

Water Management

Update to Board of Directors – 2009 09 25

Boundless Energy



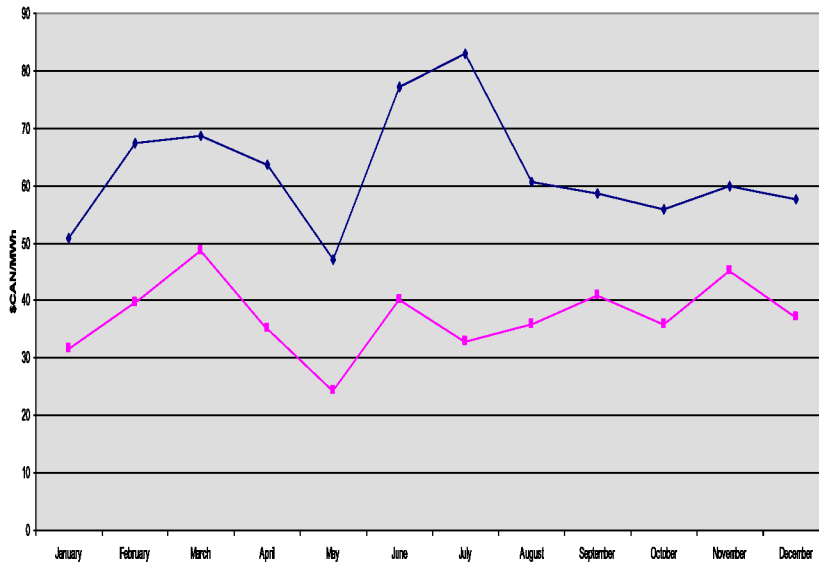
Overview

- Rationale and Requirement
- Legislative and Regulatory Basis
- Negotiating Process
- Legal Advice and Due Diligence
- Next Steps

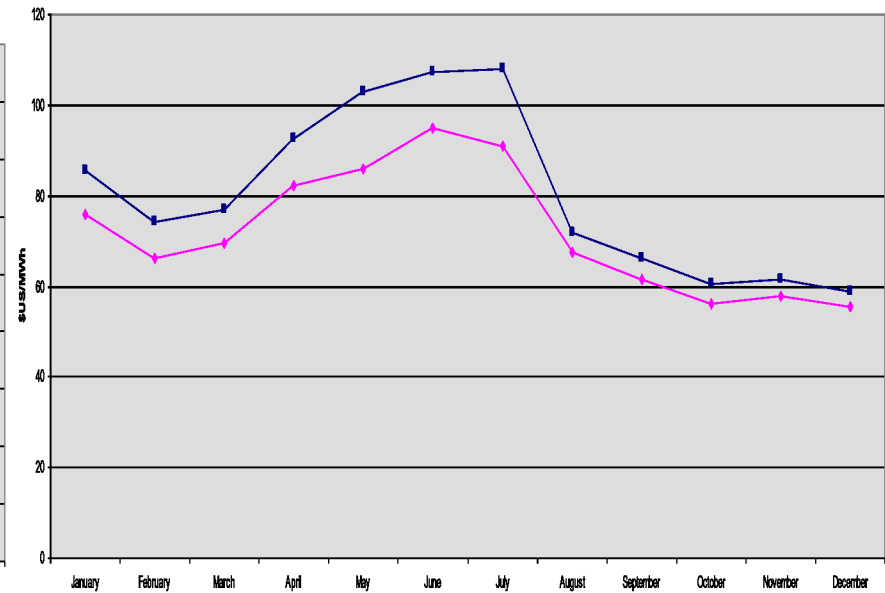
Rationale and Requirement

- Inflow into LCP reservoirs dictates timing (and therefore value) of production
- For financing, firm (guaranteed) production is needed to backstop long term PPA's
- Moving or shaping production to peak demand periods increases value

On / Off Peak Values - 2008

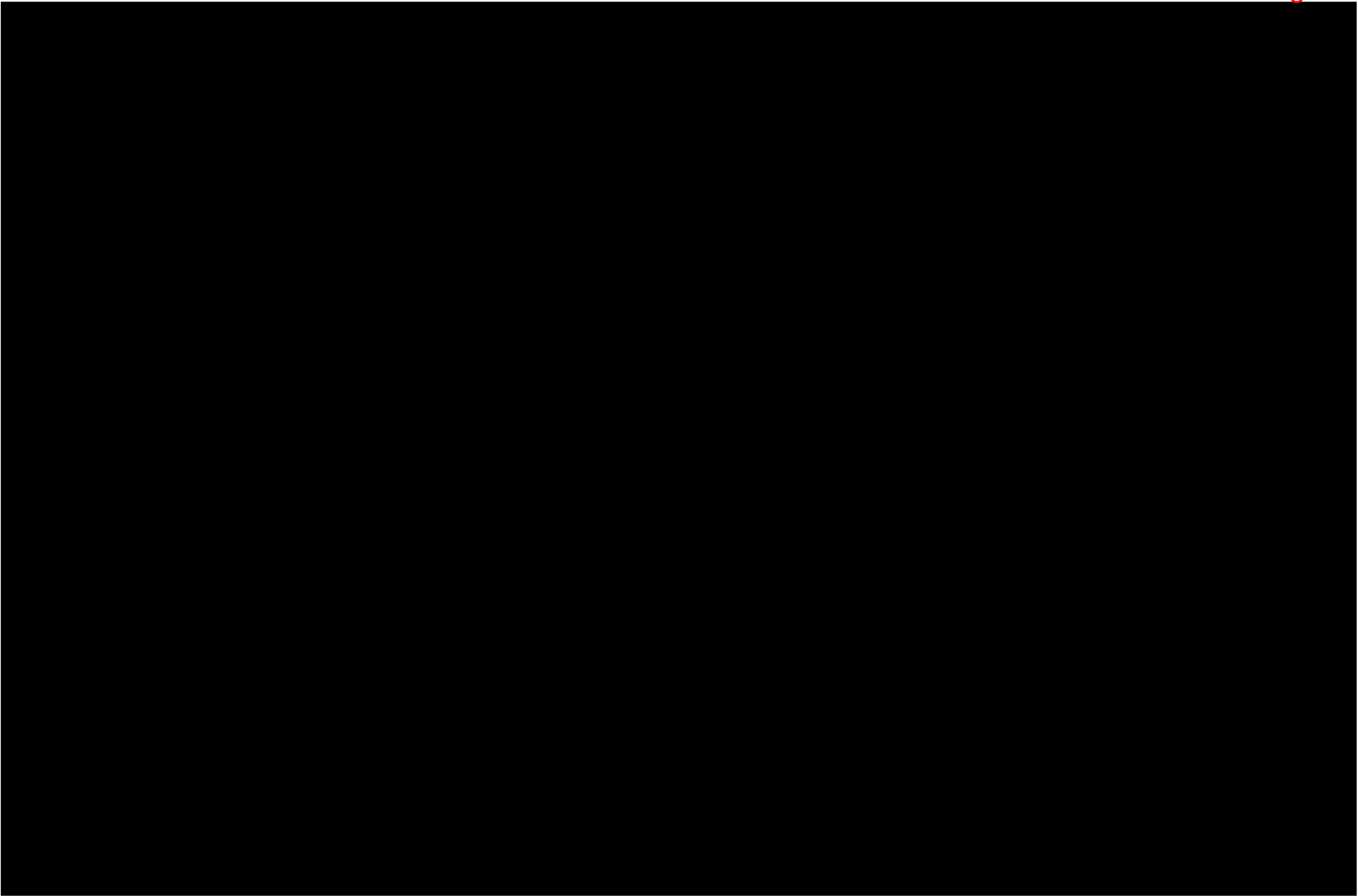


Ontario



New England


Desirable to control when sales to market are made



CF Controls Lower Churchill Production

- 75% of LCP inflows originate from CF
- LCP has minimal storage, and has minimal ability to shape incoming flow from CF
- HQ has flexibility over production timing at CF
 - ... which leads to production timing at LCP

Production Modeling

- Extensive hydrological modeling has been undertaken for the complete river system.
 - CF production scheduling has a dramatic impact on firm production
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Legislative and Regulatory Activity

- Given potential impact on LCP, new legislation and regulations were created
 - EPCA amendments in 2007
 - Water Management Regulations in 2008
- Nalcor, Nalcor legal counsel, and external counsel were consulted during drafting of both legislation and regulations

Negotiation Process

- Upon grant of water rights to Nalcor in March, negotiations started with CF(L)Co in April 2009
- Nalcor team represented by
 - G. Bennett, C. Kirby, G. Young
 - Curtis, Dawe
- CF team represented by
 - A. MacNeill, P. Hickman, O. Burry, K. Tobin
 - Stikeman Elliott, J. Smith, P. Wiebe
- AIP was concluded on August 19, 2009

Agreement Principles

- Manage generators in a coordinated manner that maximizes production
 - Emulate the way one owner would manage
 - Approach currently used on Bay d’Espoir system
- Production is shifted between facilities to optimize the river’s potential
- Each owner has access to its own resources, so each operator can make its own deliveries
- No impact on prior power contracts

Due Diligence

- Since mid August, the AIP has been subject to review by both teams
- At Nalcor, review included
 - 3rd party review by Fasken Martineau
 - Technical review led by J. Haynes
 - Financial due diligence led by R. Hull
- All changes to agreement have been agreed to.

Next Steps

- Ratification of approach by Nalcor Board
- Decision by minority shareholder of CF(L)Co.
- Submission of agreement to PUB

Questions?