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**From :** "Matthews, Elizabeth"

**To :** "Crawley, Brian" , "Morrissey, Ken" , "Dinn, Stephen"

**Subject :** Included:

**Attachment :** costs Jan 06.doc;SN TransEnergie Premier.doc;Q&As TransEnergie.doc;QA TransEnergie.doc;

Included:

- Costs to date (note that Ed Martin discusses application cost in his speaking notes)
- Premier's notes
- general Q&As
- political type Q&As

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## LOWER CHURCHILL TRANSMISSION ACCESS APPLICATION

### A. Q&A'S

#### 1. What does this application accomplish?

The transmission tariff application process will ultimately provide us with access to key North American markets via Hydro Quebec's transmission system. The major steps in the process are:

1. An application for service which was filed yesterday;
2. Completion of an initial assessment by Hydro-Québec to determine the impacts on their transmission system;
3. Detailed engineering studies by Hydro-Québec to identify costs and schedules for implementation of any necessary transmission upgrades;
4. Entering in to a long term transmission service contract with Hydro-Québec TransÉnergie should this alternative prove to be a feasible one; and
5. Actual construction of the necessary transmission upgrades.

#### 2. Why are you filing this application now?

Although the earliest in-service date for the Lower Churchill is still several years away, and the project is still in the feasibility study stage, it is essential for us to understand the costs and other considerations associated with obtaining transmission access to electricity markets in Ontario, Quebec, the Maritimes and the US Northeast. . This application process will provide us with that information.

#### 3. What are we committing to?

The application process has several steps, ultimately leading up to the construction of the necessary infrastructure to provide us with transmission access. At this point, we are only committing to an initial assessment of the impacts on Hydro Quebec's transmission system. We will make further decisions to proceed or halt the process as we proceed with our feasibility analysis.

#### 4. Does this mean the province is developing the project itself?

The option for NL to lead this development continues to be given primary consideration, but understanding the cost of transmission to access key markets is an essential consideration for any developer.

#### 5. Why has it taken so long to get to this point? The second stage of the EOI process was only supposed to be 4-6 months.

This is a complex project that has been looked at many times over the past 30 years. The situation now is different. We have a different perspective and a primary goal to maximize benefits for the province. We are not rushing the analysis. We are rigorously examining the project from identification through to execution and operation.

**6. What are the next steps?**

We are finalizing our evaluation of the original EOI submissions and the ability of potential proponents to contribute value to the project. We expect to be in a position to discuss our go-forward plans in the near future. . This material is commercially sensitive so we're not able to discuss specifics at this point.

**7. Why are you moving forward before consultation?**

We are committed to a comprehensive consultation process on the development with Labradorians on a number of levels, through the energy plan consultations and also through NL Hydro throughout 2006. We are also committed to keeping stakeholders informed of changes and developments as we move forward in our feasibility assessments.

**8. When will you know if you receive transmission access?**

The application process is expected to take over a year. At that time we'll be able to further evaluate whether this alternative is feasible.

**9. How does this change the original EOI process?**

The original process is still intact. We've made some changes in timing and process as we conduct our evaluation and assessment. Our goal is to maximize the benefits to the province so we are moving forward with that in mind. We expect to have further information in the near future. .

**10. How will this application impact our relationship with Hydro-Québec and their submission?**

We are currently evaluating their joint submission with Ontario Electricity Financial Corporation (OEFC) and SNC-Lavalin to determine how they might provide value to the project and assist us in reaching our primary goal to maximize benefits to this province. We expect to be in a position to discuss this further in the near future. In the meantime, this application should have no impact on our relationship with Hydro-Québec. The application is the next step in our evaluation and it's prudent for us to investigate this further. It's business and we believe Hydro-Québec will understand that.

**11. What recourse do we have if Hydro-Québec doesn't play ball?**

Hydro-Québec is regulated by the Régie de l'énergie [Quebec's equivalent to NL's Public Utilities Board], and is obliged to participate in this process.

**12. How do the shortlisted proponents feel about the application?**

We've informed the proponents about the application and they understand our evaluation process. We've informed them we intend to have a go-forward strategy in the near future

**13. What does this process cost?**

The cost of the transmission access service, as per Hydro-Québec's OATT, is a regulated tariff and potentially payment for some of the cost of system upgrades. It ultimately depends on the capacity booked through their transmission system. We provided a deposit of approximately \$17 million. This deposit is refundable, less any costs incurred by Hydro-Québec for any engineering studies completed for us.

**B: DETAILED BACKGROUND QUESTIONS AND ANSWERS****1. What does this application for transmission service through Quebec actually mean?**

Newfoundland and Labrador Hydro, as the lead for the Lower Churchill hydro resource development, has submitted an application to Hydro-Québec's Transmission Division (TransÉnergie) (HQT) for transmission service through Quebec to transmit Lower Churchill power, from the Labrador/Quebec border.

Following the sharing of cost and technical information, a decision will have to be made by NLH to enter into a transmission service agreement. The transmission service would begin at least 10 years from now, once the projects have been approved and constructed.

This means that Hydro would follow the existing procedures in place that allow third parties to book transmission capacity, and pay a tariff to use Hydro-Québec's transmission system in order to access electricity markets in Ontario, Quebec, New Brunswick and potentially markets in the US Northeast.

This is the first of several steps contained in TransÉnergie's open access transmission tariff (OATT) that will be required in order to wheel electricity across the Quebec transmission system. The major steps in the process are:

- An application for service which was filed yesterday;
- Completion of an initial assessment by Hydro-Québec to determine the impacts on their transmission system;
- Detailed engineering studies by Hydro-Québec to identify costs and schedules for implementation of any necessary transmission upgrades;
- Entering in to a long term transmission service contract between Newfoundland and Labrador Hydro and Hydro-Québec TransÉnergie should this alternative prove to be a feasible one; and
- Actual construction of the necessary transmission upgrades.

**2. Does this mean you are not going to sell any Lower Churchill power to Quebec?**

Quebec may be one of the destinations for a portion of the power. This is a competitive process; the power will be sold to parties willing to offer the most attractive terms. Diversification of markets for the power is a desirable objective.

**3. Why is Hydro doing this now? How can you book transmission now, when you do have not purchasers and markets for the power lined up yet?**

Hydro is making this request now because the application process could take up to a year or more before a transmission service agreement would be signed, by which time purchasers should be identified and principles for the power sales should be in place.

The actual transmission service however, will not be taken until the projects are built, at least 10 years from now.

Significant lead time is required for environmental assessment and construction of these projects however, in order to raise financing long term power sales arrangements and access to the markets, i.e. transmission service agreements, must be established in advance to assure lenders that forecasted sales revenue can, and will, be realized.

In order to realize fair market value we want to be able to access electricity markets directly. *Clearly, in approaching interested parties in the markets, this application for transmission service will demonstrate we are serious about delivering power to these markets.*

#### **4. What is “non-discriminatory, open transmission access transmission tariff”?**

“Open access transmission tariff ” (OATT) sets forth terms and conditions and rates under which a transmission provider (HQT) provides its transmission services to its transmission customers. The OATT follows the U.S. Federal Regulatory Commission’s own OATT. The OATT must be open and non-discriminatory to parties other than the owners of the transmission system. The whole purpose is to promote competition between electricity generators, eventually increasing competition in the supply and marketing of electricity.

Most jurisdictions in Canada, have opened their transmission systems to allow third parties access. In some cases, these OATT’s were adopted specifically to comply with U.S. regulations which require Canadian transmission owners and their affiliates to provide reciprocal access to their systems, in order to participate in competitive wholesale electricity markets in the US. In other cases the process was part of market restructuring in Canada. Canadian provinces are at various stages of introducing competition to their wholesale and retail electricity markets. Alberta and Ontario have progressed the furthest in opening their markets to competition.

#### **5. How does open access work?**

In order to use the transmission service in Quebec an application must be made to the owner of the transmission system (HQT) for use of specific transmission capacity for a specified period of time on either a firm or non-firm basis. Certain conditions must be met and a transmission tariff must be paid over the duration of the transmission service agreement. Requests for service can be made for short periods of time or long periods of time. Bookings are made on a first come, first serve basis, with priority going to longer-term bookings.

The rates and terms applied to the use to transmission system must be administered in a non-discriminatory manner, with independent regulation of the system. The customers of the transmission service must agree to provide comparable transmission services on similar terms and conditions on any transmission that they or their affiliates own, control or operate.

If a transmission system is not adequate to accommodate a request for transmission service, the transmission provider must notify the transmission customer. A study of the upgrades required to accommodate the service request must be undertaken and, subject to certain cost sharing terms provided in the HQT's OATT, the transmission upgrades must be undertaken as long as they do not impair system reliability or impair the existing system.

**6. Why has this not been done before?**

We cannot comment on why this step was not undertaken by previous Governments in their attempts to develop the Lower Churchill resource.

The open access transmission tariff (OATT) is in place in Quebec<sup>1</sup> and we believe the time is right to make this application to transmit power through Quebec directly to Quebec and other electricity markets. The timing is particularly important given the need to act now in order to meet forecast electricity requirements in Ontario in the coming decades. According to our analysis, the market and the value of energy makes this option worth investigating.

**7. Is this a risky step? Can this request be rejected?**

Newfoundland and Labrador Hydro has consulted with legal and market experts and is taking this step, fully confident that this is the appropriate action at this time. We are availing of an open transmission access system, which is intended to provide market access opportunities precisely of the nature that we are interested in pursuing. There are terms and conditions associated with this application; we fully intend to comply with these terms and conditions.

**8. Is NLH making this application on its own?**

Newfoundland and Labrador Hydro, as lead on development of the resource, is submitting this application. This is an important step forward towards development of the resource, whether this is going to be done on our own, or in partnership with other parties. A role for partners in the development has not been ruled out at this stage.

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<sup>1</sup> Open access system was implemented in Quebec in 1997. The system and process is now well established.

**9. What is the status of the EOI process? How does this fit with the feasibility review process? What about the Atlantic transmission option?**

This transmission service application is another step in the feasibility assessment process whereby we will gain the cost and technical information regarding transmission through Quebec, upon which to base a decision to enter into a transmission service agreement with TransÉnergie.

The Atlantic transmission route is another option; we know that it is technically feasible but expensive. The alternative that is the most technically and economically attractive will be the option we will select. This decision will be made on the basis of the best information available. That is the objective of this EOI process.

**10. What are implications for Newfoundland and Labrador of making this application for transmission service?**

The main implications are:

- NLH has provided a deposit equal to one month's transmission tariff (\$17 M), which is refundable, if we elect to withdraw from the process.
- NLH will be responsible for paying for a service impact study and any facilities studies required.
- NLH has agreed to provide comparable, non-discriminatory transmission service on similar terms and conditions to HQ and other third parties, on transmission infrastructure that Hydro and its affiliates own, control or operate in Labrador and on the island if an Infeed is built.
- This means that an open access transmission tariff (OATT) must be developed and the transmission system must be managed and operated in a nondiscriminatory manner. This will require that NLH's transmission operations must be functionally separated from its other operations. Steps must be taken to ensure that this commitment can be met by the time transmission service will be taken in Quebec.
- At any time in the process prior to entering into a service agreement with TransÉnergie, NLH can elect to cancel the service request and withdraw from the process.
- Upon entering into a service agreement, NLH will be committed to a long-term obligation to pay the HQT transmission tariff and any cost sharing of network upgrades required to meet Hydro's service request.

**11. Historically, Hydro Quebec has wanted to purchase Lower Churchill power at the Labrador / Quebec border. They are likely to try and protect their interests in this regard. How are you assured that you will be given fair treatment in accessing the Quebec transmission system ?**

The Open Access transmission system in Quebec was established in order to allow Hydro Quebec to take advantage of business opportunities resulting from the opening up of US wholesale electricity markets. TransÉnergie offers non-discriminatory access to Quebec's transmission system in accordance with US and Quebec regulatory provisions. This includes functionally separating their transmission division from HQ's



other operations and adherence to a code of conduct, designed to avoid transmission service preference to HQ's own divisions. There is also independent regulation of the OATT for providing transmission services. Any complaint regarding the application of the tariff and conditions shall be addressed in accordance with formal procedures approved by the Regie (Quebec's independent regulatory authority).

We're confident that HQ TransEnergie will work with us in a transparent manner. Any failure on the part of TransEnergie to provide non-discriminatory service would be contrary to all these provisions and ultimately contrary to HQ's own interests in participating in the US wholesale electricity markets.

**12. What is the transmission tariff in Quebec? Is this considered a reasonable charge?**

The current tariff in Quebec is approximately \$75 / kW of reserved capacity per year. So, for example for Gull Island, if we wanted to book 2000 MW of generation capacity, this works out to be about \$150 million per year or about \$13/ MWh produced annually. This rate is subject to independent regulation by the Regie; during rate hearings interveners are provided an opportunity to challenge and question the level of the rate. Obviously, we would prefer the lowest rate possible, however we must respect the regulatory process that is in effect in Quebec.

**13. Which markets are you targeting for access into?**

We are applying for access markets including Ontario, Quebec, New Brunswick and New England. Diversification of the market destination for the power is desirable because it will reduce our exposure to market and credit risk of any one market.

It is clearly evident that Ontario is a market that is facing significant power requirements in the coming decades with needs of an estimated 24,000 MW of clean generating capacity in the next 15 years. In a recent supply mix recommendation report released by the Ontario Power Authority, they are recommending that between 9400 MW to 12, 400 MW of new or refurbished nuclear generation be added by 2025, other supply options recommended include an increase of 7700 MW of renewable capacity and 6000 MW of natural gas generation. The Lower Churchill is a long-term supply option that could add to the renewable supplies for Ontario and compete very favorably with nuclear generation.

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Questions and Answers

Prepared by: Joanna Harris  
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