

Date : 10/15/2009 8:13:04 PM

From : "Bown, Charles W."

To : "Thompson, Robert"

Subject : Briefing Note NB-QC final.doc

Attachment : Briefing Note NB-QC final.doc;

Robert;

Luckily I found the bn just before I left today and forwarded it to Joanna to her final clean-up. I wrote Ed to advise that Joanna had the bn and that I would like to you to review before it was sent to P. That didn't happen. Just received the attached from Ed as a cc on message to Brian and em.

CwB


Confidential**Briefing Note****Title: New Brunswick - Quebec Energy Partnership****Issue: Potential Implications for Nalcor Energy****Background**

- On June 23, 2009, Premiers Graham and Charest announced that they were entering into discussions with a view to developing partnerships in the energy sector.
- The Premiers directed their energy officials, as well as representatives of NB Power and Hydro-Québec, to explore opportunities for co-operation, particularly in the areas of accessibility, supply, transmission, market opportunities and reducing greenhouse gas emissions.
- In the press release, Premier Graham is quoted as stating that, "New Brunswick has identified the energy sector as an essential component of the province's economic development." "That is why, today, we believe it is necessary to further explore opportunities for increased collaboration with Quebec in this sector, especially with regard to clean and renewable energy supplies at a competitive cost."
- Premier Charest stated that, "Quebec and New Brunswick have a great deal to gain from working together to improve their position in the energy market," "In recent years, our government has made substantial investments in order to develop greater capacity. Today, Quebec offers clean and renewable energy, at a competitive price. That is a considerable advantage given the current worldwide efforts to combat climate change."
- Subsequent news stories characterized the discussions as New Brunswick and Quebec entering into discussions to determine if the two provinces can work together to lower energy rates and share transmission capacity. Premier Graham commented that it was too early to offer any specific examples of how New Brunswick could obtain lower power rates by working with Quebec, but noted Quebec is in a position to benefit from New Brunswick's transmission capacity to export power and that New Brunswick could also benefit from access to cheaper energy.
- Premier Graham went on to state that New Brunswick is situated next door to one of the largest power utilities in North America with the cheapest power rates and that it is important for New Brunswick to determine how it can access competitive energy rates while, at the same time, use its geographic location to be a mutual benefit for the province of Quebec.
- At the time Premier Graham did not rule out privatizing the New Brunswick crown electricity utility, New Brunswick Power (NB Power) and advised that officials were to report back to Premiers by September 2009.

Status

- Nalcor and NR have confirmed that the discussions between New Brunswick and Quebec are ongoing. The initiative appears to be led by the Governments, however the nature and extent of utilities' involvement is not known. It is important to note that the possible outcome of these discussions is not known.
- Rumors are circulating in New Brunswick that an announcement on the result of these discussions may happen by mid – to end of October but the nature of the announcement is unknown. NR has been advised that the New Brunswick System Operator (NBSO) must report to the Public Utilities Board on October 16 regarding its business plan and

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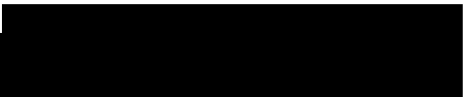
funding requirements for 2010-10. To-date, NBSO has not received a reply from the New Brunswick government on its request for guidance for the upcoming year. NBSO was created by the previous government from NB Power to act as the independent operator of the New Brunswick electricity transmission system.

- NR has also been advised that the New Brunswick legislature will open on November 17.

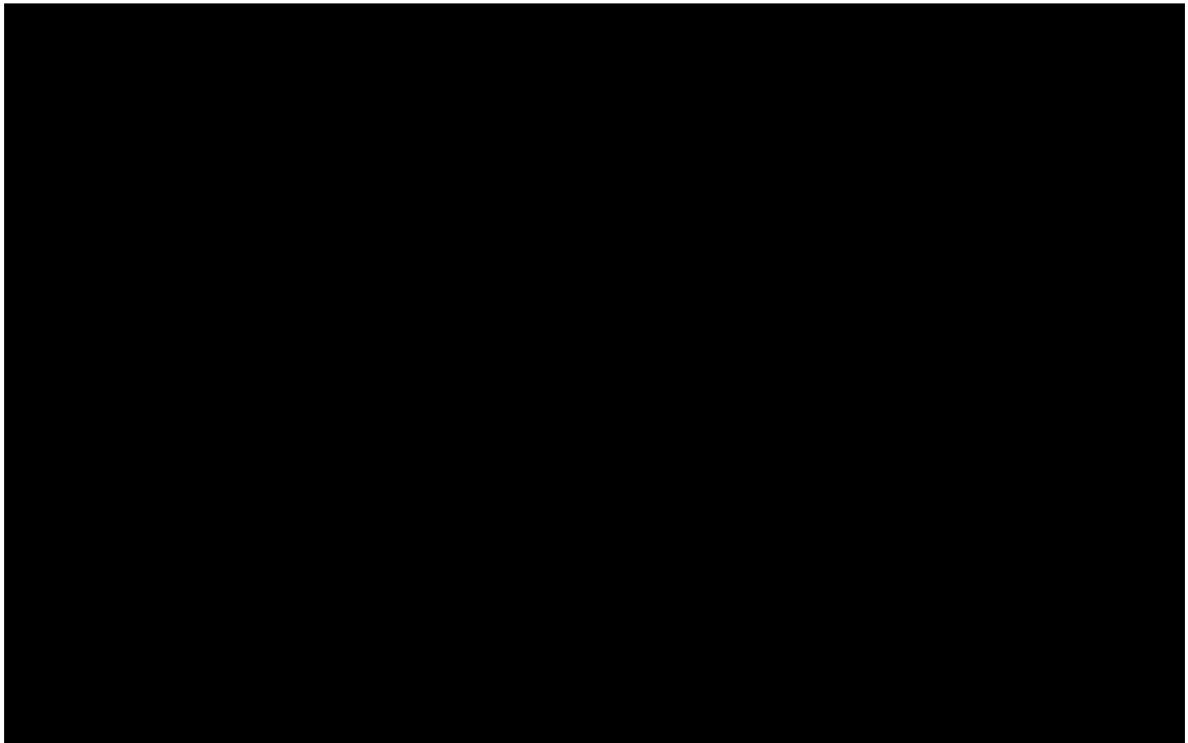
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- Nalcor has made transmission service requests to NBSO for 740 MW via the HQ/NB interface and via the Salisbury substation.

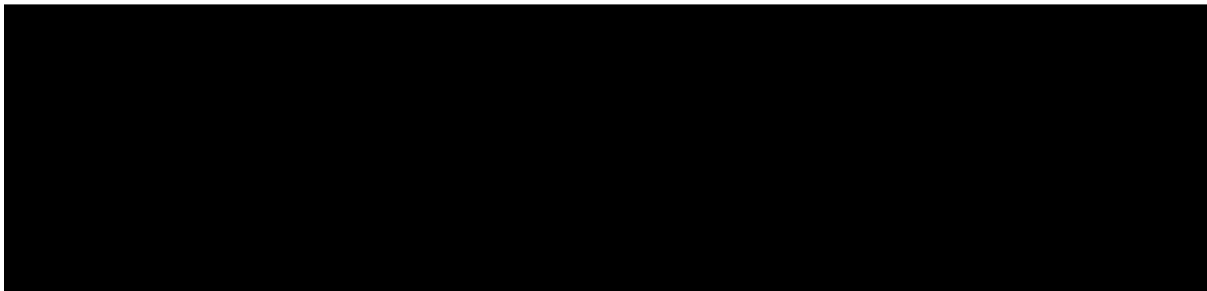
Assessment

- The range of potential QC/ NB arrangements could be:
 - a power sale / or exchange (peak or seasonal sale to NB plus off peak sale to Qc) - access to a captive customer base/ revenue source.
 - a sale of specific assets – in particular transmission rights and/ or generation
 - a tolling or management arrangement over all or some of NB generation assets which include: 900 – 2.5 TWh MW hydro, 650 MW nuclear (following Lepreau refurbishment), heavy fuel oil 1200 MW, coal 500 MW.
 - a sale of NB Power corporate entity 
- A QC / NB arrangement would marry a hydro utility with a more thermally based utility, offering portfolio diversification and opportunities to trade surplus emission allowances, resulting from displacement of emitting generation with hydro generation, i.e. optimization of a combined portfolio. On the negative side, these arrangements would be constrained by existing HQ/NB interface which is currently ~700 MW, unless this is expanded.



Confidential**Summary**

- The result of discussions between New Brunswick and Quebec on greater energy integrations is not known. Possible outcomes could range from no change in current arrangements to Hydro Quebec taking full ownership of New Brunswick Power.

**Next Steps**

- Continue to communications with strategic contacts in New Brunswick
- Prepare a communications strategy in preparation for an announcement that could negatively impact Nalcor's ability to transmit and sell power into and through New Brunswick.

Questions that may be posed regarding any NB / QC arrangement

- What are the nature and terms of the potential arrangement?
- What are the potential benefits for NB consumers and tax payers ?
- Is the potential arrangement going to be subject to regulatory approval and competitive bidding?

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- What implications does this arrangement have for the proposed Atlantic Energy Gateway? and Atlantic Regional cooperation and coordination to support renewable exports into New England?
- What implications does this arrangement have for negotiations for the Maritime Link and purchase of power from the Lower Churchill?
- What implications does this have for the New Brunswick and Quebec electricity markets?
- What implications does this have for the New Brunswick System Operator? Which entity will manage NB Power's Transmission system and the NBSO OATT?
- In the absence of a competitive process, what assurances are there that the optimum value was realized for the assets?
- In the absence of control/ ownership of NB Power, what levers does the Government of New Brunswick have over the economic impacts and influences of New Brunswick's electricity sector?
- Are other parties interested in entering into arrangements of this nature?
- Will the terms of these arrangements be made public?