

**HYDRO**  
THE POWER OF  
COMMITMENT

## Structuring and Financing Growth

April 13, 2006



# Corporate Goals

- Goal 1: To be a safety leader
- Goal 2: To be an environmental leader.
- **Goal 3: To strengthen the financial and governance structure to enable Hydro's new expanded mandate.**
- **Goal 4: To grow a diversified and viable energy business.**
- Goal 5: Through operational excellence, provide exceptional value to all consumers of Hydro's energy.
- **Goal 6: To achieve sanction for the Lower Churchill project.**
- Goal 7: To ensure a highly skilled and motivated team of employees who are strongly committed to Hydro's success and future direction.
- Goal 8: To be a valued corporate citizen in Newfoundland and Labrador



# Objectives

- To be aligned with the Shareholder.
- To keep lines of communication open with key Government departments.
- To be prepared for investment opportunities when they arise (Lower Churchill, new business, regulated business).
- To provide input into the evaluation of options for the development of the Lower Churchill.
- To prepare an action plan for recommendation to the Hydro Senior Leadership Team, Board of Directors and the Shareholder regarding corporate structure and financing.



## Key Issues

- What is the appropriate corporate structure to facilitate entry into unregulated business ventures?
- What is the appropriate capital structure to ensure the Corporation can grow without unduly impacting the financial position and borrowing capacity of the Shareholder?
- What are the types of financing that the Corporation should be considering to finance the various new business opportunities?
- What other issues should be considered and addressed?



## Specific Items

- Corporate structure for Hydro ✓
- Capital Structure for Hydro
- Financing plans for specific opportunities
- Impact on Government of NL borrowing capacity and credit rating - *IMPLIED GUARANTEE ??*
- Hydro borrow as a stand-alone entity
- Government debt guarantee
- Equity injection }  
    } Retain tax exempt status
- Dividend policy (and/or payments in lieu of taxes)
- Additional revisions to legislation







**Lower Churchill Coordinating Committee  
November 30, 2005**

**AGENDA**

1. Update on Lower Churchill activities.
2. Overview of Labrador consultation meeting.
3. Status of AIT paper.
4. Update on climate change discussions with Feds.
5. Other



**Lower Churchill Hydro Coordinating Committee  
Agenda**

**September 6, 2005**

1. Update on EOI process and project activities.
2. Climate change meeting with federal officials and next steps.
- X 3. Status of energy plan.
- X 4. Labrador and aboriginal issues update.
5. AIT paper and update on chapter 12.
6. Other
7. Next Meeting



**Lower Churchill Hydro Coordinating Committee**  
**Meeting**  
**July 12, 2005**

**Present:**

Robert Thompson, Clerk of the Executive Council  
Gilbert Bennett, Vice-President, LHP, NLH  
Brian Crawley, Chief of Staff, Premier's Office  
Barbara Knight, Deputy Minister, Dept. of Intergovernmental Affairs  
Doug House, Deputy Minister, Dept. of Innovation, Trade & Rural Development  
Sean Dutton, Deputy Minister (A), Dept. of Labrador & Aboriginal Affairs  
Bruce Saunders, Deputy Minister, Dept. of Natural Resources  
Brenda Caul, Deputy Minister, Dept. of Environment and Conservation  
Joanna Harris, Director, Policy and Planning, LHP, NLH

David Bazeley and John Drover attended part of the meeting.

---

**EOI Status Update**

Gilbert Bennett provided a status update to the committee. The results of the EOI assessment have been provided to the Premier, development options have been presented and a recommended short-list identified. NLH is awaiting direction before proceeding to notify the proponents. Preliminary analysis of an HVDC infeed to the island is favorable as a least-cost supply option; analysis will continue. Next step will be to meet with short-listed proponents.

**Climate Change**

John Drover, Department of Environment and David Bazeley, Department of Natural Resources presented an overview of federal climate change policy developments and emission credits.

The committee was advised that a "climate change" group of representatives from Department of Environment, Natural Resources and LHP have been convened to monitor and identify climate change policy developments relevant to the Lower Churchill.

**Action Item**

A paper is being prepared on climate change policy principles that may be beneficial to the Lower Churchill. This paper is intended to identify underlying principles that can be used as a basis for commencing exploratory discussions with the federal government.



A letter will be drafted (at the ministerial level), following the EOI public announcement, to advise the federal government of the short-list and to offer to brief senior federal officials on the project status. The purpose of the meeting is to lay the groundwork for federal financial support for the development in the context of federal climate change policy and meeting the national long-term energy security needs (i.e. national interest).

#### AIT Paper



#### Economic Modeling

Terry Paddon advised the committee that regional modeling could be done but questioned the practical value of doing this, noting that 95% of the revenues will be dividends and royalties from Labrador and that the provincial employment will be primarily in Labrador.

The issue of potential employment for Labradorians and aboriginal people on the project was raised. It was agreed that it was premature to undertake a detailed review at this time prior to the establishment of a project development concept and configuration

#### Labrador and Aboriginal Issues

##### **LMN Letter**



##### **Québec Innu**

A meeting was held with representatives of the Québec Innu at their request prior to a meeting with the Province's Wildlife Division. The Red Wine Caribou herd and outstanding legal charges were raised by the Québec Innu representatives. They also raised the broader issue of assertion of Québec Innu rights in Labrador.

Québec Innu have also complained to the federal government that they were not consulted regarding the Newfoundland and Labrador/Federal Environmental Harmonization Agreement and are asking the Federal Minister to compel the province to consult.

The Government of Québec has announced that they are starting a review of their aboriginal consultation policy and processes in light of the Haida and Taku Court



decisions, which specify that governments have a duty to consult with aboriginal peoples prior to making decisions that might adversely affect their as yet unproven aboriginal rights and title.

Action Item

A Labrador issues paper is being prepared by LAA and the Labrador Hydro Project.

**Status of Energy Plan**

Bruce Saunders advised that the public discussion paper is being revised. Public release is one month to six weeks behind schedule.

Action Item

The LHP office will be provided a copy of the latest draft.

**Next Meeting**

Last week of August.

Doc. # 16815



## Key Labrador Policy Issues

### Electricity Pricing and Supply Issues

1. Interconnected residential customers - subsidization of future generation and / or transmission infrastructure.
2. Coastal communities – alternate supply options to isolated diesel or further subsidization of isolated rates.
3. Establishing an industrial rates policy in Labrador and deciding whether Government wishes to set industrial rates or allow PUB to independently establish rates.
4. Establishment of a power purchase price policy for Lower Churchill power – based on cost of supply or export market value.
5. Designation of a portion of the Lower Churchill block for use in Labrador, if/ when requirement develops.
6. Infeed related policies – designation of sources of power (CF vs Gull Island vs Muskrat Falls vs weighted average) to the island vs Labrador.

### Other Policy Issues

7. Infrastructure Fund – a direct link between project returns and improvement of identified Labrador infrastructure. If a fund is to be established, establishing the basis for determining the amount of the fund and process for determining funding priorities.
8. Adjacency Policy for construction and operations phases.

### Aboriginal Policy Issues

9. Labrador Innu Land claim policy issues.
10. Labrador Innu IBA policy issues.
11. Aboriginal consultation policy – in light of recent court cases ( Haida and Taku) .
12. Allocation of benefits to multiple aboriginal groups with overlapping claims.



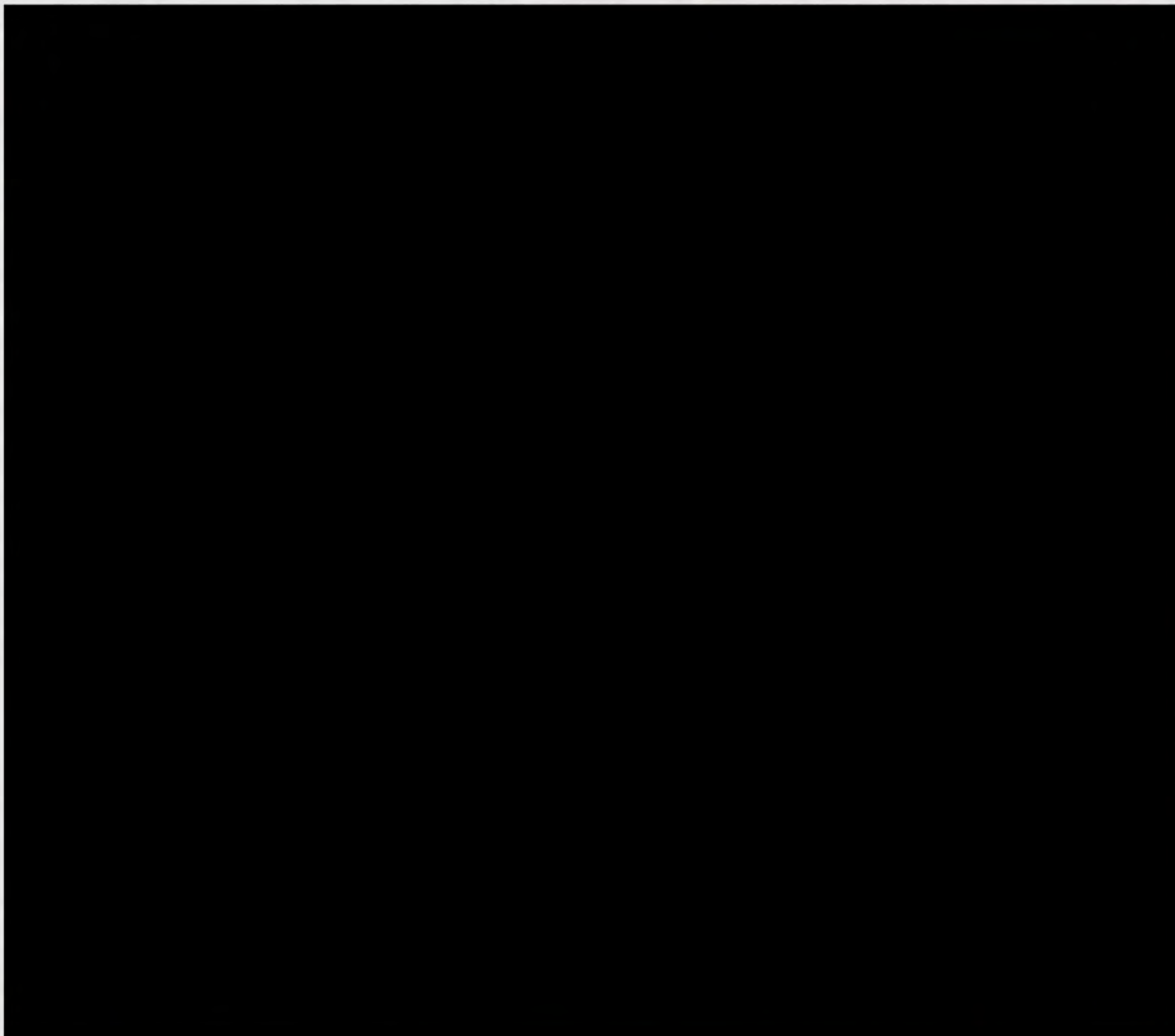
**BRIEFING NOTE**

**Labrador Hydro Project Coordinating Committee**

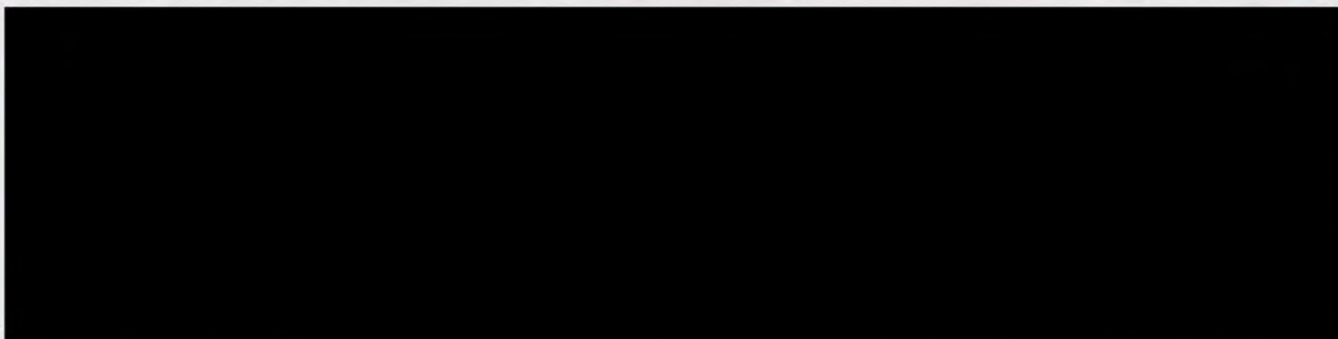
**Title:** Agreement on Internal Trade – Proposed Energy Chapter

**Issue:** Newfoundland and Labrador's position respecting the Energy Chapter

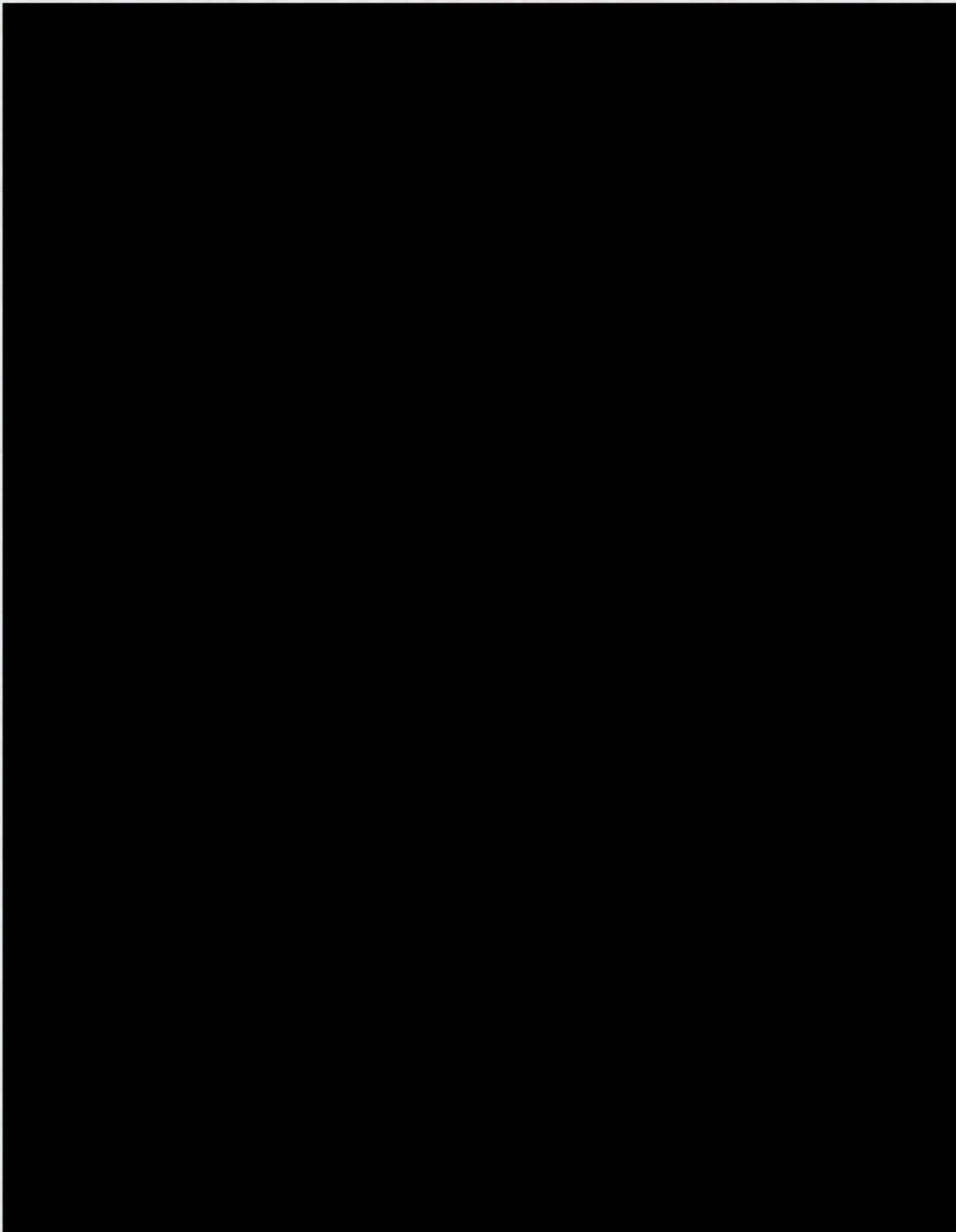
**Background:**



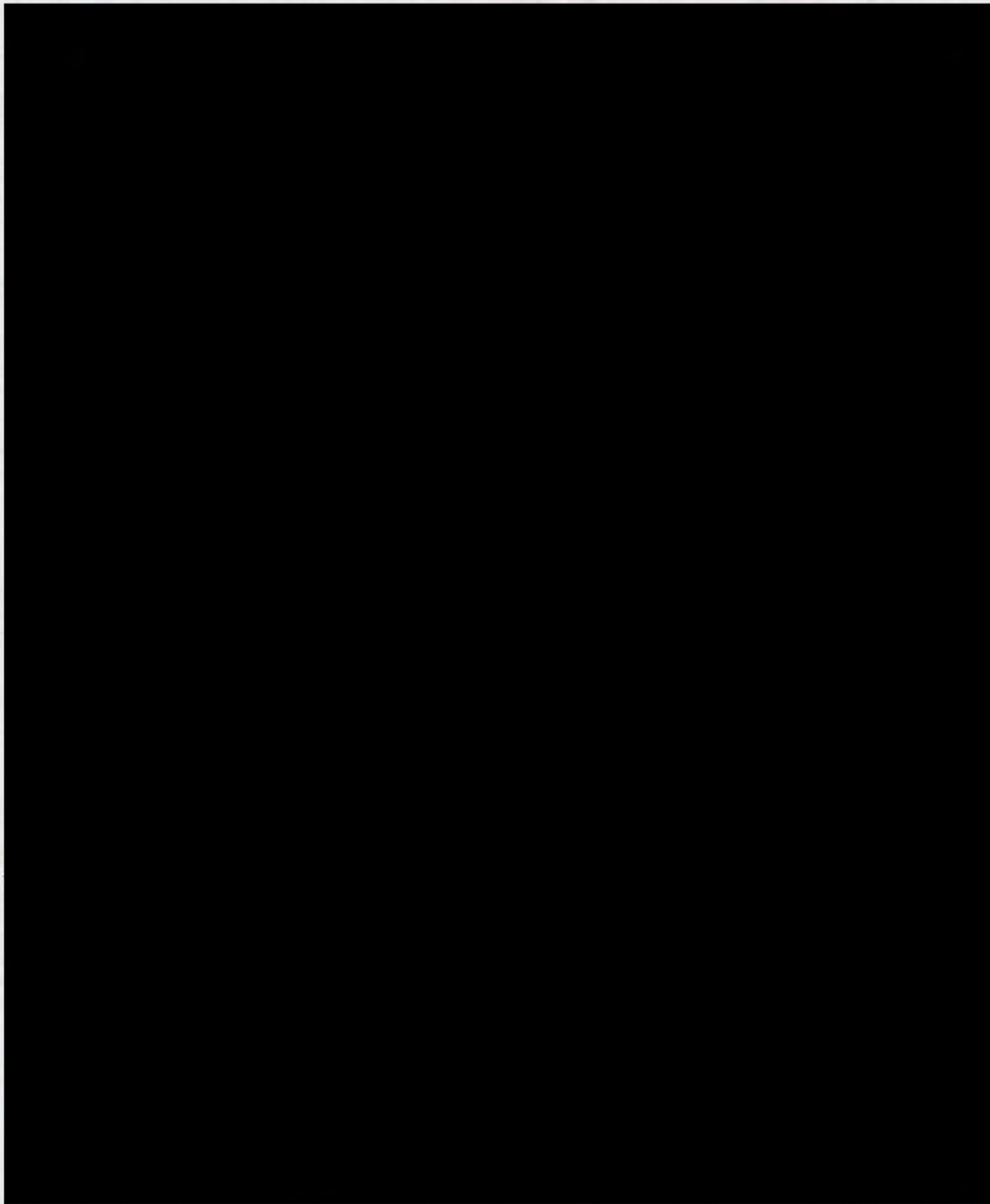
**Options:**











INTRD  
September 23, 2005



2005-09-26 01:34pm From-

T-521 P.001/005 F-259

GOVERNMENT OF  
NEWFOUNDLAND AND LABRADORDepartment of  
Labrador and Aboriginal AffairshabHylo Co-ar  
Canttee**FAX TRANSMISSION**

Date: September 26, 2005

To: Robert Thompson; Brian Crawley; John Cummings; Terry Paddon;  
Barbara Knight; Doug House; Brenda Caul; Chris KeilleyFrom: Sean Dutton, Deputy Minister (Acting)  
Telephone: (709) 729-6062  
Fax: (709) 729-4900

Number of Pages Including Cover Sheet: 5

Message/Comments: *As per attached.*For your information, as discussed this morning.  
Briefing note to follow this week.Original To Follow: ☐ Yes ☒ No

ATTENTION: The information contained in this transmission, including the documents accompanying this cover page, is CONFIDENTIAL and is intended for the exclusive use of the individual or entity to which it is addressed. If you have received this transmission in error, please contact the sender immediately by telephone and return the original to our office by mail at the address below. Thank You.



2005-09-26 01:34pm From-

T-521 P.002/005 F-259

**FILE COPY**

GOVERNMENT OF  
NEWFOUNDLAND AND LABRADOR

Department of Labrador and Aboriginal Affairs

**RECEIVED**

SEP 14 2005

File #:

Document #: 7653

**MEMO**

To: Sean Dutton ✓  
David Hughes  
Bob Pelley

From: Steve Bonnell

Date: September 14, 2005

Re: Innu Nation - Prerequisites for Lower Churchill

On September 9, 2005 I was in Happy Valley – Goose Bay with Minister Rideout. At that time the Minister and I met with MHA John Hickey in his office to discuss a number of issues.

During that discussion, Mr. Hickey provided me with a document that he had just recently received from the Innu Nation / Sheshatshiu Band, outlining a number of outstanding requests. He noted that the Innu have suggested that the resolution of these issues is seen as a prerequisite to any participation and cooperation regarding the development of the Lower Churchill.

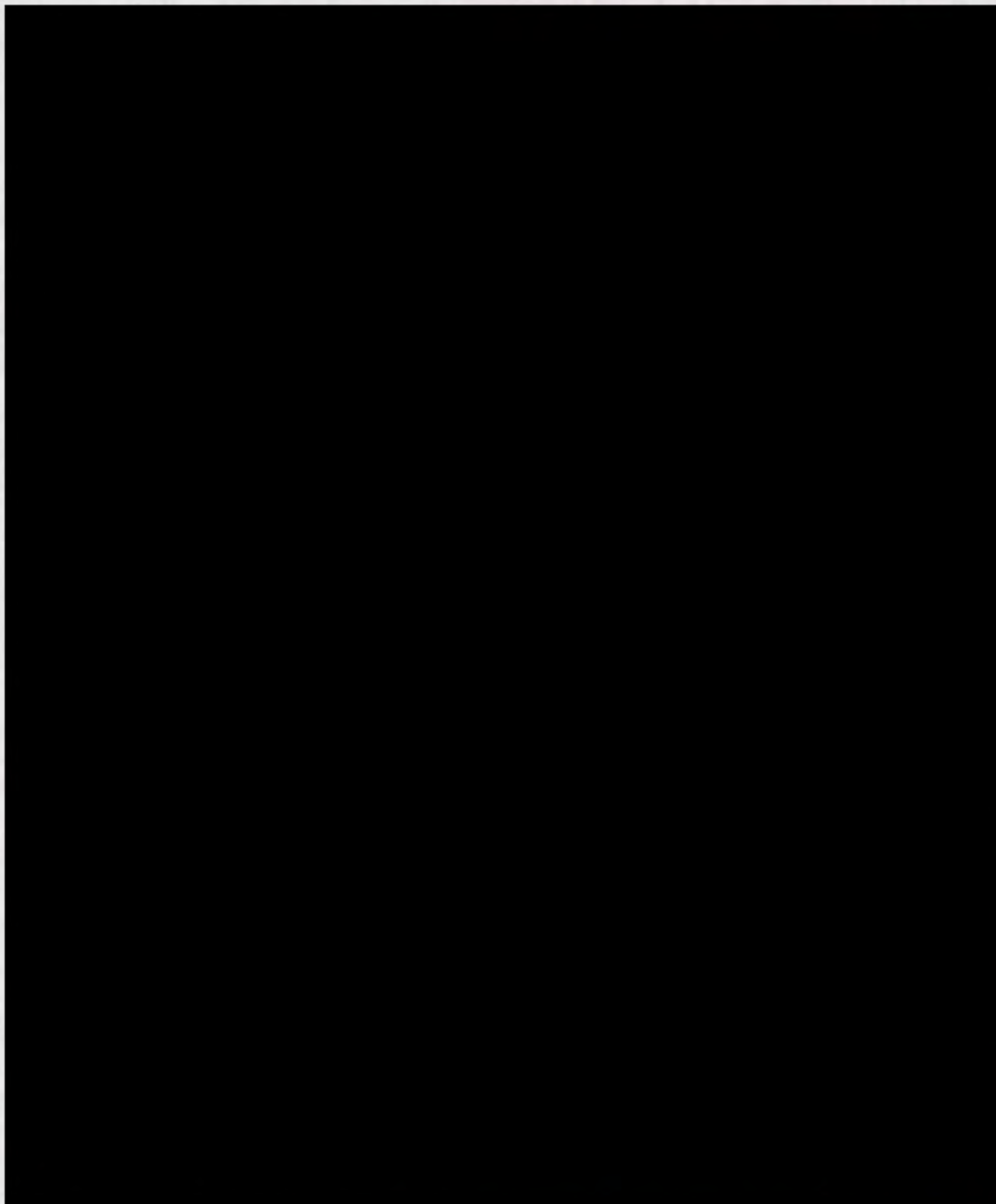
I am providing a copy of this document (attached) for your information and review, and am available to discuss further.



2005-09-26 01:34pm From-

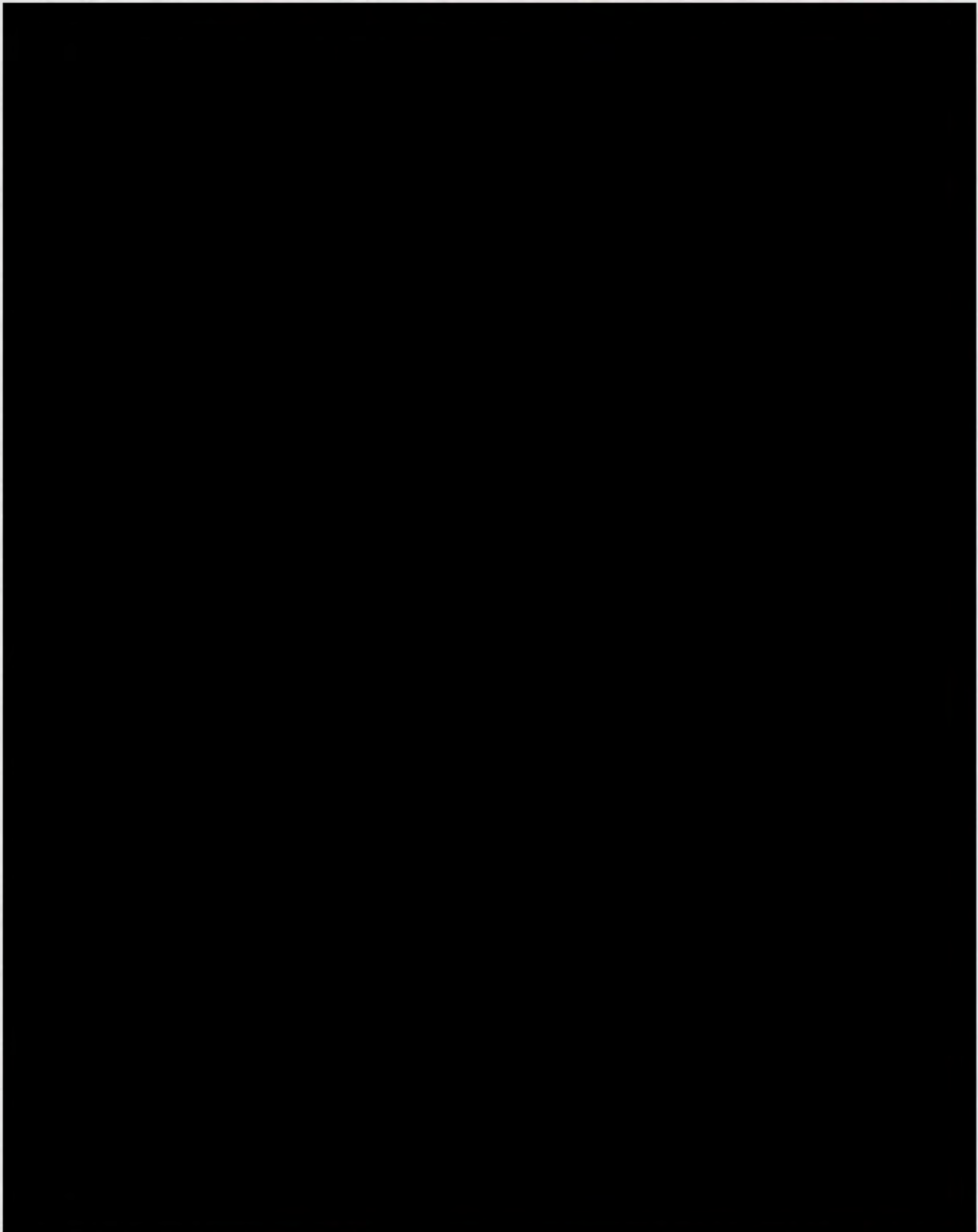
T-521 P.003/005

F-255



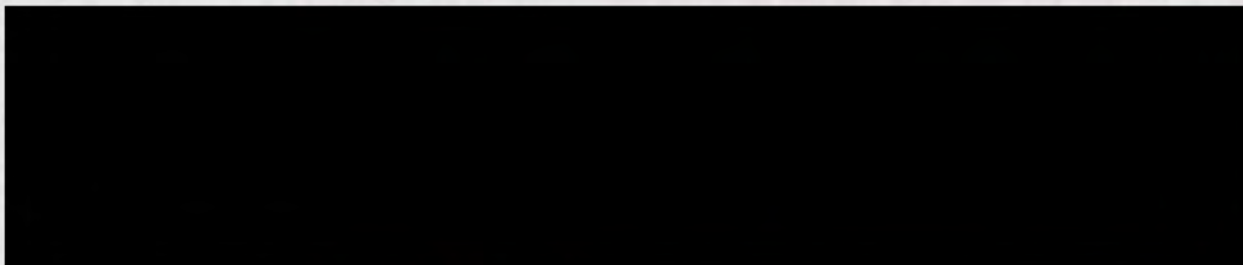


2005-09-26 01:35pm From-





2005-09-26 01:35pm From-





Lower Churchill Coordinating Committee Meeting  
September 26, 2005

Present

Robert Thompson, Clerk Executive Council  
Brian Crawley, Chief of Staff  
Gilbert Bennett, VP Labrador Hydro Project, NLH  
Terry Paddon, Deputy Minister, Finance  
Sean Dutton, Deputy Minister (acting), Labrador and Aboriginal Affairs  
Barbara Knight, Deputy Minister, Intergovernmental Affairs  
Doug House, Deputy Minister, Innovation, Trade and Rural Development  
John Cummings, Deputy Minister, Justice  
Chris Kieley, ADM Energy, Natural Resources  
Denis Abbot, Communications Advisor, LHP  
Joanna Harris, Director Policy and Planning, LHP

The purpose of the meeting was to discuss the key Labrador issues related to the Lower Churchill development in order to develop policy advice to Government. A paper outlining the key issues, prepared by LAA and LHP, provided the background for the discussion.

Sean Dutton provided a brief update on recent developments regarding aboriginal issues:

1. The Innu land quantum offer was sent from Minister Rideout's office September 23<sup>rd</sup>.
2. LAA has received an Innu Issues paper (healing initiatives) via John Hickey, clarification will be required as to whether these issues are in fact pre-requisites, in addition to the land claim, to Innu acceptance of a Lower Churchill development.

3.

4.

5.

Responsibilities for the various Labrador issues were identified as follows:

Innu Nation Land claim – LAA

Innu IBA – NLH to work on behalf of all proponents.

Labrador Issues Consultation – NLH / Natural Resources / LAA

Sean Dutton reviewed the issues identified in the paper:

1. electricity and supply issues – cost of new infrastructure and rate subsidization
2. other policy issues – Infrastructure Fund and Adjacency policy
3. aboriginal policy issues – Innu land claim, IBA, aboriginal consultation policy and allocation of benefits to multiple land aboriginal groups.

The following status of the issues were noted and action items identified:

1. Innu land claim – status on issues generally good, an 18 –24month target for completion is considered achievable with the required political imperative. Direction will be required on the Upper Churchill issue. Also, consideration must be given to other potential hydro projects in the land claim area.



- [REDACTED]
2. **IBA** – NLH needs to gear up soon, currently in holding pattern, no discussions. A lot of progress has been made on non-financial chapters of IBA during 1998 - 2003, however financial components will require a lot of work, in context of new concept. First step will be to negotiate a new process agreement - proposed terms are outstanding from Innu Nation.

**Action item** – NLH to engage with Innu Nation re process agreement. A target for AIP for IBA is May/ June, shortly after end of phase 2.

3. **Labrador Consultations** – Lower Churchill Labrador consultations overlap with Energy Plan consultations. The Energy Plan consultation document has been delayed since the Spring and is awaiting direction from the Premier's office, in anticipation of a Fall release. Project consultations are required this Fall. Direction will be required on the coordination of these initiatives. Given the project schedule, finalized Labrador policy will be required by March 31<sup>st</sup> ( target end of Phase 2).

Alternative approaches to Labrador consultations:

- totally open consultation process – collect feedback and give subsequent direction to NLH
- give some indication of Government's policy direction
- "stick handle" communications issues – lay the groundwork to temper expectations.

**Action item** - NLH to prepare Labrador strategy note including the following:

1. project economics – to provide the basis for determining the potential magnitude of a Labrador "Heritage Fund";
2. key principles for Lower Churchill policy issues
3. key communications messages

4. [REDACTED]

### Next Meeting

The Committee will convene specifically to discuss the issues raised in a paper prepared on the implications of the Proposed Energy Chapter of the Agreement on Internal Trade. (Paper was Distributed by Doug House). Date of meeting to be determined.

September 26, 2005  
Doc # 16869



**Lower Churchill Hydro Coordinating Committee  
Agenda**

**September 26, 2005**

1. Labrador Issues paper.
2. AIT paper (if time permits).



**Lower Churchill Coordinating Committee Meeting  
September 6, 2005**

**Present:**

Robert Thompson, Clerk Executive Council  
Brian Crawley, Chief of Staff  
Brenda Caul, Deputy Minister, Environment and Conservation  
Terry Paddon, Deputy Minister, Finance  
Barbara Knight, Deputy Minister, Intergovernmental Affairs  
Doug House, Deputy Minister, Innovation, Trade and Rural Development  
Joanna Harris, Director Policy and Planning, LPH

---

**Project Update**

Joanna Harris provided a brief update on the status of the project. Since the last meeting, the short list of proponents was released publicly on August 8<sup>th</sup>. Since that time focus has been on staffing and resource issues on the project, in addition to preparation for strategy and engagement with the proponents. A strategy workshop session is planned for late September, analysis of options for federal support for the development will be undertaken September/October with a view to an October / November meeting.

There was a brief discussion of the "go it alone" concept and what this options entails.

**Climate Change Meeting With Environment Canada August 16<sup>th</sup>**

Brenda Caul provided a brief overview of the meeting. The purpose of the session was to discuss various climate change initiatives with various federal officials responsible for the climate change Action Fund who are responsible for preparing a list of projects for federal funding, the list is to be submitted by the end of this week. The Lower Churchill is a large scale beyond the scope of projects intended for this list.

It was agreed that any approach to the federal government regarding the Lower Churchill project should be made at the most senior level versus briefing of departmental officials.

**Status of Energy Plan**

Deferred due to Bruce Saunders absence.

**Labrador Issues Paper**

Joanna Harris presented an overview of the key Labrador Issues identified in the paper. The issues fall into the following categories:

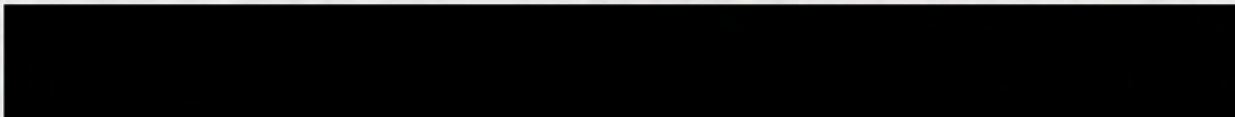
1. electricity and supply issues
2. other policy issues – Infrastructure Fund and Adjacency policy
3. aboriginal policy issues – Innu land claim, IBA, aboriginal consultation policy and allocation of benefits to multiple land aboriginal groups.



There was a brief discussion of the issues, however given the absence of Gilbert Bennett, Sean Dutton and Bruce Saunders it was agreed to defer the matter and convene a special meeting as soon as Sean Dutton returned from leave,

**Action Item**

Special meeting on Labrador Issues to be convened as soon as possible.

**AIT Paper****Next meeting**

Late September - to be scheduled

Doc # 16867



## Labrador Expectations from the Lower Churchill Hydroelectric Development

### Introduction

Labradorians have certain expectations of consultations and benefits related to the Lower Churchill hydro development. This paper identifies various issues and expectations, and the strategic considerations associated with each. It is intended to provide background information for development of policy options.

### 1. Cost and Availability of Power in Labrador

In their September 2004 paper, the Combined Councils said, "The urban centers of Labrador West and Happy Valley - Goose Bay require upgrades to their power lines to ensure their access to this resource and its availability for further developments. The coastal communities of Labrador must also be able to utilize this important resource for future developments and lower the cost of utilities."

Labrador West and the Lake Melville region have access to low cost power as part of the Labrador interconnected system; while rates in Labrador West are gradually being increased to achieve uniform rates on the Labrador interconnected system. It is noteworthy that currently the interconnected residential customers still pay less than half of the price per kilowatt hour charged to consumers on the Island interconnected system. However, in the absence of a policy decision for direct subsidization, the comparative advantage attributed to the Churchill Falls station and associated older transmission infrastructure will inevitably be eroded, as any new supply and transmission is developed to meet future requirements in the region. To demonstrate this point, Gull Island power has an estimated in-service cost of approximately \$29/MWh (\$0.029 /kWh) at the busbar compared to \$2.50 /MWh (\$0.0025/KWh) for Churchill Falls power.

#### Comparison of 2005 Residential Rates -Island vs Labrador

Island Interconnected Residential	Labrador Interconnected Residential - Happy Valley /Goose Bay	Labrador Interconnected Residential - Lab West
Avg unit cost \$/KWh <sup>1</sup>	\$/KWh <sup>1</sup>	\$/KWh <sup>1</sup>
\$0.1003	\$ 0.0395	\$0.0244

<sup>1</sup> avg unit rate includes basic customer charge plus energy rate, assuming monthly consumption of 1,000 kWh

#### Comparison of 2005 Industrial Rates - Island vs Lab West

2005 Forecast IOCC \$/KWh <sup>2</sup>	Island Industrial \$/KWh <sup>2</sup>
\$ 0.0160	\$0.0496

<sup>2</sup> average rate includes demand and energy charges, assuming monthly demand of 100 MW and 58,000 MWh.

In addressing the cost and availability of power in Labrador, there are several inter-related issues to be considered. First and most significantly, is the eventual need for new transmission infrastructure in Labrador. Second, the customer base which would have to pay for the new



infrastructure is small, and will necessitate potentially significant rate increases for interconnected customers. Third, there has historically been no requirement for policy to establish regulated pricing of industrial power in Labrador. Finally, there is the issue of future supply in the interconnected region if a significant industrial load develops.

#### **Infrastructure Requirements and Rate Implications - Central and Western Labrador**

The issue in Central and Western Labrador is the availability of additional power for industrial development. From time to time, development proposals come forward that require significant amounts of electricity which cannot be accommodated within the existing transmission network. New transmission lines could be built to accommodate such needs, this would come at an expense to the ratepayers, potentially affecting the economic viability of the proposed development. Examples of load requirements of various potential industrial developments are as follows: a pulp mill operation - 30 to 70 MW, an unnamed chemical plant - 40 to 100 MW, an environmental testing platform - 14 MW, a Silicon smelter - 50 MW, and a one potline aluminum smelter - ~500 MW.

NLH has prepared in-house cost estimates for new transmission lines in Labrador. In 2004 the cost estimates for a new line from Churchill Falls to Goose Bay ranged from \$55 M for a 138 kV line capable of delivering 50 - 70 MW, to approximately \$80 M for a 230 kV line capable of delivering 100 - 130 MW. In 2003 the cost estimates for a new 230 kV line from Churchill Falls to Lab West was almost \$80 M. Under normal utility practice, any new transmission infrastructure in Labrador would be included in the Labrador rate base. Including the cost of a new 138 kV line to Goose Bay and a 230 kV line to Labrador West in the rate base will increase rates in Labrador by an estimated average 66% across all customer classes.

#### **Infrastructure Requirements and Rate Implications - Coastal Communities**

In 2001 the issue of providing a more cost efficient energy source for the isolated Labrador coastal communities was raised at the Public Utilities Board. The cost estimate for a 69 kV line connecting the Labrador interconnected system at Happy Valley, along the route of the Southern Labrador highway from Cartwright to L'anse au Loup would cost \$190 M. Analysis by NLH at that time concluded that, given the significant cost of the new transmission to a very small customer base, even if the power was provided free of charge, interconnecting the southern Labrador communities is not a cost effective proposition when compared to continuation of the existing diesel generation system as the revenues would not even pay for the capital investment. There is a cost preference for continued diesel operations of \$ 141 M (over a 20 year study period). Similarly, it would cost an estimated \$121 M to interconnect all communities north of Happy Valley-Goose Bay. The cost preference for continued diesel operations in this area of about \$85 M (over a 20 year study period).

Alternate supply options for the isolated coastal communities have also been considered, including small scale hydro developments on the coast and alternate energy sources such as wind. To date, largely because of the small customer base and development costs, these options have been uneconomic. If an economic alternative to diesel generation could be found, NLH would undertake such construction. Alternatively if a third party proposal is received, NLH has a policy in place whereby it would purchase the power, at a price based on a 50/50 sharing of the



cost savings in production costs relative to the avoided diesel fuel costs up to a maximum of 90% of such fuel costs.

The only remaining option to reduce power rates in coastal Labrador is to increase current subsidization in the region. This however has been a matter of concern to the Public Utilities Board and the non-industrial hydro customers who currently pay the full subsidy through their rates. Currently, isolated system customers only pay an estimated 20% of the cost of their services, resulting in an annual subsidy of almost \$15 million in Labrador and \$7 million on the island. Extending the subsidized rates beyond the lifeline block is expected to increase consumption and cause additional cross-subsidization of \$2 million annually, increasing to an additional \$8 million annually. These estimates can vary depending on the somewhat unpredictable cost of diesel fuel and the eventual cost of emissions regulations (climate change policies).

#### **Industrial Rates**

Currently, there are no approved industrial rates in Labrador, as both IOCC and Wabush Mines are excluded from regulation through the Churchill Falls (lease) Act. Generally, new industrial customers are seeking, and believe they could access, low cost power, particularly if they are not dependent on resource supplies in the local area and are globally seeking sites to locate. Selling power to these customers, at a discount below the export prices would forgo potentially more profitable export sales and is an implicit subsidization of the industrial customer in return for the economic and employment opportunities they are willing to deliver. This subsidization is extended beyond opportunity cost, if the power was to be sold below cost. There is only approximately 100 MW of excess recall power available from Churchill Falls, future supply from Gull Island will be much more expensive. In the more immediate term, in 2014, Twinco rights to the 225 MW Twinco block of power expire. As negotiated in the CFLCO shareholders' agreement, HQ has relinquished any rights to this power post 2014, however the power is to be sold at "commercial rates in Labrador West at a price and conditions to be set by a simple majority of the CF(L)Co board.

In addressing industrial power rates in Labrador, there are two fundamental policy issues. The Government must decide whether it wishes to set industrial rates in Labrador, or alternatively to allow the Public Utilities Board to independently establish rates, as is the case on the island. In the case of the Twinco block, this would have to be reconciled with the terms in the CF(L)Co Shareholders' Agreement regarding Board approval of the rates. If a block of Lower Churchill power is included in the Labrador cost of service, the second fundamental policy issue is establishing a power purchase price for that block of power into NLH's domestic operations portfolio, based on either actual cost of supply or opportunity cost.



This broad issue of industrial power rates in Labrador requires a full review and policy decision. The founding principles for this policy will be established in the provincial energy plan. Setting an industrial power pricing policy will be fundamental to economic development policy in Labrador.

#### **Future Supply Options in Labrador**

Currently, Labrador interconnected customers benefit from low cost Churchill Falls power ( the 225 MW Twinco block and 200 MW of the 300 MW recall block). Approximately, 100 MW of current excess recall power can meet load growth in the region (0.3% annually) and moderate industrial development. However, a larger industrial load could exceed this supply.

Pledging a block of power from the Lower Churchill projects to meet needs as they arise in the province would address this concern if the load develops beyond the in-service date for the Lower Churchill development. In addition, there are a total of approximately 20 potential smaller hydro sites in Labrador, totaling approximately 3500 MW. It should be noted however that the unit costs of power for these projects are likely higher than the Lower Churchill and some may rely on transmission infrastructure developed for the Lower Churchill to facilitate their viability, also some of the sites are located on salmon rivers. It should be noted however, that these other sites have not been studied in many years and the reports were preliminary desktop level. To date there has been no reason to refine the energy and cost data.

#### **Conclusion**

In conclusion, it is clear that the magnitude of the infrastructure/supply challenges facing central / western Labrador and coastal Labrador are very significant. :

- There are no currently identified viable alternatives to the diesel system for the coastal regions.
- After benefiting from the low cost of Churchill Falls power and existing transmission for several decades, the relatively higher unit cost of Lower Churchill power and the significant cost of new transmission infrastructure required in Central and Western Labrador must be borne by the rate payers, unless subsidized by an Infrastructure Development Fund (refer next section).
- Establishment of principles for a formal industrial rate policy for Labrador coming out of the provincial energy plan, could be a first step towards facilitating small scale industrial development in Labrador.
- Pledging a block of Lower Churchill power for use in Labrador, as need arises or to meet an identified requirement, will also serve to address Labrador's concerns.

#### **2. Labrador Infrastructure Development**

The Combined Councils' paper made two recommendations regarding using the Lower Churchill project as a vehicle for the development of infrastructure and enhancement of other economic opportunities: *"A designated Heritage Fund specifically for the development of Labrador be funded and managed in a similar fashion to the former Comprehensive Labrador Agreement... It is imperative that the Trans-Labrador Highway be upgraded to a national standard. Other*



*jurisdictions have been successful in such challenges on the strength of such mega-developments. Any negotiations with Quebec should also involve discussions around the upgrading of the 389 Highway and completion of the 138 Highway." One of the recommendations from participants in the Premier's Roundtable on the Lower Churchill Project (November 2002) was a call for "a Labrador economic development fund, to be administered by and for the people of Labrador and for the communities in which they live."*

The best-known model for such a fund would probably be the Alberta Heritage Savings Trust Fund, established in 1976 from a portion of non-renewable resource revenues. Its legislated purpose was "to save for the future, to strengthen or diversify the economy, and to improve the quality of life of Albertans." The Fund's fair value stands at \$12.2 billion at March 31, 2005, and is managed by the Alberta Department of Finance, while the Fund's business plan and annual report are overseen by a Standing Committee of the Legislature (6 Government members, 3 Opposition members). An Investment Operations Committee, Chaired by the Deputy Minister of Finance and including private sector members, was established to avail of private sector expertise in business and financial matters in oversight of the investment activities associated with the Fund. Investment income from the fund is transferred to General Revenues to help pay for priority programs. Alberta has periodically consulted with the public on priorities for the management and use of the Fund.

This model is not altogether different from that adopted for the Labrador Transportation Initiative Fund, established under provincial legislation to invest funding received from the federal government, so that the interest and principal could be spent for the purposes of operating the Labrador Marine Service, building the Trans-Labrador Highway, and carrying out other transportation projects in Labrador. It is overseen by a Board consisting of Ministers and senior officials.

The Labrador public is concerned that developing the Lower Churchill primarily for the export of power (should that option be chosen) would only provide significant benefits to the region during the construction phase, in the form of employment and contracting opportunities, while the operation of hydro generation facilities at Gull Island and Muskrat Falls would require very few employees. Most Labradorians would prefer a direct link between project revenues and the improvement of infrastructure in the region, particularly while they see Labrador infrastructure as being sub-standard when compared to Newfoundland.

One of the most significant infrastructure issues in Labrador, which Government could consider addressing if it had the revenue to do so, is the Trans-Labrador Highway. While Phase III (Happy Valley-Goose Bay to Cartwright) is under construction now. The initial completion of the link of Phases I, II and III from Labrador City to Red Bay (1145 km) will be a gravel surface road, with a relatively low speed limit (~70 km/hr). The Labrador Transportation Initiative Fund is expected to be exhausted in 2005-06, meaning in the absence of new federal investment the completion of Phase III, and future operation of the Labrador Marine Service, will have to be funded from general revenues. A very preliminary cost estimate for surfacing the road from Labrador City to Red Bay with chip seal (having a design life of about five years) would be in the range of \$60 million. An improved surface might also necessitate widening of the road and/or more highway enforcement to deal with higher driving speeds. A preliminary estimate to widen and pave the Labrador City to Red Bay road (with a design life of about 20 years), and



construct overpasses at the rail crossings, would be in the range of \$300 million. Additional enforcement would also be needed in this instance.

Other infrastructure priorities in Labrador might include additional electricity transmission capacity; high-speed internet connections via satellite for remote communities; a long-term care facility, a performance space, and expansion of the College of the North Atlantic campus in Happy Valley-Goose Bay; a replacement for the Captain William Jackman Memorial Hospital, seniors housing and more appropriate space for the College of the North Atlantic in Labrador City; recreation facilities and housing on the North Coast; eventual replacement vessels for the Labrador Marine Service; schools in communities such as Sheshatshiu and L'Anse au Loup; and a new regional airport in Port Hope Simpson.

Considerations in establishing a development fund for Labrador would include:

- calculation of the after-equalization fiscal impact of the project option chosen;
- the potential for federal partnership through the fiscal benefit it would derive from the project;
- comparison to whatever settlement might be achieved on revenue sharing with the Labrador Innu;
- whether to begin to invest in a fund right away, or wait several years until the project begins to produce electricity;
- a calculation of the anticipated infrastructure needs in the region; and
- a management structure that ensured good financial stewardship while also engaging the Labrador public in priority setting.

The establishment of a fund would perhaps be less necessary, or need to be less rich, if a project option is selected that involves industrial development in the region.

There are policy implications of establishing a Labrador-specific development fund. In general, taxation and royalties collected from specific developments in the Province go into the general revenues of the Province, and Government sets spending priorities for the entire province without specifically setting aside a portion for the region from which the revenues are derived. However, a supporting argument for a Labrador fund is based on the need to improve the infrastructure there to a level comparable to other regions of the province. If Government chose not to establish a development fund, it might nevertheless consider proceeding more quickly than it might otherwise to address the region's infrastructure priorities.

### 3. Adjacency

Labrador residents have an expectation, as referenced in the Combined Councils of Labrador's September 2004 submission to Government, that *"Labradorians must have first priority on all employment and procurement opportunities. The legislation and monitoring processes implemented at Voisey's Bay are models that can be implemented and improved upon."*

In the Voisey's Bay Mine/Mill Project Environmental Impact Statement (EIS) (December 1997), Voisey's Bay Nickel Company (VBNC) committed that, *"Hiring and training will be undertaken with consideration for aboriginal people, residents in adjacent communities and*



*gender equity.* VBNC's Principles for Employment & Procurement in the EIS includes: *"Adjacency: First priority in terms of employment and procurement of goods and services will be given to residents and businesses located in communities which are adjacent to the Company's mine/mill and smelter/refinery operations."* During the Environmental Assessment hearings, VBNC stated that it would give preference first to members of the Labrador Inuit Association and Innu Nation, then qualified residents of Labrador followed by qualified workers from the island portion of the Province.

Section 3(a) of the Voisey's Bay Nickel Company Mine and Mill Undertaking Order, issued by Government in August 1999, directs VBNC to abide by all commitments made in the Environmental Assessment process. Section 4.11 of the Voisey's Bay Development Agreement requires VBNC to abide by and implement the terms and conditions contained in the Voisey's Bay Nickel Company Mine and Mill Undertaking Order.

The Voisey's Bay Labour Agreement between the Voisey's Bay Employers Association Inc. and Resource Development Trades Council of Newfoundland and Labrador was signed on December 19, 2002 and made effective September 9, 2002. On April 25, 2003, Government issued the Voisey's Bay Special Project Order which recognized the Voisey's Bay Labour Agreement and acknowledged that the VBNC's Adjacency Principle has application to the project. In a side letter appended to the Collective Agreement, the Resource Development Trades Council indicated, within the Labrador preference, that first priority would go to qualified union members who are out of work (this has been interpreted to exclude retired workers). Qualified, non-union tradespeople resident in Labrador would get next preference, but would be required to join the relevant union.

An implementation issue arose during the Voisey's Bay development with the extended time it took for VBNC to establish and staff an office in Labrador. There was a period of time during which people wished to apply for work, but had no local office or contact. This created enhanced pressure on Government to become more involved in ensuring Labrador residents find work on the project, and the establishment of an Adjacency Monitor. This could potentially have been avoided had VBNC been in a position to move more quickly on their regional office. In addition, from an operational perspective, the adjacency hiring process could be improved upon based on experience with Voisey's Bay.

In the Lower Churchill Expressions of Interest (EOI) document, proponents were asked to consider the principle of adjacency (Labrador preference) in their proposals. Potential regional employment and economic benefits to be realized from the development will depend on the development option that is selected.

In addition, the 2005 Speech from the Throne states, "My Government, by requiring an adjacency principle, will ensure that Labradorians are given opportunities to find employment on major development projects in Labrador's communities."






#### 4. Public Consultations

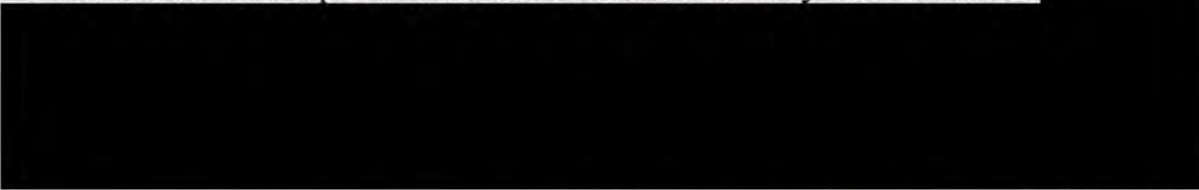
There will be an expectation by Labradorians that they will be given an opportunity to have a say on their preferred project option before a final decision is made by Government. The Governing party committed to "Involve...representatives of all Labradorians in the Lower Churchill development negotiations" (PC Party News Release October 8, 2003). This was the view reflected in a February 22, 2005 news release from the Combined Councils of Labrador, Labrador North Chamber of Commerce, Innu Nation, Labrador Party, NDP, and Labrador Metis Nation. Labradorians will be particularly leery of a development option that includes an infeed to Newfoundland but does not provide power or rate relief to Labrador.


It would be worth considering making announcements on project developments first or simultaneously in Labrador. Some early consultation in the region before the four phases of the Expressions on Interest process are concluded would be advisable, linked either directly to the project or to the provincial energy plan. Consultations would also present an opportunity to dispel myths and educate the public, as required, particularly if an industrial option(s) is in play that would at first blush appear attractive in Labrador from an employment perspective. The likelihood of public demonstrations at consultation sessions by groups such as the Friends of the Grand River/Mistashipu or Labrador Metis Nation would appear high, particularly in Happy Valley-Goose Bay as opposed to Labrador West.


#### 5. Aboriginal Expectations

##### Innu Nation Expectations

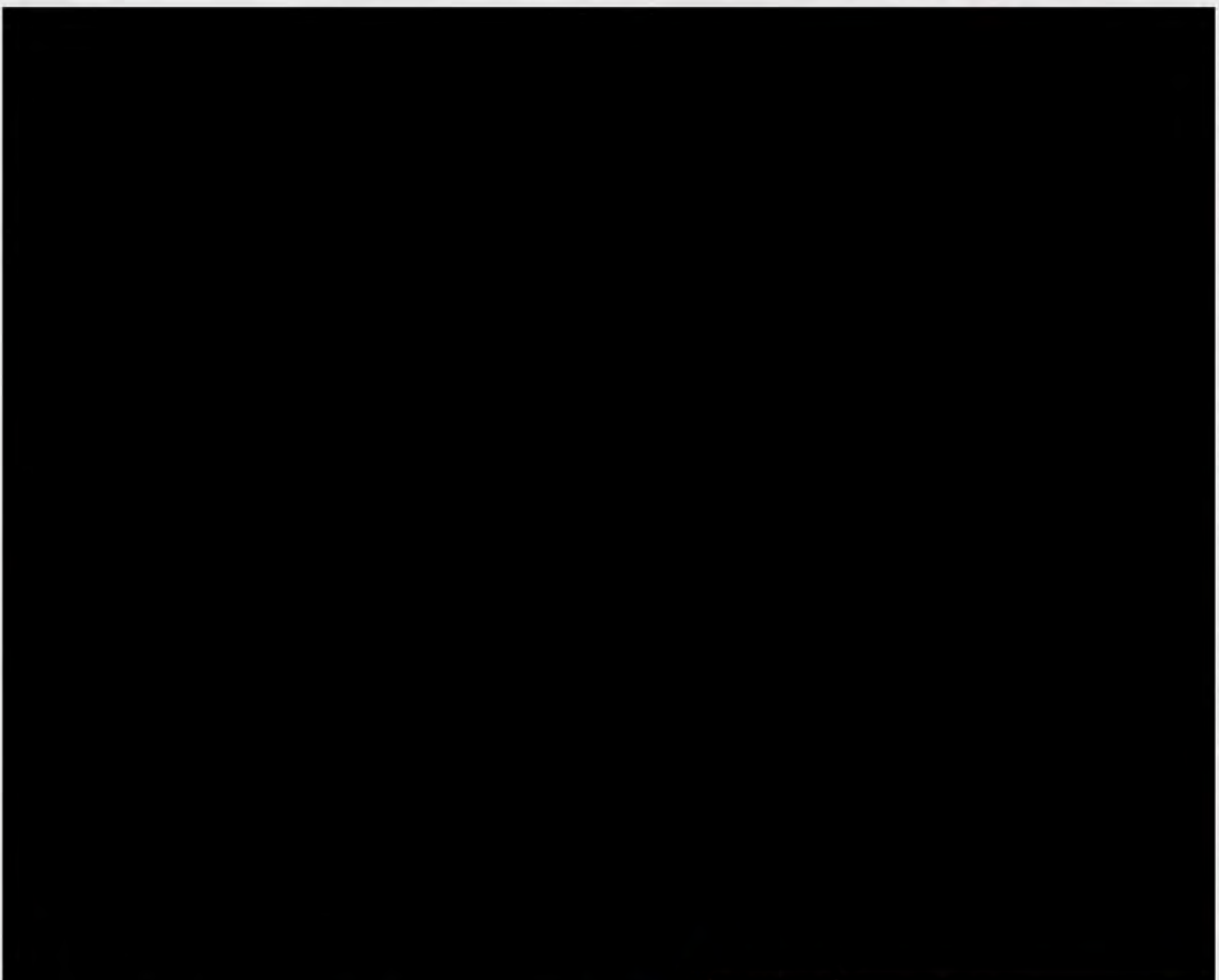
Lower Churchill development would occur on lands claimed by the Innu Nation. 



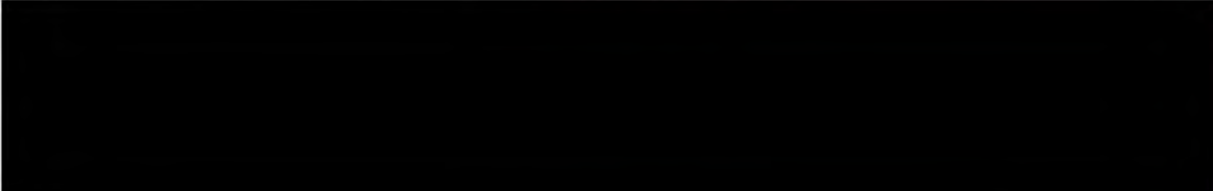
Negotiations on an IBA for the proposed Gull Island hydro development were well advanced in 2002, and 



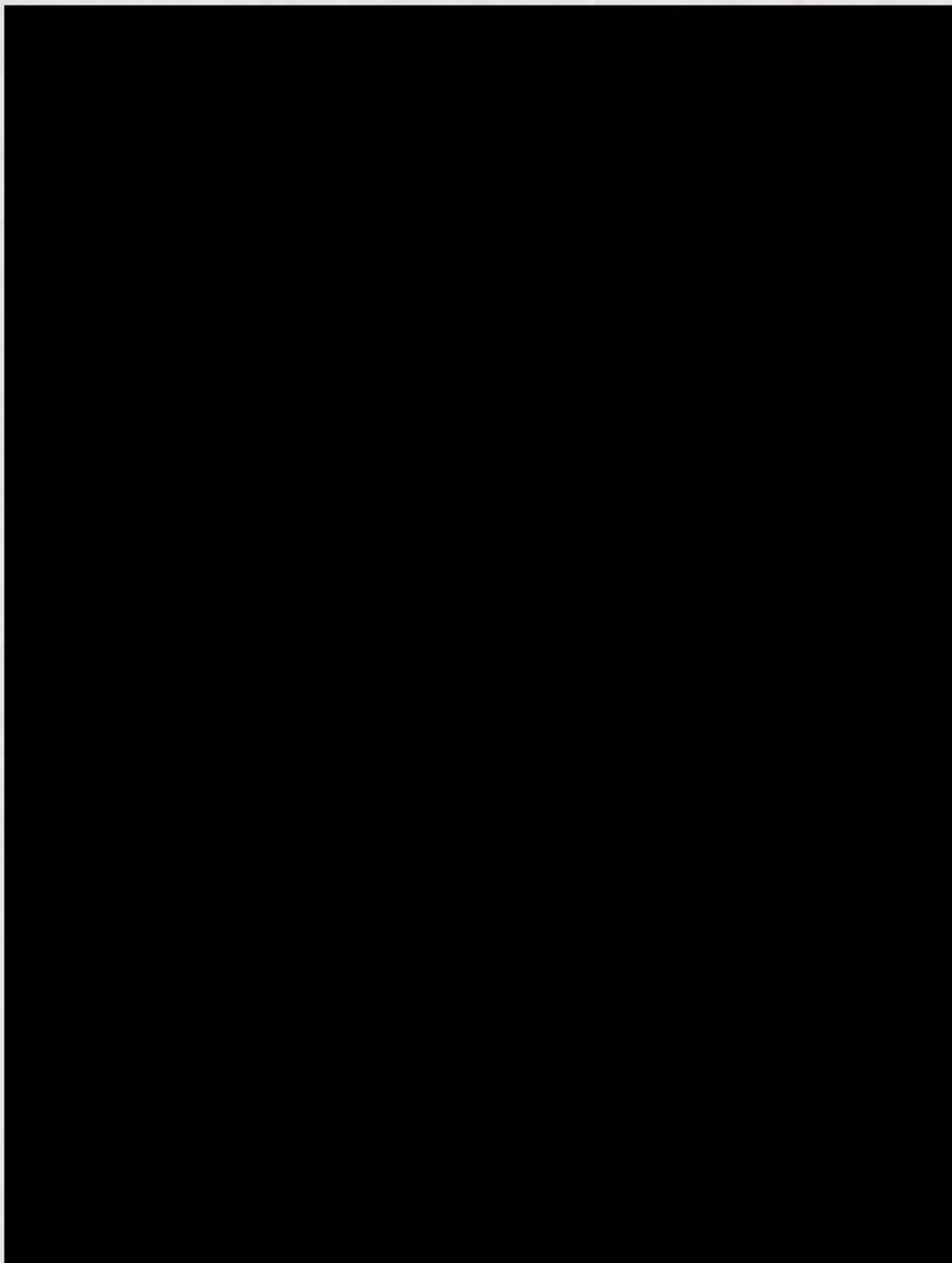




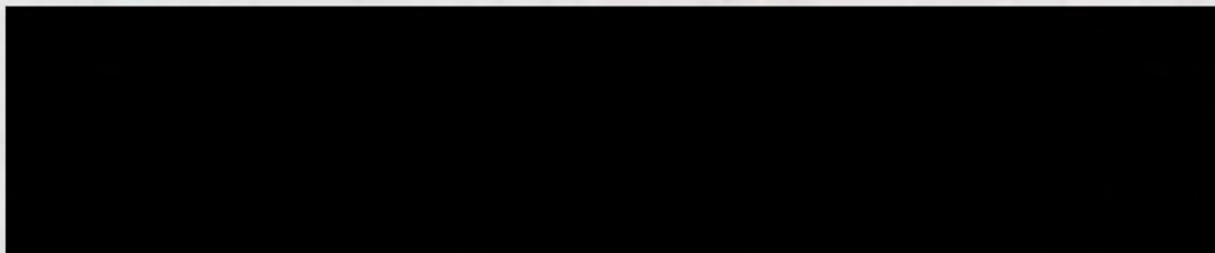
For example,

- The Government of Québec and the Cree agreed on a \$3.5 billion, 50 year agreement to settle the Cree's past grievances. As part of this broader agreement, covering a range of resource developments, the Cree consented to the Eastmain I and Eastmain/Rupert hydro projects. The Cree also obtained IBAs on the new projects.
  - In a June 2002 Agreement in Principle of a General Nature, Québec agreed to pay the Innu of Natashquan \$15 million, which would offset any future compensation for the Churchill Falls development from either the Government of Québec or Hydro Québec. It should be noted the Natashquan Innu have a much lower aboriginal interest in Churchill Falls than other Innu.
  - To obtain Betsiamites Innu consent for the Pesamit Project, Hydro Québec had to conclude a salmon enhancement agreement with the Band, related to past environmental effects from hydro development.
- 

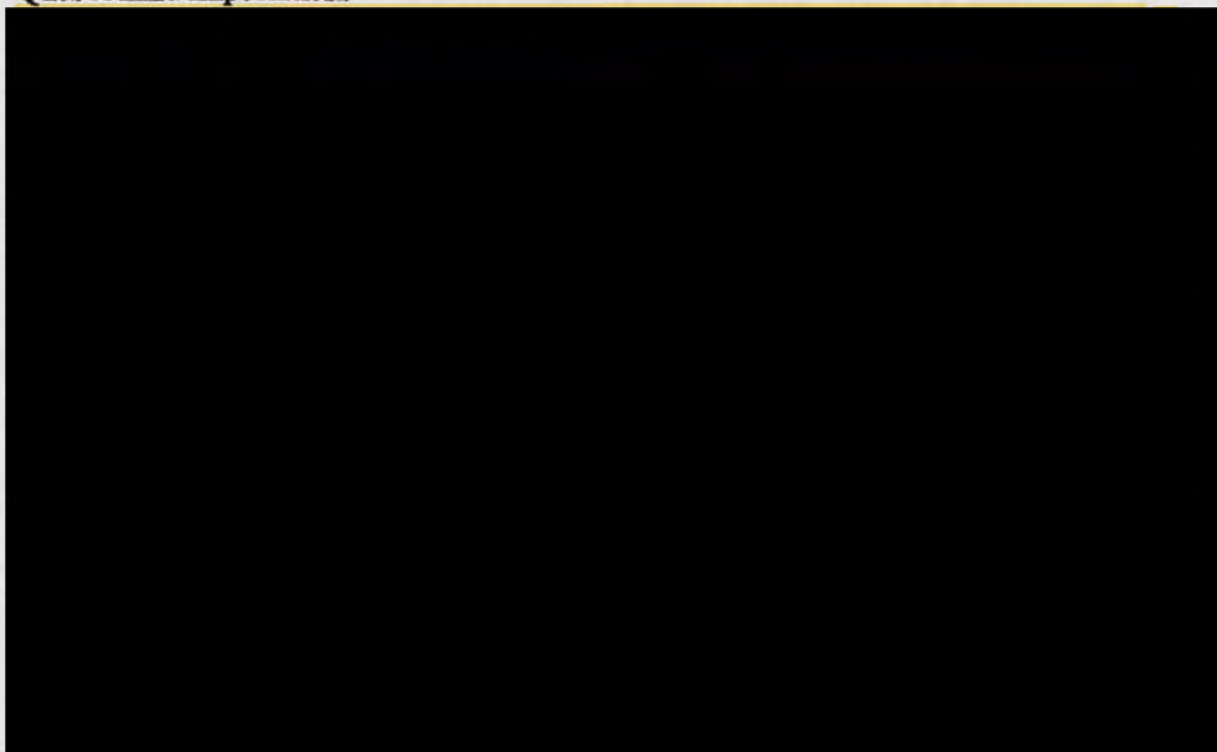








### Quebec Innu Expectations



S. Dutton, DLAA / J Harris, LHP prepared in consultation with NLH and Department of Natural Resources.  
July 18, 2005, updated August 1, 2005



**Lower Churchill Hydro Coordinating Committee  
Agenda**

**September 6, 2005**

1. Update on EOI process and project activities.
2. Climate change meeting with federal officials and next steps.
3. Status of energy plan.
4. Labrador and aboriginal issues update.
5. AIT paper and update on chapter 12.
6. Other
7. Next Meeting



**Lower Churchill Hydro Coordinating Committee**  
**Meeting**  
**July 12, 2005**

**Present:**

Robert Thompson, Clerk of the Executive Council  
Gilbert Bennett, Vice-President, LHP, NLH  
Brian Crawley, Chief of Staff, Premier's Office  
Barbara Knight, Deputy Minister, Dept. of Intergovernmental Affairs  
Doug House, Deputy Minister, Dept. of Innovation, Trade & Rural Development  
Sean Dutton, Deputy Minister (A), Dept. of Labrador & Aboriginal Affairs  
Bruce Saunders, Deputy Minister, Dept. of Natural Resources  
Brenda Caul, Deputy Minister, Dept. of Environment and Conservation  
Joanna Harris, Director, Policy and Planning, LHP, NLH

David Bazeley and John Drover attended part of the meeting.

---

**EOI Status Update**

Gilbert Bennett provided a status update to the committee. The results of the EOI assessment have been provided to the Premier, development options have been presented and a recommended short-list identified. NLH is awaiting direction before proceeding to notify the proponents. Preliminary analysis of an HVDC infeed to the island is favorable as a least-cost supply option; analysis will continue. Next step will be to meet with short-listed proponents.

**Climate Change**

John Drover, Department of Environment and David Bazeley, Department of Natural Resources presented an overview of federal climate change policy developments and emission credits.

The committee was advised that a "climate change" group of representatives from Department of Environment, Natural Resources and LHP have been convened to monitor and identify climate change policy developments relevant to the Lower Churchill.

**Action Item**

A paper is being prepared on climate change policy principles that may be beneficial to the Lower Churchill. This paper is intended to identify underlying principles that can be used as a basis for commencing exploratory discussions with the federal government.



A letter will be drafted (at the ministerial level), following the EOI public announcement, to advise the federal government of the short-list and to offer to brief senior federal officials on the project status. The purpose of the meeting is to lay the groundwork for federal financial support for the development in the context of federal climate change policy and meeting the national long-term energy security needs (i.e. national interest).

#### AIT Paper

#### Economic Modeling

Terry Paddon advised the committee that regional modeling could be done but questioned the practical value of doing this, noting that 95% of the revenues will be dividends and royalties from Labrador and that the provincial employment will be primarily in Labrador.

The issue of potential employment for Labradorians and aboriginal people on the project was raised. It was agreed that it was premature to undertake a detailed review at this time prior to the establishment of a project development concept and configuration

#### Labrador and Aboriginal Issues

#### LMN Letter

#### Québec Innu

A meeting was held with representatives of the Québec Innu at their request prior to a meeting with the Province's Wildlife Division. The Red Wine Caribou herd and outstanding legal charges were raised by the Québec Innu representatives. They also raised the broader issue of assertion of Québec Innu rights in Labrador.

Québec Innu have also complained to the federal government that they were not consulted regarding the Newfoundland and Labrador/Federal Environmental Harmonization Agreement and are asking the Federal Minister to compel the province to consult.

The Government of Québec has announced that they are starting a review of their aboriginal consultation policy and processes in light of the Haida and Taku Court



decisions, which specify that governments have a duty to consult with aboriginal peoples prior to making decisions that might adversely affect their as yet unproven aboriginal rights and title.

Action Item

A Labrador issues paper is being prepared by LAA and the Labrador Hydro Project.

Status of Energy Plan

Bruce Saunders advised that the public discussion paper is being revised. Public release is one month to six weeks behind schedule.

Action Item

The LHP office will be provided a copy of the latest draft.

Next Meeting

Last week of August.

Doc. # 16815



Draft

**Lower Churchill Coordinating Committee**  
**Record of Meeting**  
**June 13, 2005**

**Attendees**

Robert Thompson, Clerk Exec. Council  
Brian Crawley, Chief of Staff  
Bruce Saunders, DM Natural Resources  
John Cummings, DM Justice  
Terry Paddon, DM Finance  
Brenda Caul, DM Environment  
Gilbert Bennett, VP LHP  
Barbara Knight, DM IGA  
Joanna Harris, LHP

**Federal Strategy Paper**

It was agreed that the paper is no longer a priority in the current political environment, however the document (updated to the last Coordinating Committee meeting) will remain on file until it becomes relevant again.

**Paper on the Implications of the Agreement on Internal Trade**

Issue deferred, paper to be circulated in advance of next meeting.

**Fiscal Advisors Comments re Financing the Lower Churchill Development**

Terry Paddon indicated that at a recent meeting the fiscal advisors expressed the view that the project can be financed on its own merits, therefore the \$2 B Atlantic Accord funds are not needed to directly finance the development.

**Communications**

Joanna Harris advised the Committee that a communications meeting had been held with officials from Executive Council, Natural Resources, Premier's office and LHP. A plan will be prepared for an upcoming public update following completion of the assessment process. Also, consideration is being given to the resource requirements for development and implementation of a longer term communications strategy for the project.



Draft

**EOI Assessment Process**

Gilbert Bennett provided an update on the EOI process:

- The parallel assessment processes are about to converge – a joint meeting of the two committees is scheduled for this week.
- Teshmont pre-feasibility cost estimate re Atlantic route has been received and is slightly lower than previously estimated.
- The policy implications of Atlantic route and Infeed must be considered.
- [REDACTED]
- Anticipated updating the Premier by end of June, meeting with proponents mid-July, public update to follow.

**Financial / Economic Model Update**

Terry Paddon provided an overview of the Dept. of Finance's economic model, noting that it is the same model used for assessment of the offshore benefits. The model was developed in the 1980s and has been reviewed by external parties. Officials are comfortable that the model provides appropriate financial and economic impact results. It was noted that regional benefits are not currently generated by the model.

**Action Item:** Terry Paddon to investigate potential for model to assess specific regional impacts, in particular for Labrador.

**Emission Credits**

**Action Item:** Presentation on emission credits to be provided at next meeting.

**Federal Climate Change Policy**

Joanna Harris advised that in response to an inquiry from the Premier's office regarding the Large Final Emitters' (LFE) program, the Premier's office had been advised that the LFE program was identified as only one of several federal climate change initiatives that could provide an opportunity for federal support for the project. A commitment had been made to coordinate with the Depts. of Environment and Natural Resources in monitoring federal policy developments, determining the optimum strategy for federal participation in the Lower Churchill project and developing of a paper on this issue.



Draft

**Action Item:** Officials from the Depts of Natural Resources, IGA and Environment, and LHP to meet to discuss development of strategy regarding climate change policy implications and opportunities for federal involvement in the development.

### **Aboriginal Issues**

Correspondence relating to Lower Churchill consultations have been received from the Innu Nation and LMN (recently). A draft response to the Innu letter has been prepared.

**Action Item:** LAA to draft response to LMN letter in consultation with LHP.

### **Energy Plan**

Bruce Saunders provided an update on the status of the Provincial Energy Plan. It was noted that the plan does not include any specific positions on the Lower Churchill project, however it is anticipated that public views on the development will be heard during the upcoming public consultations. A coordination strategy for the energy plan and the Lower Churchill development will be required. Public release of the Plan discussion document is anticipated soon. Stakeholders' meetings will be held over the summer, followed by public meetings in the fall, with the objective of finalizing the energy plan by the end of the year.

The Lower Churchill project time frame is less defined at this time, however the Premier has publicly indicated a desire to have an agreement by the end of the year.

It is impossible to predict the outcome of the Energy Plan public consultation process, however given the implications of the Lower Churchill to the Province's future energy development plans, these fundamental policy initiatives must "dovetail" in the fall.

**Action Item:** LHP to review references to the Lower Churchill in the Energy Plan.

### **Next Meeting**

July 12, 2005

Doc # 16707



Lower Churchill Coordinating Committee Meeting  
July 12, 2005

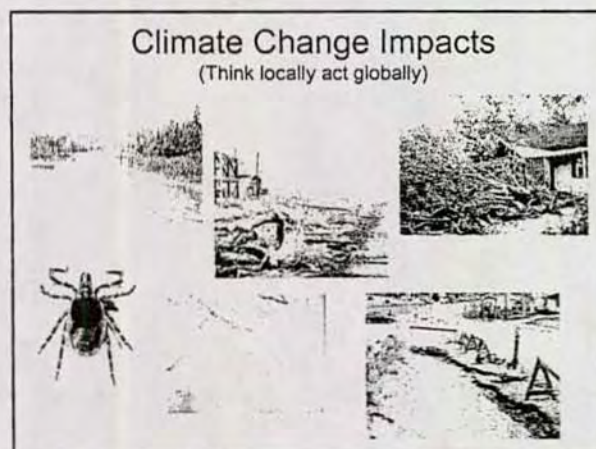
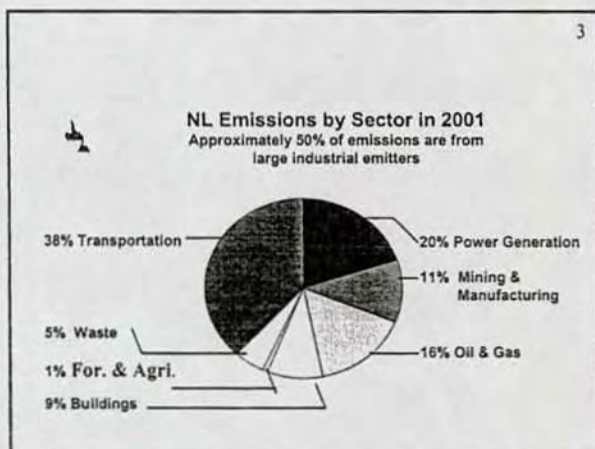
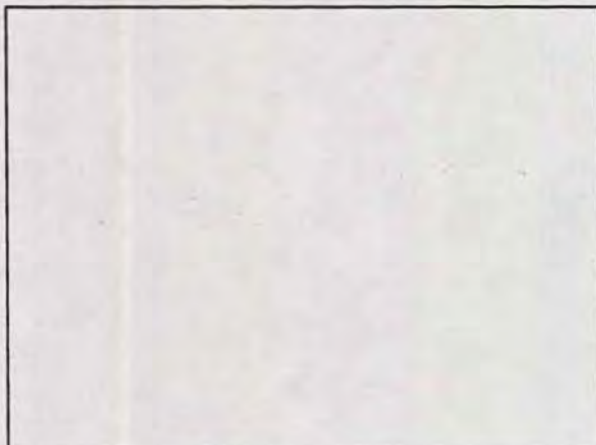
AGENDA

1. ✓ EOI status update.
2. ✓ Presentation on Emission credits
3. Action Items
  - a. AIT paper
  - b. Regional impacts modeling - VOISKEY'S BOY PROJECTS - BRUCE
  - c. Federal climate change policy implications and opportunities for LHP
  - ✓d. Response to LMN letter
4. Labrador Issues Paper
5. Status of Energy Plan
6. Next Meeting *Last week Aug.*
7. Other
  - QUEBEC INNU.

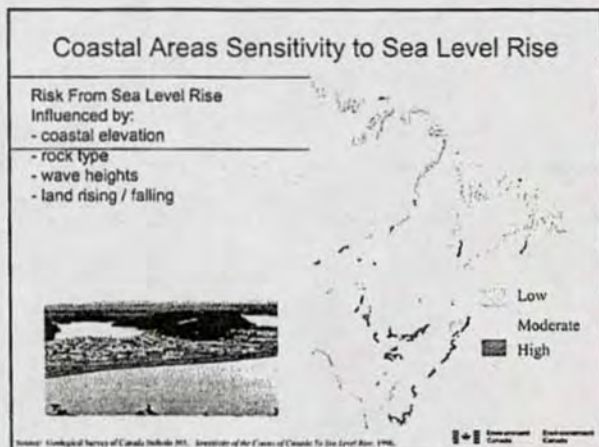


## Climate Change: Emissions Trading Implications for Lower Churchill Project

Dept. of Environment and Conservation  
Dept. of Natural Resources  
July 12, 2005

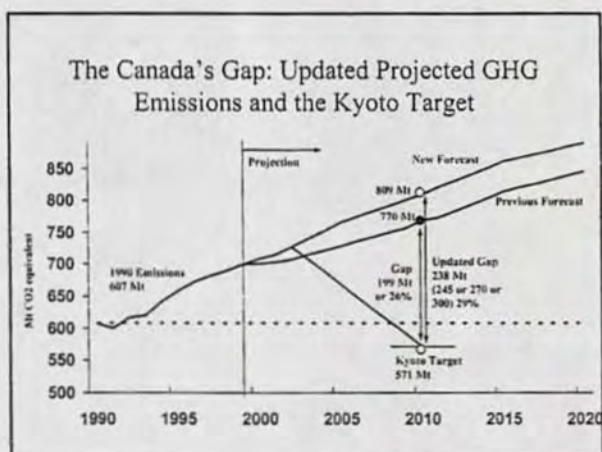






## The Kyoto Protocol

- Sets targets for GHG emissions reductions below 1990, (6% average for Canada for 2008-2012)
- Targets must be met by 2012
- Countries can develop their own reduction plans
- Optional purchase of "credits" from countries with "surpluses"
- Canada's reduction requirement under the Kyoto Protocol is 240 (or 245, or 270 or 300) (Mt) of CO<sub>2</sub> equivalent per year
- There is no specific allocation per province



## Bilateral Agreement (MOU)

- Like several other provinces, we have signed a bilateral agreement with the federal government.
- Key Principles are:
  - The role that hydroelectricity projects, such as the development of the Lower Churchill, in achieving national and provincial climate change objectives;
  - Increase public awareness and education;
  - Facilitate Newfoundland and Labrador based research and development on climate change;
  - Reduction of greenhouse gas emissions through increasing renewable/alternative energy;
  - Planning, monitoring and reporting related these priorities.





### Federal Plan – Statements

- Purchase verified domestic emission reductions/removals
- Promotes real partnership with P/Ts, potentially including equivalency agreements under CEPA
- Clean energy megaprojects will be a priority area
- Clean coal, carbon dioxide sequestration, east-west electricity grids, phase-out of coal-fired power plants
- Brings provincial priorities to the national table
- New investments in renewable energy sources will play a key role in meeting Kyoto commitments and making long-term progress
- New Renewable Power Production Incentive will be implemented to support technologies like small hydro and biomass
- Wind Power Production Incentive will be extended and its target increased to 4,000 MW

### What is Emissions Trading?

- "Emissions trading" simply refers to the buying and selling of "emissions permits". One greenhouse gas (GHG) emissions permit would authorize the holder to emit one unit of GHGs - for example one tonne of CO<sub>2</sub>. Permits would be bought and sold on a market that would resemble the stock market or commodities market.
- Markets can determine price or government can set (e.g., \$15/tonne)
- Emissions trading among countries is a fundamental aspect of Kyoto
- There have been voluntary systems

### Proposed Canadian System

- Targets large final emitters (approx. 700 companies)
- Facilities are allocated emission targets
- Emissions below targets (surplus to a facility's needs) generate credits that can be banked or traded
- To meet targets, facilities can
  - Reduce real emissions (e.g., energy efficiency)
  - Buy surplus allowances from other LFE's,
  - Purchase offsets credits
  - Purchase in CDM & JI credits
  - Acquire credits by investing in Technology Investment Fund
  - Buy international credits

### Large Final Emitters

- Defined: (i) annual average emissions of 8 kt CO<sub>2</sub>e per establishment or more; and (ii) annual average emissions of 20 kg CO<sub>2</sub>e per \$1000 gross production or more
- Oil & Gas, Mining, Manufacturing, Chemicals, Thermal Electricity
- Federal Requirements
  - 15% reduction from "2010 BAU" forecast
  - Energy emissions only – not process



### Allocation of LFE Emissions



- Still under development for 1<sup>st</sup> Commitment Period
- Based on emissions intensity of production
  - e.g. tonnes of GHG/MWh
- Facility allocations likely to be 15% below sector average BAU 2010
  - Forecast for electrical generation revised but not yet available to provinces
- Federal commitment to provide additional allowances at \$15/t
  - but only to 2012!

### Post – 2012?



- International discussions just starting (topic for COP 11, MOP 1)
  - Likely several years before certainty
- GHG (carbon) constrained future fairly certain
- Feds say “Country specific targets unlikely”
- Canada has excellent opportunities for reductions based on hydro and nuclear, but long lead times are necessary (certainly beyond 2012)
- Several US states on side (California + NE)

### Potential and Challenges for Lower Churchill



- 16.7 TWh of clean energy to potentially offset:
  - 16 Mt of GHG against coal
  - 6.0 Mt against natural gas/ combined cycle
  - 8 Mt against Canadian average of thermal generation
- Sales to Quebec and/or US will not directly reduce Canadian GHGs
- In-service date well beyond Kyoto 1<sup>st</sup> Commitment Period

### Federal Plan components relevant to LCP



- Specific subsidies to other renewable energy production without need to demonstrate GHG reductions
  - WPPI & RPPi (\$10/MWh for 10 years)
- Purchase of domestic emission reductions/removals based on verification
- Climate Change Fund proposes to use competitive bidding process
- Longer-term projects to be considered



### GHG's and Infeed

- ✎ • Holyrood emissions average about 1.4 Mt/y
  - Total "value" in range of \$14 million to \$21 million at federal forecast of carbon market prices for 2010
  - Potentially significantly more post-2012
- Province may want to agree to a value regime today

### "East-West Grid"

- ✎ • Has been noted by federal ministers and PM in context of GHG reduction measures
- Only part of the answer
  - Necessary but not sufficient
  - Power prices do not reflect future cost of emission reductions
- Ontario eliminating coal for many reasons
  - Primarily smog-related emissions, not GHGs

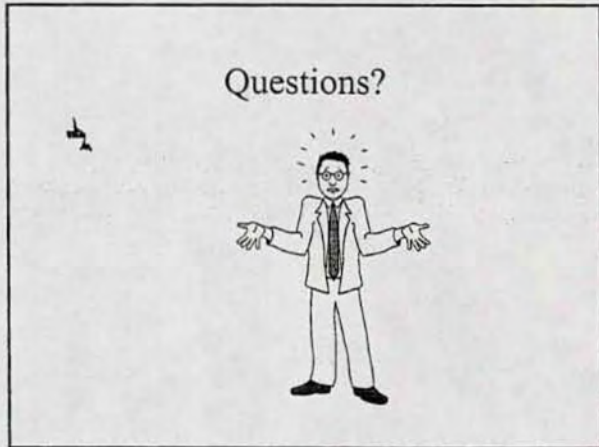
### Recognizing Value of GHG Reductions

- ✎ • Clean power for long-term future
- Clean energy fed into the Canadian system will result in GHG reduction somewhere
  - Emission reduction verification will be unrealistically complex
- Current electricity market pricing does not include cost of GHG reduction
  - Mainly due to lack of defined regime in Canada
- Large, long-term projects require much greater certainty of return

### Summary of Arguments for Inclusion

- ✎ • MOU Commitment to principle
- Long term strategic implications
- Greater cost-effectiveness in comparison to other measures
- Post Kyoto







**Labrador Hydro Project**  
**Lower Churchill Hydro Resource Development Proposal**

**Case: 91-1**

**Gull Island, 100% NL Owned, \$40/MWh, Sales to Quebec, Reference Case**  
**(\$ Millions Cdn. Real 2005)**

**Key Assumptions:**

- Ownership: Newfoundland and Labrador Hydro 100%
- Capital Costs: \$3.342 Billion (Cdn. Nominal) excluding interest during construction  
\$4.295 Billion (Cdn. Nominal) including interest during construction
- Capacity: 2000 MW (Mega Watts), 11,900 (GWh) Giga Watt Hours per Year
- In-Service: 2014 Partial, 2015 Full Production
- Financing: 80% Debt, 20% Equity, 7.75% interest during construction, 8.5% long term financing, 30 Year Term
- Price: \$40/MWh (Cdn.) in 2005, with 2% annual inflation starting 2006.
- Point of Sale: Quebec Labrador Border

	<u>Asset Life</u> <u>(2005-2089)</u>	<u>PPA Term</u> <u>(2005-2044)</u>
<b>Share of Direct Project Revenue:</b> <b>(At Point of Sale)</b>		
Gross Revenue	\$35,285    100%	\$14,208    100%
NL Government Revenue	26,477    75%	6,202    44%
Private Owner Net Cash Flow	0    -	0    -
IBA	0    -	0    -
Federal Government Revenue	0    -	0    -
Capital Costs	2,948    8%	2,948    21%
Operating Costs	1,296    4%	494    3%
Financing Costs	4,564    13%	4,564    32%

**Key Financial/Economic Indicators:**

<b>Project Owner(s):</b>		
Equity Cash Flow (NPV) Undiscounted	27,178	6,909
Rate of Return (Real): To Capital	11.6 %	11.3 %
To Equity	18.9 %	18.7 %

<b>NL Government:</b>		
Hydro Dividends	26,467	6,198
Water Power Rentals Royalties	0	0
Corporate Income Tax	0	0
Other (Payroll Tax, Indirect, Induced)	232	163
Total Revenue	26,699	6,361
Equalization Loss	-5,931	-1,821
Net Revenue	20,767	4,540

<b>NL Net Income Benefit:</b>		
Economy Net Income	22,712	5,962
Labour Net Income: Labrador	1,858	1,357
Island	0	0
Total	1,858	1,357

<b>NL Gross Domestic Product and Direct Employment:</b>	<u>Construction</u> <u>(2005-2015)</u>	<u>Operations</u> <u>(Annual)</u>
Real Gross Domestic Product	2,658	486
NL Direct Employment (PYE) Labrador	6,069	54
Island	0	0
Total	6,069	54





GOVERNMENT OF  
NEWFOUNDLAND AND LABRADOR

**Executive Council**  
Intergovernmental Affairs Secretariat

May 11, 2005

Mr. Brian Crawley  
Mr. Robert Thompson  
Mr. Bill Wells  
Mr. Gill Bennett  
Mr. Bruce Saunders  
Mr. Sean Dutton  
**Mr. Terry Paddon**  
Mr. Doug House  
Mr. John Cummings  
Ms. Brenda Caul

**Re: Labrador Hydro Project Coordinating Committee**

At the conclusion of the last meeting of the Committee on April 14<sup>th</sup>, the Labrador Hydro Project (NLH), Natural Resources and Intergovernmental Affairs were asked to prepare a paper identifying and assessing options for federal support for the Lower Churchill development that could be advanced in the event of a near-term federal election.

Attached is a draft of this Paper for the review and consideration of Committee members. I understand the Clerk will be arranging a meeting next week of the Committee to discuss this Paper. Should you wish to discuss the Paper in advance of the meeting, please do not hesitate to contact me.

A handwritten signature in dark ink, appearing to read 'Barbara Knight', written over a horizontal line.

**Barbara Knight**  
Deputy Minister

Attachment



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential**Introduction**

The purpose of this strategy paper is to identify and assess options for federal support for the Lower Churchill development that could be advanced in the event of a federal election call in the coming weeks. The assessment takes into account the national political environment, the current status of the EOI process, and a range of criteria identified in the body of this paper. In accordance with direction provided, options, which can be described in specific terms, have been favored.

**Political Environment***General Overview*

Should a federal election be called in the near future, polls suggest that a minority government would be the result. The political stripe of that minority government, however, remains very much in question with the Liberals and Conservatives trading the lead in recent polls – both nationally and in Ontario.

Such a close race increases the importance of every vote and riding. That said, Ontario will be the key battleground. The Liberals cannot afford to lose many seats in Ontario, (which delivered 75 of their 135 seats in the last federal election), as it is unlikely that they could make up significant losses in other parts of the country.

In Quebec, the Liberals are poised to lose a large number of seats (21/75 seats in the last federal election, with the remainder to the BQ). Polls show the BQ as the beneficiary of declining Liberal support, while the Conservatives are unlikely to make a breakthrough in the province.

In AB, SK and MB, polls suggest the Conservatives will continue to dominate (winning 46/56 seats in the last federal election). In BC, the Liberals believe they can improve on the last federal election (8/36 seats) which may partially explain a number of significant announcements in BC by the federal government over the past few weeks and months, such as: the first gas tax for cities deal (Vancouver); and the move of the Canadian Tourism Commission from Ottawa to Vancouver.

The importance of Atlantic Canada's 32 seats has undeniably been increased. The seat results of the last federal election were: Liberals (22); Conservatives (7); and NDP (3). While Liberal support remains strong in the region, they will not be able to take Atlantic Canada for granted.

*Campaign Issues*

Nationally, the Conservatives will push the sponsorship scandal as the defining issue of the campaign. The Liberals are expected to counter with national unity concerns (the prospect of another PQ government in Quebec and a secession referendum in the medium-term), the so-called "hidden agenda" of the Conservatives, which was so successful in the 2004 campaign, and Budget 2005.

In Newfoundland and Labrador, the early campaign will likely be shaped by Atlantic Accord 2005 and, in particular, the success or failure in passing implementing legislation. It is difficult to predict the reaction, both by the federal leaders and the rest of the nation, to Newfoundland and



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential

Labrador advancing a significant “ask(s)” in the 2005 federal election. The prevailing view in the rest of the country appears to be that Newfoundland and Labrador has already had its turn with Atlantic Accord 2005.

This increases the importance of casting the Lower Churchill as an issue of national importance/benefit. The characteristics of Lower Churchill which relate to potential national benefit are that it is clean and renewable (no climate change, smog-related or toxic emissions) and could help supply future power requirements in eastern and central Canada, potentially through an “east-west grid.”

*One-Off Deals*

Encouraged by the success Premier Williams achieved in advancing the Atlantic Accord file, other premiers have been advancing one-off deals for their province. Two of these campaigns warrant specific mention and consideration.

Federal and provincial officials are currently engaged in discussions regarding a one-off, multi-year, deal for New Brunswick. Unconfirmed reports suggest that the deal could be worth as much as \$700 million - spread over five to seven years – and would be focused on education and immigration. The deal is being cast as New Brunswick’s version of Atlantic Accord 2005.

Of particular relevance to Newfoundland and Labrador with respect to the Lower Churchill, separate discussions are occurring in which New Brunswick is seeking federal financial support to assist with the refurbishment of the Point Lepreau nuclear power station. New Brunswick is reported to be seeking at least \$400 million in federal support; however, no details are known as to the nature this support would take. An unconfirmed media report has suggested that a \$200 million framework agreement is under consideration. The outcome of this negotiation may provide a useful precedent for Newfoundland and Labrador in advancing a request for federal support for the Lower Churchill.

Ontario has been leading a high profile campaign for an immediate federal investment of \$5 billion to begin addressing an alleged \$23 billion gap between what the federal government collects from Ontario and what it returns to the province. Premier McGuinty has indicated that he will make this alleged gap an election issue, if it is not addressed. Premier McGuinty and Prime Minister Martin will meet on May 7<sup>th</sup> to discuss this issue.

To this point, the Liberal government has taken a somewhat hard line against Ontario’s campaign. Prime Minister Martin has indicated that he has no interest in handing over a cheque to Ontario, but is willing to discuss other issues/grievances with Premier McGuinty. Of particular relevance to Newfoundland and Labrador, the Prime Minister has mused that federal assistance to help Ontario deal with its power problems may be one of these other issues. Again, the outcome may be helpful to Newfoundland and Labrador.

While supportive of Atlantic Accord 2005, recent comments from Stephen Harper suggest that he does not favour one-off deals for provinces. With respect to Ontario’s campaign, Mr. Harper has stated that he would address Ontario’s concerns by addressing the vertical fiscal imbalance (that the federal government has more revenues than it needs while the provinces have more needs than revenues) across the board. That said, the Conservatives’ response to recent deals (e.g., Child Care Deals) is that they will honored by a Conservative government.



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential*Positions of the Federal Parties on Relevant Electricity Issues*

## (i) Support for the Lower Churchill

In February 2004, Premier Williams sent letters to Jack Layton and Conservative leadership candidates (including Stephen Harper) seeking their positions on issues of importance to Newfoundland and Labrador. In May 2004, a similar letter was sent to Prime Minister Martin.

With respect to the Lower Churchill, the Premier's letter asked the following question: "Will you as leader of...support efforts to develop the hydropower resources of the Lower Churchill River system for the primary benefit of Newfoundland and Labrador, including the provision of a Federal Government guarantee if necessary to proceed with the project on a stand alone basis?" We have no record of a written response from the Prime Minister. The responses of both Jack Layton and Stephen Harper were as follows:

Jack Layton: *"It is my understanding that the NDP is the only national party that clearly supports federal government leadership in the development of a national energy strategy, especially the construction in the immediate future of a full east-west energy grid that would provide the country with a significantly increased measure of energy security, help meet Canada's Kyoto commitments by displacing the need for less clean sources of electricity than hydro, and provide hydro producing provinces like Newfoundland and Labrador with greater access to energy markets. It is clear that Newfoundland and Labrador can and should be full players in these markets to maximize the benefits that it can receive, rather than limiting itself to being merely a supplier of energy."*

Stephen Harper: *"I support the further development of hydropower resources in Newfoundland and Labrador."*

It should be noted that Stephen Harper provided an unequivocal "yes" to a separate question asking whether he would support initiatives to make amends for the Upper Churchill power contract. Mr. Layton did not specifically respond to this question.

During a media interview on May 3, 2005, the Prime Minister indicated that the federal government is prepared to help in developing the Lower Churchill. While the commitment is vague, it is a move away from the traditional federal government position that it is "out of the business of mega projects." However, the Province will need to continue to stress the national importance/benefit of this project. It should also be noted that the NL/Canada climate change MOU, signed on April 29, 2005, commits the federal government to exploring the role hydro projects, such as, the Lower Churchill, can play in achieving national and provincial climate change objectives.

## (ii) Kyoto Accord/Climate Change

On 13 April 2005, the federal government released its much-awaited plan for honouring Canada's Kyoto commitment (Project Green). Of particular relevance is a Partnership Fund, which was also outlined in Budget 2005. The Plan indicates that the Fund, initially at \$250 million over the next five years, could grow to \$2-3 billion over the next 10 years. The purpose of the Fund is to support government-to-government agreements through cost sharing. The Plan specifically references east-west electricity transmission *grids* as a possible strategic investment under the



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential

Fund. The Plan also includes a Climate Fund (\$4-5 billion), which will purchase emission reductions.

The Conservatives' position with respect to the Kyoto appears to be in flux. In responding to Project Green, the Conservative Environment critic indicated that his party would not necessarily withdraw from the Accord should it form the next federal government. While the Conservatives are not supportive of Project Green, they have yet to outline how they would go about reducing emissions. The NDP have stated that the measures set out in Budget 2005 and Project Green do not go far enough and fail to meet Canada's Kyoto commitment. On April 26, 2005, however, the Liberals and NDP struck a deal that will see the NDP support the Budget bill (which includes the Kyoto investments).

(iii) East-West Transmission Grid

The establishment of an east-west transmission grid has been championed by Manitoba and Ontario. Premier Williams has supported the idea of an east-west grid, so long as it is truly east-west (i.e. St. John's to Vancouver).

Ontario's interest in such a grid is directly related to the McGuinty government's commitment to phase out the use of coal-fired electricity by the end of 2006. In the Legislative Assembly on March 5, 2005, Energy Minister Dwight Duncan reaffirmed Ontario's interest in advancing the east-west grid and singled out Manitoba, Quebec and the Lower Churchill as sources of untapped hydroelectric potential.

Ontario and Manitoba have been engaged in significant discussion and detailed study of the Clean Energy Transfer Initiative; a proposed hydroelectric project in northern Manitoba (Conawapa Project) and a transmission line that would provide up to 1,500 megawatts of power to Ontario. In the Legislative Assembly on March 3 2005, Minister Duncan indicated that he had written Minister Goodale to establish a time for discussions on whether the federal government can assist the two provinces in advancing this project, in light of the Kyoto-related measures in Budget 2005. Minister Duncan made specific reference to federal investments to bridge the long distances from generation in Manitoba to markets in Ontario. Provincial officials have been informed that Natural Resources Canada was recently briefed by Ontario and Manitoba on this project.

Quebec's position with respect to an east-west grid has yet to be fully articulated. In March 2005, a spokesperson for QC Natural Resources indicated that Quebec would consider participating in an east-west grid, but would require compensation for the transmission network it has financed on its own and assurances that it would be a part of any discussion on such a grid. More recent statements suggest that Quebec will press for assurances from the federal government that participation in such a grid would not intrude on Quebec's autonomy over its electricity sector.

The federal government, consistent with statements in the Budget 2005 and Project Green, has expressed an interest in an east-west grid but has provided very little in the way of detail as to what it means by this concept. Following the release of Project Green, federal Environment Minister Dion described an east-west grid as possibly linking Manitoba, Ontario, Quebec and "Newfoundland". It is unclear whether Minister Dion was referring to the Island or to the province in general. As noted above, the NDP is supportive of the establishment of an east-west grid. We have not been able to locate a position of the Conservatives with respect to this matter.



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential**EOI Status and Implications***EOI Status*

The EOI request was launched January 10<sup>th</sup> and closed March 31<sup>st</sup>. The public request was the first phase of a multi-phased, competitive process intended to attract maximum response and then gradually narrow the field of interested parties. Phase 2 will be a feasibility review and discussion of principles of sharing risk and returns with selected proponents. Following conclusion on viability, the most attractive options may proceed to phase 3 - negotiation of commercial principles, leading to a commercial MOU with the final selected proponent(s). While specific targets have not been set, the process could take up to 18–24 months from launch.

An EOI Assessment Committee commenced a review and evaluation of the formal EOI submissions on April 13<sup>th</sup>. It is anticipated that this process will be completed by the end of June.

It should also be noted that the EOI document made no reference to federal participation in the development.

*Nature and Types of Submissions*

The submissions include comprehensive proposal concepts (for involvement in the development and operation), involvement in more discrete elements of the developments (i.e. transmission developers and equity investors) and offers for technical support and professional services. The comprehensive development concepts brought forward primarily involve the export of power to Ontario and Quebec, and use of the power to meet Labrador's requirements, and possibly for use on the island. The Governments of Ontario and Quebec have aligned themselves with a submission, however this is not the case with the Maritime Provinces. Two merchant transmission proponents with potential interest to partner with NL in development of infrastructure to transmit power, one to south-west to Quebec/Ontario and southeast to the island/the Maritimes and the other to the island and Maritimes have made submissions. References to US Northeast markets are vague and not supported with specific customers.

The submissions include both crown and private sector entities, offering a range of development arrangements with respect to sharing development and financing risks, including a power purchase arrangement at one end of the spectrum (NL to assume or contractually mitigate, all development and financing risks), a Build Own Operate Transfer (BOOT) at the other end, and other public/private partnership arrangements in which the private proponent would provide access to significant investment capital.

*Implications*

If an election is called for June, the EOI Assessment process will not be complete.

Strategically at this stage, the Government wishes to maintain flexibility and keep its options open, this would imply maintaining the integrity of the EOI process. Favoring one EOI submission over another could compromise the process and jeopardize the commitment of some of the proponents, resulting in loss of the "competitive environment" that has been created.

Another implication of the timing of the election relative to the EOI assessment process is that by pushing for a substantive federal commitment now, NL may receive only general commitments



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential

from the federal parties because they claim that insufficient information is available at this early stage in the process.

## Options for Federal Support/Participation in the Lower Churchill Development

**Criteria:** In assessing the options for federal support, the following criteria have been considered:

1. **Maintaining Flexibility** – principally ensuring that the “ask” is neutral with respect to the various development options.
2. **Achievability** – the likelihood that the request will be fulfilled. The achievability will be a function of the nature of the request. For example:  
some “asks” are not well suited to an election forum because of complexities and jurisdictional issues;  
national interest and opportunities for alliances with the provinces on issues of common interest may increase achievability.
3. **Value to the province** – the tangible benefit that the province would realize as a direct consequence of the request. Clearly the objective is to maximize the value to the province. Value can be direct financial assistance or non-financial in nature. Federal support for the development can strengthen the province’s negotiating position in future negotiations with other parties.
4. **Specificity** – clear definition of the request. Generally, a more specific request would appear preferable, however this must be weighed against the desire to maintain flexibility. The “optimum” federal assistance will become clearer as the Government’s preferred development option is formulated. In the absence of a final decision on the project configuration a specific request can be formulated, but whether it is optimum is difficult to assess at this stage in the process.

### *1. East/West Grid*

The “East-West Grid” at first glance seems like a natural area for an “ask.” It does not appear to necessarily restrict our options; it is already expressly supported by two parties, at least as a general concept, and could have some value for the province.

However, there are two considerations, which suggest it should not be the main theme of a federal request at this time.

Firstly, the concept has not been defined by its various proponents, and there are many alternatives for the all-important details. Some of these alternatives may significantly detract from the value of an east-west grid to the province. Development of the Grid without at least clear principles of non-discriminatory access and an independent authority to hear and rule on appeals, could lead to further entrenchment of the geographic power of Quebec to extract economic rent from Labrador hydropower.



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential

Secondly, no federal government can unilaterally deliver any broad commitment in this regard. The agreement and cooperation of all provinces, in particular Quebec, will be essential in the development of any national transmission system which would be of any value to us. This cannot be achieved in an election campaign. This means the value of a federal party commitment is limited.

The exception to this second consideration would be to request parties to make a commitment that any support provided by the federal government for an east-west grid would include support its extension to both Labrador and Newfoundland. This would be within the ability of a federal party, and, assuming the concept moves toward reality, could be of potentially high value. Again, the details are the vital aspect.

Advocating the East-West Grid as the number one priority request in this election is not recommended. Nevertheless, this is an issue of significant importance to the Province. In the short-term, the Province must be prepared to protect its interests should this issue be raised in the federal election campaign. For the longer-term, the Province needs to be well prepared to advance its interests in future negotiations with the federal government regarding this issue. The East-West Grid concept is discussed further in the Recommendation section of this Paper.

The potential for financial assistance for transmission infrastructure within the Province is a commitment that could be sought at this time, either for transmission in Labrador or an Infeed.

Premier Williams may wish to seek specific commitments of support for the interconnection of Newfoundland and Labrador, outside the concept of the East-West Grid. Such a request would be specific and valuable to the province, although its achievability may be limited by the perception that the province obtained "its share" with the Atlantic Accord deal. It would be more difficult to advance the Infeed as being in the national interest or to build alliances based on such a request.

Nevertheless, such a request would be clear, unambiguous and understandable. Negative reaction could be tempered by making the request lower than the previously requested 100% funding support.

The various federal financial support options for transmission in Labrador or an Infeed are discussed in the federal financial assistance section of this paper.

## ***2. Federal financial support***

### **(a) Federal commitment to purchase all emission credits attributable to the Lower Churchill developments.**

Like the East-West Grid this option would appear to be very attractive and achievable as an "ask" in the context of the climate change policies of the Liberals and NDP, (the Conservative position is less clear on this issue). The request is generally neutral with respect to the EOI process and could be of significant value to the province (potentially tens or hundreds of millions dollars per year). However, there is much uncertainty surrounding the issue at this time, which will influence the achievability and potential value of the request.

The Liberal "Project Green" document indicates that there must be a real and verifiable emission reduction. In the case of generation projects this would require a demonstrated displacement of thermal generation in Canada, therefore the market/purchaser must be known to demonstrate the



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential

displacement. The emission intensity of the displaced supply will determine the amount of emissions displaced e.g. coal would result in higher displacements and greater value than natural gas or other thermal fuels. In the absence of a known market, NL could ask the federal government to commit to pay a proxy value equivalent to the national or Ontario average emission intensity. This option however is not desirable because it is considered unlikely to be successful, furthermore it could result in a lower value than may be achieved if a higher emission intensity supply is eventually displaced.

Under the liberal budget, the Government would set up a Climate Fund to purchase emission reductions. Currently this would apply to the first commitment period (2008- 2012) and the value of the credits would be established by a tender or competitive process. It is unclear whether hydroelectric projects would qualify. NL could pursue a commitment that the fund would continue past 2012 (unlikely to be provided) and that large hydro projects would be eligible. The value of the credits would be a matter for negotiation, an early lock-in of the value of the credits would not be in NL interests.

Given the uncertainties outlined above, the achievability and value of a federal commitment to purchase emission credits is questionable at this time.

**(b) Federal Loan Guarantee for Generation and/or Transmission Infrastructure**

A federal loan guarantee is a very effective vehicle for federal support for the development that would contribute direct economic benefit, by enabling borrowing at federal rates. The request is simple and specific. The outlook for success is considered reasonable relative to the other possible options because it does not require a federal cash outlay.

While this option may appear to favor a public sector development, this is not necessarily the case. Federal government guarantees could be made regardless of the developer, and the province could benefit from the increased economic rent available. It is therefore considered relatively neutral to the EOI process.

It is difficult to estimate the value of a loan guarantee in the absence of a project configuration. Relative to the Province's own credit rating today, this translates in the range of 30 basis points (bps) on 5-year rates to possibly 60 bps on 30-year rates. Most likely, these spreads could be reduced to about 10 bps on short-term debt and 20 bps on long. The potential savings on the spreads are greater if the federal government was to guarantee any debt that would otherwise have required a non-recourse premium, possibly in the range of 250 bps (actual non-recourse premiums would depend on the commercial risk mitigation that could be achieved). In the context of Gull Island generation and transmission (assuming a 2015 in service date), 100 bps translates potentially to in excess of \$1 B (\$ nominal) of interest on long-term debt over 30 years (assuming 100% financed project) and in excess of \$200 M in interest during construction. A loan guarantee could be sought for the generation, transmission in Labrador or the Infeed.

It was noted that along with seeking general support for the development, a federal loan guarantee was requested in the letters sent to the federal leaders in 2004.

A loan guarantee to facilitate the development would likely have conditions attached by the federal government. The "ask" would have a greater likelihood for success in the context that the province would commit to the power being sold in Canada for a specific period of time. Other conditions relating to the development concept and commercial arrangements would be required,



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential

particularly relating to the project developer, the EPC contractor, the creditworthiness of the power purchaser.

Given the significant benefits to be realized from a loan guarantee, the achievability and the simplicity of the request, this is a desirable “specific ask” in the context of a federal election. However, obtaining a conditional loan guarantee at this stage in the EOI, would involve the federal government heavily as the process proceeds.

**(c) Federal Grant for Generation and/or Transmission**

A direct grant would be the most attractive financial support that could be requested. The grant could be for generation or transmission, however in the context of the Liberal’s climate change partnership fund, the preferable request may be to cost share in the transmission infrastructure in Labrador, or alternatively the Infeed. Referencing the Ontario/ Quebec intertie would not be neutral to the EOI process, and Ontario and Quebec will be lobbying for this themselves.

The ultimate value to the province would depend on the selected transmission and the cost sharing terms. The estimated direct cost of two 735 kV lines from Gull to Montagnais and Churchill Falls, respectively, plus a 230 kV line from Muskrat Falls to Gull is about \$600 M in 2005\$, which equates to an estimated \$1.1 B in service. The Infeed direct cost is about \$1.5 B in 2005\$ and \$2.5 B in service. Alternatively, to maintain flexibility the “ask” could be framed without reference to a specific transmission configuration.

The request could be neutral to the EOI process; the basic transmission infrastructure in Labrador would be common to all configurations. It is a simple, clear request, that appears to have a reasonable chance for success in the context of the Liberal partnership fund, and discussions between the federal government and Manitoba/Ontario regarding Conawapa; and with New Brunswick regarding Point LePreau, and the federal interest expressed in the proposed new Ontario/Quebec interconnection. It will be important to closely monitor developments relating to these projects.

**(d) Federal Equity Participation**

Federal equity participation could take various forms ranging from preferred shares with conditional dividends or an LCDC equity ownership interest. Historically, federal equity participation has been considered an option to facilitate the development, however this is not considered an attractive or realistic option at this time.

While most proponents expressed some flexibility regarding equity participation in the development, there is no explicit reference to federal participation. Clearly this would not be compatible with the BOOT proposals. Also, federal equity would appear to favor public ownership and therefore is not neutral. In the context of the response received to the EOI, the need for federal equity is difficult to support. The outlook for success is considered relatively low, particularly given the precedent this may set for other clean energy projects. This option would relinquish control and financial interest over the long-term, other financial assistance could provide greater leveraged value than direct equity participation. Finally, this option is likely to be extremely unattractive to the two major parties.



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential**(e) Favorable Financing Arrangements**

A wide range of other favorable financing arrangements could be sought such as interest-free loans, low interest rates, assumption of interest rate risk above a specified level, a completion guarantee, or various forms of a completion guarantee (subsidize or finance cost overruns, or assume residual completion risk that would otherwise require insurance).

These options are relatively neutral to the EOI process; the federal government does offer favorable financing arrangements to the private sector. The achievability and value to the province would both be a function of the cost to the federal government. However, in the absence of development concept and arrangement, formulating the optimum ask and quantifying its value is impossible. The concepts are more complex than a loan guarantee; the federal parties are likely to respond with a more general or weaker commitment in the absence of details of the potential commercial arrangements. Soliciting any conditional commitment, would inevitably involve the federal government heavily as the process proceeds.

**3. Improving Regulatory Efficiency**

There has been concern expressed by the hydroelectric industry over increasingly complex and demanding environmental regulation of projects. The Province is close to signing a harmonization agreement with the federal government regarding environmental assessment. Furthermore, the Lower Churchill will require a project specific Environmental Assessment MOU. Accordingly, seeking a commitment in this area is not necessary.

**Recommendation**

Two alternative specific requests are recommended in the context of the current political environment and the ongoing EOI process. Option 1, a federal loan guarantee is considered more achievable at this time, relative to option 2, a grant. However, recognizing that the political environment is changing, Government will have to very closely monitor developments in Ontario, Manitoba, Quebec, and New Brunswick and adjust its position accordingly.

Option 1 - A federal loan guarantee for the generation and transmission in Labrador.

At this time this option is probably more achievable given that it does not require a federal cash outlay.

Option 2 – A grant for transmission infrastructure in Labrador.

The value of a direct grant is more certain, therefore this option is the most attractive financial assistance, however the achievability is considered potentially less certain at this time.

As discussed above, the East-West grid is not recommended as a request in a near-term federal election campaign. However, the Province may have to react to this issue should it be raised by the federal parties or other jurisdictions in the course of a campaign. In particular, the Province will need to be prepared to respond to characterizations of the East-West Grid concept (or election commitments given with respect to it) that are not in the Province's best interests. The following are offered as bottom-lines the Province should be prepared to advance in any discussions or debates of the East/West Grid concept in a federal election campaign: (1) inclusion of the province in the Grid and interconnection with the island; (2) non-discriminatory access; and (3) independent oversight.



## Lower Churchill Strategy Paper (Draft 6 – 5 May 2005)

Draft  
Confidential**Key Communication Messages**

The following rationale is proposed as the basis for the recommended request:

- The Lower Churchill is a significant source of clean power that can contribute to the reduction of emissions from thermal generation in eastern and central Canada. Combined production from the two Lower Churchill developments can displace emissions, for example an equivalent sized coal generator by almost 17 mega-tonnes of CO<sub>2</sub> per year. This significant block of power can supply up to 1.5 million households or more annually, and contribute to meeting the nation's climate change policy objectives.
- The role that new hydro development can play in meeting climate change objectives and reducing emissions has already been recognized, this role should now be put into effect.
- In the context of the energy supply and climate change challenges facing the country, development of the projects is in the interests of the nation and the province.



**Labrador Hydro Project**  
**Coordinating Committee Meeting**  
**April 14, 2005**

**Present:**

Robert Thompson, Clerk of the Executive Council  
Brian Crawley, Chief of Staff  
John Cummings, Deputy Minister, Dept. of Justice  
Bill Wells, President & CEO, NLH  
Gilbert Bennett, Vice-President, LHP, NLH  
Paul Dean, Deputy Minister, Dept. of Environment  
Doug House, Deputy Minister, Dept. of Innovation, Trade & Rural Development  
Bruce Saunders, Deputy Minister, Dept. of Natural Resources  
Barbara Knight, Deputy Minister, Dept. of Intergovernmental Affairs  
Joanna Harris, Director, Policy and Planning, LHP, NLH

---

**Mandate of Committee**

Robert Thompson presented the mandate of the Committee as follows: to provide policy advice to the Premier on matters relating to the Lower Churchill development. The Coordinating Committee will not act as an operating committee, but as an advisory body on all relevant policy areas. The Premier will be very involved in the Lower Churchill file and the Committee will serve as an advisory role on an on-going basis as the EOI proceeds.

The role of the Committee was presented in light of the change in context for the Labrador Hydro project office (LHP), which is the "operational" body for the project. The office has existed within NLH since 1998, previously operating primarily as an extension of Government. The governance of the office will now be assumed more actively by the NLH Board and senior executive.

It was also noted that the role of LHP has changed in the context of the EOI process. Previously, NLH was the proponent for the development. At the current stage of the process, there is no proponent. LHP is acting in partnership with Government in the assessment of the development options and management of the EOI process. It is recognized that NLH is a source of expertise and the right place to coordinate the project during this intense activity phase. NLH's future role will be determined pending the outcome from the EOI process. Responsibility for specific project issues will be assigned between LHP and relevant departments as certain issues arise on a "file-by-file" basis.

**Relationship between the Coordinating Committee and the Assessment Committee**

An Assessment Committee has been appointed by Government to evaluate the EOI submissions and provide advice to the Premier. The duration of the term of this Committee has yet to be set. The Assessment Committee may seek advice from the Coordinating Committee on policy issues that arise.

It was noted that within the Assessment Committee, there will be a parallel process that will involve a second group (comprised of representatives of NLH and the Department of Natural Resources) reviewing the proposals to provide advice to the Assessment Committee.



### EOI Update

Joanna Harris provided a briefing on the EOI process and current status (refer attached presentation).

### Key Issues and Policy Areas

#### 1. Strategy and Policy Issues relating to Federal participation

Barbara Knight provided a brief overview of the current federal climate noting:

- increased awareness of the country's energy needs as a significant national issue;
- climate change policy and the increasing priority of "clean energy."

The Committee discussed opportunities on the federal scene: Ontario's supply problems and associated federal attention; the recent release of "Plan Green" by the Federal Government, and reference in the federal budget to the "east-west grid" in the funding possibilities for the federal "partnership fund."

Timing Considerations:

- the current uncertainty regarding a possible federal election;
- climate change policy implementation, in particular federal support for an east-west grid;
- Ontario's own timetable in making investment decisions for future supply to replace coal-generation, aging nuclear generation facilities, and meet growing demand.

The issue of a potential federal briefing on the EOI process was discussed. Joanna Harris advised the Committee that Tom Wallace, Director General, Electricity Resources Branch, NRCan, had contacted LHP indicating a federal willingness to be briefed on the status of the EOI when "we are able."

#### Action Item

IGA, Natural Resources and LHP to prepare a recommended Lower Churchill federal strategy to address a potential near-term federal election. The strategy should address the political environment, participation options (particularly the east/west grid) and policy rationale and it is required within three weeks.

#### 2. Trade



#### Action Item

The Departments of Innovation, Trade and Rural Development and Natural Resources to assess potential AIT implications for the Lower Churchill.



### 3. Financial/Economic Models

Robert Thompson spoke on behalf of Terry Paddon. The economic models used by the Department of Finance have not been reviewed for several years, a review could be beneficial.

Joanna Harris noted that assignment of an analyst to support financial analysis in LHP was an issue, along with the possibility of improving coordination between LHP and the Department of Finance.

#### Action Item

Department of Finance and LHP to look at potential improvements and upgrades required.

### 4. Economic Benefits

The following issues were raised:

- the programs offered by the Department of Innovation, Trade and Rural Development;
- certain small industrial customers that the Government is aware of that are seeking low-cost power; and
- potential responsibilities and role for the "Benefits Group" within the Department of Natural Resources in the negotiation of a benefit's agreement for the Lower Churchill.

#### Action Item

LHP to identify previous studies and work completed on the potential employment/business benefits i.e. workforce study was completed in 2001.

### 5. Labrador Issues

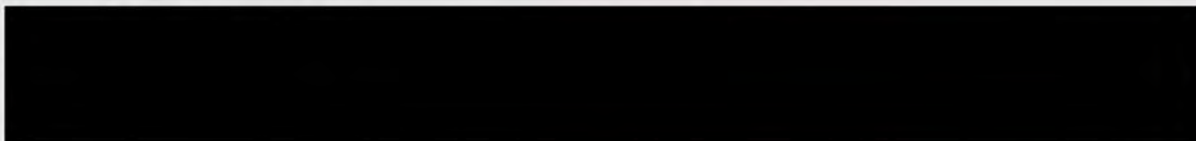
Sean Dutton gave a brief overview of Labrador issues, noting expectations in Labrador are very high. Key issues identified: the adjacency principle (commitment in Throne Speech), high power rates on the Labrador coast, the recall/industrial use option, a Labrador development fund, environmental concerns and the expectation for consultation.

It was also noted that the Northern Development Minister forum is undertaking a terms of reference for maximizing economic and social impacts applicable to the North that may be relevant to the Lower Churchill.

#### Action Item

LAA in coordination with LHP to develop a "foundation piece" on Labrador issues – addressing commitments made publicly, expectations and associated challenges.

### 6. Aboriginal Issues





DRAFT

Action Item7. Energy Plan

Bruce Saunders distributed an update on the Energy Plan and indicated public consultation documents would be released soon. Processes for coordination between the Department and NLH are already in place. The Energy Plan is expected to be completed by the end of the year.

8. EA MOU

Paul Dean addressed the requirement for an EA MOU. All Lower Churchill project configurations will require an EA MOU between the Federal Government, NL and the Labrador Innu. Québec and the Québec Innu will be involved if there is transmission in Québec. Involvement of other jurisdictions will depend on the project configuration.

A draft EA MOU has been prepared during previous project negotiations. LHP will benefit from experience gained on the Voisey's Bay EA MOU. The process is not anticipated to be difficult if the Labrador Innu are willing participants in the development. The potential Innu conflict of interest was raised for consideration. This matter will require legal advice.

The EA requirements of any potential industrial development associated with the Lower Churchill development is another issue that may require consideration.

It was noted that there is now a draft Canada-Newfoundland and Labrador Agreement on Environmental Assessment Cooperation.

Action Item

The Department of Environment to report back on the time frame required to achieve an EA MOU and our objectives for the process.



DRAFT

9. Communications

No discussion.

Committee Schedule and Attendance

The Coordinating Committee will meet monthly or more often as required. Substitute attendees to attend as deemed appropriate if members cannot attend.

Other

Deputy Ministers are to brief their Ministers on the work of the Committee.

Doc. No. 16542



GOVERNMENT OF  
NEWFOUNDLAND AND LABRADOR**Executive Council**Clerk of the Executive Council  
and Secretary to Cabinet

2005 04 11

Mr. Brian Crawley  
Mr. Bill Wells  
Mr. Gil Bennett  
Mr. Bruce Saunders  
Mr. Sean Dutton  
Mr. Terry Paddon  
Mr. Doug House  
Mr. John Cummings  
Mr. Paul Dean

**Re: Labrador Hydro Project Coordinating Committee**

I am pleased to invite you to the first meeting of the Labrador Hydro Project Coordinating Committee to be held on Thursday, April 14<sup>th</sup> at 10:00 a.m. in the Collective Bargaining Boardroom.

This Committee has been established by the Premier to ensure a coordinated approach by the Government and Newfoundland and Labrador Hydro regarding the Lower Churchill project, to provide advice to the Premier taking into account the perspectives of all the entities represented on the Committee, and to coordinate tasks assigned by the Premier. The Coordinating Committee is not an operational committee; the operational responsibility will be housed in the Labrador Hydro Project Office which is part of Newfoundland and Labrador Hydro. The Coordinating Committee will generate policy advice and analysis on key issues, such as the ones identified on the attached agenda.

Each member of the Committee will be expected to play an active role on issues that affect their Departmental responsibilities, bringing the resources of their Departments to bear as needed. The Committee will also bring an integrated policy perspective to the project.

A handwritten signature in cursive script that reads "Re. Thompson".

**ROBERT C. THOMPSON**Attachment



**AGENDA**

**Lower Churchill Coordinating Committee  
April 14, 2005 @ 10:00 a.m.  
Collective Bargaining Boardroom**

1. Introductions
2. Mandate of the Committee
3. Overview of the Lower Churchill EOI process
4. Key issues and policy areas
  - ☐ strategy and policy issues re Federal participation
  - ☐ inter-provincial relations and trade
  - ☐ financial and economic analysis
  - ☐ economic benefits
  - ☐ Labrador issues
  - ☐ aboriginal land claims
  - ☐ energy plan
  - ☐ federal /provincial environmental assessment MOU
5. Committee schedule
6. Next steps