

Date : 1/27/2010 5:18:04 PM  
From : "Dunderdale, Kathy"  
To : "Thompson, Robert"  
Subject : Re: BN re: Prime Minister

This is good to go

Sent Via BlackBerry

---

**From:** Thompson, Robert  
**To:** Dunderdale, Kathy; Jacobs, Debbie A.  
**Sent:** Wed Jan 27 15:51:17 2010  
**Subject:** BN re: Prime Minister

**Please find below and attached the BN we wish to send to the Premier's Office. Your review and approval is requested.**

**Meeting Note  
Prime Minister of Canada**

**Attendees:** Stephen Harper – Prime Minister  
Others will attend but have not been identified

Premier Williams and others will attend

**Purpose of Meeting** To discuss the New Brunswick – Quebec deal to sell New Brunswick Power electricity assets and the impact it has on NL and the Lower Churchill Project, in particular

**Background:**

- On October 28, 2009, New Brunswick and Quebec signed a Memorandum of Understanding which would see the renewable generation, transmission and distribution assets of New Brunswick Power sold to Hydro Quebec (HQ) for \$4.5 billion in cash.
- Opposition to the deal in NB has been very strong where opponents said the government was giving up control of its electricity industry to another province. In NL, the primary concern was the sale of the NB transmission system, the relocation of the independent system operator (NBSO) to a NB subsidiary of HQ, and the commitment by the NB government to alter its electricity legislation and regulations to conform to that in Quebec. These moves would result in HQ having a significant amount of control of access to the NB electricity; present and future.
- On January 20, 2010, New Brunswick Premier Shawn Graham released details of a revised agreement with Quebec. To date, news releases and an agreement summary are the only publicly-available documents on the agreement; a revised MOU has not been released. During the press conference, Premier Graham stated that this is a "finalized" agreement and officials will now begin work on the legal documents. The NB Premier says he still anticipates the deal will close on or before March 31, 2010. NR has developed a comparison of the major provisions in the October 29, 2009 MOU and the January 20, 2010 announcement. The comparison is provided as Attachment 1.
- In summary, HQ will no longer acquire the NB transmission or distribution assets and the NBSO will remain in its current form. HQ will still acquire the same generation assets (hydro plants, Point Lepreau nuclear station and two light oil-fired peaking units); and a tolling agreement for Belledune (coal, 458 MW) and Coleson Cove (oil, 978 MW) which gives HQ the right to order their output level and the right to order their shut down.
- HQ will also acquire transmission rights on the NB-New England intertie that were owned by NB Power (670 MW). This transaction, in addition to the 300 MW that HQ purchased in 2009 through the open season process, will give HQ almost all the usable capacity on the 1000 MW intertie.
- The amount that HQ will pay has been reduced to a total of \$3.2 billion: \$1.8 billion is payable when the agreement closes, and \$1.4 billion will be paid for the final sale of Point Lepreau upon successful conclusion of its refurbishment, which is expected in January, 2011.
- HQ will commit to supplying NB Power Distribution with 14 billion kWh annually at a rate fixed for five years at 7.35 ¢/kWh. Following the five year period, the rate will be indexed to the NB Consumer Price Index. By comparison, within Quebec, HQ Production is required by QC legislation to supply HQ Distribution with 165 billion kWh/year at a fixed price of 2.79 ¢/kWh, with no escalation provision.
- Once the deal comes into effect, industrial electricity rates will immediately reduce by 23% for the largest customers and 15% for smaller industrials, and will adjust annually in accordance with changes in HQ's equivalent Quebec rates for the industrial portion of the HQ supply commitment. Previously, industrial customers had expected a 30% rate reduction.

- As before, incremental supply above the HQ supply commitment will be secured through a competitive bidding process approved by the NB regulator.

-  
Discussion with NBSO

- NBSO does not anticipate any significant changes to its role, its rules or the NB market rules following the conclusion of this deal. It does note, however that there will have to be changes to the NB regulatory system to accommodate the new way of pricing power in NB.
- NBSO also does not foresee any significant changes to overall transmission rates in NB. It noted that the cost of the intertie is borne by the holders of the rights on the system.
- NBSO indicates that since NB Power owned rights to the 670 MW of firm transmission capacity, it is within NB market rules for it to sell those rights to HQ without going through a new open season.

**Analysis;**

- In the absence of a revised MOU to review, the new agreement appears to be an improvement for both NB and QC, in particular; NB gets less money, but retains a lot more control over its electricity sector. HQ gets the best generation assets, full control over export transmission rights on the existing intertie, pays less money and takes on less risk. HQ does not get direct “control” of the domestic transmission and distribution grid, but given the reservation that it will have on the system to supply electricity to NB Power, it will have a large measure of indirect control.
- While it is positive that HQ is not purchasing the transmission assets of NB Power and NBSO will remain in place and independent, HQ will control almost all of the capacity on the existing NB-NE intertie. Therefore, if this deal is concluded, then transmission access through NB can only be accomplished by either purchasing capacity on the existing line from HQ, or investing in new transmission infrastructure in NB

**Speaking Points:**

- The NB-QC deal will see Hydro Quebec purchase the electricity generation and transmission export assets of New Brunswick Power. While HQ will not own the domestic transmission grid, its reservations for power sales to NB Power will also ensure that it “controls” this valuable asset as well. This arrangement is counter to the open access principles of the Northern American electric market place that, ironically, is administered by a US regulatory agency. You may wish to inform the Prime Minister that while we are pleased with the retention of an independent system operator in New Brunswick, the sale of the 670MW of international transmission rights to Hydro Quebec demonstrates Quebec’s desire to exercise market dominance, to the detriment of other potential exporters. You may wish to ask the Prime Minister if he will be asking the Competition Bureau or the National Energy Board to review this transaction. You may also ask the Prime Minister what is his response will be to a review by the US Federal Energy Regulatory Commission of a Canadian business transaction should an event occur in the near future.

Prepared / Approved by: David Bazeley/ Charles W. Bown

Approved by:

January 27, 2010