

ENBPHQDEAL GROUP,
32 Idle Wood Drive,
Island View, N.B., E3E 1A2,
February 10, 2010.

The Honourable Shawn Graham, Premier,
Centennial Building,
670 King Street, Fredericton, N.B.
E3B 1G1

Dear Mr. Premier,

Subject: The Proposed Agreement on Energy between New Brunswick and Quebec

Thank you for your letter of February 5, 2010. I have passed copies to all of our members. We would like to also thank Francis McGuire, Doug Tyler, John Mallory and your staff for making it possible for us to meet with your consultants for the presentations last Thursday. We were respectfully and hospitably received. The information provided helped us to understand the situation more fully.

We are very clear on the facts and understand the issues fully. We understand and agree with your Advisory Panel that an "integrated energy policy" is clearly needed. We understand that electricity is only one factor in such a policy albeit a major one. We also understand that the largest economic factor in electricity supply is generation. We do not agree with your Advisory Panel that the development of an energy policy should follow the sale of this major asset. Control has then been lost.

Our group subscribes to most of the recommendations in the report of your Advisory Panel particularly that "the active involvement of NB Power and others would be necessary to complete the transaction." We believe that this shortcoming has been the main reason that other options were not explored to date.

We cannot agree with the Panel's conclusion that the current option outlined in your one and one-quarter page "Summary of an agreement between the governments of Quebec (QC) and New Brunswick (NB)" should be concluded. The discussions on Thursday often centered on the details of the agreement. We were frequently advised that these were under discussion. There was no Memorandum of Understanding, Heads of Agreement or draft documents which would clearly define the agreement. Our Group, or the people of New Brunswick, cannot agree to such an important contract without knowing the details and its impact on our future. We are told that the agreement commits us to perpetuity. Many, if not all, of the assumptions used in the NERA study will be proven wrong in perpetuity.

On the matter of the importance of reducing NB's debt, we disagree. Debt incurred by a company which has over 90 years history of adequately servicing its debt through generating and distributing an essential product is quite different from debt incurred to finance social programs.

Regarding the control of the transmission system, our opinion is that when one party has reserved the balance of the capacity on the interconnections to New England plus all of the generating

capacity to the grid, that party will have a major influence on transmission issues even if they don't own the assets. Our financial analysis was based on the information published in your "Summary" and was correct at the time it was issued.

It is clear that mitigation of risk is a major concern of your government. Mitigation of risk also comes at a very high cost. Loss of control over NB's energy future is the greatest cost. ENBP's risks are normal utility risks. The opportunities foregone could have a tremendous impact on the province's economic future. The benefits of opportunities such as future expansions at Pt.Lepreau, developments on the St.John river, interchanges with Newfoundland and Labrador, combined cycle generating plants using natural gas, possibly from NB, new technological developments in power generation would all accrue to the benefit of HQ, not NB. It is our opinion that the risks do not justify the cost of loss of those and many other opportunities which will occur between now and perpetuity. You state that "This huge risk is transferred to Hydro-Quebec...". We suspect that when any final agreement is completed Hydro-Quebec's interests will be well protected.

We were disappointed that the NERA studies did not include other options than the Stand Alone versus the proposed agreement. Our letter of January 26, 2010 suggested you consider negotiating a Power Purchase Agreement (PPA) with HQ while retaining ENBP assets. Whereas NERA did not consider this option, and your Advisory Panel were not apprised of other options, we did a comparative study based on the year 2010, assuming a mutually beneficial PPA. We assumed a long term contract for 566Mw at 7.35 c/kwh. This could be implemented with no new investments in interconnection facilities and HQ would not have to raise the \$3.2b.

Our analysis shows that ENBP's comparative costs would be \$50 million lower than for the proposed agreement. In other words, ENBP could implement the rate reductions proposed by your government and be better off than by completing the deal! That result is even after assuming a \$36 million reduction in ENBP Head Office costs, with the attendant job losses. If the deal is completed, HQ's Return on Investment on its \$3.2b is over 12%!

This analysis must be performed by ENBP, along with other options that they would consider. They can optimize the generation staging and use their actual budget numbers to provide much more accurate results. We suspect that a detailed study would show that ENBP could achieve your "competitive costs" without selling its generating assets. Of course, the Energy and Utilities Board would have to approve the Industrial rate reductions.

Your advice that a number of our group have modified their stance after receiving the briefing is inaccurate. We are still of the opinion that the proposed agreement was prepared prior to developing a comprehensive energy policy. It was conceived without the continuous input of ENBP executives and staff. It did not consider other practical options. It did not solicit the input of NB citizens while making a momentous decision which will affect future generations to perpetuity. Perpetuity is a very long time.

We stand by our letter of January 26, 2010. We hope that your government will take this opportunity to complete a PPA that is mutually beneficial to Quebec and New Brunswick. We sincerely

ask that you decide not to sell ENBP assets. We will be circulating copies of this letter to all MLAS, the Board of ENBP, the Advisory Panel and the media as with our other letters.

Yours respectfully,

cc Francis McGuire, Doug Tyler, (See signatures on following page)
John Mallory, David Ganong

John Beaton

John Bliss

Gordon F. Burt

John L. Clifford

L.W.Gerald Conroy

G.L.Crozier

Borden E. Graves

Edward E. Haggerty

Alan S.Lawrence

Gary Llewellyn

William L. McNamara

Robert D. Neill

Gordon McLeod

William G. Paterson

Vincent Ramsay

Frank H. Ryder

H.W.Shephard

Edward H. Smith

Lyle W. Smith

Gordon C. Simpson

Herbert G. Walsh

R. Grant Watson

Jackie Webster