

President's Message
November 5, 2009
David Hay on NB Power and Hydro-Québec

I want to share with you facts I have about the proposed agreement that was signed last Thursday by our province and the province of Québec.

I know that this announcement has brought on a lot of emotions for all of you. I saw this firsthand at our Fredericton office last Thursday and again in these past few days as I addressed head office staff and at our stations at Dalhousie and Belledune last Thursday afternoon. Last Friday, I was at Point Lepreau and Coleson Cove generating stations to speak with employees there. I know you continue to experience a range of emotions from being worried and concerned to being confused and much of this is fuelled by stories in the media.

The media reports are very distracting. You are all proud and conscientious employees who come to work every day to perform important work. New Brunswickers depend on us for safe and reliable delivery of electricity to their homes and businesses. Let's not lose focus on that - we really need to keep our people safe and we need to provide reliable service to our customers. I also want to stress the importance of safety at this time for both you and your families.

The questions you are asking are all valid but unfortunately, we have very few detailed answers. I have many questions myself.

Let me share with you what I know. Our shareholder, the Province of New Brunswick, has negotiated a proposed agreement (a Memorandum of Understanding) with the Province of Québec to sell NB Power and its assets to Hydro-Québec. The proposed sale would be finalized by March 31, 2010, at the earliest. Our Premier has asked that NB Power support the province as they progress through the negotiations and we will.

A due diligence process must occur and many things need to be worked out and we can help by providing our expertise.

The Memorandum of Understanding is available on the Government of New Brunswick's website for all citizens to review and I encourage you to do so. But I want to emphasize a few of the points you will read:

Hydro-Québec would retain all employees at NB Power and respect all collective agreements.

NB Power would be operated as a wholly owned subsidiary of Hydro-Québec with its headquarters in Fredericton and would still be called NB Power.

Existing employees will remain members of their New Brunswick public sector pension plans, and these plans will continue to be guaranteed by the government of New Brunswick.

Hydro-Québec would acquire most of NB Power's assets, including its transmission and distribution systems, the Point Lepreau Generating Station facilities, and all hydro stations.

The generating stations at Coleson Cove and Belledune would be owned through a separate corporation of the province of New Brunswick but would be operated by the new NB Power (referred to as HQ Sub in the MOU).

The generating station at Dalhousie would be declared surplus and phased out of operation. If Hydro-Québec decided to stop acquiring electricity from either Coleson Cove or Belledune, the plants would be phased out over a one-year period with Hydro-Québec covering all fixed costs, including salaries.

The government says early retirement options, job transfers or relocations would be offered to Dalhousie employees, on the model already in place at NB Power.

While it is premature to plan for any other potential impacts to NB Power employees other than at the Dalhousie Generating Station, we will stress that the model we have used at NB Power in the past to deal with any job loss should be maintained. It is clear the government wants all NB Power employees treated fairly.

While there are many more details in the Memorandum of Understanding, I wanted to cover this information with you now.

Also, many of you have asked me to explain the much discussed topic of NB Power's debt. And while some people have described it as alarming, investment analysts have stated that it is acceptable. We have capital debt just like any operation or many government owned utilities would have. In our case at NB Power, that debt as of March 31 is \$4.75 B. If we were a private company, approximately one half of that amount would be debt and one half would be equity. Debt financing is cheaper than equity and progressive governments have chosen to finance NB Power with 100% debt. All three debt rating agencies have stated that the elimination of NB Power's debt will have no impact on the Province's debt rating. Our debt is self-financing with our revenue from rates.

Having said that, I am especially proud that over the past five years you have all worked hard to help pay down approximately \$1.3B of our debt. That is a great accomplishment. Over the same five years, we had an accumulated profit of \$285 million compared to a \$150 million dollar loss over the previous four years. Of course as we buy more assets, like refurbishing Point Lepreau, we add more new debt. What is important is that we pay down our debt as our assets wear out. That's exactly what we have been doing. So we are on the right track and we are focused on finding more cost savings to balance the additional costs that the Point Lepreau Generating Station has incurred as a result of the delay in the refurbishment project.

So until there is a firm deal, which could be as early as March 31, 2010, we should all continue to focus on running our business safely and reliably. As NB Power employees, we must remain neutral on the public debate that is ongoing. If you personally have an opinion about this matter, you are free to air it however; you must do so on your own time and not via NB Power computers.

The leadership at NB Power will support you in these trying times and we will answer your many questions as best we can, given that many details have yet to be worked out.

A message board has been created on our Intranet to capture your questions and to provide updates as we have them. If you do not access the Intranet throughout the day, you can request your supervisor to forward your questions.

Thank you for your support and stay safe.
David D. Hay
President and CEO