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Subject : Energy Plan:

Ed:

These are some reflections on our excellent discussions on Tuesday regarding the energy plan.

DC Link

Thanks for clarifying that the explanation about the DC link and the rest of the LC project. As I understand it (and please let me know if I am getting this wrong) the DC link is viable on its own (800 mw line), but given that it will be a regulated rate of return, and given the risks, it may be difficult raising the capital in the marketplace at a reasonable interest rate, so a request for a federal loan guarantee is still required. The balance of the power from the project can be exported, and it will generate a high rate of return (based on capital costs which exclude the allocation to the DC link).

(I still don't have any data on the economics of these two projects. If Chris could send me this data it would be appreciated.)

Further on the DC link, Chris said there will be an update of the analysis from last October on the comparison of the DC link with a thermal future. It would be helpful if this analysis also gave the details on why the isolated island scenario based on wind/small hydro/Stephenville power is not a reasonable alternative to thermal, and for how many years this alternative could meet the island's energy needs. There was also some discussion of a natural gas plant at market prices as an alternative to thermal, but it was discounted based on the likelihood that natural gas prices will also float upwards in sync with oil prices. Has this scenario been quantified?

We had some discussion around whether the consumer should carry some of the cost burden of the DC link above the level normally allowed by the PUB. For example, carrying the cost of 800mw vs 500mw. In the same vein, I think there was an assumption that the enahnced value of a federal guarantee would flow to the project rather than to the consumer. It would be useful to identify the extent to which the PUB would need to be ordered to allow these types of costs to be borne by consumers, and how this would affect the spread between thermal and DC link.

The Big Picture

I don't know if we were all aligned on this point. Certainly I think everyone agrees that the energy warehouse concept would be realized through connectivity with the North American grid. This gives the potential for gas to wire, large wind on the island and Labrador, LC projects and Upper Churchill. Huge benefits to the treasury, economy and society. This future requires massive investment in energy infrastructure, and should be done based on the business case as well as the enhanced financial strength of government which arises from the surpluses generated in non-renewable resource development.

One of the key analytical requirements from this discussion was for Finance to produce scenarios for the future on the kind of surpluses which may be generated over 20-30 years, on top of other calls on these financal resources for social investment and general infrastructure. This analysis will answer the question whether the province will have the financial strength to backstop the energy infrastructure envisioned in the plan.

If stated this way, the issue of whether we connect to the west or connect to the south becomes a tactical question - we will go whichever way optimizes our return over the long term. If the risks of being choked and squeezed by Quebec cannot be resolved, we must have another alternative. My sense is that the cost data to make the exact comparison is not available yet (especially as the Quebec and Ontario costs won't work their way through the system for some time). So it is impossible to say how much choking we can stand before we abandon the western route. However, it is almost imperative to say in the plan that the technology and the basic costs of a southerly route justify building it as an alternative. We have not yet seen this analysis to back up this statement. If it is ready before the release of the energy plan, thr credibility of the alternative is greatly enhanced.

Energy-intesive Industry

I don't think we drew this one to a conclusion. The issue is whether the plan should adopt targets for attracting energy-intensive industries (which I think commits us to a set of guiding assumptions), or whether the plan should adopt a policy (such as Ed stated - attract such industries based on blended energy prices, competitive advantages, and net economic benefit). It would be nice to have someone map out the nuances of this policy issue so that we can explore it further.

I hope this is helpful.

Robert