

Date : 10/25/2010 11:13:21 AM
From : "Thompson, Robert"
To : "'EMartin@nalcenergy.com'"
Subject : Fw: Gate Doc
Attachment : Gate.doc;

Understand you were talking to Charles. Attached are our comments.

Sent Via BlackBerry

----- Original Message -----

From: Thompson, Robert

To: gbennett@nalcenergy.com <gbennett@nalcenergy.com>; Bown, Charles W.

Sent: Sun Oct 24 23:55:21 2010

Subject: Gate Doc

Gilbert - comments from Charles and me.

Executive Summary

p.16

- The recommendation is to “proceed” with the whole LCP – phase 1 and 2. Why is it so broad? We thought the approval being sought was to pass through the next Gate.
- Further, the Summary is not immediately explicit about what approval of the recommendation entails. Is this a recommendation to proceed with investments in detailed project engineering; negotiation of financial arrangements; PPAs; or what?
- Also, why is the recommendation to both the Board and the Shareholder. Why not to the Board only, with the document then being attached to a transmittal letter from the Board (containing the appropriate resolution) to the Government?
- We’ve been focused a lot lately on MF only; what does approval to proceed with GI mean? Will GI be part of a Gate 3 process or will there be separate processes for GI and MF. Will we only sanction MF next year?
- An important provision of the approval for the Board and Shareholder is the inclusion of EMERA as an equity partner; this fact is not addressed in the document until p.24. This is a strategic and political calculation that should be captured in the executive summary
- The Board and Shareholder need also to be advised on regulatory issues. In particular, Nalcor must advise PUB about its integrated resource planning decision. PUB may pose questions or call a hearing to address questions posed by stakeholders (consumer Advocate, NP, Industrial Customers). The current Integrated Resource Plan includes two options for generation expansion (isolated island and LCP). A decision on one is required by Dec 2010.
- There must also be a discussion on risk, including regulatory risk in NS and the potential that a final agreement with Emera may be unsuccessful. The P3 application is also not discussed.
- The Summary assumes that all industrial development in Labrador will be served by GI. While GI is positioned for export and domestic sales for industrial customers, its delivery timing may be too late for some of the Labrador industrial customers identified. A combination of the recall block and surplus MF power may be adequate to serve foreseeable mining sector requirements, so perhaps should be noted.

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- Market access options are expressed as distinct but equivalent. The scale of export option denied by HQT is significantly larger than Link projects and thus not equivalent. Is the reference to the 700MW request pending with HQT?
- The decision by the Regie was the precipitating event for the change in project configuration; this fact is not discussed.

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- The listing of pre-feasibility work already completed does not include the Benefits Strategy and commitment to a Gender and Diversity Strategy

p.19

- The energy plan quote is amended; ...competitively priced **energy and** power a priority. What is the significance of this change?

p.20

- The following quote from the EP is instructive in the government's view of the Island Link versus continuing with an isolated island model and should be included. "Constructing the transmission link, and delivering Lower Churchill power to the Island, is a more cost effective alternative to an isolated Island grid increasingly dependent upon oil-fired thermal power resources. It is also consistent with the goal of energy security in the province, as the cost of electricity from the Lower Churchill through the link would not be subject to external factors such as world oil market pressures."
- The reference to "forthcoming revenue" should be deleted. The present and future revenue to the govt has/is the key to reducing provincial debt and positioning the Shareholder to invest.

p.23

- Is the CPW for each of these options considered over the same time frame? If the time frame was shorter (15-20 years), which option has the lowest CPW?

- What is the price assumption for power imports from QC and what is the source of supply (generation)? Same questions from NYISO. How much power is purchased; does the analysis assume Holyrood replacement?

p.24

- Top of page - asserts that MF would exceed any national or international GHG reduction targets. Perhaps it would exceed targets for an electricity system (though not sure if that is the way targets are measured), but the province as a whole is still a high emitter of GHGs, and even with Holyrood taken out it will not be enough to meet our NEG-ECP commitments for reductions by 2020. Nonetheless, the 98% emission free electricity system stands on its own as a proud achievement. (Same issue on p. 29)
- Mid-page – says that the project will return greater than the cost of debt. Isn't that logical given that one of the parameters of the model is the rate of return permissible under law (now equivalent to NL Power)?
- Greater emphasis here on escalating oil prices expected into the future associated with a Holyrood/combined cycle future would be useful.
- Need appendix with data and analysis results

p.25

- Need appendix with data and analysis results. What probabilities were attached to each set of costs and revenues?
- Recognizing that an industrial customer to use all of MF in Labrador is not viable, did you consider the option of using a portion of MF power in Labrador for existing and new industrial customers? The Exec Summary only considers GI to fill this market.
- Rather than “via HQ”, which might be mistaken for selling it to HQ, is it supposed to say “via surplus transmission capacity on the HQ transmission system”?
- In Option 1 the “risk basis” appears to be discounting 100% of non-firm sales. I thought it had been risked at 50%

p. 26

- What does “through to Maine” mean? To a delivery point where sales can be made?

- Might be worthwhile to say (if its true) that the Emera deal also facilitates sale of power to PEI. Also, to avoid sensitivities, maybe it should be emphasized that the access through NB is on existing bookings or rights held by Emera that will be made available to Nalcor as part of the deal. It does not mean an expansion of transmission capacity in NB.

p.27

- Paragraph 2 is a very long sentence
- Can't really comment on section 6.2.3; Need data in this section and appendix with data and analysis results.
- In para 3 there is a discussion of "more risk associated with the Quebec option", but it seems from p. 25 that all the risk had been removed by modeling only existing firm recall capacity in Quebec and no use of non-firm open access capacity. Which is it?

p.28

- Not sure that paragraphs 4 and 5 relate to the Maritime link. It helps justify MF first, but not Maritime Link over sales through Quebec.
- Section 6.3 – notes that LCP in two phases meets the "domestic needs" of the province. Because the majority of power from GI is target for export, this is better phrased as both phases meeting the domestic and economic development needs of the province.

p.29

- There is reference to an "initial increase in rates". This is the first mention of this fact, which may be an important factor in communicating the project. More detail is required with a probability attached to it increasing or decreasing. (The "bump" chart would be worthwhile, comparing MF to Isolated Island.)
- The paragraph that starts "the Phase 1..." refers to a positive rate of return. As noted above, MF and Island Link will have a positive return by law, and anyway is justified by lowest cost rather than positive return. The Maritime link is justified by solid NPV and strategic variables. Therefore, positive rate of return may not be a good concept in this context.

- There is no reference to the Benefits Strategy in the list of project readiness items.
- Perhaps the deliverables could be strengthened. Rather than “analysis” of market access options, you have produced and proved-up several competitive, realistic market access options: a) Island load; 2) Emera deal; 3) transmission access to other Maritimes and NE; and 4) Quebec firm recall surplus. While these options are not finalized, they go beyond analysis.

p.30

- The IBA is described as finalized. This implies approved by both parties. Perhaps best to note pending ratification vote. Did either of the IPA or IPR analyses report any deficiencies or areas where more work is required?
- Might be useful to describe some of the components of the next phase of work after passing through the gate, and whether the next gate is project sanction, and what sanction means.
- Might be useful to note some of the conditions precedent to actually sanctioning the project.