Kennedy, Jerome

From: Kennedy, Jerome
Sent: Wednesday, October 10, 2012 12:33 PM
To: Kennedy, Jerome
Subject: Fw: Meeting with Ziff

------Original Message------
To: Kathy Dunderdale
To: Brian Taylor
To: Lynn Hammond
To: Charles Bown
Subject: Meeting with Ziff
Sent: Oct 10, 2012 12:03 AM

We had a good meeting with Ziff in Toronto today. They will finalize their report and be ready to give a technical briefing when we release their report(s).

The following is some basic messaging on Ziff's conclusions (using Dr. Wade Locke's number on the price that gas would have to come in at to be comparable to Muskrat Falls):

1. LNG will be 3 times more expensive than Muskrat Falls

2. Dr. Stephen Bruneau's analysis is based on the false assumption that White Rose gas is commercially available. Under the Atlantic Accord this is not correct. Also, Husky wants to maintain the option to use the gas to enhance oil recovery, as outlined in their development plan.

3. To attempt to force Husky to sell the gas to us at a much lower rate than the cost of production would be seen by the oil industry as a breach of agreement and akin to expropriation. When you consider that oil contributes 36% of our revenues such a move would be disastrous and discourage investment in our province.

4. In any event, even if we could get around the issue of the production license the cost of building a pipeline would be 4-6 times more expensive than Muskrat Falls.
5. Ultimately, if Ziff and Wood Mac are correct (which I have no doubt they are) it is the ratepayer who will pay if we wnet to natural gas.

6. Both Ziff and Wood Mac agree that natural gas is not an option to replace Muskrat Falls.

7. Ziff and Wood Mac's analysis supports Nalcor's DG2 conclusion on natural gas.

Sent Via BlackBerry

(1)

October 9/12 Meeting w/ Ziff in Toronto
(Ed Kallio, Charles, Heather, Jack)

(1) telephone call b/w Wood Mac & Ziff - 8:00 - 9:00 am on Thursday

(2) time frames - FLG is finalized

(3) release of natural gas reports - 30 days

→ FINALIZE
→

(4) EDUCATION process -

Pipeline - production licence
- not addressing the production licence issue, he is just ignoring it

Bruneau's argument - enough gas is available → where are being stored
(1) production licence → no obligation to produce gas to be commercially available
(2) not commercially viable
→ would be expropriation to force them to do it
→ have to sell to us at a price less than you can get on the market
other argument → or we will pay you market price - ratepayer will then pay

use cheap gas to get expensive oil ← operator wants to maintain option of using that free gas to enhance oil recovery

→ development plan files w/ CNLOPB

(2)

Bruneau's argument based on 2 assumptions / What price gas is available and govt can take knowing they have to sell it to a N.A. price (Henry Hub)

→ Bruneau's premise based on faulty assumptions

- agree with Bruneau on cost of pipeline (not too far off)
- between says iceberg risk can be engineered away
Theoretical but in practice is govt. willing to take chance? Would C-NLOPB approve?

- go shorter route with trenching] after 4800 m
- go longer route around the icebergs]

- average pipeline tariff (unit cost of laying the pipeline)
- small amount of cost vs a high-cost line
- North American - $1.00 - $1.50 per mmbtu
- Grand Banks pipeline - b/w 4.00 - 9.00
short route. / long route.

BRUNEAU'S ARGUMENT ENDS HERE

* POINT OF COMPARISON - Locke / Nalcor / Ziff **

(3)

- Charts to explain - powerpoint.

Simple concepts

- importance of oil to our economy
  yet to do what Browsey suggests would drive oil companies away
- cannot unilaterally change an agreement
- LNG is 3x more expensive per MF
- Pipeline is 4-5x more expensive
- electricity rates will go up.

TECHNICAL MEDIA BRIEFING.

~~MEDIA~~

NEWS CONFERENCE