

Questions and Answers

Water Management Agreements

July 2014

- Q1.** In a television interview during the Christmas period Nalcor CEO Mr. Edward Martin said that water management on the Churchill River would not be a problem for optimizing output at Muskrat Falls. He said that if the seasonal pattern of demands made by Hydro Quebec, under the original 1969 contract, continues into the future, then Muskrat Falls will achieve its full potential of producing 824 MW and 4.9 TWh, based on average hydrology. He said the language of the renewal contract for the last 25 years of the Churchill Falls contract, with respect to the demands which Hydro Quebec can make upon CFL (Co), is more advantageous, compared with the original 1969 contract and inspires confidence in Nalcor's water management arrangements for Muskrat Falls.

Please advise how the renewal contract is more advantageous and how it provides assurance that there is no risk arising from the exercise of Hydro Quebec's rights under the power contract, notwithstanding section 1.2 of the 1969 contract which provides that the contract will be "governed by, and interpreted in accordance with, the laws of the Province of Quebec" and notwithstanding section 5.7 of the Electrical Power Control Act, which protects such rights.

- A1.** An answer to this same question was provided to you by Nalcor Energy on March 14, 2014. Here is the answer that was provided: The Motion filed in Quebec Superior Court by Hydro-Quebec in July of 2013 relates to the interpretation of the 1969 Power Contract and the renewed Power Contract which will take effect in 2016. As the case is before the Court and out of respect for the Court process, Nalcor is not able to comment on this case at this time.

March 2014

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