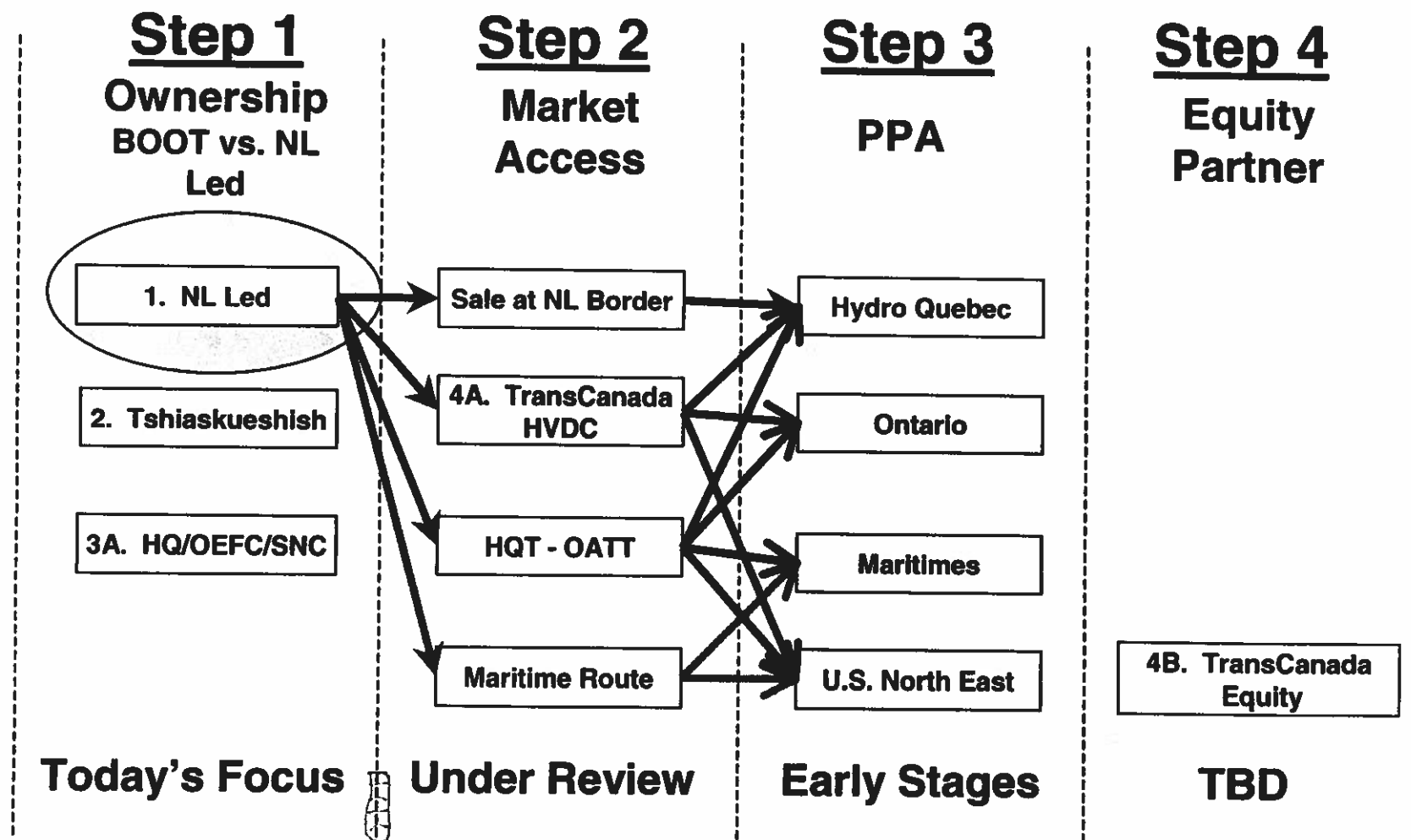
Section 1

BOOT vs. NLH led Project

Background

- The EOI process resulted in four short-listed proposals
 - ❖ NL Led
 - ❖ HQ/OEFC/SNC-L BOOT or PPA
 - ❖ Tshiaskueshish BOOT
 - ❖ TransCanada: HVDC Line and/or Equity Participation
- Each proposal has its own combination of:
 - ❖ Ownership model
 - ❖ Market access strategy
 - ❖ Power purchasers
 - ❖ Equity structure
- The first decision is the ownership model – third party BOOT or NL led
- The following slides review the process used, rationale and criteria applied leading to a recommendation

Proponent Review Sequence



What does an NL Led Development Mean?

- As owner and operator of the resource, NL will utilize the resource to the maximum benefit of the Province throughout the life of the Project

- NL will negotiate and execute both long and short term Power Purchase Agreements with buyers *→ we control PPA*

-  ▪ NL will lead financing, insurance, and equity partner arrangements and contracts

-  ▪ NL will operate the project on a long-term basis

What does an NL Led Development Mean?

- NL leads the project planning and execution
 - ❖ Will have the final say on key project decisions ✓
 - ❖ Will develop and direct project execution strategy, including contracting strategies, working within a structured planning framework leading to in-service in 2015 ✓
 - ❖ Will be the signatory of all main contracts with world-class primary contractors ✓
 - ❖ Will staff key positions on the Integrated Project Team and supplement the remainder with qualified project services contractor personnel ✓

NL Led or Third Party BOOT?

- Four key decision criteria
 - ❖ Do we have the ability to execute the project?
 - ❖ Do we understand the key project risks?
 - ◆ Can we effectively mitigate key project risks?
 - ❖ Can we be ready to pursue the NL Led Option?
 - ❖ If (a), (b), (c) are affirmative, is it more beneficial for NL to own and lead the project instead of turning it over to a third party BOOT? Why?
- If the answer to these four questions is a solid affirmative, then an NL led project is recommended



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NL Project Execution Ability - People

- Leadership Ability and Availability

- ❖ Newfoundland and Labrador has significant recent mega-project experience in the last decade – Hibernia, Terra Nova, Voisey's Bay, WhiteRose

- ❖ NLH has staffed with key leadership from these projects

- ♦ significant contacts and access to additional resources
 - ♦ strong ability to acquire supplemental resources to create a world class Project Management team

- Engineering and Operations Experience

- ❖ NLH has substantial operations and engineering experience with large scale hydroelectric development

- ❖ Access to supplemental resources

NL Resource Availability

- Major Engineering & Construction Contractors Availability
 - ❖ Major, large project contractors have experience operating in NL
 - ❖ Significant interest in a project of this magnitude – attracting appropriate contractor involvement not an issue
- Labour Experience and Availability
 - ❖ NL local construction trade unions have experience with large projects
 - ❖ Civil trades are one of the more available disciplines in the province
 - ❖ NLH has experience with both construction and operating unions
 - ❖ Competition for labour with national projects a potential issue
 - ◆ The Project Services Contractor and EPC Contractor(s) selection will include an assessment of experience and availability of qualified human resources

NL Project Execution Ability - Processes

- Understanding and Experience with Best Practice Processes, and Procedures for Project Execution
 - ❖ NLH will use the lessons learned and best in class processes developed during the Hibernia, Terra Nova, Voisey's Bay and WhiteRose projects.
 - ❖ Access and experience with to these processes are currently in-house
- Key tried, tested, proven execution processes and procedures currently employed by NLH :
 - ❖ Gateway Process
 - ❖ Readiness Process

NLH Project Management System

- Key processes and procedures are identified to form the elements of a structured Lower Churchill Project Management System and will include:
 - ❖ Project Execution Plan
 - ❖ Organization Plan
 - ❖ Project Controls
 - ❖ Engineering and Design
 - ❖ Contract tender/review/award
 - ❖ Safety & Environment
 - Contracting Strategy
 - Mobilization Plan
 - Construction Management,
 - Project Numbering & Coding
 - Contract Administration,
 - Quality
- The Project Services Contractor and EPC Contractor(s) selection will include an assessment of experience and application of suitable and appropriate processes and procedures which meet NLH requirements

NL Project Execution Ability – Systems

- The Project Services Contractor selection will include an assessment of experience and application of suitable and appropriate Project Management Systems which meet NLH requirements
- In house systems development shall be avoided and only tried, tested and proven systems shall be bought off the shelf including those dealing with:

| | |
|----------------------------|-------------------------|
| ❖ Document control/imaging | Planning |
| ❖ Cost control | Engineering |
| ❖ Risk Management | Materials Management |
| ❖ Administration | Construction Management |
| ❖ Completion/Commissioning | Reporting |

NL Led or Third Party BOOT?

- Four key decision criteria:

- ❖ Do we have the ability to execute the project?

- ❖ Do we understand the key project risks?

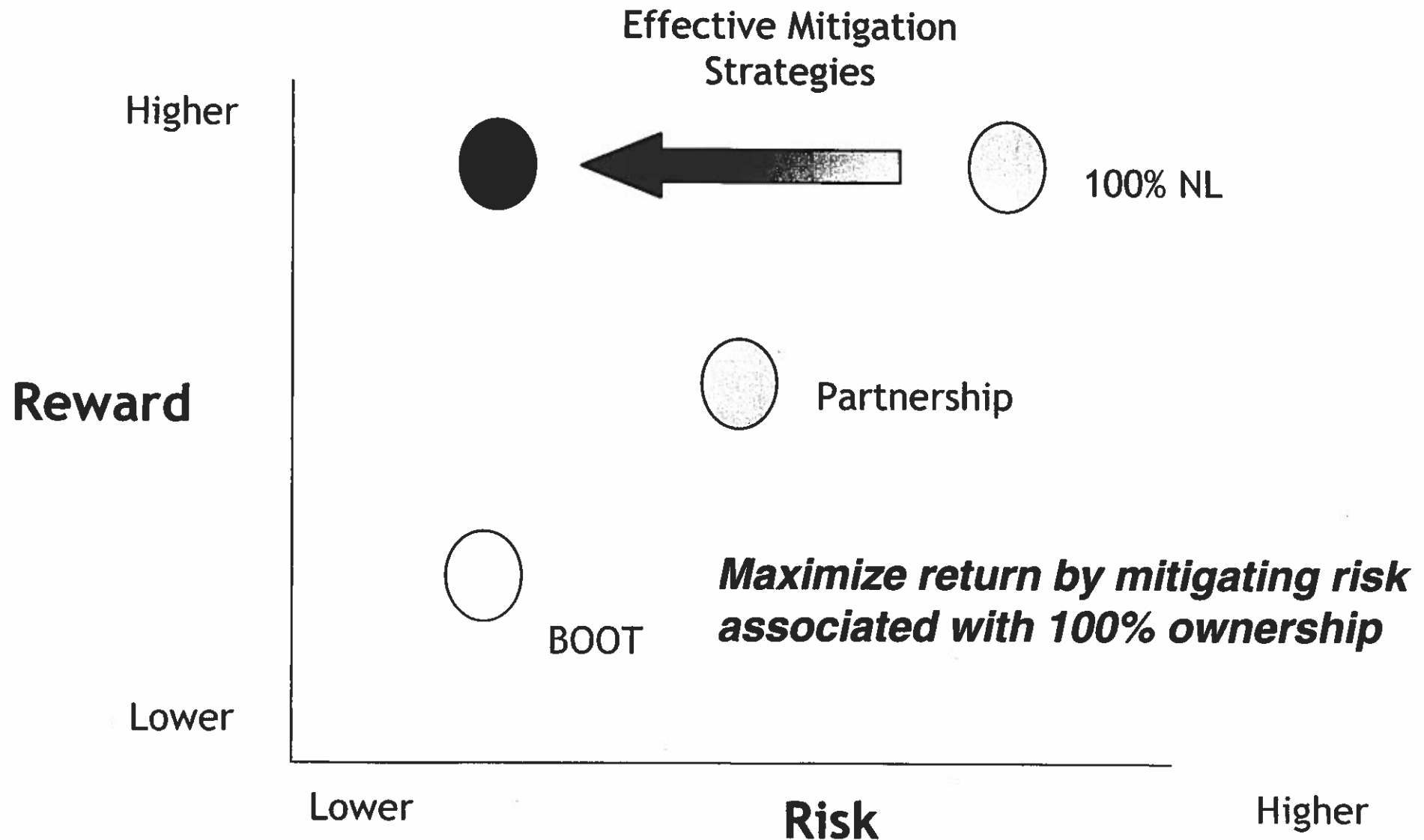
- ◆ Can we effectively mitigate key project risks?

- ❖ Can we be ready to pursue the NL Led Option?

- ❖ If (a), (b), (c) are affirmative, is it more beneficial for NL to own and lead the project instead of turning it over to a third party BOOT? Why?

- If the answer to these four questions is a solid affirmative, then an NL led project is recommended

Risk vs. Reward



Risk Considerations

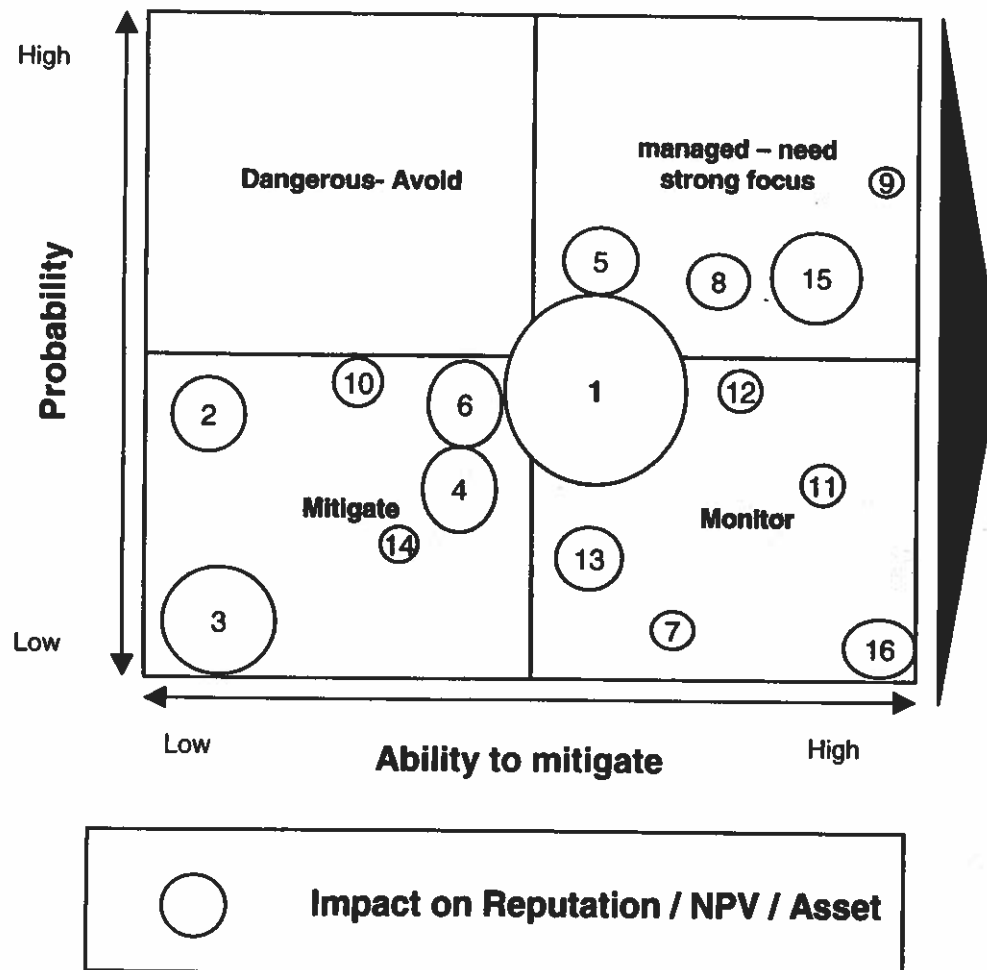
- Two key risks, the availability of the resource (i.e. the river), and the technological complexity (i.e extent to which hydro dams and facilities are well understood and known technology), and considered relatively low risk in the context of large projects.
- The most significant higher risks (financing, market access and price) will be addressed prior to sanction. No significant commercial exposure will be made until those risks are mitigated.
- You can “contract away” some risks through BOOT, but you will pay at the outset for unrealized risks. Such increased certainty is at cost of lower economic returns and resource control.

Risk Considerations

- If post sanction execution risks are manageable and mitigation strategies are effective, upside accrues to the party which assumes the risk, provided the contractual arrangements reflect the relative risk profiles.
- Some risks cannot be sufficiently allocated away even through BOOT.

Risk Mitigation Mapping – NL Led Approach

Developed methodology will identify most important risks and consider ability to mitigate



Significant Risks

1. Financing
2. Market Price
3. Market Access
4. Project Procurement/Material Cost
5. Project Labour Supply/Cost
6. Interest Rates
7. Latent Site Conditions/Weather
8. Aboriginal
9. Environmental Stakeholder Opposition
10. CF Water Management
11. Regulatory
12. Operational Reliability
13. Engineering Quality
14. Commissioning & Startup
15. Schedule Delays
16. Force Majeure

Risk Mitigation Strategies

| Risk | Mitigation Strategy | Status |
|---|--|--------------------------------|
| 1. Financing | <ul style="list-style-type: none"> ▪Conservative business case ▪Long term PPA in portfolio ▪Affirmative financial advisors' analysis ▪Federal participation ▪Conservative contingencies ▪Working on sound commercial principles ▪Considerable feasibility work ▪Equity partner | Underway |
| 2. Market Access | ▪PPA/OATT/Maritime Route /TC HVDC | Underway |
| 3. Market Price | ▪PPA | Underway |
| 4. Procurement/ Material Costs | <ul style="list-style-type: none"> ▪"Best Practice" Contract Commercial Terms ▪Supplier Market Intelligence ▪Increased contingency on key items, eg. steel | Developing Strategy |
| 5. Labour Supply Cost/Productivity | <ul style="list-style-type: none"> ▪Develop appropriate contracting strategy ▪Work with Government, Industry, Unions ▪Education and training ▪Increased contingency in project estimates | Developing Strategy |

Risk Mitigation Strategies

| Risk | Mitigation Strategy | Status |
|--|---|----------------------------|
| 6. Interest Rates | <ul style="list-style-type: none"> • Hedging program • Tie to PPA • Equity Partner • Federal participation | Developing strategy |
| 7. Latent Site Conditions | <ul style="list-style-type: none"> • Detailed site investigations, tests and analysis • Conduct re-estimate following site investigation work • Develop construction plan around weather windows | Under way |
| 8. Aboriginal | <ul style="list-style-type: none"> ▪ Experienced staff ▪ Knowledge of recent agreements | Under way |
| 9. Environmental Stakeholder Opposition | <ul style="list-style-type: none"> ▪ Complete communications plan ▪ Extensive consultation | Under way |
| 10. CF Water Mgmt | <ul style="list-style-type: none"> ▪ Maximal legal effort | Under way |
| 11. Regulatory | <ul style="list-style-type: none"> ▪ Maximal legal effort | Developing strategy |

Risk Mitigation Strategies

| Risk | Mitigation Strategy | Status |
|---------------------------------------|---|----------------------------|
| 12. Operational Reliability | <ul style="list-style-type: none"> ▪ Ops participation through build | Under way |
| 13. Engineering Quality | <ul style="list-style-type: none"> ▪ Select best in class engineering contractor by competitive bid | Developing strategy |
| 14. Commissioning and Start-up | <ul style="list-style-type: none"> ▪ Select best in class contractor & involve Operations early | Developing strategy |
| 15. Schedule | <ul style="list-style-type: none"> ▪ Effective contracting strategy ▪ Best practices and personnel ▪ Maximal FEED effort ▪ High quality contractors ▪ Staged construction: Gull then Muskrat | Developing strategy |
| 16. Force Majeure | <ul style="list-style-type: none"> ▪ Insurance Strategy ▪ Appropriate Contingencies | Developing strategy |

Financing Due Diligence

- Our ability to finance the project will be determined by:
 - ❖ Our financial capacity
 - ❖ The robustness of our business case
 - ❖ The effectiveness of our risk mitigation strategies
- RBC Capital Markets and Scotia Capital were engaged to advise on the ability of the Province and Hydro to finance the project
- Received a written report and had several meetings to confirm/clarify issues (as recently as this week)
- Department of Finance officials involved in the process

Advice Received

- There is significant capacity in the domestic and global markets for limited-recourse project financing.
- The optimal approach to constructing the project is on a “staged” basis”
 - ❖ Greater ability to obtain competitive financing
 - ❖ Reduces construction risk and cost overruns
 - ❖ Reduces impact on market for labour and materials
 - ❖ Less impact on electricity market pricing
 - ❖ Stage 1 cash flows may be used to enhance borrowing flexibility for stage 2 financing
 - ❖ First project on budget and schedule will instill confidence and greatly facilitate financing the second.
- Financing the HVDC line may prove to be more challenging – requires strong commercial and economic reasons to support financing

Advice Received (continued)

- The financial advisors provided comfort that the project could be financed, subject to the following conditions being satisfied:
 - ❖ The Shareholder provides equity contribution of \$2.0- \$2.5 billion.
 - ❖ The project has long-term PPA(s) with customer(s) who has/have a high credit rating.
 - ❖ Reputable EPC contractor(s) with acceptable credit rating(s) (BBB or higher).
 - ❖ There is an appropriate level of risk sharing and mitigation.
 - ❖ The project can achieve an investment grade credit rating.
 - ◆ Current economics 12.7% RoR
 - ❖ The project can achieve a debt service coverage ratio of 1.45x.
 - ◆ Current DSCR 1.64

NL Equity Contribution Advice

- Financial advisors indicate the Province can borrow to provide an equity contribution of \$2.0 - \$2.5 billion without having a negative impact on the Province's credit rating.
- Key facts/assumptions in arriving at this conclusion:
 - ❖ \$2.0 billion Atlantic Accord advance applied against unfunded pension liability
 - ❖ Oil prices remain strong and support continued royalty cash flow stream
 - ❖ Tax Supported Debt and Unfunded Pension Liabilities do not increase by more than inflation.
 - ❖ Key project risks can be transferred to the EPC contractor and/or customers and are not assumed by the Province.
 - ❖ The Province's equity position will be about 25% of the total capital cost.
 - ❖ The Province maintains its current credit ratings.
- Need to develop a rating strategy and confirm key assumptions with rating agencies at the appropriate time

Post Sanction Risks of Particular Interest to Financial Advisors

| Risk | Mitigation Options |
|---|--|
| Shareholder can not make necessary equity contributions | <ul style="list-style-type: none"> ▪ scaled back project ▪ longer development time frame ▪ third party equity partner |
| Capital cost overruns and/or construction schedule delays. | <ul style="list-style-type: none"> ▪ build-in appropriate cost and schedule contingencies ▪ reputable EPC contractor ▪ off-load risk to EPC contractor, customers, or others ▪ incentive / penalty mechanisms ▪ insurance ▪ third party equity |
| Interest rates rise significantly during the construction period | <ul style="list-style-type: none"> ▪ off-load risk to customer ▪ hedging program ▪ third party equity partner ▪ Federal loan guarantee |

Additional Financing Considerations

▪ Hydro

- ❖ Financing the Lower Churchill Project may limit the ability of Hydro to finance other new business activities without third party equity partners
- ❖ Third party equity may be easier once pre-sanction risks have been addressed

▪ Shareholder

- ❖ If we are unable to mitigate risks, the markets may implicitly assume that the Province will back-stop the project if major problems arise during construction
- ❖ the Province should be able to continue to access the debt markets for other initiatives except in certain extreme downside case scenarios (eg. oil prices drop substantially)

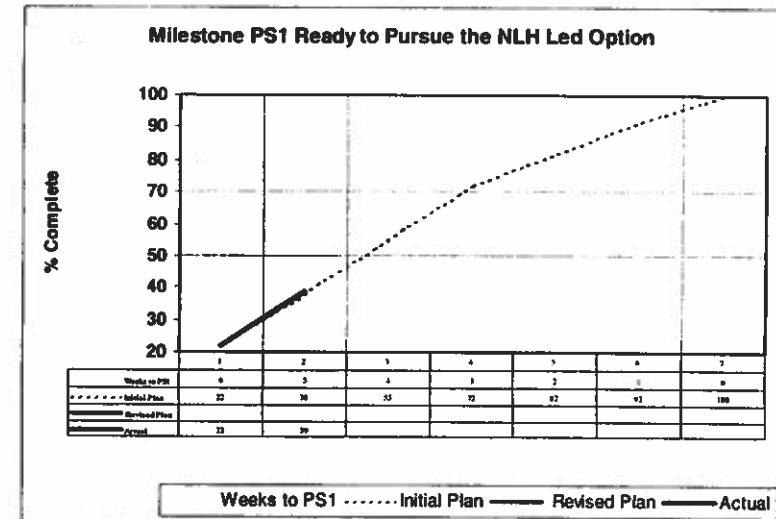
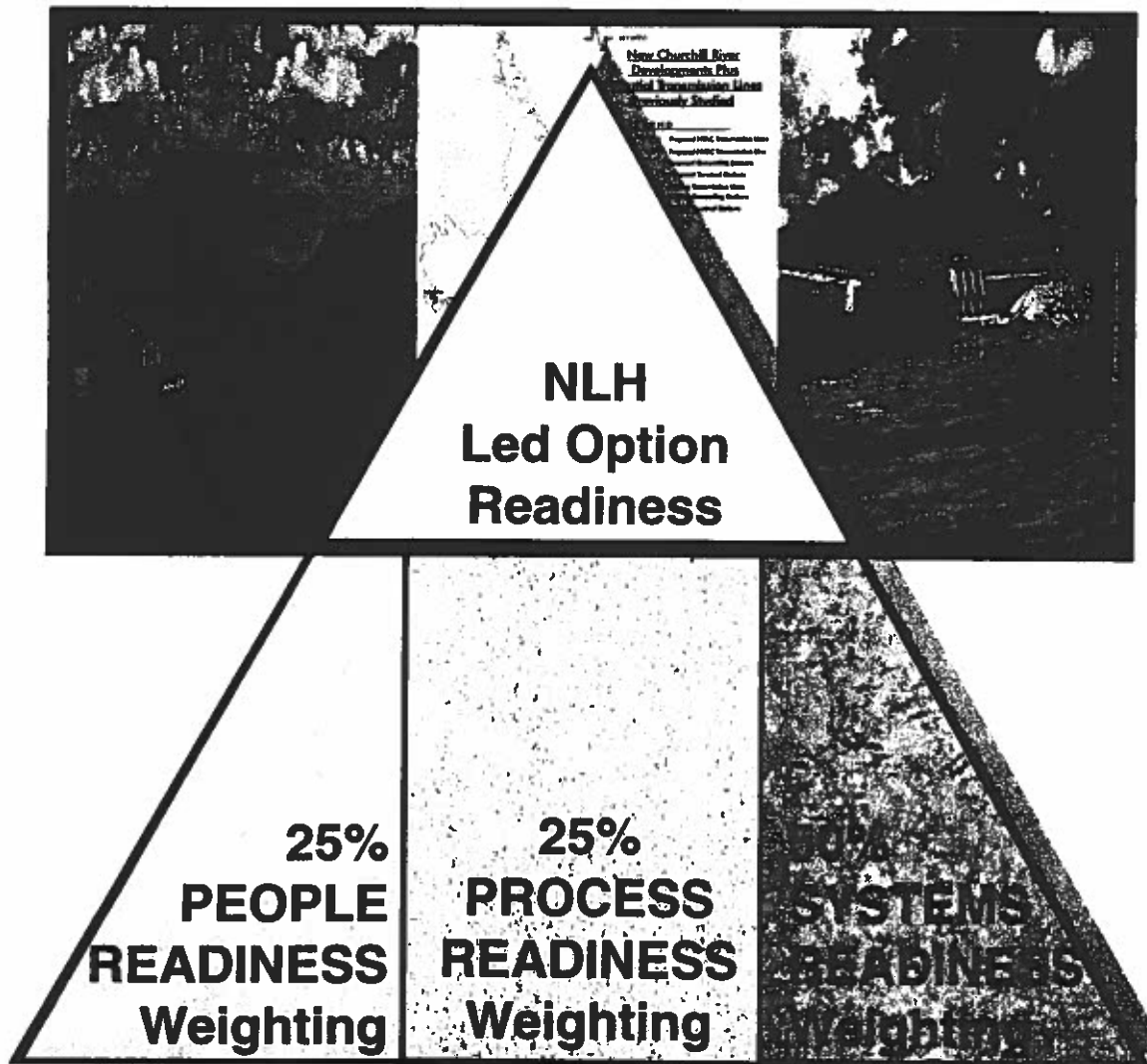
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Readiness Progress

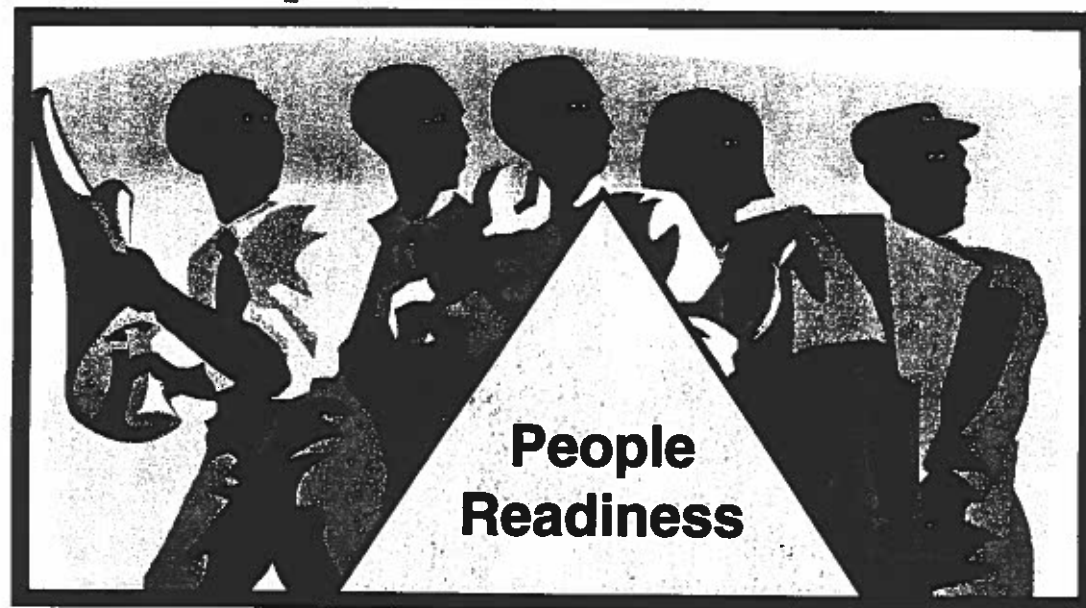
- Readiness of People, Processes and Systems will be measured bi-weekly against a planned progress curve (“S curve”)
- The readiness and planning processes are closely connected with the identification of obstacles or “showstoppers” to progress identified and mitigated to ensure the plan is achieved
- The Readiness process will focus attention of the NLH project team on the essential, priority activities needed to make progress through the readiness milestones to successfully negotiate the Gateways.

Weight Factors & Overall Progress



**PS 1 NLH led Option
Readiness Status
Overall 39%
10 April 2006**

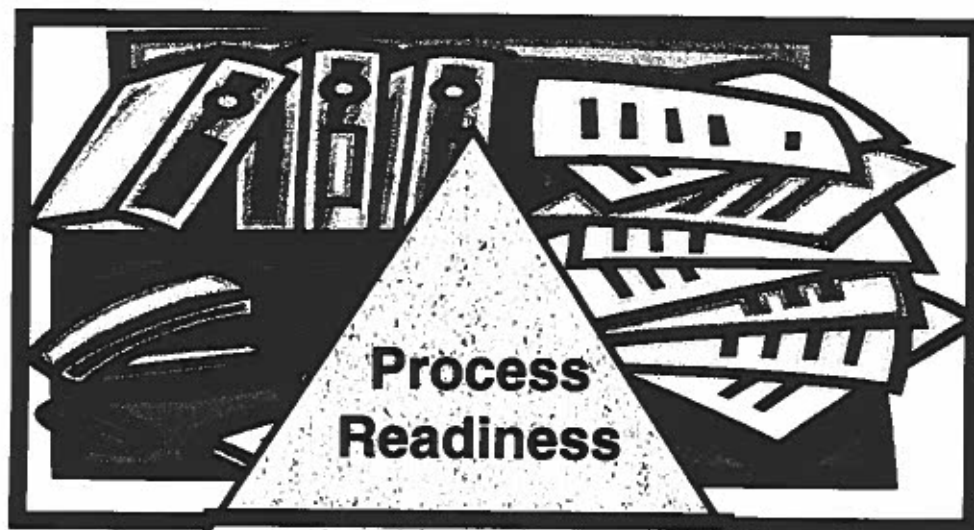
People Readiness



People Readiness 32%
10 April 2006

| | Weight Factor | Status |
|--------------------------------|---------------|--------|
| 1 Organization Plan approved | 20% | 50% |
| 2 Mobilization Plan approved | 20% | 50% |
| 3 Essential personnel hired | 15% | 50% |
| 4 Plan to secure PSC agreed | 15% | 0% |
| 5 NLH support plan agreed | 20% | 10% |
| 6 Check against best practices | 10% | 25% |
| | | |
| | | |
| | | |

Process Readiness



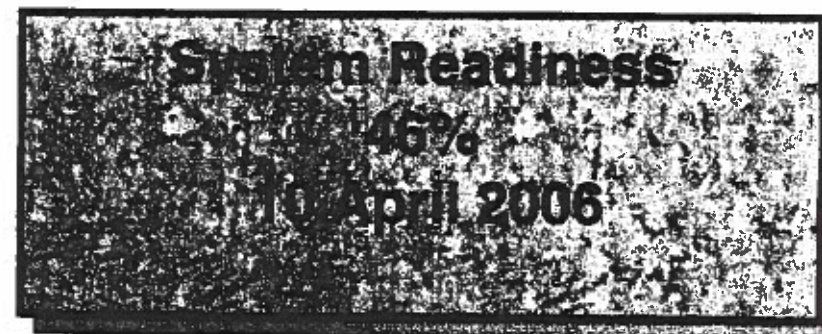
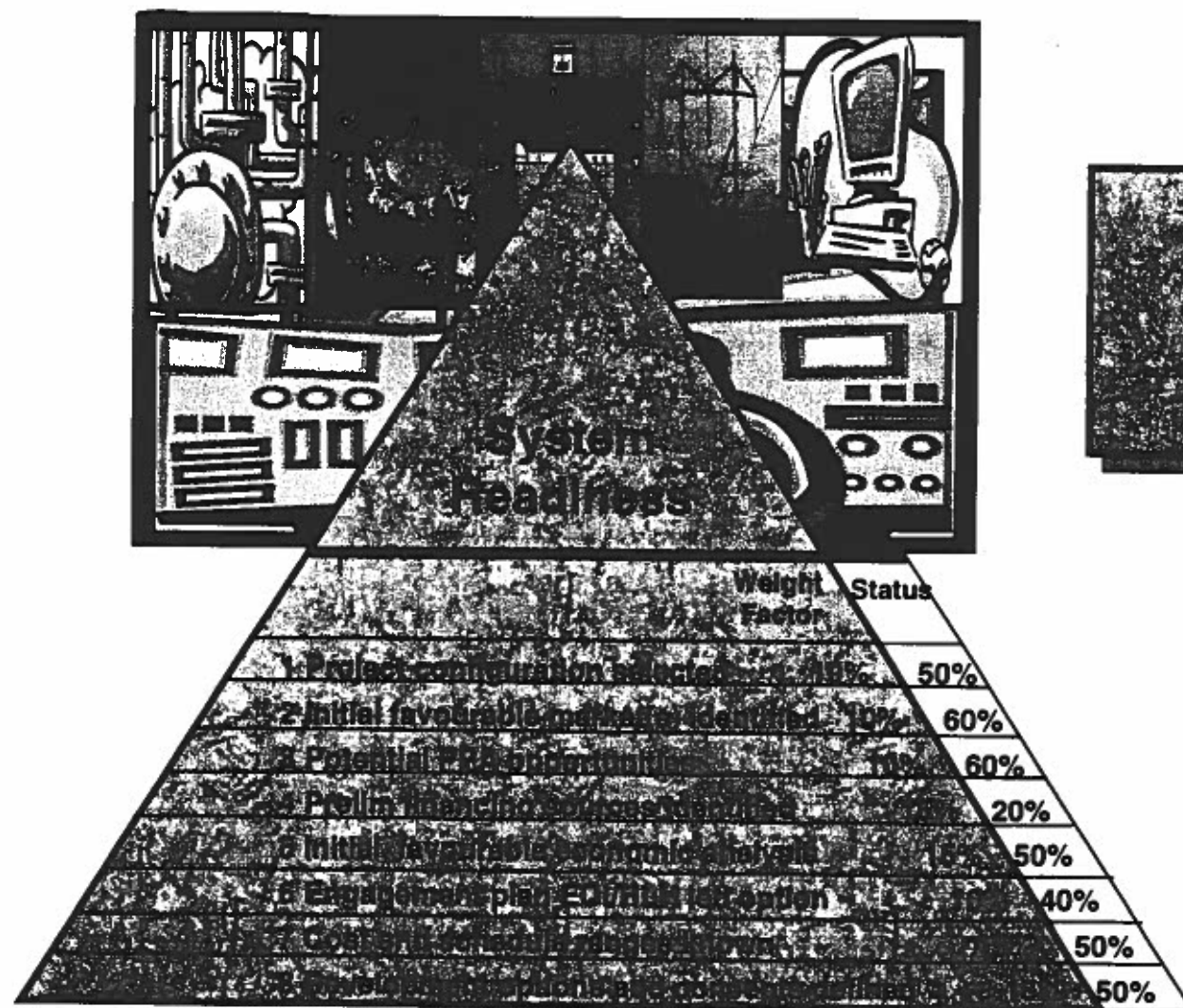
Process Readiness

30%









10 April 2006

| | Weight Factor | Status |
|---------------------------------------|---------------|--------|
| 1 Prelim PEP content agreed | 10% | 15% |
| 2 FEED scope defined/documentd | 15% | 50% |
| 3 Operations philosophy agreed | 5% | 0% |
| 4 Deliverables plan issued | 15% | 35% |
| 5 Project Master Schedule Issued | 15% | 50% |
| 6 EA plan issued | 10% | 40% |
| 7 IBA plan issued | 10% | 20% |
| 8 Communication strategy Issued | 10% | 20% |
| 9 Comparative Risk Analysis Initiated | 10% | 5% |

System Readiness



How Are We Doing? 10 April 2006

| | | |
|-----------------------------------|---|---|
| People Readiness Progress |  | <u>People Readiness 32%</u> •Organization and mobilization plans drafted •Potential PSC partners being considered •Best practices evaluation underway |
| 32% |  | |
| Process Readiness Progress |  | <u>Process Readiness 30%</u> •FEED scope defined in general terms •Early PEP and key strategies underway •Project Master schedule Level 0 issued •EA, IBA and Communication plans in development |
| 30% |  | |
| System Readiness Progress |  | <u>Systems Readiness 46%</u> •Project configuration and variants review underway •Market assessment data collection in progress •Preliminary economic and financial reviews carried out and are being updated •Cost and schedule ranges identified in 1998 and 2002 but need to be updated |
| 46% |  | |
| Overall Readiness Progress |  | <u>Overall Readiness 39%</u> •On target for PS1 decision point early May 2006. •No showstoppers identified |
| 39% |  | |

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Primary Resource Development Criteria

- Maximize long-term economic benefits to the Province
 - ❖ Provide real and long term benefits to the Province
 - ❖ Make a strong contribution to the Provincial economy
 - ❖ Realize through either exports or domestic/industrial use in the Province
- Whilst
 - ❖ Minimizing risk to the Province
 - ❖ Provide meaningful participation and benefits for aboriginal groups
 - ❖ Maximize economic and employment benefits to the Province during construction
 - ❖ Develop the Lower Churchill resource in a safe and environmentally responsible manner

Pros & Cons Summary - NLH **Led**

Pros

- Long term ability to control the mix of export revenue and domestic supply
- Benefits of effective risk mitigation will accrue to the Province, not to 3rd party
 - ❖ Using private sector best practices for execution planning
- Profit maximization
 - ❖ No profit leakage through federal taxation
 - ❖ Third party profits and overheads accrue to province
 - ❖ Not paying for additional level of management by private sector entity
- Direct control over contracting strategy and provincial / aboriginal benefits

Cons

- Significant capital demand for Hydro / limits other development opportunities
- One less level of contractual shield when trading between economics and benefits
- Requirement to deal directly with owner responsibilities and headaches

Pros & Cons Summary – 3rd Party BOOT

Pros

- Minimizes debt load
- Risk of cost and schedule overrun shifted toward BOOT proponent
- 3Rd party may make some best efforts regarding Provincial benefits targets

Cons

- Does not maximize value to Province
 - ❖ Significant reduction in financial rewards to the Province during BOOT period
 - ❖ Potential for upside to Province is significantly reduced (only royalty)
- NLH will have no control of key commercial decisions throughout BOOT
- NLH will have no control over Contract awards, only influence
- NLH role will be peripheral- arms length throughout BOOT
- NLH will have significantly limited input to design, project management, quality, selection of equipment, maintenance and operations which is a lost opportunity

Step 1 Summary

| | |
|---|-----|
| Do we have the ability to execute the project? | YES |
| Can we effectively mitigate key project risks? | YES |
| Can we be ready to execute the project | YES |
| If (a), (b), and (c) are affirmative, is it more beneficial for NL to own and lead the project instead of turning it over to a third party? | YES |

Step 1 Summary (cont'd)

▪ Why?

- ❖ As summarized in the preceding slides, an NLH led project provides the greatest opportunity to maximize benefits to the Province.
- ❖ Technological and resource risks are not high, and once the market access, PPA and financing questions are answered prior to sanction, the economic risk of the project is low
 - ♦ construction and completion risks, which can be controlled with effective project management and mitigation measures, are the primary project risks.
 - ♦ Most of the Project execution risks are common to both the BOOT or NLH led projects and are mitigated in both cases by effective planning and execution, contracting strategy and contractor selection.
- ❖ We have a clear vision for what is needed to establish a world class NLH led Project Management team and have a plan in place to realize that vision

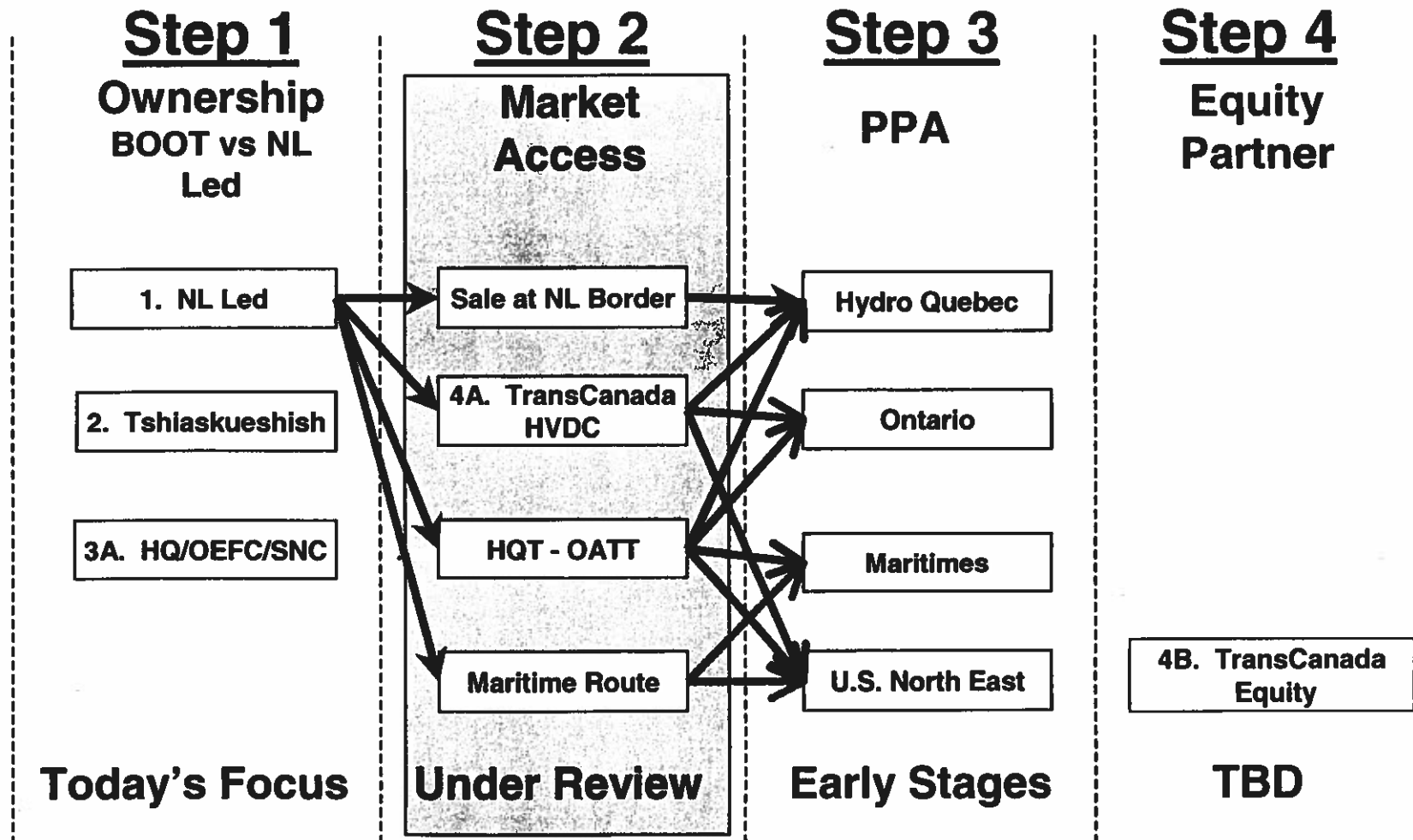
Recommendation

- NL leadership of the Lower Churchill Project is recommended

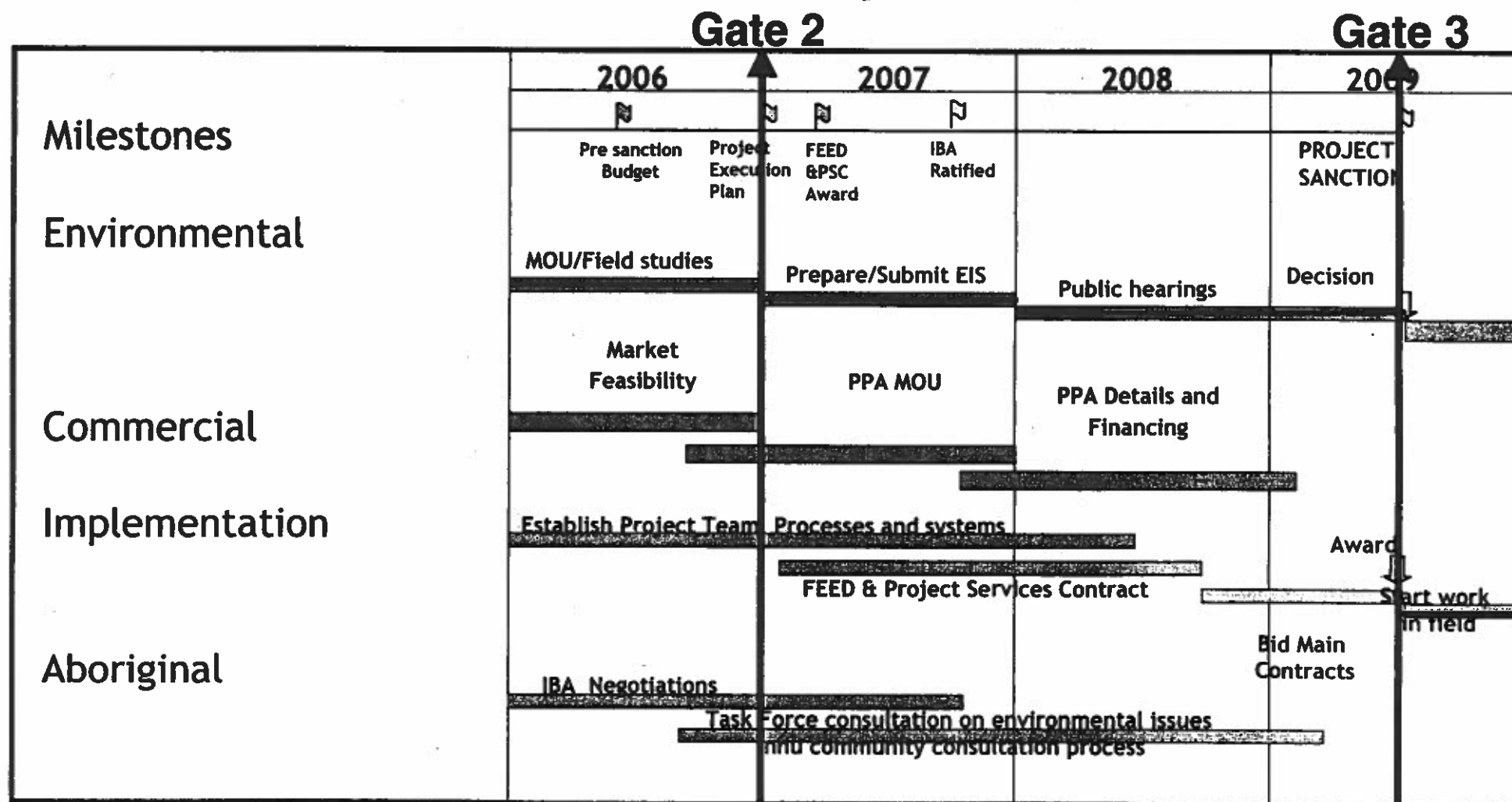
Section 2

Status of EOI, Review and Approval of Next Steps

Proponent Review Sequence



Critical Path to 2009 Project Sanction



Market Access and Project Schedule

- Passing Gate 2 Feasibility review will require a feasible approach for market access
 - ❖ Sale at the NL/QC border
 - ❖ OATT
 - ❖ TC HVDC
 - ❖ Maritime route

- In order to maintain first power in 2015, we need to pass Gate 2 by year end
 - ❖ Significant \$ commitments post Gate 2 (\$60M)
 - ❖ Framework for market access and long term PPA required for Gate 2 approval
 - ❖ This will take months at a minimum

- Need to advance all options quickly
- OATT – ON/QC export configuration SIS report due October 2006
 - ❖ ON engagement required immediately
 - ❖ Continue to engage US markets to maintain FERC interest
 - ❖ Technical meeting scheduled mid May
 - ◆ Review impact of Romaine development
- TC HVDC
 - ❖ TC promoting National Grid concept
 - ❖ Rapid engagement planned to advance NG planning for LC
 - ◆ TC invitation received on Thursday
- Sale at Border
 - ❖ HQ engagement required immediately
- Maritime route
 - ❖ Prepare detailed review of technical / cost considerations

Recent Market Developments

- ON and QC are opening dialogue regarding their HVDC intertie in the next few weeks
- Market intelligence indicating QC is poised to announce a 4000 MW hydro construction program in early May
 - ❖ TransEnergie will be reviewing the impact of a possible Romaine development on our OATT request with us in May
- ON has indicated that 2000 MW can reasonably be imported from the east into their system without major work
- FERC recognizes that the definition of 'long term' being three years has to evolve to support further generation investment

Necessary Next Steps

- We need significant progress on market development this summer to maintain the project schedule
 - ❖ High level engagement by EJM/DTM in May timeframe in ON and HQ / QC to scope way forward
 - ❖ Highest level engagement by Premier will be likely with ON and QC governments in May / June timeframe

Key Messages to ON / QC

▪ Ontario

- ❖ We have 2000+ MW and the OATT application will be successful
- ❖ We would like to open discussion on a long term PPA
- ❖ You will be competing with QC and NE US for this power
- ❖ By talking directly to us, you can get more power at a better price
- ❖ What is your price – what kind of MOU can you give us (to allow us through Gate 2)

▪ Quebec

- ❖ We have more on the table than the Lower Churchill
- ❖ If you're interested in power purchases, let's start talking price
 - ◆ This can be at the border or via our OATT process

Implications of Way Forward

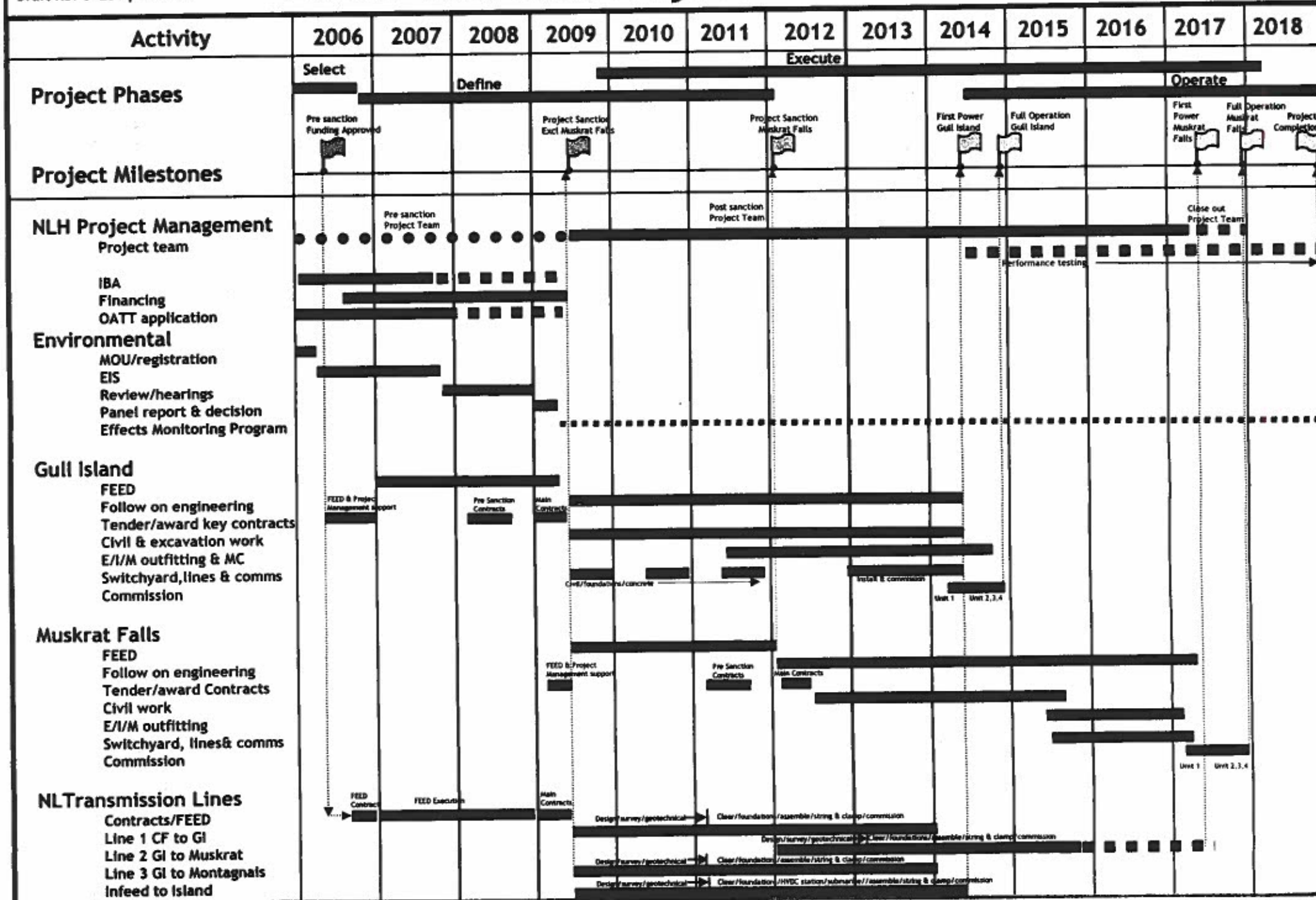
- Both ON and QC engage
 - ❖ Push ahead to framework agreement(s) by year end
- QC engages / ON does not
 - ❖ Pursue sale at border with QC
 - ❖ Aggressively pursue markets and FERC in US for leverage
 - ❖ Continue efforts to engage ON
- ON engages / QC does not
 - ❖ Aggressively pursue OATT process
 - ❖ National engagement on issue
 - ❖ Full court press in the US for markets and FERC support

Way Forward (2)

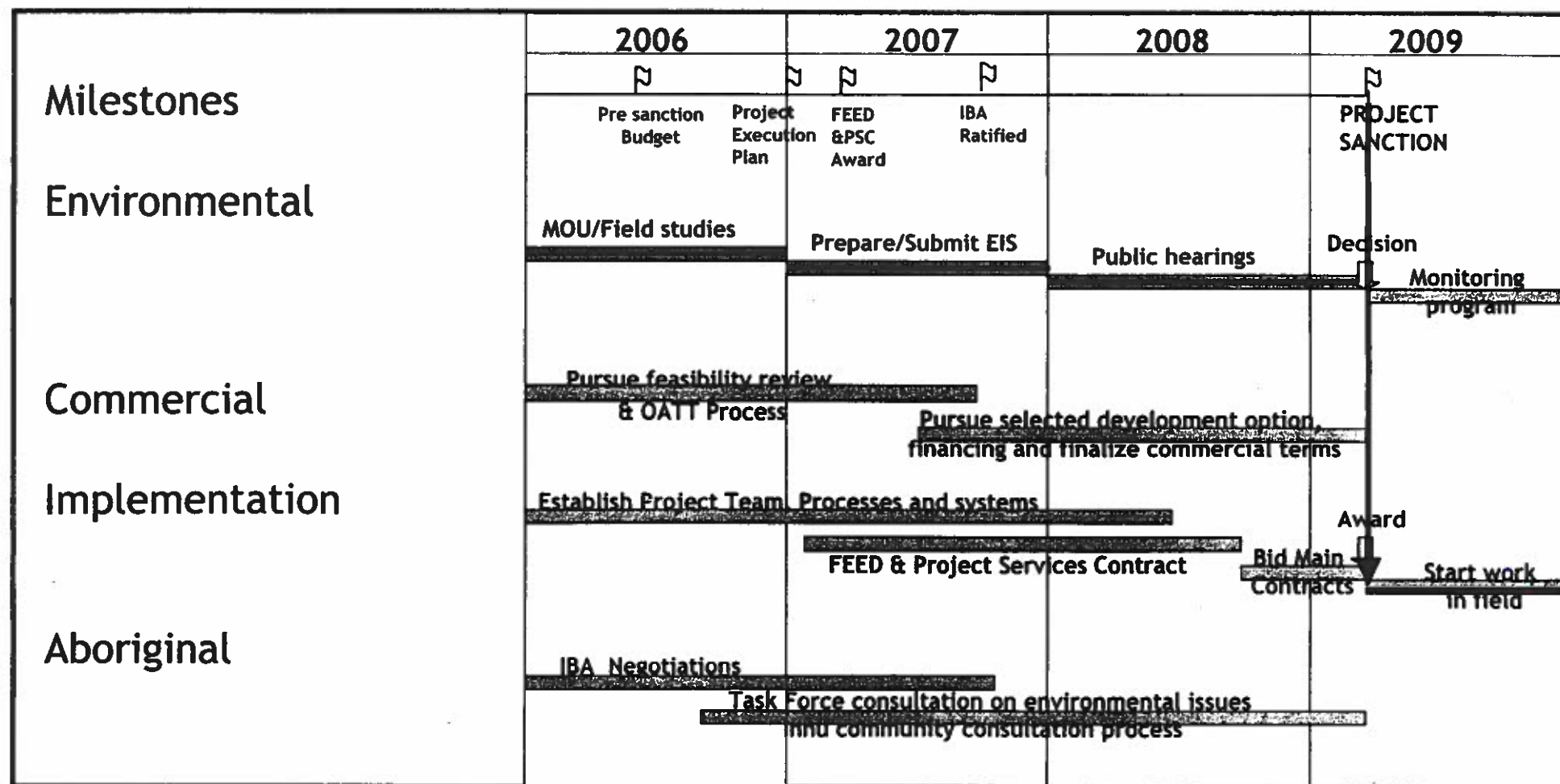
- Neither ON nor QC engage
- Step 1
 - ❖ Continue full court press in the US for markets and FERC support
 - ❖ Continue to aggressively pursue OATT
 - ❖ Quietly engage ON, QC, and GC to move ahead
- Step 2
 - ❖ Premier Williams and Premier Charest discuss the full CF picture
 - ◆ We both have something the other wants
 - ❖ Raise profile in ON
 - ◆ Premier Williams engages Premier McGuinty
 - ◆ Engage Opposition
 - ◆ Why are you turning your back on the LC?
 - ◆ Engage the public
 - ❖ Engage PM Harper
 - ❖ Is the political timing right for a national public “dust-up” led by NL to create maximum leverage for NL?

Section 3

Status Update of Project Execution and 2006 Objectives



Critical Path to Project Sanction in 2009



Parallel paths in 2006

CIMFP Exhibit P-01315

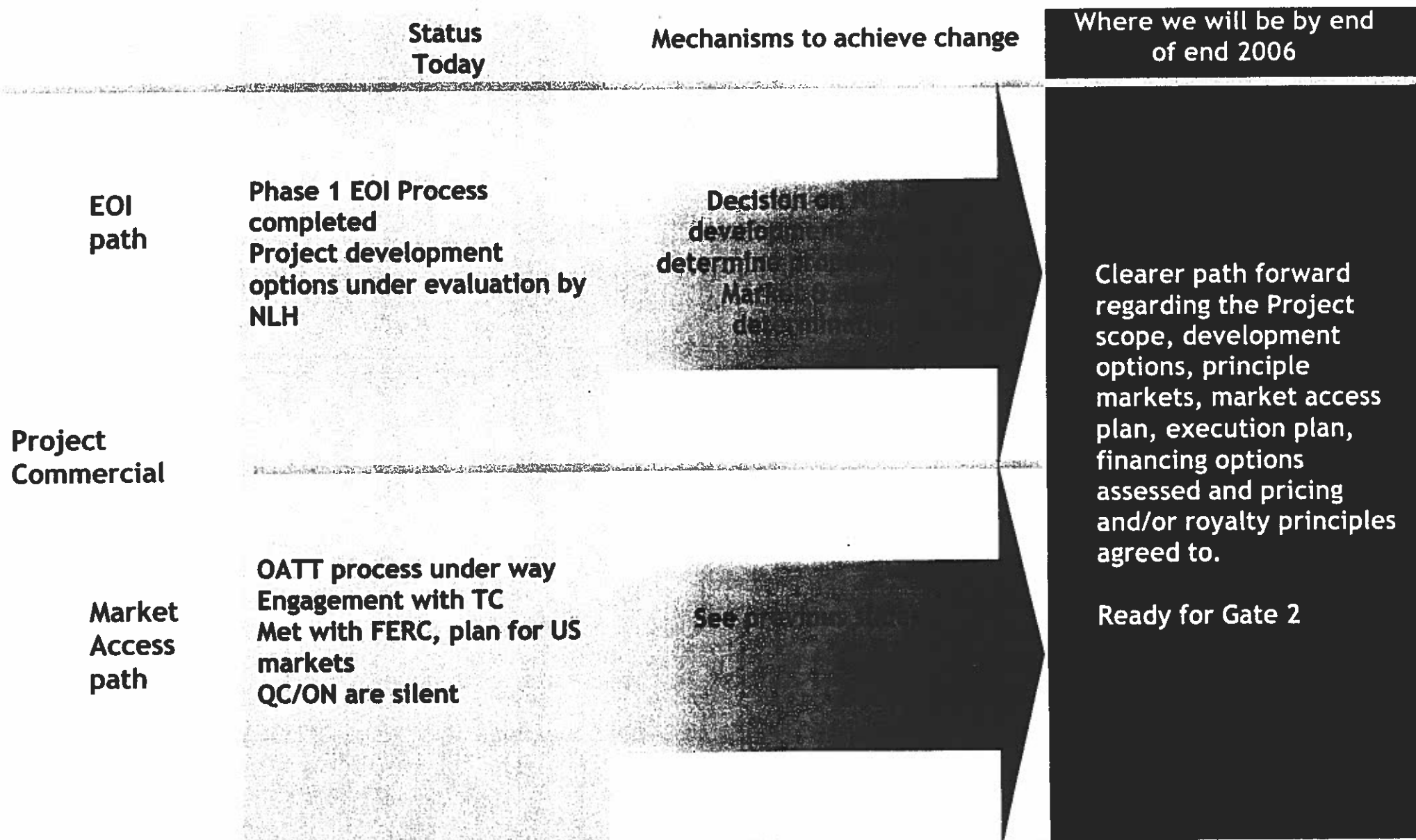
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| | Status Today | Mechanisms to achieve change | Where we will be by end of 2006 |
|-------------------------------|--|---|--|
| Project Implementation | <p>Implementation Manager hired</p> <p>Organization plan developed</p> <p>Project Execution Plan under development</p> <p>Most project feasibility studies & conceptual work completed</p> | <p>Develop and implement Organization Plan</p> <p>Contract review process</p> <p>Project Execution Plan</p> | <p>Organization in place for pre sanction phase</p> <p>Processes and systems in use for pre sanction phase</p> <p>FEED and Project Services</p> <p>Contract review process well advanced</p> |
| Environmental | <p>Environmental Management team in place</p> <p>EA plan being developed</p> <p>Field survey contracts identified</p> | <p>Finalize and implement EA plan, conduct field studies, EA monitoring</p> | <p>Review Panel appointed</p> <p>Field studies mostly completed</p> <p>EIS planning and preparatory work completed</p> |
| Aboriginal | <p>Process Agreement in place with Innu Nation</p> <p>Negotiating IBA - IBA work plan established</p> <p>Consulting on environmental studies</p> | <p>Continue IBA negotiations</p> <p>Establish Task Force</p> <p>Innu to conduct community consultation</p> | <p>Agreement on key elements: Education, training & employment of Innu</p> <p>Workplace policies & conditions</p> <p>Innu business opportunities</p> <p>Environmental protection</p> <p>Social & cultural protection</p> |

Parallel paths in 2006 (continued)

CIMFP Exhibit P-01315

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Budget – Pre Sanction

LOWER CHURCHILL PROJECT ACTUAL EXPENDITURES & FORECAST MARCH 01, 1998 to JUNE 30, 2009

Capital Job Cost No. - 20009701

| | Total Project Expenditures Dec. 31, 2005 | Forecast Expenditures 2006 | Forecast Expenditures 2007 | Forecast Expenditures 2008 | Forecast Expenditures 2009 | Total Project Expenditures to June 30, 2009 |
|---|--|----------------------------------|----------------------------------|----------------------------------|----------------------------------|---|
| General Administration | 16,638,383 | 3,346,155 | 5,493,986 | 5,180,091 | 2,422,179 | 33,080,794 |
| Professional Services | 8,021,102 | 3,520,872 | 8,185,800 | 6,696,000 | 2,051,700 | 28,475,474 |
| Engineering | 6,436,231 | 3,494,614 | 32,717,851 | 67,839,706 | 52,023,364 | 162,511,766 |
| Environment | 8,922,586 | 8,053,468 | 2,580,583 | 1,558,701 | 307,693 | 21,423,031 |
| Impact Benefits Agreement | 2,969,380 | 1,336,214 | 1,405,077 | 1,540,899 | 968,062 | 8,219,633 |
| Total Expenditures Before Financing Charges | 42,987,682 | 19,751,323 | 50,383,297 | 82,815,397 | 57,772,998 | 253,710,698 |
| Financing Charges | 21,303,820 | 4,685,306 | 7,877,000 | 13,301,000 | 9,601,000 | 56,768,126 |
| | 64,291,502 | 24,436,629 | 58,260,297 | 96,116,397 | 67,373,998 | 310,478,824 |
| Project Close Out | (9,606,222) | 0 | 0 | 0 | 0 | (9,606,222) |
| Total Actual & Forecast Expenditures | 54,685,280 | 24,436,629 | 58,260,297 | 96,116,397 | 67,373,998 | 300,872,602 |

Summary

- NLH are pursuing the critical path activities required in order to achieve the Gateway 2 and 3 deliverables which will lead to a the First power target date
- The NLH project team has established 2006 objectives which are aligned with the overall project master schedule, gateways and readiness milestones.
- There will be a requirement to mobilize additional personnel, award support contracts and quickly build the organization, processes and systems that will carry out the pre sanction activities
- Lessons learned from other mega projects have shown that a successful pre sanction phase with a high degree of definition, preparation and planning is critical to the success of a Project

Budget Request

- Approval of 2006 budget - \$25 Million

Section 4

Update of Communications Strategy

Communications Strategy – Lower Churchill

- Background
 - ❖ Several attempts to develop
 - ◆ Always politically-motivated and politically-charged
 - ◆ Always deal with Quebec
 - ❖ Current government led charge against Grimes deal
 - ❖ This government took on new approach
- Public Environment
 - ❖ Provincial support for approach
 - ◆ Confidence in leadership – no give-away
 - ◆ Negativity out of Labrador – want to be consulted
 - ❖ Getting on national radar
 - ❖ Awareness in eastern NA

Communications Strategy – Lower Churchill

- Objectives

- ❖ To support the strategic objectives of the Lower Churchill Project
- ❖ To maintain open communications with Government
- ❖ To consult with key stakeholders
- ❖ To demonstrate the process is open/transparent
- ❖ Develop recognition that the Lower Churchill Project is a long term, clean and significant energy supply

Communications Strategy – Lower Churchill

▪ Messages - General

- ❖ Government/Hydro pursuing LCP in the best interest of province
- ❖ LCP is now one of main Gov't/Hydro priorities
- ❖ New approach – strategic and prudent
- ❖ All development/market options still active
- ❖ Resource will be developed for primary benefit of NLers
 - ◆ During construction/economic value of resource
 - ◆ Pillar of gov't natural resource development policy
- ❖ Actively planning/on schedule first power 2014/2015
- ❖ Working towards project sanction of 2009

Communications Strategy – Lower Churchill

- Messages - Labrador
 - ❖ LCP has both direct and indirect economic benefits
 - ❖ Consult/maintain communication
 - ❖ Welcome input and views of Labradorians
 - ❖ Ensure appropriate level of benefits
 - ❖ Government is making significant investments in economic and social development
 - ❖ Power issues
 - ♦ NLH is willing to work with Labrador communities and businesses to discuss their power requirements and ensure that these requirements will be met on a least cost basis.
 - ♦ NLH is monitoring industrial opportunities and developments, and is ready and willing to provide power to them
 - ♦ Labrador will continue to benefit from access to Churchill Falls power and benefit directly from Lower Churchill infrastructure
- Other key messages re power issues (if rates questions arise)
 - ❖ Labrador interconnected rates are the lowest rates in Canada
 - ❖ Subsidization levels paid by interconnected customers for remote or isolated customers are the highest in Canada.

Communications Strategy – Lower Churchill

- Messages - Aboriginal
 - ❖ Consult/work closely with Innu Nation
 - ❖ Gov't/Innu agreed to make priority resolution of land claim issues
 - ❖ Now negotiating IBA
 - ❖ Will support (\$) your participation in process
 - ❖ Innu Nation engaged to participate in environmental assessment process
 - ❖ Consult with other Aboriginal groups as consult with other key stakeholder
 - ◆ Labrador Metis Nation

Communications Strategy – Lower Churchill

- Messaging – EOI Proponents - General
 - ❖ NL-led development option
 - ❖ Your role will be considered in the context of a NL-led project
 - ❖ Doesn't mean you do not have future role
 - ❖ Prepared to discuss possibility of role

Communications Strategy – Lower Churchill

- Messages – Government of Ontario
 - ❖ NL led development is the best option to ensure that NL objectives will be achieved.
 - ❖ Ontario has a potential role – customer in a NL led development.
 - ❖ NL wants to engage with Ontario for the sale of a potential significant portion of Lower Churchill power.
 - ❖ Market access options open and OATT process is part of NL due diligence
 - ❖ Sale at Labrador border not ruled out
 - ❖ Are you interested in discussing power purchase?

Communications Strategy – Lower Churchill

- Messages – Government of Quebec
 - ❖ NL led development is the best option to ensure that NL objectives will be achieved.
 - ❖ HQ has a potential role – customer in a NL led development.
 - ❖ NL wants to engage for the sale of a potential significant portion of Lower Churchill power.
 - ❖ Market access options open and OATT process is part of NL due diligence
 - ❖ Sale at Labrador border not ruled out
 - ❖ Are you interested in discussing power purchase?

Communications Strategy – Lower Churchill

- Messages – Market Access/Options
 - ❖ Important focus of feasibility assessment
 - ❖ Has been challenge, now tangible options
 - ❖ New demands / fossil fuel costs / aging generation facilities / environment awareness
 - ❖ Market options
 - ◆ OATT/HQT system
 - ◆ Labrador/Quebec border
 - ◆ Maritime route
 - ❖ Block available for domestic use
 - ❖ Need sale of bulk of power to finance project
 - ❖ Transmission link between Labrador/Island still under active consideration

Communications Strategy – Lower Churchill

- Messages – Environmental Process
 - ❖ LC attractive, renewable, clean energy source
 - ❖ Comprehensive/consultative/inclusive EA process
 - ❖ Take a balanced approach
 - ❖ Environmental planning ongoing
 - ❖ Baseline studies now being completed
 - ❖ EIS submission 2007
 - ❖ Working closely with Innu through Task Force
 - ❖ Commitment to support (\$) interveners ie Friends of Grand River
 - ❖ If sanctioned, developed environmentally responsible manner

Communications Strategy – Lower Churchill

- Messages – General public in ON, QC, and AB
 - ❖ The Lower Churchill is a significant, clean supply source
 - ❖ The project is viable, and can make an important contribution to the Canadian economy
 - ❖ We are working hard to obtain market access
 - ❖ We are taking a commercial approach to the development
 - ❖ This project can move us significantly along the path towards 'have' status

Communications Strategy – Lower Churchill

- Strategic Considerations
 - ❖ Managing expectations
 - ❖ Openness/Transparency
 - ❖ Labrador
 - ❖ Aboriginal
 - ❖ EOI Process
 - ❖ Market Options/Access
 - ❖ Ontario/Quebec
 - ❖ Upper Churchill/Redress
 - ❖ Environmental Process
 - ❖ Federal government role
 - ❖ Opposition

Communications Strategy – Lower Churchill

- Actions

- ❖ Finalize Communications Strategy
- ❖ Finalize/execute marketing strategy
- ❖ Finalize/execute Labrador consultation plan
- ❖ Develop EA consultation plan
 - ◆ Regulatory obligations
 - ◆ Goodwill
- ❖ Develop Communications Plans for significant events
 - ◆ NL-Led decision announcement - Pending
 - ◆ Registry of project with Environment Regulatory Agencies – May/June
- ❖ Develop web site

Communications Plan – NL-Led Announcement

- Objectives

- ❖ To announce NL-led development option, Hydro lead proponent
- ❖ To advise status of EOI proposals
- ❖ To communicate meaning of NL-led development
- ❖ To describe the planning process that will now unfold
- ❖ To provide update on planning/what next
- ❖ To reinforce government's key messages on development of LC

Communications Plan – NL-Led announcement

- Messages - General

- ❖ NL-led is best suited to meet province's objective
- ❖ Decision doesn't mean project given the green light
- ❖ Still much work on financial, technical, market, environmental
- ❖ All development and market options still under consideration
- ❖ NL have significant ownership
- ❖ Opportunities to bring in partners including individual proponents
- ❖ Planning process active on several fronts
 - ◆ OATT application
 - ◆ IBA negotiations
 - ◆ Environmental studies/EIS preparations
 - ◆ Project execution planning

Communications Plan – NL-Led Announcement

- Messages – EOI Proponents - General
 - ❖ Decision made on NL-led development option
 - ❖ *Your proposal will be considered in the context of a NL-led project*
 - ❖ Doesn't mean you do not have future role
 - ❖ Prepared to discuss possibility of role

Communications Plan – NL-Led Announcement

- Messages – Government of Ontario
 - ❖ NL led development is the best option to ensure that the our objectives will be achieved.
 - ❖ The 50 year lease option no longer under consideration.
 - ❖ Ontario has a potential role – customer in a NL led development.
 - ❖ NL wants to engage with Ontario for the sale of a potential significant portion of Lower Churchill power.
 - ❖ Market access options open and OATT process is part of our due diligence
 - ❖ Sale at Labrador border not ruled out
 - ❖ Are you interested in discussing power purchase?

Communications Plan – NL-Led announcement

- Messages – Government of Quebec
 - ❖ NL led development is the best option to ensure that the our objectives will be achieved.
 - ❖ The 50 year lease option no longer under consideration.
 - ❖ HQ has a potential role – customer in a NL led development.
 - ❖ NL wants to engage for the sale of a potential significant portion of Lower Churchill power.
 - ❖ Market access options open and OATT process is part of our due diligence
 - ❖ Sale at Labrador border not ruled out
 - ❖ Are you interested in discussing power purchase?

Communications Plan – NL-Led Announcement

- Messages – Aboriginal
 - ❖ Continue to consult and work closely with Innu Nation
 - ❖ Remain committed to resolving outstanding land claim
 - ❖ Decision doesn't impact ongoing IBA negotiations
 - ❖ Provide support to Innu to assist in process
- Messages – Labrador
 - ❖ Our commitment that Labradorians should benefit remains
 - ❖ Best way to achieve that objective is NL-led development
 - ❖ Want to keep Labradorians informed
 - ❖ Labradorians have had several opportunities to express views
 - ❖ We will continue to consult

Communications Plan – NL-Led Announcement

- Strategic Considerations
 - ❖ Positive response from general public anticipated
 - ❖ Validity of EOI Process
 - ❖ Doesn't mean a "go-it-alone"
 - ❖ Reaction from EOI proponents
 - ❖ Interest will be directed to HQ and Ont
 - ❖ OATT application confidence
 - ❖ Opportunity to float FERC meeting
 - ❖ Labrador consultations
 - ❖ Opposition response
 - ❖ Federal government role
 - ❖ Cost of moving forward

Communications Plan – NL-Led Announcement

❖ Pre-Announcement

- ◆ Briefing of Premier/Minister Byrne
- ◆ Finalization of communication materials
- ◆ Advising Ministers Shelley/Rideout, and MHA Hickey
- ◆ Notification to EOI Proponents
- ◆ Advising Ben Michel
- ◆ Arrange meeting of key stakeholders in Labrador
- ◆ Premier calls Premiers McGuinty/Charest to advise of decision
- ◆ E. Martin calls T. Vandal

Communications Plan – NL-Led Announcement

❖ Announcement

- ◆ Premier/Minister/E. Martin
- ◆ Premier speaks to decision and policy objectives
- ◆ Minister references EP consultations/LC context
- ◆ Martin provides update and go-forward decision-making

❖ Post Announcement

- ◆ Finalize and execute marketing plan
- ◆ Meet with some key Labrador Stakeholders
- ◆ Finalize and execute Labrador consultation plan
- ◆ Finalize Com/Consultation Plan to fit new decision