

Date : 7/22/2011 11:29:48 AM

From : "Dunderdale, Kathy"

To : "'kmd@gov.nl.ca'"

Subject : FW: Proposed Op-Ed piece.....maybe this weekend. Can you please review. It's pretty comprehensive.....and direct.

Attachment : ATT1054234.jpg;

From: Power, Glenda

Sent: Friday, July 22, 2011 3:47 AM

To: Taylor, Brian W.; Dunderdale, Kathy

Subject: Fwd: Proposed Op-Ed piece.....maybe this weekend. Can you please review. It's pretty comprehensive.....and direct.

Proposed letter to editor by nalcor. Note one statement: we do not need permission from a state governor (to export power to new eng). Do we want to be this strong?

Sent from my iPad

Begin forwarded message:

From: <DawnDalley@nalcorenergy.com>

Date: July 20, 2011 11:23:49 AM PDT

To: "Maclean, Heather" <heathermaclean@gov.nl.ca>, "Brown, Milly" <MillyBrown@gov.nl.ca>, "Power, Glenda" <glendapower@gov.nl.ca>, "Bown, Charles W." <cbown@gov.nl.ca>

Subject: Proposed Op-Ed piece.....maybe this weekend. Can you please review. It's pretty comprehensive.....and direct.

Fundamental Misunderstandings

Gilbert Bennett, P. Eng.

VP – Lower Churchill Project

Over the course of recent weeks I've heard concerns about whether power from Muskrat Falls can be delivered to US markets, if it would be competitive once delivered, and if the cost of developing Muskrat Falls is too high for the province. This has led to accusations that Newfoundland and Labrador will not benefit from the development of Muskrat Falls. In my view, these statements represent fundamental misunderstandings.

We all need to consider the basis for developing Muskrat Falls. If we continue to operate without a link to Labrador, Newfoundland's electricity supply will consist of our existing hydro assets, a few new ones, incremental wind generation, and continued reliance on Holyrood. This is what we call the "isolated island scenario".

As Nalcor Energy has reported widely, we've compared the life cycle cost of this scenario to one where we develop Muskrat Falls and connect Newfoundland and Labrador through the Labrador-Island Transmission Link in order to meet our domestic needs. Over the long term, the cost of this interconnected scenario is projected to be over \$2 billion dollars less expensive than the isolated island scenario – ultimately this translates to lower rates for customers.

So a question to be answered, before we discuss what to do with excess energy from Muskrat Falls, is **Do we want to be isolated or interconnected?** Nalcor has recommended that the cost and environmental benefits right now justify a decision to go down the interconnected road.

Interconnected electricity system

Now that we're on the interconnected path, we have a second decision. In the early years of operation, we'll have more energy than we need from Muskrat Falls. In fact, only 40% of Muskrat Falls energy is required initially to meet our own immediate needs. And this project is still the best choice for the island, even if we don't sell any surplus power. So now we have an extra three terawatt hours of energy each year, which is 60% of the power from Muskrat Falls, that we would like to get value for rather than spilling water around the plant and not generating power from that water. The question: **What do we want to do with the surplus power?**

Getting value from surplus power

In answering this, we have to consider some market realities. First: Our export customers will not pay more for Muskrat Falls electricity than they would for other alternatives. Would you pay \$1 for a litre of gas if you could get it somewhere else for 75 cents. Second: We don't want to sell too much of our power. We need to be careful about how much production we tie up in long-term contracts, as we will need some of this power to meet our own future needs.

This brings us to the Emera arrangement.

Partnership with Emera

Emera, through Nova Scotia Power, will spend \$1.2 billion to construct the Maritime Link and to obtain 20% of the production from Muskrat Falls for a period of 35 years. They will also provide us with transmission access to reach the New England market so we can sell surplus power when we want to.

Selling power in New England

So now we're in the New England market. We want to be in the spot market (meaning we provide power during peak periods instead of

supplying power on a continual basis) because we don't want to tie up all our surplus power in long-term contracts. The New England spot market is both an established and transparent market, making it an ideal export situation for us. We don't need permission from a state governor to participate, we don't need help with securing transmission access, and we have surplus energy to sell.

These are very good reasons to develop Muskrat Falls. But there are also concerns and while we welcome them all, some are clearly based on fundamental misunderstandings about this project. Here are a few.

Fundamental Misunderstandings

Some folks say that the price we'll earn for our power in our export markets is unfair. But we can only earn what those markets will bear. If we don't take the market price, then we will spill water over the Muskrat Falls dam. As unattractive as that is to me as an engineer, it's still preferable to continuing to rely on Holyrood, thermal generation and a future of rising electricity rates.

Some say that energy prices are less expensive elsewhere when compared to the cost of delivering Muskrat Falls energy to Soldiers Pond. That may be true but it doesn't change our reality; continuing to rely on Holyrood is even more expensive, not to mention damaging to the environment.

Others fear that export revenue will not be used to reduce the cost of domestic electricity. This is a good question. The extent to which export revenue will be used to reduce electricity rates, invest in infrastructure, or provide essential services like health care, education, and social services is a policy decision and goes far beyond our mandate at Nalcor. As a resident of this province, I'm happy that we will be in a position to benefit either way from the ultimate outcome.

To support or not support Muskrat Falls

So that brings me to the third and most important question: **Do you support the development of Muskrat Falls?** As you form your opinion, please bear in mind these key points:

- o Muskrat Falls is first and foremost about meeting our own electricity needs.
- o Cost and environmental analyses by Nalcor and independent experts indicate that Muskrat Falls is the best option for meeting these needs.
- o After we meet our own electricity needs, we will have a surplus of power, at least in the short to medium term.
- o We have an ideal situation to sell this export power. Our arrangement with Emera provides transmission access to the US, with no requirement for US state involvement.
- o With access to the US market, we can sell into the market when we want to, and through smart export management, we can protect our own future energy needs. When we need that electricity, we can avail of it on a moments notice.
- o Every penny we earn from the sale of surplus energy is a benefit to our province, and money that we will not earn if we spill the surplus power. Either way, development costs stay the same.
- o We will be investing in an asset that will benefit the people of this province essentially forever. Clean renewable power rather than a future based on oil where our money is being shipped out to big oil companies and oil exporting countries around the world.

From my perspective, it's important that every Newfoundlander and Labradorian understand the Muskrat Falls project and its future benefits. Please keep your questions coming and we'll continue to provide analysis and data to communicate these important points. We truly respect the diversity of opinion.



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