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From : MBradbury@nlh.nl.ca

To : "DSturge@nlh.nl.ca" , "GBennett@nlh.nl.ca" , "Bown, Charles W." , "Bazeley, Dave" , "DHarris@nlh.nl.ca"

Subject : Minutes of Aug 25 meeting of the Regulatory and Structural Steering Committee

Attachment : minutes rssc aug 25 08.doc;summary of rssc policy recommendations.doc;rssc_to dos_table.doc;rssc minutes summary.doc;

Please find minutes attached. Pls advise of errors or omissions. I have also attached:

1. An updated to do list. We need to address unassigned items. Also owners of each to do should provide a status update in advance of the next meeting.
2. An updated minutes summary.
3. An updated listing of Policy recommendations that have come out of our discussions to date.

Please be advised that we are coming to the end of our process as a committee and it will soon be time to convert our discussions to date into an action plan. It is hoped that the key documents we are creating here; i.e. the minutes summary, the to do list and the summary of policy recommendations, will be key source documents during the execution of that plan.

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COMMERCIALLY SENSITIVE INFORMATION
Meeting of the Regulatory and Structural Steering Committee

August 25, 2008

In attendance:

D Bazeley
G Bennett
M Bradbury
D Harris

Apologies: D Sturge

Charles Bown

Charles informed the Committee that he had met with the PUB and put them on notice that significant changes to the regulatory structure would be coming with the advent of the Infeed and Lower Churchill. The Committee then turned its attention to a final review of the PWC report recommendations. Mark reminded the group that on this final go thru, we would be endeavoring to either determine a policy recommendation or a to do in respect to each item. The next item to discuss was 3.20.

3.20 Incorporation of the requirements of integrated grid

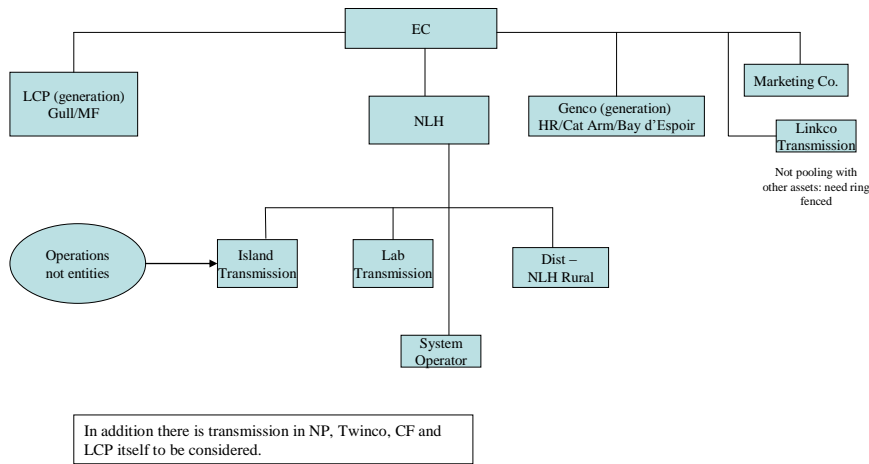
- The DC link is seen as the bridge between the Labrador and Island Systems.
- A lot of political implications to this question. One integrated system with one tariff desirable (one province), but in view of the differences in cost base between the Island and Labrador systems, one tariff may not be possible. A three part system in 2041 was not seen as desirable either.

To do: Dave B is preparing a paper on pricing principles for Gull power to Hydro and will include this question in the scope of that paper.

- A three-part tariff may put us offside with reciprocity rules.
- Even if we had 3 tariffs there would be one SO.
- With Hydro's generation assets moved to Genco, Hydro would be basically a transmission company. Mark asked why Genco would sell power to Hydro who would then flip to NP. Why not sell to NP directly?
- Gilbert then drew the following diagram pertaining to the structural aspects of transmission:

3.20

Transmission

**To do: Mark to enquire of PWC if Linkco should be sub of ECNL or of LCP**

- Dave B then suggested that NLH should own Twinco transmission assets. CF(L)Co currently assumes they are getting them in 2014.

CF(L)Co transmission assets - Group considered whether these should be in Hydro as well. Can tell them that the current situation could cause reciprocity problems under FERC. If they have an OATT, maybe we don't care. TransEnergie manages CF transmission assets in Labrador.

D Harris opined that NP has some 138 kv that is useful (Gander to Clarendville to Sunnyside). He made the distinction between functional ownership and actual ownership. We don't need to "own" it to control it. So maybe the assets are leased to NLH by NP at a rate that is incorporated into the overall tariff.

- 138 kv and above would be considered part of bulk transmission system. In Hydro, 69 kv is called transmission.

Policy recommendation: that NLH consider acquiring an option to purchase Twinco assets in advance of 2014.

To do: Find out if CF(L)Co has right of first refusal in a purchase of TWINCo transmission assets?

Policy recommendation: Lower Churchill transmission assets in Labrador should be put into regulated business.

- SO could be managing multiple transmission systems with separate tariffs including, CF, Linkco, NP, NLH Island, NLH Labrador and Twinco.

Policy recommendation – Need to consolidate various transmission systems to the extent possible, either through actual ownership or contractual control. Objective would be to simplify tariff structure.

- With respect to the system operator, the question was asked who will determine if we need new supply? No answer was determined.

To do: Where does marketing co best fit?

To do: Why not HQ model? Why are we going with the structure recommended by PWC. Will need clear answer to that question.

Policy recommendation – To the extent possible, multiple corporate entities are to be avoided unless clear reasons can be demonstrated supporting their formation.

To do: Gilbert Bennett to prepare a principles document outlining what we want as it pertains to transmission. RSSC Committee to review draft in consultation with Jim Haynes and determine “essential and highly desirable” items.

To do: Charles Bown to take principle document and prepare paper with recommendations, including consideration of the pros and cons of an Atlantic RTO.

If NB was SO for all the Atlantic Provinces, they would control issues pertaining to things like reserves, system balancing, transmission contracts and redispatch. In return the quid pro quo would be the creation of a real spot market in Atlantic Canada.

To do: Security of supply for Island system. Re-look at EPCA. Need to ensure that Province has right to override RTO decisions that threaten security of supply.

**Lower Churchill Project
Regulatory & Structural Matters
Summary of Policy Recommendations**

#	Recommendation	Minutes Date	PWC Rec #	Commentary/Status
1.00	There should be some price signal that encourages conservation.	July 16/08	1.10	Alternatives discussed included: 1. Hold the price for Gull power flat for the first 10 years, but thereafter include a market adjustment. 2. Index base price over time. 3. Consider Peak/off peak pricing. 4. Incorporate heritage rate pricing
1.05	The Committee endorsed the structural and contractual schematics as prepared by PWC.	July 8/08	Gnl	
1.10	Diesel generation would stay with Hydro distribution.	July 8/08	Gnl	
1.15	IOC & Wabush – Would be Genco customers. •	July 8/08	Gnl	
1.20	New supply for Hydro beyond heritage would be put out for tender	July 8/08	Gnl	
1.25	The System Operator would formulate the supply plan	July 8/08	Gnl	
1.30	LCP to have its own PPA's with creditworthy counterparties and will not sell all its power to Genco in the first instance.	July 8/08	Gnl	
1.35	That NLH consider acquiring an option to purchase Twinco assets in advance of 2014.	Aug 25/08	3.20	
1.40	Lower Churchill transmission assets in Labrador should be put into regulated business.	Aug 25/08	3.20	

**Lower Churchill Project
Regulatory & Structural Matters
Summary of Policy Recommendations**

#	Recommendation	Minutes Date	PWC Rec #	Commentary/Status
1.45	Need to consolidate various transmission systems to the extent possible, either through actual ownership or contractual control. Objective would be to simplify tariff structure.	Aug 25/08	3.20	
1.50	To the extent possible, multiple corporate entities are to be avoided unless clear reasons can be demonstrated supporting their formation.	Aug 25/08	3.20	
1.55				

**Lower Churchill Project
Regulatory & Structural Matters
To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.00	As a to do, it was decided that PwC would be asked about alternate financing methods for the Link that might ease the bump.	May 5/08	PwC	4.05	There is considerable commentary by PwC regarding the need for "negotiation with the PUB" regarding the bump associated with the Infeed.
1.05	A question arising from the April 21 minutes was who to task with the preparation of a term sheet for Gull power for presentation to NLH. It was directed that Joanna Harris be tasked to prepare this.	May 5/08	J Harris	5.05	That we draft a statement of pricing principles for development into a term sheet between NLH & Gull. Then consider regulatory implications.
1.10	The first to do was to clarify the wording in the PWC recommendation as it seemed that the word "not" should be before "dealing".	June 6/08	M Bradbury	5.10	Complete - PWC responded that the sentence is correct. What is meant is that having a back-to-back contract would be better for the project as there is documentary commitment to a long-term offtake and hence revenue certainty. Without a contract, then the long-term revenue certainty is dependent on there not being changes to the regulatory framework governing the cost passthrough of all the power provided to NP. Given we are talking 20 years, there could be the risk that the regulator allows NP to purchase from third parties, that cost pass-through formulae are changed in some way which destroys some of the value. Without a contract, there is less certainty over future revenues.

**Lower Churchill Project
Regulatory & Structural Matters
To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.15	Contact PWC to clarify the necessity of “back to back” contracts; i.e. Gull/NLH and NLH/NP. Need to confirm that the two contracts do not necessarily need to be mirror images of each other.	June 6/08	M Bradbury	5.10	Complete - See commentary in response under to do #1.10.
1.20	Dave B suggested that if NP could be persuaded to give up its retail customers to NLH and enter into a service contract with NLH for the distribution of power at the retail/commercial level, then this would effectively make all of the retail/commercial customers in the province direct customers of Hydro. With no competition at the retail/commercial level, this might then eliminate the need for a power contract with NP. This needs to be discussed with PWC.	June 6/08	M Bradbury	5.10	Complete - Discussed with PWC and their comment was that they suspected that it would take less time to negotiate a power contract with NP than it would to get them to agree to this.
1.25	Charles was of the mind that we need to talk to NP sooner rather than later. Recommends that we begin discussions immediately internally to map out a communications plan and strategy. Formulate communications plan for review by Derrick.	June 6/08	M Bradbury	5.10	Complete - The Committee has since steered away from discussions with NP and sees that legislative/directive solution as the only alternative.

**Lower Churchill Project
Regulatory & Structural Matters
To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.30	Talk to Jim H about workability of NP customers being ours and NP then performing distribution service for us.	June 6/08	M Bradbury	5.10	Complete – See PWC commentary under to do #1.20.
1.35	Talk to PwC as to why System Operator needs to be under NLH. Under FERC system, SO has to be totally separate body.	June 6/08	M Bradbury	5.10	<p>PWC responded: “We'd shown it under NLH based on the assumption that it would be unbundled - a minimum of accounting unbundling but probably legal unbundling too.</p> <p>I note that Hydro Quebec Transenergie is a division of HQ, so I assume that FERC allows a common parent company. On that basis, NLH SO may need to be under ECNL rather than NLH.</p> <p>A further question is whether the SO role needs to be separate from the transmission business itself. In the UK, although both are within the same group, the SO is ring-fenced. One of my guys has just come back to the UK after working in the States for 18 months or so and has done quite a bit in the NE, so I'll ask him what his experience has been on the degree of separation - he's travelling at the moment but I should be able to get hold of him in the next 24 hours.”</p>

**Lower Churchill Project
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To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.40	Perhaps what is required is a fairness opinion. That is what was done for Bruce Power by OPA (opinion was rendered by CIBC). Charles Bown suggested that if there are recalculations, the regulator might want to be involved. Gilbert Bennett stated that once we enter into the PPA, then that is it. No going back. Charles Bown mentioned that he is still uncertain of PWC's intent here. Have PWC clarify their intent verbally in a meeting format.	June 30/08	M Bradbury	5.10	Not done yet. This is probably best done when the Committee has completed its deliberations on all issues and is about to begin work on the White Paper. We could then update PWC on discussions to date, obtain clarification on various issues and obtain their initial feedback and suggestions before moving forward.
1.45	Introduce revised ECNL structure to LT	June 30/08	G Bennett	5.10	
1.50	Dave Bazeley to work with Joanna to review Canadian examples including NB nuclear refurbishment, NS wind development, Bruce, etc.	June 30/08	D Bazeley	5.10	

**Lower Churchill Project
Regulatory & Structural Matters
To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.55	Find out if PWC sees reliability oversight as part of the Grid Code. How is reliability oversight to be addressed?	June 30/08	M Bradbury	7.05	<p>Gilbert was of the mind that this is already essentially done. All we need do is adopt Order 888 wording. Question addressed to PWC Aug 13/08. PWC response: "any form of regulatory oversight is the responsibility of the regulator. If you are talking about reliability of the transmission network/distribution network then I would expect the principles to be contained within the Grid Code and there to be a cross reference to standards of service which may be varied from time to time. The standards of service would be specified (and could be an area where the regulator might seek improvements over time dependent on the current level). The regulated business would need to provide cost estimates on capex and opex for achieving this standard of service and how that would feed into the tariff(s) charged. These would be approved by the regulator. If the business is not regulated, there may still be a regulatory requirement for the company to demonstrate to the regulator that its costs are fair and non-discriminatory.</p> <p>The answer to the question depends on which assets we are talking about, which company owns and operates them, whether they are regulated or not, whether there are FERC requirements that override provincial requirements."</p>

**Lower Churchill Project
Regulatory & Structural Matters
To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.60	Investigate OIC requirement and its implications and whether legislative change might be required. Need plan that is doable.	June 30/08	C Bown	7.10	Take steps to ensure long-term transmission booking for Hydro.
1.65	That a paper is developed on the rationale for a long-term booking on the Maritime Link for the full 800MW for the NLH regulated business, and that the discussions between the Project and Nova Scotia counterparties address the issue of an equivalent long-term booking on the inter-tie between the Maritime Link and the Nova Scotia transmission system. The paper should also address the need for a long-term booking for capacity between Nova Scotia and New Brunswick and whether there are procedures in place to acquire this or whether NLH will need to lobby to achieve this and the likely timescales. The Committee wants PWC to explain why this paper is considered necessary.	June 30/08	M Bradbury	7.20	Question sent to PWC Aug 13/08. PWC response: "The Maritime MOU has picked up these concerns which were based on a 100% NLH ownership of the link and a need to ensure access to transmission for terms consistent with offtake agreements. Since the discussions are now looking at some form of joint venture where suppliers and offtakers all have an interest in ensuring access, the need for a paper has gone."
1.70	Ensure that Faskens opinion addresses the question of whether trading company needs to be a separate corporation.	June 30/08	G Bennett	11.05	Form a trading entity that purchases power from the combined generating company and then resells to regulated supply company and to unregulated buyers as well.

**Lower Churchill Project
Regulatory & Structural Matters
To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.80	Frame up an overall "White Paper" incorporating these principles while ensuring alignment with the Provincial Energy Plan which promotes the Link and states that "It is also consistent with the goal of energy security on the province, as the cost of electricity from the Lower Churchill through the link would not be subject to external factors such as word oil market pressures." market design	July 16/08	D Bazeley	General	TOC already prepared. Need to cover among other things, issues of periodic price regulation and wholesale market design
1.85	Draft proposal outlining substance of the required OIC and/or legislative change necessary to solidify NLH's revenue base from retail/commercial electricity consumers in the Province. This document should also address NR plans/objectives as they pertain to industrial customers, both existing and future customers	July 16/08	C Bown	1.00	
1.90	Prepare an analysis laying out the pros and cons of optimization of regulated and non-regulated generation fleet, specifically to combine all generation assets under one entity	July 16/08	D Harris	1.15	

**Lower Churchill Project
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To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
1.95	Recommendations of report produced under 1.90 to be brought to the corporate level	July 16/08	G Bennett	1.15	
2.00	Need to conduct benchmarking analysis of rates in the Province both now and post LCP. Should be compared to other provinces to the extent feasible.	July 16/08	G Mitchell	1.25	Glen to spearhead in consultation with Rob.
2.05	Need to know from PWC when a decision is required on PWC recommendation for separate regulation for link and generation but combined for network and supply. Do we need for market sounding?	July 16/08	M Bradbury	3.15	Complete - PWC has stated that "it is highly desirable that the proposed ownership structure of the transmission assets (with LOIs from any third party equity player) and the regulatory framework within which the assets will operate should be clarified before market sounding. This is more important if different parts of the project are financed separately. It would be possible to inform banks that any changes to the structures would only be considered if they enhanced the project's bankability."
2.10	Examine OATT rate structure and associated market rules in context of NLH and Linko transmission assets and make recommendation. As part of that analysis, need to consider implications of CF and NP facilities.	July 16/08	D Harris	3.15	

**Lower Churchill Project
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To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
2.15	Make a change to the proposed ECNL Structure diagram as provided by PWC. Under Regulated Business NLH, was a Distribution Division and under that, there was a box entitled "Non-regulated (subject to PPA's with LCP). It was suggested that this box should be moved to be under Gencorp. Further discussion with PWC required.	July 16/08	M Bradbury	General	PWC asked for their comment on this suggested change on Aug 13/08. PWC response: "On the face of it, it would seem to make sense for all non-regulated business to fall under Gencorp. In the "contractual relationships LCPCo" slide we show LCPCo contracting with ECNL to provide head office service agreements. This might also include metering and invoicing services. However, I would expect LCPCo to manage its own customer service arrangements, since its customers will all have large demands. "
2.20	Enquire of PWC if Linkco should be sub of ECNL or of LCP	Aug 25/08	M Bradbury	3.20	
2.25	Find out if CF(L)Co has right of first refusal in a purchase of TWINCo transmission assets?	Aug 25/08	Unassigned	3.20	
2.30	Where does marketing co best fit?	Aug 25/08	Unassigned	3.20	
2.35	Why not HQ model? Why are we going with the structure recommended by PWC. Will need clear answer to that question.	Aug 25/08	Unassigned	3.20	

**Lower Churchill Project
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To Do's**

#	To Do	Date Assigned	Assigned Person	PWC Rec #	Commentary/Status
2.40	Prepare a principles document outlining what we want as it pertains to transmission. RSSC Committee to review draft in consultation with Jim Haynes and determine “essential and highly desirable” items.	Aug 25/08	G Bennett	3.20	
2.45	Take principle document from to do # 2.40 and prepare paper with recommendations, including consideration of the pros and cons of an Atlantic RTO.	Aug 25/08	C Bown	3.20	
2.50	Security of supply for Island system. Re-look at EPCA. Need to ensure that Province has right to override RTO decisions that threaten security of supply.	Aug 25/08	D Bazeley	3.20	