

Date : 5/18/2011 3:54:10 PM

From : "Bown, Charles W."

To : "Thompson, Robert"

Subject : Lower Churchill - Proposed PUB Question

Attachment : PUB Review Questions 180511.doc;

Robert;

We have completed a draft of the question which is attached for your review and comment.

Charles

Pursuant to subsections 5(1) and (2) of the *Electrical Power Control Act, 1994* (the “EPCA”), Government hereby refers the following matter to the Board of Commissioners of Public Utilities (the “Board”).

The Reference Question

Government and Newfoundland and Labrador Hydro (“NLH”) have determined that the lower-cost option for the supply of power to the Island interconnected system over the period of 2011-2067 is the development of the Muskrat Falls generation facility and the Labrador-Island Link transmission line, as defined in Schedule “A” attached hereto (the “Project”). Under this proposal, it is contemplated that NLH would enter into a long-term power purchase agreement and transmission services agreement with Nalcor Energy (“Nalcor”), or subsidiaries, the costs of which would be included in NLH’s regulated cost of service recovered from NLH’s Island interconnected system customers (the “Island Interconnected Customers”).

The Board shall conduct a review and provide a report to Government (the “Report”), following the procedures set out herein. The Report shall provide the Board’s conclusion on whether the Project represents the lower-cost option for the supply of power to Island Interconnected Customers, as compared to the isolated island option as defined in Schedule “B” hereto (the “Isolated Island Option”). For the purpose of this reference, the *lower-cost option* is defined as the option with the lower Cumulative Present Worth to NLH, using the calculation methodology used in the *Generation Planning Issues 2010 July Update* report included as Schedule “C” hereto.¹ The review shall not include options and decisions respecting the monetization of the excess power from the Muskrat Falls generation facility, including the Maritime Link project.

The Procedure

Pursuant to subsection 5(2) of the EPCA, the Board will follow the procedure set out in this reference.

First, the Board shall retain a consultant to provide an independent, third-party report to evaluate whether the Project or the Isolated Island Option represents the lower-cost option for NLH (the “Independent Report”). The purpose of the Independent Report shall be to provide the analysis necessary for the Board to respond to the referral.

¹ Cumulative Present Worth (“CPW”) includes all capital and operating costs associated with a particular incremental supply source (or portfolio of resources) over its useful economic life, versus competing alternatives or portfolios. CPW concerns itself only with the expenditure side of the financial equation. The lower the CPW, the lower the revenue requirement for the utility and hence, the lower the electricity rates will be. By contrast, the term Net Present Value (“NPV”) typically refers to a present value taking into account both the expenditure and revenue side of the financial equation, where capital and operating expenditures are negative and revenue is positive.

In preparing the Independent Report, as it relates to the following matters, the consultant shall only evaluate:

- The reasonableness of the Island load forecasts used by NLH in comparing the two options;
- The reasonableness of the system planning assumptions used by NLH in comparing the two options; and
- The reasonableness of the assumptions used by NLH and Nalcor for developing and comparing the estimated costs of delivery of power to NLH from the two options.

The Independent Report shall reply upon Nalcor's assumptions regarding the proposed financing strategy and corporate structures relating to the Project.

The Board and / or the consultant retained by the Board shall be entitled to request and receive such information from NLH and Nalcor as may be required by the consultant to fulfill the mandate for the Independent Report as specified herein. Nalcor or NLH shall advise the consultant and the Board where this process involves the disclosure of confidential or commercially sensitive information, meaning information Nalcor or NLH maintain the release of which may negatively affect Nalcor's ability to minimize costs associated with the Project and ultimately the cost to Island Interconnected Customers. Nalcor or NLH shall still have the obligation to provide such information, but where and to the extent the Board accepts such arguments as being reasonable, the Board shall ensure such information remains confidential and is not disclosed in the Independent Report at a level of specificity to have such negative effects.

The Independent Report shall be received by the Board on or before August 12, 2011 and immediately made public.

The Board shall then conduct a public hearing pursuant to subsection 5(1) of the EPCA (the "Public Hearing"). The Public Hearing will be limited to a review of the Independent Report and the receipt of submissions from the public in respect of the findings and conclusions of the Independent Report.

In conducting the Public Hearing process, the Board shall ensure information requests and examinations shall only be considered to the extent:

- they are within the mandate of this reference; and
- the Board is satisfied that the reply to an information request or examination will not require the disclosure of confidential or commercially sensitive information, meaning information Nalcor or NLH maintain the release of which, may negatively affect Nalcor's ability to minimize costs associated with the Project and ultimately the cost to Island Interconnected Customers. To the extent the

Board accepts such arguments by Nalcor or NLH as being reasonable, the Board shall permit a response excluding such information.

The Terms of Reference for the Board's Report

The Report shall provide the Board's conclusion on the Reference Question, taking into account the Independent Report and the Public Hearing process.

The Board shall provide the Report to the Minister of Natural Resources by 30 November, 2011.

DRAFT