

Date : 10/17/2011 1:31:43 PM

From : "Bown, Charles W."

To : "Dalton, Diana"

Subject : FW: TRIM DOCUMENT : DOC-14125 : DNR Response to Muskrat Generation EA Panel Recommendations

Attachment : DNR Response to Muskrat Generation EA Panel Recommendations.DOC;DNR Response to Muskrat Generation EA Panel Recommendations.tr5;

Attached are the NR responses to the JRP Report which are due today. In light of our conversation this morning, I have requested an extension from Bill so that we can incorporate that discussion.

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

From: Snook, Corey

Sent: Friday, October 14, 2011 2:19 PM

To: Bown, Charles W.

Cc: McGrath, Rob; Parsons, Walter; Scott, Paul G.; Rose, Bev

Subject: TRIM DOCUMENT : DOC-14125 : DNR Response to Muskrat Generation EA Panel Recommendations

Charles,

Here are the revised JRP responses including revisions from our noon meeting.

-Corey

-----< TRIM Record Information >-----

Record Number : DOC-14125

Title : DNR Response to Muskrat Generation EA Panel Recommendations

DNR Responses to EA Panel Recommendations

| No. | Joint Review Panel Recommendations | To whom recommendation is directed Federal, Provincial, and/or Proponent (Nalcor) | Identify Department with mandate and/or expertise to lead Provincial Government response | Identify if your Department has some input on response (support) | Comments |
|-----|---|---|--|--|---------------------------------|
| 1 | 4.1 Government confirmation of projected long-term returns | Provincial | NR-Energy | INTRD | INTRD - in partnership with FIN |
| 2 | 4.2 Independent analysis of alternatives to meeting domestic demand | Provincial, Nalcor | NR-Energy | | |
| 3 | 4.3 Integrated Resource Planning | Provincial, Nalcor | NR-Energy | ENVC-LM | |
| 4 | 4.4 Project sequencing and applying lessons learned | Nalcor | NR-Energy | | |
| 5 | 5.2 Backing up intermittent renewable energy | Nalcor | NR-Energy | | |
| 6 | 12.12 Modifications to the Benefits Strategy | Nalcor, Provincial | | HRLE, INTRD, LAA | INTRD – in partnership with NR |
| 7 | 15.3 Long-term funding for environmental management from Nalcor | Nalcor | | ENVC-WR | |
| 8 | 15.10 Local hiring for environmental management work | Nalcor | | HRLE, EDU | |

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 4.1)

| Panel Recommendation #4.1 | Department Name/Division |
|---|--------------------------|
| Government confirmation of projected long-term returns <p>The Panel recommends that, if the Project is approved, before making the sanction decision for each of Muskrat Falls and Gull Island, the Government of Newfoundland and Labrador undertake a separate and formal review of the projected cash flow of the Project component being considered for sanctioning (either Muskrat Falls or Gull Island) to confirm whether that component would in fact provide significant long-term financial returns to Government for the benefit of the people of the Province. Such financial returns must be over and above revenues required to cover operating costs, expenditures for monitoring, mitigation and adaptive management, and financial obligations to Innu Nation. The Panel further recommends that the Government of Newfoundland and Labrador base these reviews on information on energy sales, costs and market returns that have been updated at the time of sanction decision, and make the results of the reviews public at that time. The financial reviews should also take into account the results of the independent alternatives assessment recommended in Recommendation 4.2.</p> | |

| Response Statement |
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| Description: <p>The Government of Newfoundland and Labrador accepts the intent of this recommendation that a review of the project's financial viability should be completed at the time of sanction.</p> |
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| Response Statement Rationale |
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| Description: <ul style="list-style-type: none"> • Government will undertake a full financial review of the Project before sanctioning to ensure it is financially viable. This review will consider many of the topics and issues raised by the JRP. • International consulting firm Navigant completed an independent review that confirmed Nalcor's assessment of the Project's economics. As such, Government has a reasonable expectation of appropriate returns from the Project. • Public release of any portion of the review will be subject to Government's ongoing commitment to protect commercially-sensitive information. |
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Deputy Minister Signature: _____

Date: _____

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 4.2)

| Panel Recommendation #4.2 | Department Name/Division |
|---|--------------------------|
| <p>Independent analysis of alternatives to meeting domestic demand</p> <p>The Panel recommends that, before governments make their decision on the Project, the Government of Newfoundland and Labrador and Nalcor commission an independent analysis to address the question “What would be the best way to meet domestic demand under the ‘No Project’ option, including the possibility of a Labrador-Island interconnection no later than 2041 to access Churchill Falls power at that time, or earlier, based on available recall?” The analysis should address the following considerations:</p> <ul style="list-style-type: none"> • why Nalcor’s least cost alternative to meet domestic demand to 2067 does not include Churchill Falls power which would be available in large quantities from 2041, or any recall power in excess of Labrador’s needs prior to that date, especially since both would be available at near zero generation cost (recognizing that there would be transmission costs involved); • the use of Gull Island power when and if it becomes available since it has a lower per unit generation cost than Muskrat Falls; • the extent to which Nalcor’s analysis looked only at current technology and systems versus factoring in developing technology; • a review of Nalcor’s assumptions regarding the price of oil till 2067, since the analysis provided was particularly sensitive to this variable; • a review of Nalcor’s estimates of domestic demand growth (including the various projections to 2027 in the EIS (2007, 2008, 2009 and the 0.8 percent annual growth to 2067 provided at the hearing); • Nalcor’s assumptions and analysis with respect to demand management programs (compare Nalcor’s conservative targets to targets and objectives of similar programs in other jurisdictions and consider the specific recommendations, including the use of incentives to curtail electric base board heating, from Helios Corporation, among others); • the suggestion made by the Helios Corporation that an 800 MW wind farm on the Avalon Peninsula would be equivalent to Muskrat Falls in terms of supplying domestic needs, could be constructed with a capital cost of \$2.5 billion, and would have an annual operating cost of \$50 million and a levelized cost of power of 7.5 cents per kilowatt-hour; • whether natural gas could be a lower cost option for Holyrood than oil; and potential for renewable energy sources on the Island (wind, small scale hydro, tidal) to supply a portion of Island demand. | |

| Response Statement |
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| <p>The Government of Newfoundland and Labrador accepts this recommendation.</p> |

| Response Statement Rationale |
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- Navigant's independent review addressed the entire list of considerations that the JRP recommended and agreed with Nalcor's conclusion that the Interconnected Island alternative is the long-term least cost option for the Island of Newfoundland.
- The Navigant report answers the question posed by the JRP, although the exact wording of the JRP question was not posed to Navigant.

Deputy Minister Signature: _____

Date: _____

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 4.3)

| Panel Recommendation #4.3 | Department Name/Division |
|--|--------------------------|
| Integrated Resource Planning <p>The Panel recommends that the Government of Newfoundland and Labrador and Nalcor consider using Integrated Resource Planning, a concept successfully used in other jurisdictions. Such an approach would involve interested stakeholders and look simultaneously at demand and supply solutions and alternative uses of resources over the medium and long term.</p> | |

| Response Statement |
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| The Government of Newfoundland and Labrador accepts this recommendation. |

| Response Statement Rationale |
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| <ul style="list-style-type: none"> • Nalcor and NL Hydro's project planning for the Project followed the current system planning methodology. • The PUB has considered IRP in the past, and has indicated that it will consider its merits in the future: <ul style="list-style-type: none"> ○ "The Board will convene a meeting of stakeholders including Hydro and the parties to this proceeding to discuss the scope of an IRP process with the timing of such an exercise to be determined by the Board." P.U.8(2007) • If IRP is implemented, it would apply to future projects and not be retroactive to the Project. |

Deputy Minister Signature: _____

Date: _____

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 4.4)

| Panel Recommendation #4.4 | Department Name/Division |
|---|---------------------------------|
| <p>Project sequencing and applying lessons learned</p> <p>The Panel recommends that, if the Project is approved, and if for any reason construction of the Gull Island portion of the Project occurs before Muskrat Falls, Nalcor should be expected to apply the lessons learned from the construction of Gull Island to the construction of Muskrat Falls.</p> | |
| <p style="text-align: center;">Response Statement</p> <p>The Government of Newfoundland and Labrador accepts this recommendation.</p> | |
| <p style="text-align: center;">Response Statement Rationale</p> <ul style="list-style-type: none"> Government agrees that Nalcor should apply lessons learned during the construction of any major project to future projects. | |

Deputy Minister Signature: _____

Date: _____

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 5.2)

| Panel Recommendation #5.2 | Department Name/Division |
|--|---------------------------------|
| <p>Backing up intermittent renewable energy</p> <p>The Panel recommends that, if the Project is approved, Nalcor be required to make all reasonable efforts to maximize the potential to utilize power from the Project to back-up wind power and other intermittent renewable sources of electricity. The results of Nalcor's efforts should be reported to the public through its annual report.</p> | |
| <p style="text-align: center;">Response Statement</p> <p>The Government of Newfoundland and Labrador accepts the intent of this recommendation that Nalcor should make reasonable efforts to use power from the Project to back-up wind and other intermittent renewable sources of electricity.</p> | |
| <p style="text-align: center;">Response Statement Rationale</p> <ul style="list-style-type: none"> Government agrees that the Project provides Nalcor with the ability to integrate intermittent renewable energy resources, including the province's wind resources, which are among the best in North America. Government agrees Nalcor should report annually on its efforts to facilitate development of wind and other intermittent energy resources. The province's 2007 Energy Plan highlighted hydro development, such as Muskrat Falls, as a natural enabler of wind development. | |

Deputy Minister Signature: _____

Date: _____

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 12.12)

| Panel Recommendation #12.12 | Department Name/Division |
|---|--------------------------|
| <p>Modifications to the Benefits Strategy</p> <p>The Panel recommends that, if the Project is approved, Nalcor and the provincial Department of Natural Resources modify two overall provisions of the Benefits Strategy. The first is to ensure that both the monthly reports on employment and goods and services and the quarterly reports on compliance are publicly available and not restricted by the confidentiality provisions of Nalcor's legislation. The second is to remove the provision that allows the Minister to modify the benefits targets and other commitments regarding this Project at the Minister's sole discretion.</p> | |

| Response Statement |
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| <p>The Government of Newfoundland and Labrador does not accept this recommendation.</p> |

| Response Statement Rationale |
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| <ul style="list-style-type: none"> • The Lower Churchill Construction Projects Benefits Strategy provides that Nalcor must report on a range of benefits targets and commitments to Government and that the Minister may provide updates to the public or House of Assembly. • The ability of the Minister to consider the full range of implications of public release and modifying the benefits targets must not be fettered. There are other considerations important to the province that the Minister must weigh in determining any target modifications or public release of information. • Government is committed to the principle of protecting commercially-sensitive information. Government will protect commercially-sensitive information relating to the Project in the same manner it protects commercially-sensitive information in all other sectors of the economy. |

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 15.3)

| Panel Recommendation #15.3 | Department Name/Division |
|--|---------------------------------|
| <p>Long-term funding for environmental management from Nalcor</p> <p>The Panel recommends that, if the Project is approved, and to the extent that funds are not committed from other sources, Nalcor identify and allocate in its detailed Project budget, financial support for environmental management for the duration of Project construction. The Panel further recommends that Nalcor make a general commitment with a ten-year forecast, to be updated every five years, until such time as there is no longer evidence of ongoing environmental effects resulting from the Project.</p> | |
| <p>Response Statement</p> | |
| <p>The Government of Newfoundland and Labrador accepts the intent of this recommendation that Nalcor should budget funds to meet its environmental management obligations.</p> | |
| <p>Response Statement Rationale</p> | |
| <ul style="list-style-type: none"> • Government accepts that Nalcor should budget funds to meet its environmental management obligations, however, determining the method of doing so is the responsibility of the Proponent. | |

Government Response Template
(One Page Maximum, not including Joint Review Panel Recommendation)
 (No. 15.10)

| Panel Recommendation #15.10 | Department Name/Division |
|---|--------------------------|
| Local hiring for environmental management work The Panel recommends that, if the Project is approved, where possible, Nalcor hire local people to work on environmental monitoring and mitigation projects to benefit from their local knowledge and to develop local skills and experience in the field of environmental management. | |

| Response Statement |
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| The Government of Newfoundland and Labrador accepts this recommendation. |

| Response Statement Rationale |
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| <ul style="list-style-type: none"> • This recommendation is consistent with the Lower Churchill Construction Projects Benefits Strategy that establishes the Project's hiring protocols. Sections 4.3 and 4.4 of the Strategy are specifically relevant to this recommendation, while remaining subject to the sections relating to gender equity and diversity provisions. • Section 4.3 sets generating station hiring protocols consistent with the Canadian Charter of Human Rights. The protocol will implement commitments made in any executed Impacts and Benefits Agreement (IBA), followed by first consideration for employment for qualified residents of Labrador followed by qualified residents of the province. • Section 4.4 sets HVdc transmission system hiring protocols consistent with the Canadian Charter of Human Rights. The protocol will implement commitments made in any executed Impacts and Benefits Agreement (IBA), followed by first consideration for employment for qualified residents of the province. |