

Natural Resources**Declaratory Judgement Case/Water Management Agreement***August 9, 2016***Summary:**

Churchill Falls (Labrador) Corporation (CF(L)Co) has received the decision from the Quebec Superior Court for the Declaratory Judgement motion Hydro-Québec filed seeking the Court's interpretation of the 1969 Power Contract between CF(L)Co and Hydro-Québec and its associated Renewal Contract.

A hearing was held in the Quebec Superior Court in the fall of 2015 and in the decision, the Quebec Superior Court ruled against CF(L)Co.

What impact does this have on the management of water on the Churchill River?

Key messages:

- The Declaratory Judgement motion relates specifically to contracts between CF(L)Co and Hydro-Québec - the 1969 Power Contract and associated Renewal Contract. Government was not involved.
- It is our understanding that the Water Management Agreement was not the subject of this motion.
- The Water Management Agreement:
 1. Ensures that Muskrat Falls and CF(L)Co. can meet their contractual obligations to all parties including Hydro-Quebec.
 2. Is governed by the laws of Newfoundland and Labrador and subject to the jurisdiction of the Newfoundland and Labrador courts.
 3. Will be administered in accordance with the laws of this province and under the terms established by the Public Utilities Board.

Secondary messages:

- Churchill Falls (Labrador) Corporation (CF(L)Co) is reviewing the decision from the Quebec Superior Court for the Declaratory Judgement motion.
- The company will provide further information once this review is complete.
- The Declaratory Judgement motion specifically relates to the 1969 Power Contract between CF(L)Co and Hydro-Québec and its associated Renewal Contract which comes into effect on September 1, 2016 and is in effect until August 31, 2041.

- Both contracts govern the sale of power to Hydro-Québec from the Churchill Falls Generating Station, which is owned and operated by CF(L)Co.
- Under the court interpretation, Hydro-Québec's energy entitlement and scheduling rights remain the same in the Renewal Contract as they were in the Power Contract.

Background:

In July 2013, Hydro-Québec brought a motion to the Quebec Superior Court seeking the Court's interpretation of the Churchill Falls Labrador Corporation (CF(L)Co)/Hydro-Québec Power Contract and the associated Renewal Contract. The Power Contract has been in place since 1969 and comes to an end August 31, 2016. The Renewal Contract comes into effect on September 1, 2016 and is in effect until August 31, 2041. Both contracts govern the sale of power to Hydro-Québec from the 5,428 MW Churchill Falls Generating Station, which is owned and operated by CF(L)Co.

In its motion, Hydro-Québec sought the Court's interpretation with respect to:

1. "Continuous Energy" under the Renewal Contract. It is CF(L)Co's interpretation that "Continuous Energy", a defined term in the contract, is a fixed quantity of energy that Hydro-Québec is entitled to each month and that CF(L)Co has the right to manage, for its own commercial benefit, any excess energy that may be available after Hydro-Québec's contractual entitlement to Continuous Energy has been met. Despite new language in the Renewal Contract, Hydro-Québec views its rights to schedule energy to be the same as those under the Power Contract. Hydro-Québec's interpretation of "Continuous Energy" is that it is a payment term and not a limit on the amount of energy they can schedule from Churchill Falls.
2. Whether CF(L)Co can sell power beyond the 300 MW recapture block and 225 MW Twinco block on an interruptible basis to third parties when plant capacity is not being used. CF(L)Co's position is that as the owner of the Churchill Falls Generating Station and the Upper Churchill water rights, it has the right to undertake and benefit from new commercial opportunities, while still respecting its existing contractual obligations to its customers, including Hydro-Québec. This includes the right to sell interruptible power to third parties. Hydro-Québec's interpretation is CF(L)Co's rights at the plant are limited to the Recapture Block (300 MW) and Twinco Block (225 MW).

A hearing was held in the Quebec Superior Court in the fall of 2015 and the court decision was released Monday, August 8, 2016. The decision ruled against CF(L)Co.

The Declaratory Judgement motion specifically relates to the Power Contract and Renewal Contract. The Water Management Agreement was not the subject of this action commenced by Hydro-Québec in the Quebec court.

The Churchill River will be managed under the terms of a Water Management Agreement (WMA) established by the Public Utilities Board (PUB). The WMA is governed by the laws of Newfoundland and Labrador and subject to the jurisdiction of the Newfoundland and Labrador Courts. The WMA will be administered in accordance with the laws of this province.

The WMA optimizes production for facilities on the Churchill River and ensures that Muskrat Falls and CF(L)Co. can meet their contractual obligations while ensuring that the provisions of the Churchill Falls Renewal Contract are not adversely affected.

Churchill Falls Labrador Corporation (CF(L)Co.) is owned 65.8% by Newfoundland and Labrador Hydro (a subsidiary of Nalcor Energy) and 34.2% by Hydro-Québec.