

Date : 5/10/2011 8:42:34 AM
From : "Scott, Paul G."
To : "Stanley, Todd"
Cc : "Bown, Charles W."
Subject : FW: PUB Letter
Attachment : Draft PUB letter (Nalcor Feedback) 11 05 09 (1).doc;
Todd,

Paul

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

From: Thompson, Robert
Sent: Monday, May 09, 2011 11:24 PM
To: Scott, Paul G.; 'AubumWarren@nalcorenergy.com'
Cc: 'EMartin@nalcorenergy.com'; 'DSturge@nalcorenergy.com'; 'GBennett@nalcorenergy.com'; Bown, Charles W.; Stanley, Todd; Burrage, Don
Subject: RE: PUB Letter

Suggesting the attached edits for discussion, mainly to the final paragraph. I have removed some of the specifics of the prudence review to allow flexibility how we engage the PUB, but indicating serious intent in establishing such a review.

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

From: Scott, Paul G.
Sent: Mon 5/9/2011 6:00 PM
To: 'AubumWarren@nalcorenergy.com'
Cc: 'EMartin@nalcorenergy.com'; 'DSturge@nalcorenergy.com'; 'GBennett@nalcorenergy.com'; Thompson, Robert; Bown, Charles W.; Stanley, Todd; Burrage, Don
Subject: PUB Letter

Hello Auburn,

Thanks for the letter. The only substantive issue we have noted is related to Government directing that the PUB conduct a "prudence review". By copy of this email, [REDACTED] Our thought is that will the EPCA may allow for such a review, it would also require a public hearing (section 5(1)). There may be other options.

Paul

Paul Scott, B.A., LL.B

Assistant Deputy Minister, Energy Policy

Department of Natural Resources

Government of Newfoundland and Labrador

Tele: 709 729 1406

Fax: 709 729 3374

Date

DRAFT

Re: Lower Churchill Project

On November 18, 2010, Government and Nalcor Energy ("Nalcor"), in association with Emera Inc., announced the development of the Lower Churchill Project - Phase I (the "Project") which includes the construction of:

- The Muskrat Falls generation facility ("MF");
- The Labrador-Island Transmission Link, a HVDC transmission line connecting the Island of Newfoundland to generation facilities in Labrador, including associated upgrades to the Island interconnected system ("LIL"); and
- The Maritime Transmission Link, a HVDC transmission line connecting the Island of Newfoundland to Nova Scotia ("ML").

Further details of these arrangements are included in a term sheet which is attached for your information.

A capacity deficit on the Island is forecast for 2015, meaning we have to proceed now with a construction decision to meet this 2015 requirement. The extent and timing of this deficit was 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 which means we must ensure regulatory certainty prior to engaging the financial community. As a review process by the PUB does not facilitate this timeframe, I am writing to advise you that Government ~~will be~~ is issuing a new exemption order under the *Electrical Power Control Act, 1994* ("EPCA") and the *Public Utilities Act* ("PUA") to proceed with the Project without prior evaluation by the PUB and to provide for the inclusion of capital costs, operating costs, taxes, and financing costs associated with the provision of debt financing and equity related to MF and the LIL in rates recovered from provincial ratepayers via NLH.

The Government is satisfied that the data, assumptions and analysis publicly announced by Nalcor provides adequate justification for proceeding with the Project, particularly as the Island supply component of the project is the least cost supply

alternative for Island ratepayers- As part of Nalcor's standard practice in proceeding to a sanction decision and in accordance with Nalcor's Decision Gate process, 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.

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.

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[Following project sanction and in accordance with responsible development, a formalized review process will be initiated by Government. This process will direct the PUB to conduct periodic reviews of the prudence of the costs incurred by Nalcor during the construction and operations periods of the Project. The PUB will directed to prepare a formal report for the consideration of the Lieutenant Governor in Council based upon the findings of each review. In conducting these reviews, the PUB will be directed to retain appropriate external expertise as necessary based on the nature and extent of the procedures being conducted. The Province is currently reviewing the process by which such reviews will be completed in a timely and efficient manner.] Nalcor will provide an annual update on the progress of the construction of the Project to further give the PUB and other stakeholders visibility into the ongoing management of the Project. The PUB's regulatory role and mandate with respect to other elements of NLH remains unchanged.

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Yours truly,