

Date : 11/15/2011 9:40:10 AM

From : "Maclean, Heather"

To : "Bown, Charles W."

Subject : RE: Nalcor NTV Interview on PUB filing

Attachment : image001.jpg;

thanks charles

Heather MacLean
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Department of Natural Resources
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From: Bown, Charles W.
Sent: Monday, November 14, 2011 10:36 PM
To: Maclean, Heather
Subject: RE: Nalcor NTV Interview on PUB filing

Heather:
please review the messages below which I have developed as supplemental to those provided by Karen.
Charles

We should develop Gull Island first, not Muskrat Falls; it's a better project.

I agree with Dr. Vardy that, economically, and from a pure revenue basis, it would make more sense to develop Gull Island with its lower unit costs. The project has been continuously identified as one of the best undeveloped energy projects in North America. However...

1. The amount of power that would be produced from Gull Island is far in excess of the domestic need
2. The cost of bringing Gull Island power to the Island will be far in excess of the ratepayers ability to pay if we did not have export through Quebec
3. We do not have access through Quebec for the excess power and our ability to do so had been continuously blocked by Quebec. Dr. Vardy notes this in his paper.
4. Selling the power to Quebec at the border will limit our ability to access the North American marketplace and any opportunity to get the upside potential for many, many years (they won't want to do a short term deal). The situation would be the same as NL faced when it was looking for access through Quebec for Upper Churchill power in the 1960's.

There is insufficient demand to warrant the development of Muskrat Falls

In his paper Dr. Vardy notes that, based on the history of electricity growth in the province and, in particular, the 1990-2010 period when the province experienced decreases in industrial load, that there is no evidence to support the need for developing Muskrat Falls to meet domestic demand. He concludes that the real reason for developing the project is to replace the Holyrood thermal plant.

I would agree with Dr. Vardy that we have experienced a decrease in the industrial load in the province. However....

1. While population has remained somewhat static, our number of customers has continued to increase, particularly in the over 25 years of age category.
2. Electricity demand is driven by economic growth and the upturn in our economy has triggered continuous growth in the commercial sector. Every major town in this province has experienced retail and light commercial growth.
3. Residential and commercial demand growth has consumed the industrial demand that was lost. Our demand forecast includes this growth.
4. Our forecasting methodology does not re-profile historical demand. In this Dr. Vardy is incorrect. Our forecast uses economic projections provided by the Department of Finance.

I would also agree with Dr. Vardy that one of our drivers for doing Muskrat Falls is to replace the Holyrood thermal generating plant. If we do this....

1. Ratepayers will be protected from future increases in electricity rates due to high oil prices
2. Emissions of soot, GHG's and other by-products of burning oil will be removed from our environment, meeting the requests of the people living in the Holyrood area.

3. Decommissioning the Holyrood plant would also have a driver in developing Gull Island.
4. Dr. Vardy supports this approach in his paper noting that high current prices for Bunker C, combined with project increases in price and the high cost of refurbishing an old plant is a driver for developing Muskrat Falls.

Dr. Vardy repeats the Environmental Assessment Panel recommendations that more independent studies are required before the project is approved to proceed.

The environmental assessment panel was provided with mountains of information on the project, its economic and financial details, and the process of selecting Muskrat Falls over other alternatives. Nalcor answered all of the Panels questions about the project even before it was approved to proceed to the Hearings. Unfortunately, the Panel chose to ignore all of this information and instead relied on the presentations that were made at the hearings by opponents to the project. These presentations, while raising questions about the alternatives to this project, did not provide any evidence to counter the information that Nalcor had provided to the Panel.

This situation is regrettable in that it has formed an opinion of the project that there was not a lot of work completed in making this decision. In fact, this same project was recommended for development in 1980. It was based on supporting engineering analysis by SNC Lavalin and a financial analysis from xxxx. This project has been extensively engineered and analyzed for more than 30 years. We currently have advanced project engineering and financial analysis to a level that has never been achieved for this project. The financial analysis necessary to advance this project has been completed and our studies show that this is the least cost project for the Island customers.

The project will cause a large increase in the debt burden of the province.

The Muskrat Falls project will require some debt financing while the remainder will come in the form of equity from the Shareholder. The Debt will be raised by Nalcor and will be re-paid by Nalcor. The lending institutions will secure the debt with the project assets and the debt repayment will come from revenues earned from the sale of electricity. This situation is no different than your home mortgage. The banks hold the house as collateral and you make payments from the income earned at your job.

Because Nalcor is a crown corporation, its debt gets counted as provincial debt, however, this debt is balanced by the value of the project assets and the revenue that Nalcor earns.

The Government of Canada should participate in the management of this project and declare the project as one of national interest under Section 92 of the Constitution.

The Government of Canada has agreed to provide a loan guarantee for the project financing. The benefit of this guarantee will be provided to the ratepayers who will see a benefit in reduced electricity rates due to the cheaper interest rates that the project will receive. Canada has not requested to have either management control or to take an equity interest in this project. In fact, Canada has a policy to divesting itself of Crown assets.

The option to engage Canada in forcing Quebec to permit access for Lower Churchill power does not exist; Canada has had this opportunity for many years and has chosen not to intervene. Therefore this is not a realistic option.

This is a project of national interest; it will provide benefits to all Canadians. We are grateful for the interest that the Prime Minister has shown in this project.

From: Maclean, Heather
Sent: Mon 11/14/2011 4:26 PM
To: Kennedy, Jerome; Dalton, Diana; Bown, Charles W.; Scott, Paul G.
Cc: Shute, Tracy; Williams, Tina
Subject: FYI: Nalcor NTV Interview on PUB filing

FYI - Ed Martin will be interviewed by NTV tomorrow (Tuesday) on the submission to the PUB and for a response on Vardy's Report.

Nalcors suggested responses are noted below...

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Key points that emerged from the Vardy report, with suggested responses

1. Muskrat Falls is the 2nd or 3rd best solution to meet the province's future energy needs.

Response: The options and alternatives to Muskrat Falls that Mr. Vardy identified in his report were all close examined by Nalcor. Our mandate, as issued by the Government of NL, was to identify the least-cost option for clean, renewable power to meet the province's future electricity needs. Even combined, these alternatives fell short. Muskrat Falls is the least-cost option by \$1.2 billion (CPW) when compared to the isolated island alternative.

2. We can avoid the debt of Muskrat Falls by using other means to carry the province to 2041, when Churchill Falls power comes back to Newfoundland and Labrador.

Response: We detailed our review of this possibility in a Nalcor submission to Manitoba Hydro, as part of the current PUB review process. There are several uncertainties and risks associated with deferring our interconnection until that time:

- Security of supply and reliability – (1) Nalcor is not the sole shareholder of the Churchill Falls operation – what implications with this have 30 years from now? (2) We don't know the environmental and policy frameworks that will be in place in 30 years. (3) We don't know how long we can maintain reliable generation at Holyrood – will we be able to extend the life of that plant for 30 years?
- Ratepayers are going to pay much more for electricity in the interim (until 2041), because we will need to continue to use fuel to run the Holyrood plant. This will mean significant rate instability.
- Environmental compliance – continuing to use Holyrood means continued GHG emissions – will this be acceptable?

3. Managing demand (and adding new small generation sources) could help the province extend its need for new sources of electricity.

Response: Due to the growing economy, the province's demand for industrial and residential electricity is growing. We have new major industrial operations coming online, and we are seeing larger homes being built, and increased use of electricity with those and existing homes. Even if we manage to control demand somewhat, increased demand from new sources will drive up the overall need for electricity. The province's economic outlook shows this.

4. Muskrat Falls might be a good long-term source of electricity generation but in the short-term, it creates overcapacity and unnecessarily high debt.

Response: This project is a long-term solution to meeting the province's energy needs; the greatest savings will come to the province's ratepayers after 2020. However, even in the short term, when compared with the cost of continued reliance on oil, Muskrat Falls presents a more economical solution for the province's ratepayers.

5. Natural gas should be explored further as a potential new source of electricity for the island.

Response: Nalcor's analysis of all alternatives, including natural gas, is reviewed in detail in our submission to the PUB review. It is our view that "landed" Grand Banks natural gas is not a viable option to meet the island's electricity needs. The most important reason is that our domestic market is too small to absorb the considerable project risks, capital investment and operating costs of a Grand Banks natural development.

The same is true for LNG. This is a complex issue, with much consideration given to how LNG financial markets work, but in short, in order to consider LNG as a viable alternative source of electrical generation for this province, as a utility Nalcor must be able to enter into long term supply arrangements with global providers. Our need is simply too small on the global stage for us to secure a favourable pricing arrangement.



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To: <KONeill@nlh.nl.ca>
Cc: "Maclean, Heather" <heathermaclean@gov.nl.ca>, "Brown, Milly" <MillyBrown@gov.nl.ca>, "Bown, Charles W." <cbown@gov.nl.ca>
Date: 11/14/2011 12:18 PM
Subject: Re: Interview request from Mike Connors on PUB filing

What are your messages re Vardy report?

G

Sent from my iPad

On Nov 14, 2011, at 12:15 PM, "KONeill@nlh.nl.ca" <KONeill@nlh.nl.ca> wrote:

Hi All,

Mike Connors is looking to do an interview with Ed on our PUB filing, what the next steps are in the process with the PUB and also ask if we have any comment on Dave Vardy's Harris centre report.

I'll probably set something up for tomorrow afternoon (for tomorrow night's news).

Ok to proceed and book?

Thanks

Karen

<ATT1000069.jpg> Karen O'Neill
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