

From: dharris@nalcoreenergy.com
Sent: Wednesday, April 27, 2011 10:24 PM
To: rhenderson@nlh.nl.ca
Cc: auburnwarren@nalcoreenergy.com; dsturge@nalcoreenergy.com; gmittchell@nalcoreenergy.com; wchamberlain@nalcoreenergy.com; phumphries@nalcoreenergy.com
Subject: Re: Fw: Briefing Note Draft

Hi Auburn. A lot to assimilate on first read.

My comments added to Rob's, but in **Red**.

- David

Rob Henderson---04/27/2011 09:10:19 PM---Hi Auburn, I have added some comments below. Are we asking for the order to include the 50 MW gas t

From: Rob Henderson/NLHydro

To: Auburn Warren/NLHydro@NLHYDRO

Cc: David Harris/NLHydro@NLHydro, Derrick Sturge/NLHydro@NLHydro, Glenn Mitchell/NLHydro@NLHydro, Wayne Chamberlain/NLHydro@NLHydro, Paul Humphries/NLHydro@NLHydro

Date: 04/27/2011 09:10 PM

Subject: Re: Fw: Briefing Note Draft

Hi Auburn, I have added some comments below.

Are we asking for the order to include the 50 MW gas turbine in Hydro's rate base? I assumed in my comments we are but I don't see it in the attached paper.

Rob

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|  <p>newfoundland labrador hydro a nalcor energy company</p> | <p>Rob Henderson, P. Eng. Mgr.Sys. Oper. & Cus. Serv. System Operations/Cust. Serv. Newfoundland and Labrador Hydro - a Nalcor Energy company t. 709 737-1752 c. 709 682-3190 f. 709 737-1318 e. RHenderson@nlh.nl.ca w. www.nlh.nl.ca</p> |
|--|---|

Auburn Warren---04/27/2011 07:18:05 PM---Good evening all, Ed asked that I forward you the correspondence below for your review and feedback.

From: Auburn Warren/NLHydro

To: Wayne Chamberlain/NLHydro@NLHydro, Rob Henderson/NLHydro@NLHydro, Glenn Mitchell/NLHydro@NLHydro, David Harris/NLHydro@NLHydro

Cc: Derrick Sturge/NLHydro@NLHydro

Date: 04/27/2011 07:18 PM

Subject: Fw: Briefing Note Draft

Good evening all,

Ed asked that I forward you the correspondence below for your review and feedback. Please provide me feedback ASAP as we need a response to the Province by 10 AM tomorrow.

As context, here was the latest draft of a briefing note provided to the Province yesterday:

[attachment "Briefing Note April 26 Draft (final to NL).docx" deleted by Rob Henderson/NLHydro]

Wayne - I am not sure who from legal can review this from a legal perspective.

Thanks!

Auburn

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|  | <p>Auburn Warren, CA Manager, Investment Evaluation Nalcor Energy t. 709-737-1256 c. 709-725-1141 e. AuburnWarren@nalcorenergy.com w. nalcorenergy.com</p> |
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----- Forwarded by Auburn Warren/NLHydro on 04/27/2011 07:03 PM -----

From: Ed Martin/NLHydro
 To: Auburn Warren/NLHydro@NLHYDRO
 Cc: Derrick Sturge/NLHydro@NLHydro, Gilbert Bennett/NLHydro@NLHydro, Rob Hull/NLHydro@NLHydro, Paul Humphries/NLHydro@NLHydro
 Date: 04/27/2011 06:51 PM
 Subject: Re: Briefing Note Draft

Auburn,

Please ensure (which I think you are) that Geoff Young, Rob Henderson and Glenn Mitchell are in the loop on this as well.

Tks

Ed

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Auburn Warren---04/27/2011 06:39 PM NDT---Ed, In the interest of getting a response to Robert by 10 AM tomorrow morning, please find attached

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| From: | Auburn Warren |
| To: | Ed Martin |
| Cc: | Derrick Sturge ; Gilbert Bennett ; Rob Hull ; Paul Humphries |
| Date: | 04/27/2011 06:39 PM NDT |
| Subject: | RE: Briefing Note Draft |

Ed,

In the interest of getting a response to Robert by 10 AM tomorrow morning, please find attached (and below in case easier for Blackberry viewing) a proposed response to the questions. As the responses have not been reviewed by the wider group I seek their feedback / discussion as well.

[attachment "Response to Thompson email 11.04.27.docx" deleted by Ed Martin/NLHydro]

Why not have the project reviewed by PUB?

- A PUB review of any kind will require a delay in the project, perhaps by a year or so, to hold hearings, hire experts and prepare reports. **This statement indicates that a PUB review must entail hearings. That may not necessarily be the case if the PUB were to conduct a professional, third party assessment. However from my understanding of timeline for delivery, any delays associated with injecting this review into the critical path jeopardizes delivery. Furthermore, anything less than hearings provides little more than Nalcor's proposed independent review. I think the statement should therefore read something more like, "A PUB review of any kind will introduce delay in the project, which will in turn result in higher project risk and cost. Based upon past experience (??), holding hearings would introduce delays of up to a year, and even if an expedited process were followed, unacceptable delays would be introduced into the project schedule."**

- By the end of June, 2011 a decision to address projected capacity deficits in 2015 is required **due to environmental review requirements and equipment delivery requirements (Paul Humphries should confirm why the decision has to be made in June)**. Under the Infeed Option the least cost method to address this deficit is to construct a 50 MW gas turbine as this provides sufficient capacity in the short term to meet utility standards until the Project is completed. Under the status-quo "Isolated Island" alternative this 50 MW gas turbine is not the least cost option as small wind and hydro on the Island which is more expensive in the short-term would be least cost if the Project was not developed. Lack of certainty in the Island supply selection process created by a PUB review of this decision could result in a sub-optimal choice **(I don't like this suggestion as it indicates that the PUB would not make a decision that is optimal and Hydro knows better than the PUB in determining the least cost . We should demonstrate in the note that the PUB would likely come to the same decision as Hydro has but that the delay required for the PUB to analyze the data and hold hearings to come to the same conclusion introduces unnecessary risks to the Project schedule and to the reliability of supply commencing in 2015.)**, and thus potentially higher costs for ratepayers, being made to address the 2015 capacity deficit as each Island supply alternative has a different least cost solution to address this deficit.

- A one year delay will result in: termination of increased costs of contracts; loss of key project management team members; postponement of key project timelines - such as delivery of submarine cable. If this particular contract is not awarded by the end of 2011, which secures a delivery and installation date within the current project schedule, the delivery and installation of the cable could be significantly delayed.

- A one year delay would create significant regulatory risk in the assessment of financial institutions and it would prove impossible to obtain a credit rating for raising debt capital until certainty had returned.
- Without a credit rating it will be less likely that we can secure the federal loan guarantee. The federal government will argue that the PUB process creates the risk that Muskrat Falls will not even be built. Delay raises risk that the federal guarantee will not happen, thereby harming ratepayer benefits.
- A delay may cause a loss of the Emera contract and the associated financial and export benefits that accompany it.

But how can the public be assured that Muskrat Falls is the best choice for ratepayers? Where is the independent oversight?

- Nalcor has already provided and published significant quantities of its data, assumptions and analysis to the PUB, the Lower Churchill Panel and briefings for the Opposition parties, the media and the public. No other **realistic** lower cost options have been advanced from any other party.
- In addition, as part of the process before final investment decisions are taken, Nalcor and the provincial government will be hiring an independent consultant to review the reasonableness and completeness of the long-term (~60 years) Island supply options considered; the reasonableness of the process followed to screen and evaluate the appropriate Island supply options; the assumptions used by Nalcor in assessing the Island supply options; and the recommended Island supply option. The report will be completed and made publicly available by July 1, 2011.
- The consultant will also be asked to complete the same assessment when the new engineering data becomes available, prior to final investment decisions being made on the project.

Can the public participate in this review?

- There is potential in the independent review referenced above for public participation up front in the process. The public may be provided the opportunity to submit questions that the consultant may consider within the framework of the consultant's scope of work.
- Although it is anticipated limited new perspectives will be provided and any public consultation would primarily provide critical points of view, this format of participation will provide an opportunity for the consultant to receive feedback on potential public areas of concern. The questions received will be of value to the consultant as they may use them to address in their report. The work effort of the Project team required for this process will be for a limited timeframe allowing focus on necessary deliverables for Decision Gate 3.

Exactly what role will the PUB play? By what mechanism or directive will the costs of Muskrat Falls and the transmission project get absorbed into the rate base?

- The Project is unique given the magnitude of the capital addition as compared to Nalcor's current balance sheet and the cash flow certainty required by non-recourse lenders for debt service. These lenders will require certainty of cash flows as they form the only basis of security/collateral in a non-recourse financing. Subjecting these cash flows to regulatory uncertainty will negatively impact the amount

and cost of debt that will be borne by the ratepayers since the Project is unlikely to receive an investment grade credit rating in this instance.

· Given this and the impact discussed above on the impact a delay from a PUB review of the costs, a mechanism or directive will have to be developed by the Province requiring the:

- o Inclusion of MF and LIL costs in the NL rate base (including Emera’s interest in LIL);
- o Approval for formation of new Nalcor entities;
- o Establishment of NLH as sole authorized wholesale provider of electricity in NL;
- o Provision of Provincial indemnification and change in law provisions as part of lending agreements; and
- o Authority for borrowing limits for new and existing Nalcor entities related to required financing.

· Having said that, while the inclusion of costs into rate base is completed by the use of an exemption order, Nalcor can promote accountability to consumers by providing transparency via a formalized process that allows the PUB and interested stakeholders visibility into the capital program and operations with a view to demonstrating activities have been conducted in accordance with prudent and good utility practice.

· To ensure accountability from this transparency, the PUB, in the form of a public hearing process, may review and ask questions related to the costs and through a public report identify, if any, areas of concern that the parties or the Province may address.

Thanks!

Auburn

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|  | <p>Auburn Warren, CA Manager, Investment Evaluation Nalcor Energy t. 709-737-1256 c. 709-725-1141 e. AuburnWarren@nalcorenergy.com w. nalcorenergy.com</p> |
|--|---|

"Thompson, Robert" ---04/27/2011 02:36:33 PM---Derrick:

From: "Thompson, Robert" <rthompson@gov.nl.ca>
To: <DSturge@nalcoreenergy.com>
Cc: "Bown, Charles W." <cbown@gov.nl.ca>, <EMartin@nalcoreenergy.com>, <GBennett@nalcoreenergy.com>, <AuburnWarren@nalcoreenergy.com>
Date: 04/27/2011 02:36 PM
Subject: RE: Briefing Note Draft

Derrick:

The note is very good. I have excerpted and summarized the core logic below to better understand it, and to test back with you whether we are on the same page. It also gives rise to two additional questions, at the bottom, which I am hoping you can answer.

I will give you a call later today to discuss further.

Robert

Why not have the project reviewed by PUB?

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 - By the end of June, 2011 a decision to address projected capacity deficits in 2015 is required. Under the Infeed Option the least cost method to address this deficit is to construct a 50 MW gas turbine as this provides sufficient capacity in the short term to meet utility standards until the Project is completed. Under the status-quo "Isolated Island" alternative this 50 MW gas turbine is not the least cost option as small wind and hydro on the Island which is more expensive in the short-term would be least cost if the Project was not developed. Lack of certainty in the Island supply selection process created by a PUB review of this decision could result in a sub-optimal choice, and thus potentially higher costs for ratepayers, being made to address the 2015 capacity deficit as each Island supply alternative has a different least cost solution to address this deficit.
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From: DSturge@nalcorenergy.com [mailto:DSturge@nalcorenergy.com]
Sent: Tuesday, April 26, 2011 2:52 PM
To: Thompson, Robert
Cc: Bown, Charles W.; EMartin@nalcorenergy.com; GBennett@nalcorenergy.com; AuburnWarren@nalcorenergy.com
Subject: Briefing Note Draft

Here is the latest

derrick

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|--|--|
|  | <p>Derrick Sturge Vice-President, Finance & CFO Nalcor Energy t. 709 737-1292 c. 709 690- 2545 e. dsturge@nalcorenergy.com w. nalcorenergy.com</p> |
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