

From: emartin@nalcenergy.com
To: [Bown, Charles](#)
Subject: Fwd: Value to Shareholder Presentation
Date: Sunday, April 26, 2015 12:51:58 PM
Attachments: [.png](#)
[Shareholder Briefing April 2015 Rev 5.pptx](#)

Here it is, Tks. Can we get it on the screen as well? See you at 4, or somewhat before.

Ed

Sent from my iPhone

Begin forwarded message:

From: "Ed Martin" <EMartin@nalcenergy.com>
To: "Catherine Squire" <CatherineSquire@nalcenergy.com>, "Derrick Sturge" <DSturge@nalcenergy.com>, "Dawn Dalley" <DawnDalley@nalcenergy.com>, "Auburn Warren" <AuburnWarren@nalcenergy.com>, "Michael Roberts" <MichaelRoberts@nalcenergy.com>
Subject: Value to Shareholder Presentation

Attached is the final presentation I shared with the Minister yesterday. I am copying it to all of you to ensure we all have the copy used for future reference and updates. I expect we'll be using it again, so please document the supporting info and files to reference readily later. Also, Mike, could you work with the various VP's, particularly functional, to further develop our comparisons of staffing to other organizations to establish an even more complete picture.

tk

Ed

(See attached file: Shareholder Briefing April 2015 Rev 5.pptx)



Value To Shareholder

April 7, 2015

Boundless Energy



Cost Control - Key Focus for Nalcor

- Nalcor reducing/deferring \$5-7 million costs in response to Shareholder revenue shortfall
- Summary of initiatives
 - Hiring freeze on non-critical roles – 7 positions initially deferred
 - Discretionary, non-critical travel stopped
 - training budgets reduced, target 15-20%
 - Deferral of consulting investments where business not impacted

Cost Control – Key Focus for Nalcor

- Nalcor has aggressively managed costs
 - Doing much more with limited cost increase from 2005-2015
- Essentially 100% of Nalcor expenditures essentially committed
 - Operating costs to protect aging assets
 - Capital costs to re-furbish aging assets, build new electricity and oil/gas investments – (mid-project)

Cost Control – Key Focus for Nalcor

- Cost adjustments to NL Hydro accrue directly to the ratepayer during a GRA process
- Nalcor is a long-term value producing asset for the province, not solely a cost center entity

Background

- Nalcor set up as a business enterprise, similar to a Statoil (Norway) or Norsk Hydro
- Set up to be a true “profit” driven entity
- Structured to compete and partner with other large national and global business enterprises
- Built to bring long term revenue to the Province from effective development of energy resources
- Large asset base of heavy industrial producing assets which needs to be actively developed and maintained
- Lenders and Investor’s are looking to Nalcor to be commercially driven, and operating efficiently

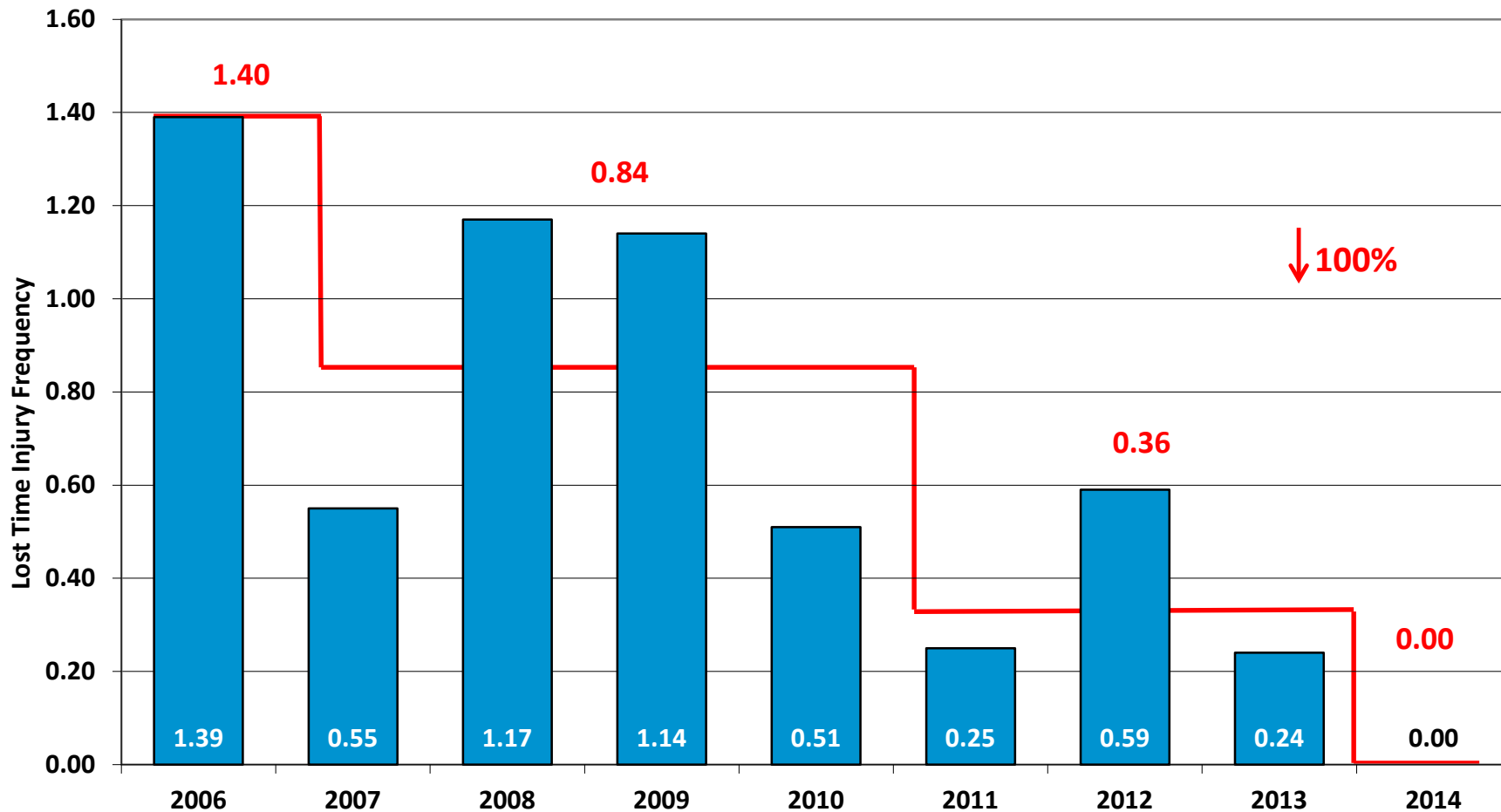
PERFORMANCE SUMMARY

Key Financial Metrics

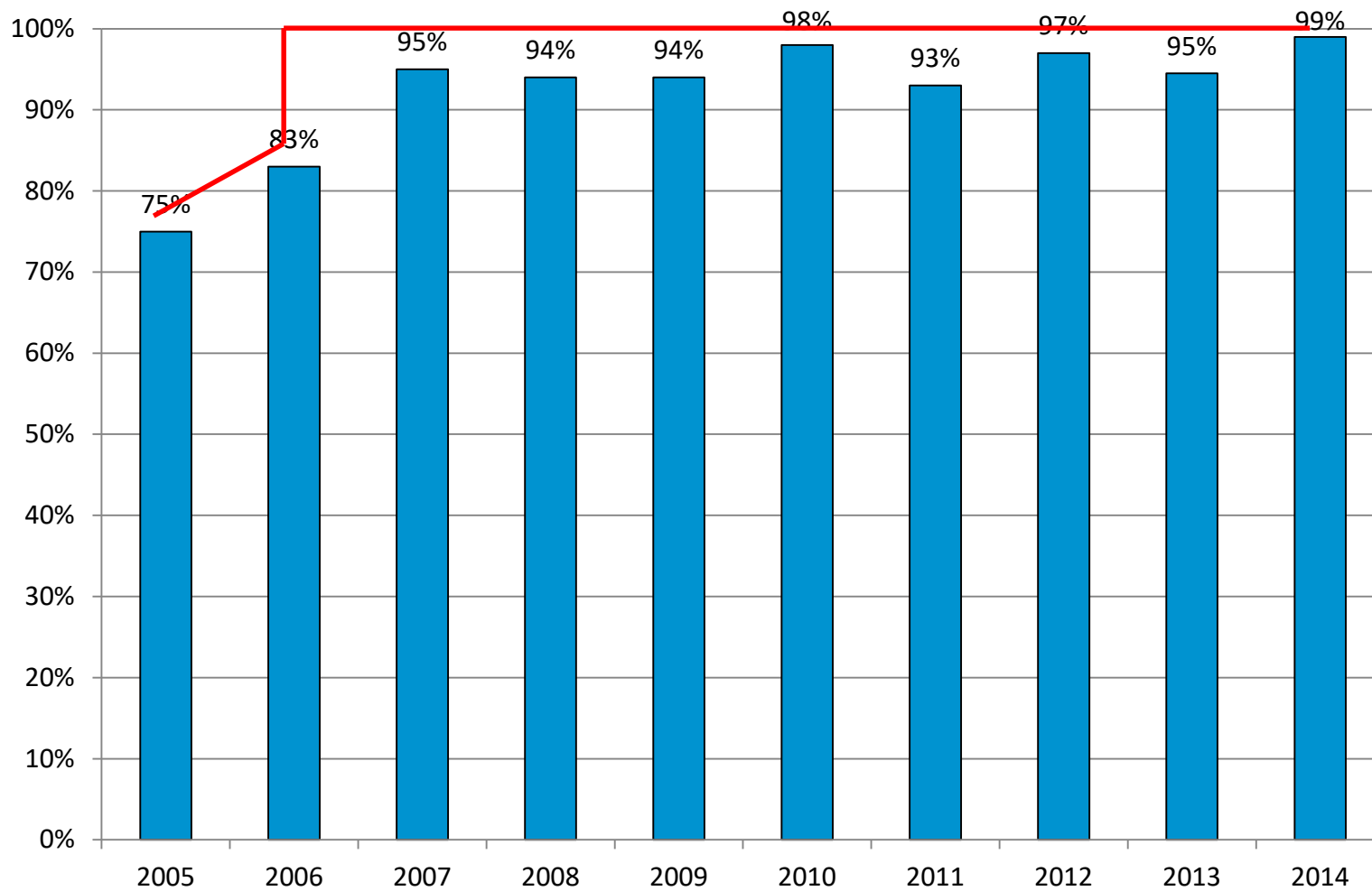
	2004	2014	Range during 2019 to 2023
Net Income (\$ millions)	\$67	\$116	\$350 - \$500
Total Assets (\$ billions)	\$2.2	\$10.6	\$14.1 - \$14.5
Income Producing Assets (\$ billions)	\$2.2	\$3.1	\$13.8 - \$14.3
Capital Expenditures (\$ millions)	\$40	\$1,784	\$225 - \$280
Capital Structure (Debt / Equity)	76/24	69/31	57/43 - 56/44
Sales to NP (TWh)	4.7	5.9	6.1 - 6.3
Domestic Electricity Sales (TWh)	8.9	9.0	9.9 - 10.1
Export Electricity Sales (TWh)	28.3	27.6	29.0
- Sales to Hydro Quebec	1.5	1.5	4.1-4.4
- Other Exports			
Annual Oil Production (000 bbls/year)	n/a	661	3600 - 4600

Note: Capital Expenditure amounts exclude Maritime Link

Safety – Lost-Time Performance

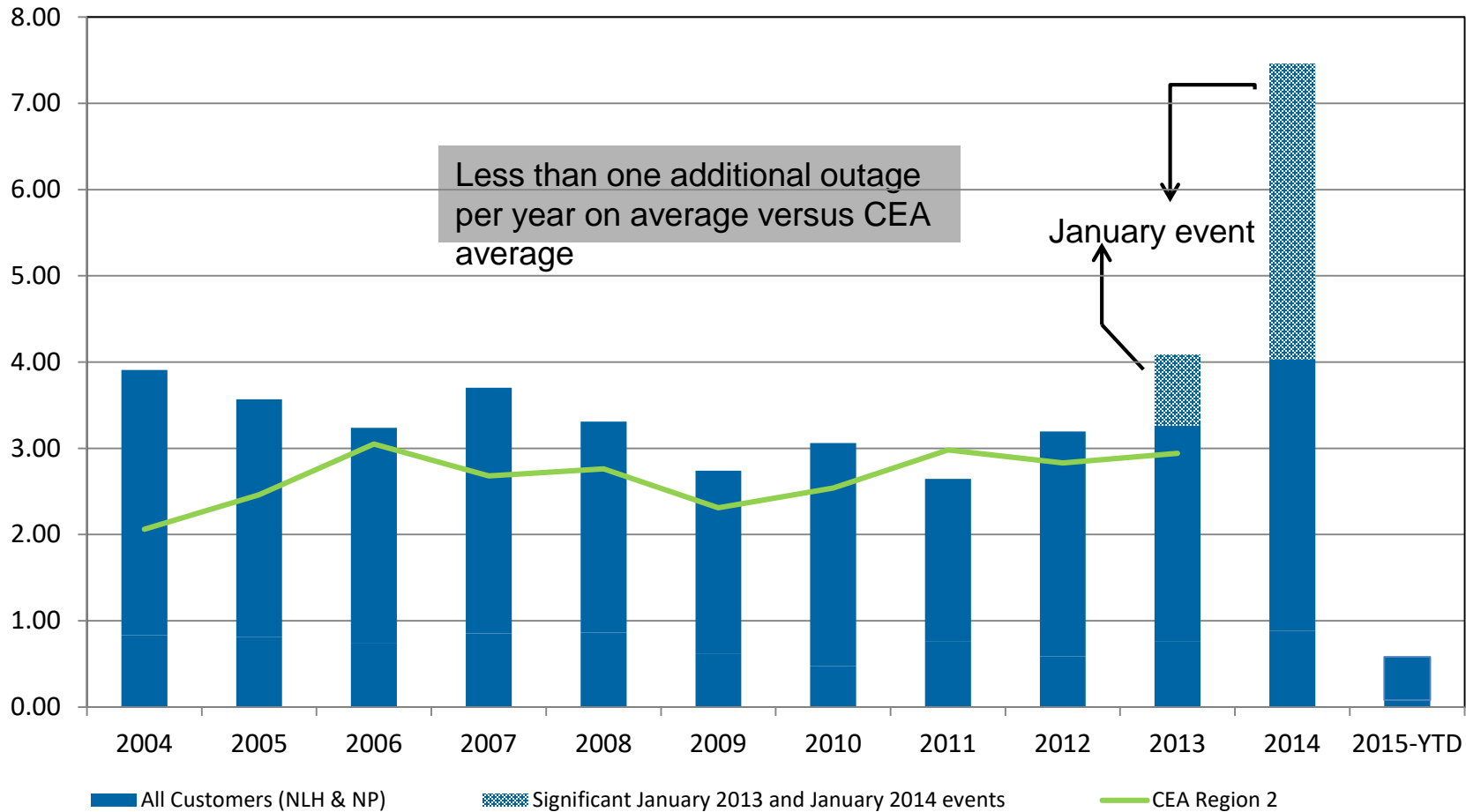


Environmental Performance



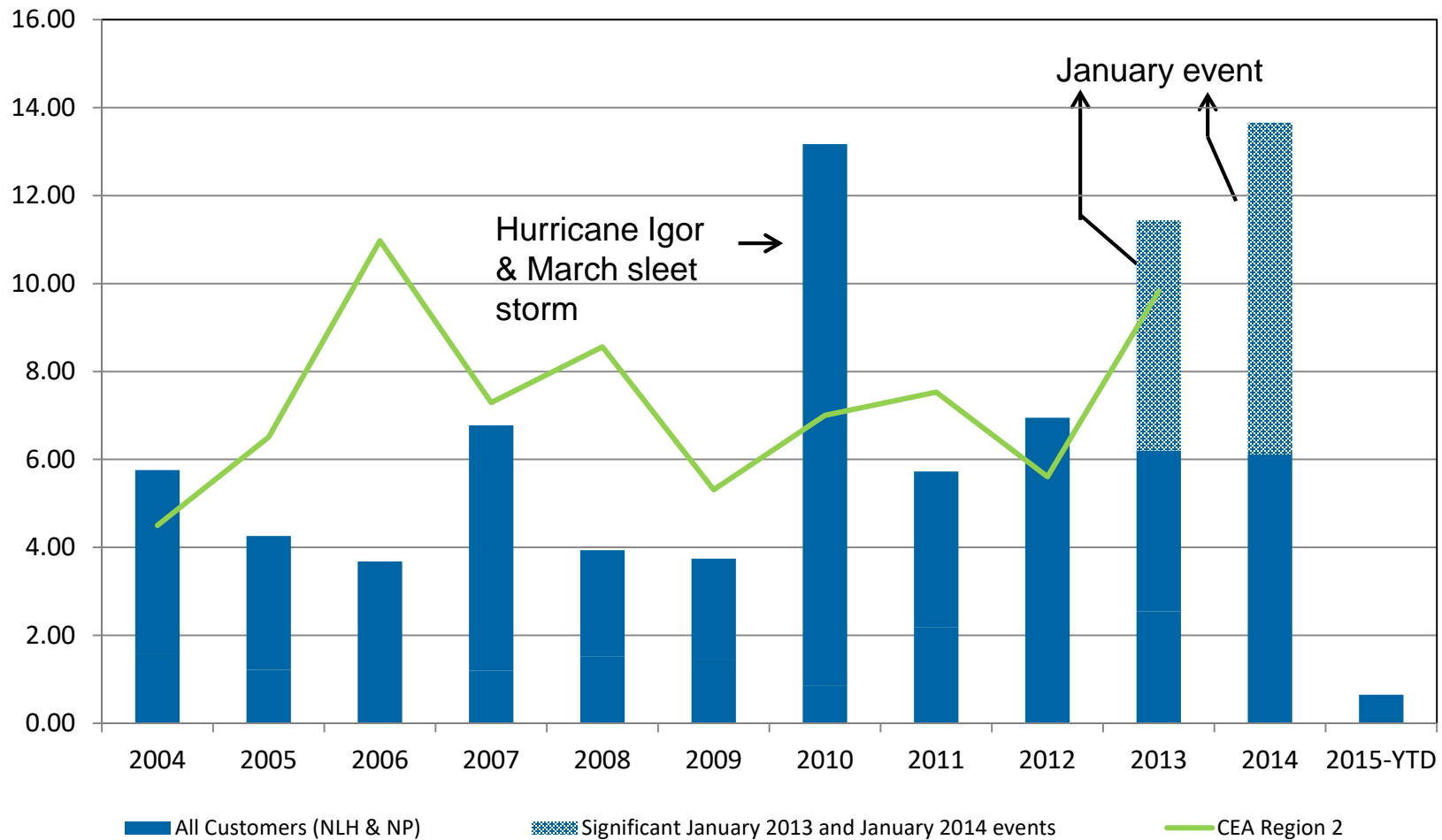
Reliability – Outage Frequency (SAIFI)

**Customer Interruptions per Year
(All Newfoundland and Labrador Customers)**



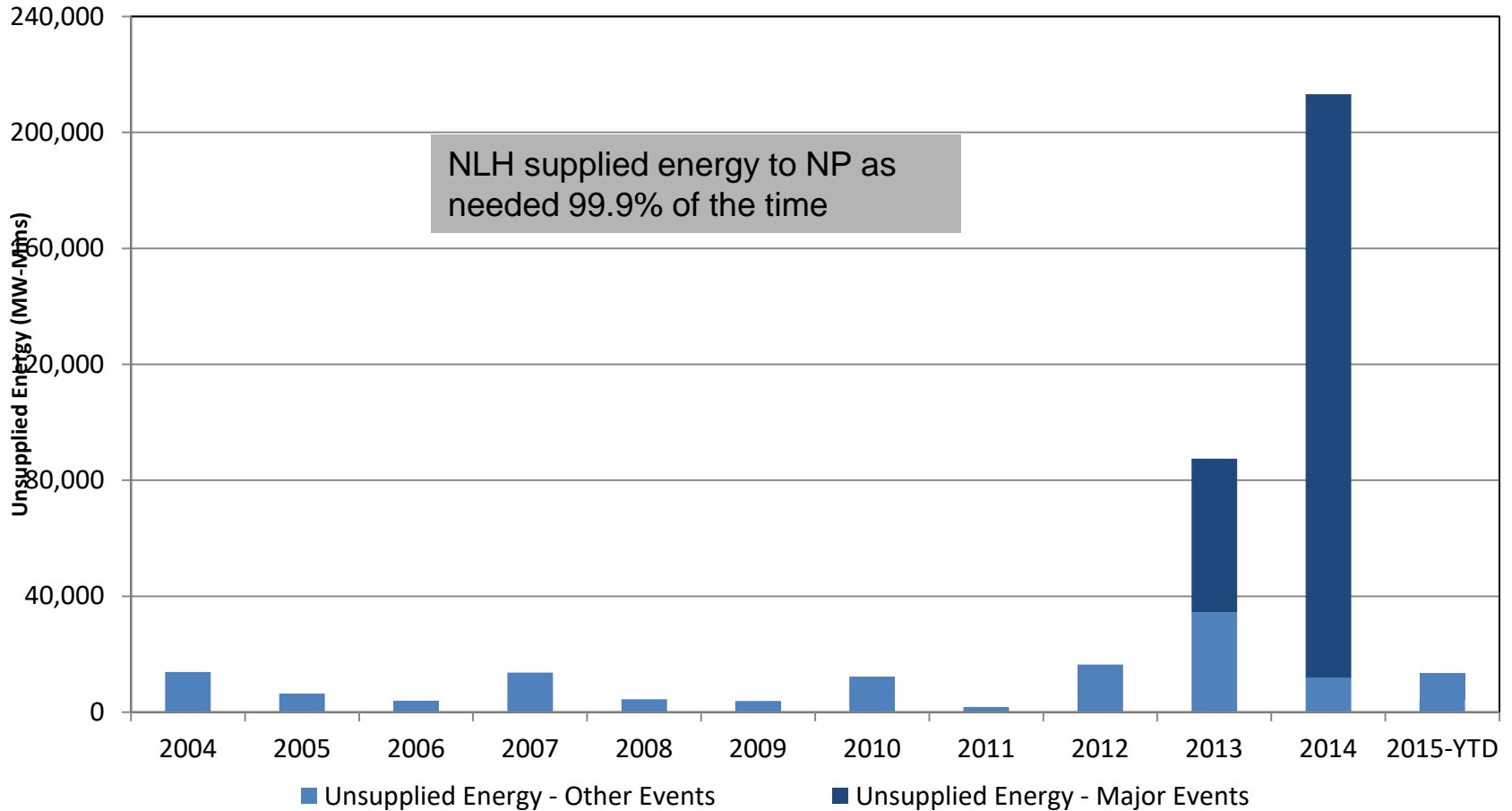
Reliability – Outage Duration (SAIDI)

**Customer Interruption Time (hours) per year
(All Newfoundland and Labrador Customers)**



Reliability – Unsupplied Energy

Unsupplied Energy to Newfoundland Power

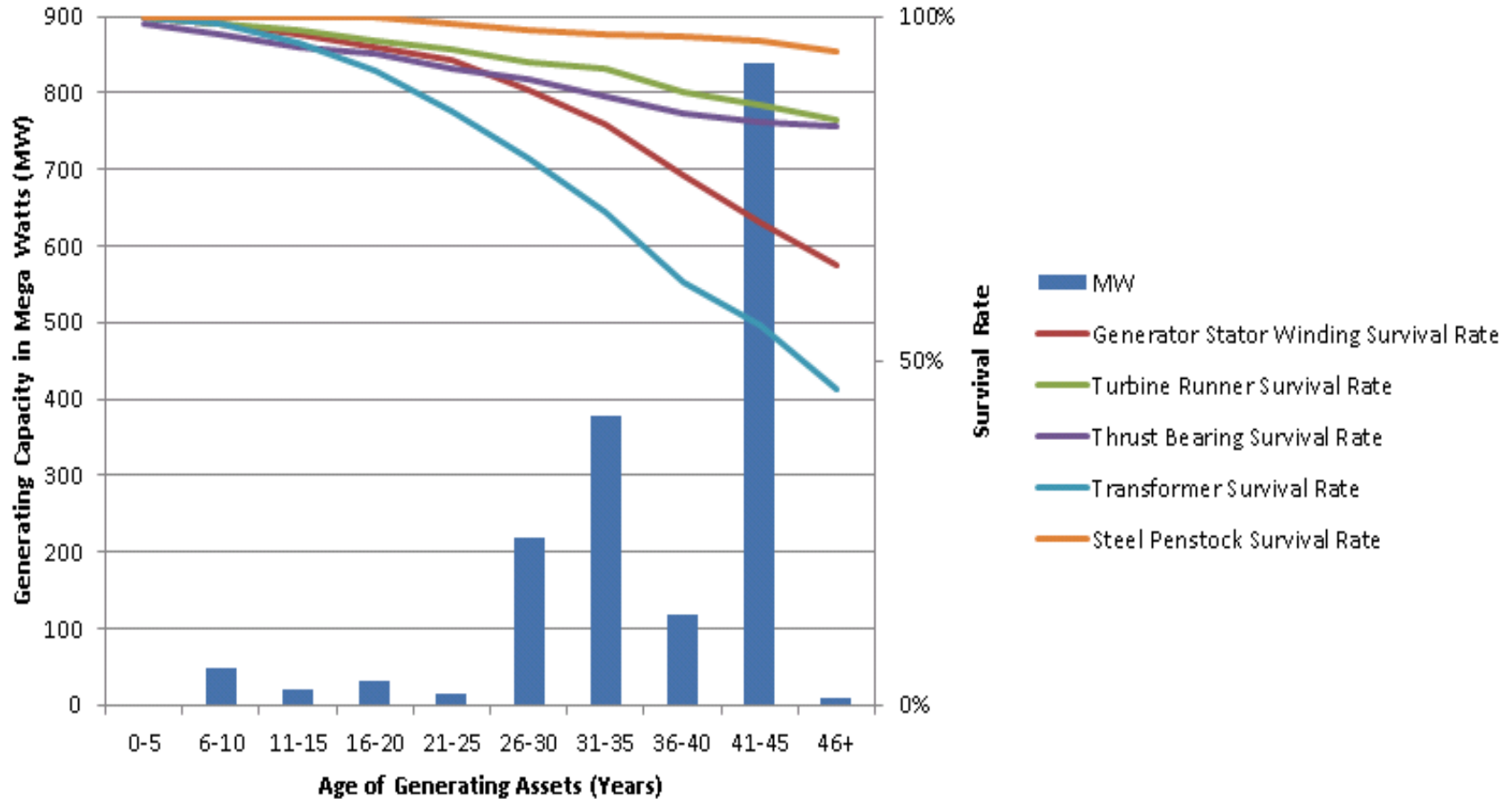


CAPITAL EXPENDITURE SUMMARY

Asset Management

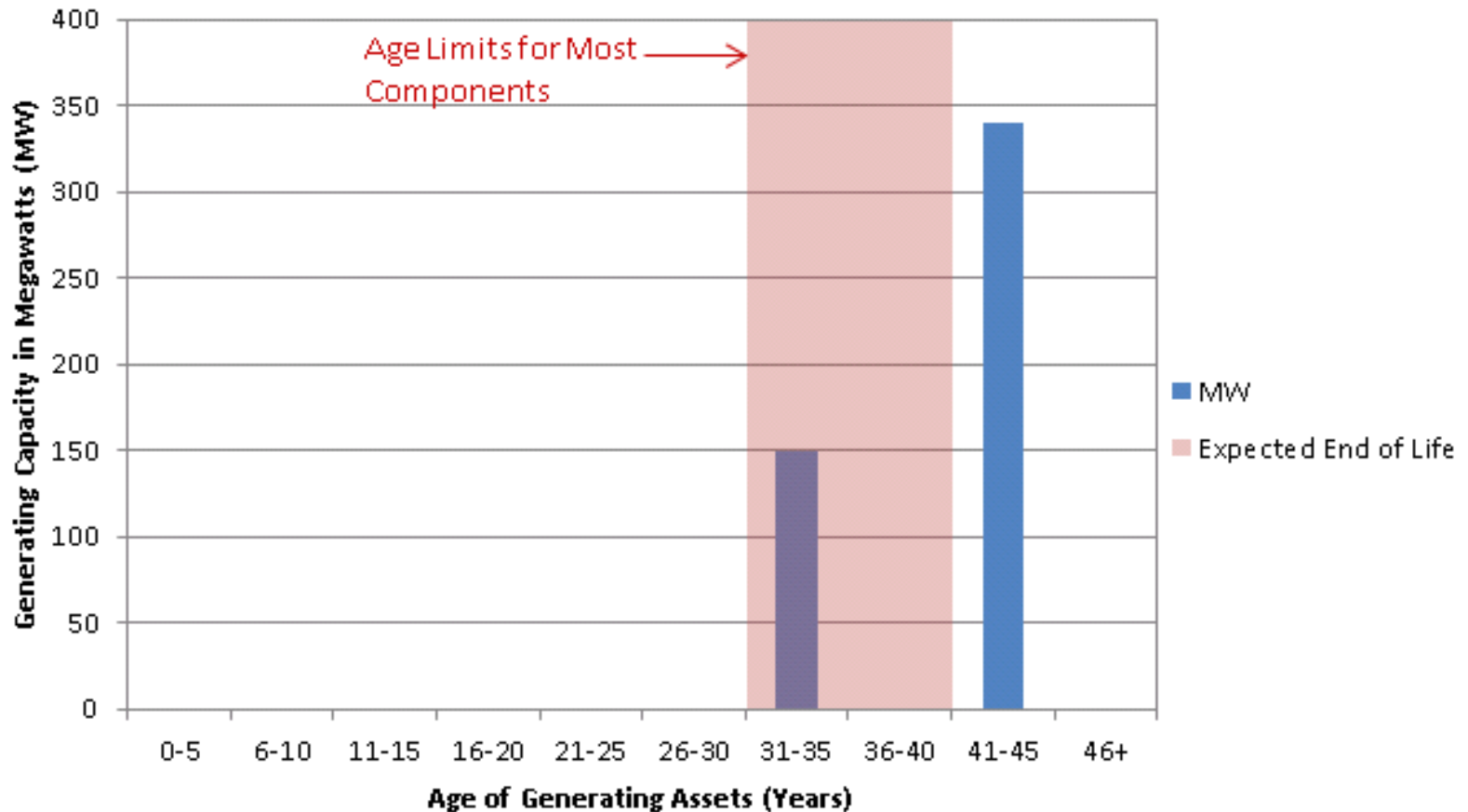
- Broad and aging asset infrastructure require best practise, robust asset management processes
- Nalcor has restructured to focus on asset management
- Organization structure has been changed
- People, whose sole focus is asset management, have been put in positions throughout the organization
 - Planning and project execution processes have been strengthened
- Ensuring right work, on right assets, at right time

Newfoundland and Labrador Hydro Age of Generating Assets



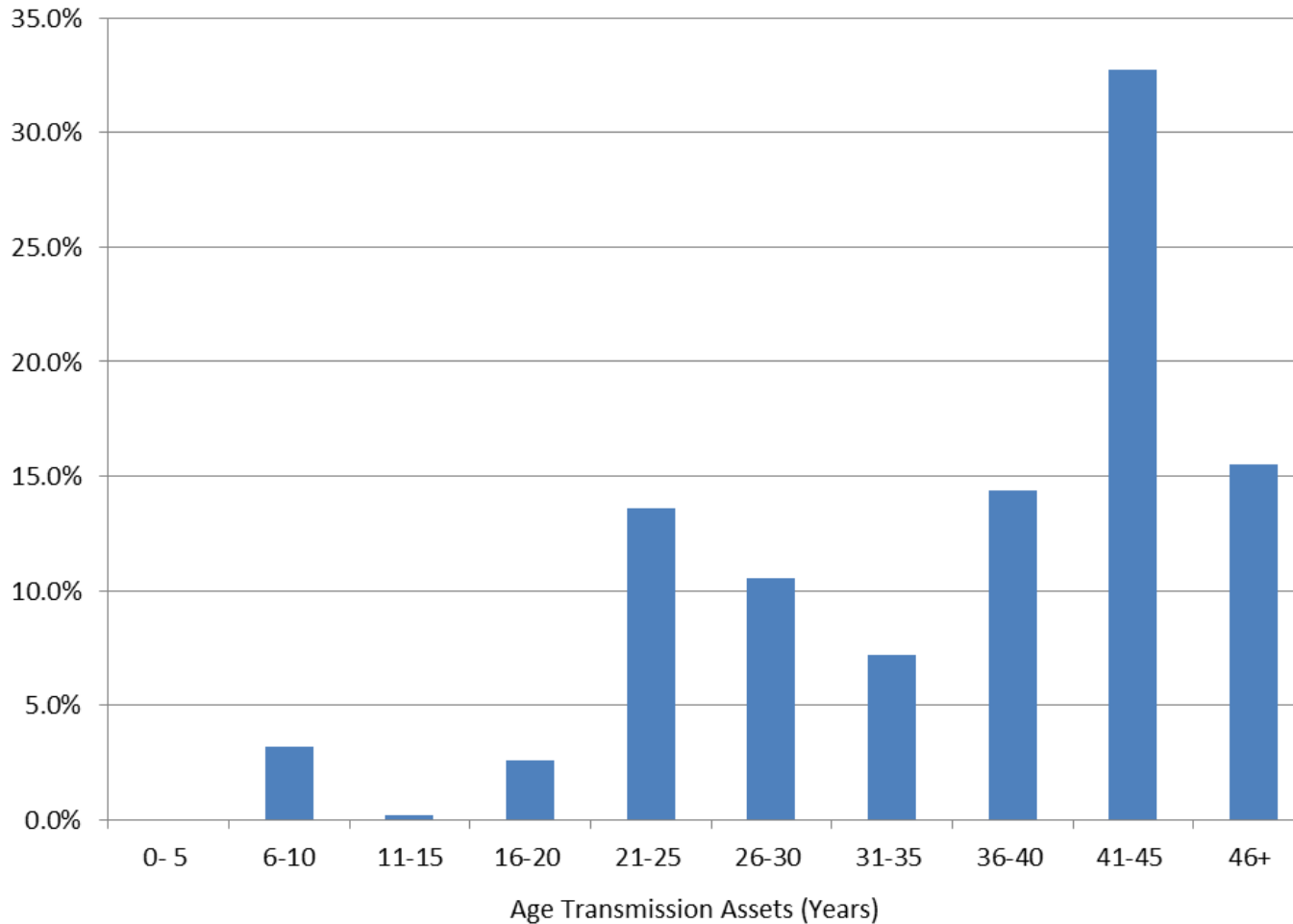
Survival curves pertain to hydro-electric equipment and were obtained from confidential data available to Nalcor Energy through its membership in the Centre for Energy Advancement Through Technological Innovation (CEATI).

Holyrood Age of Generating Assets

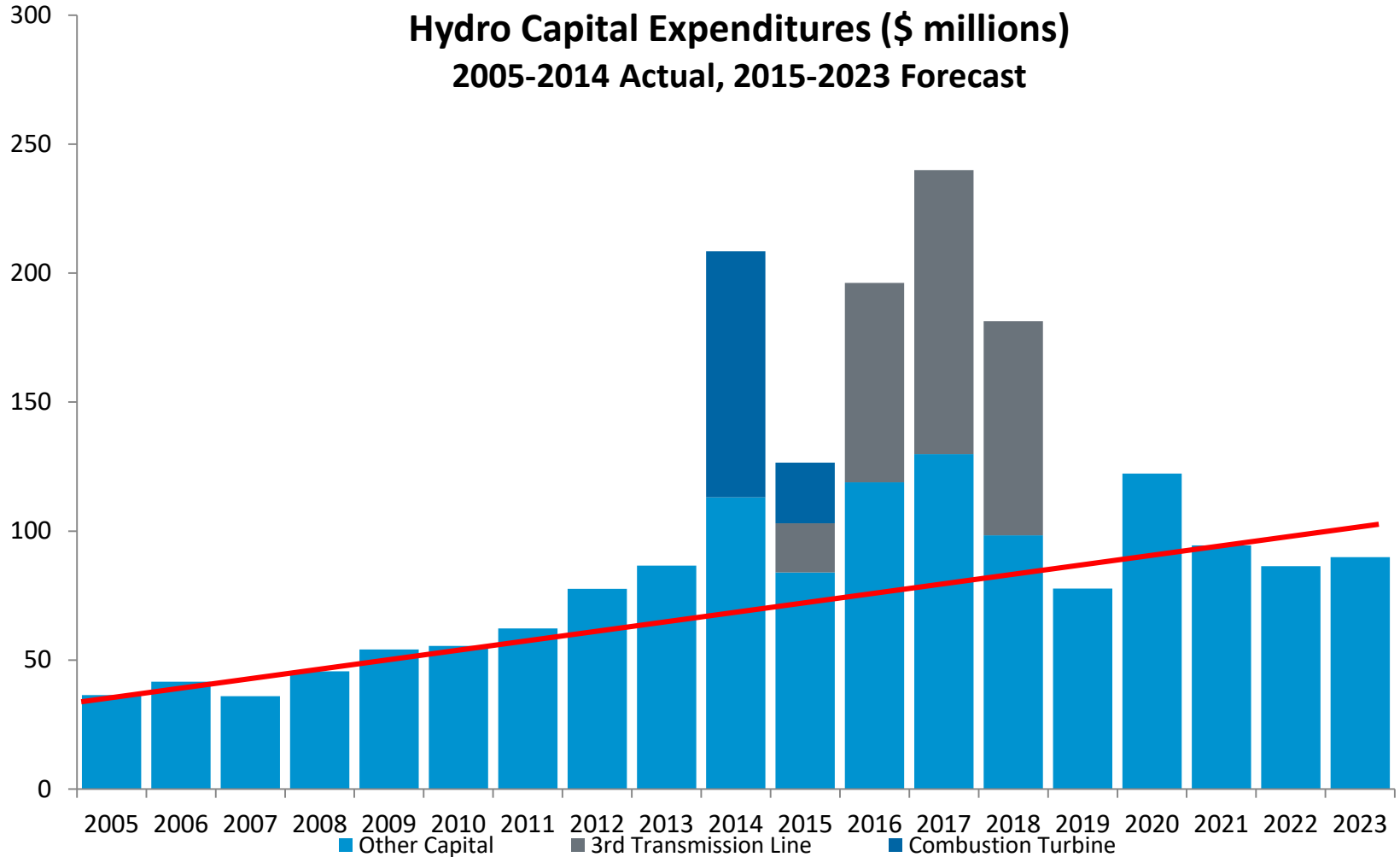


Age limits were obtained from *Holyrood Condition Assessment and Life Extension Study*, AMEC, 2010.

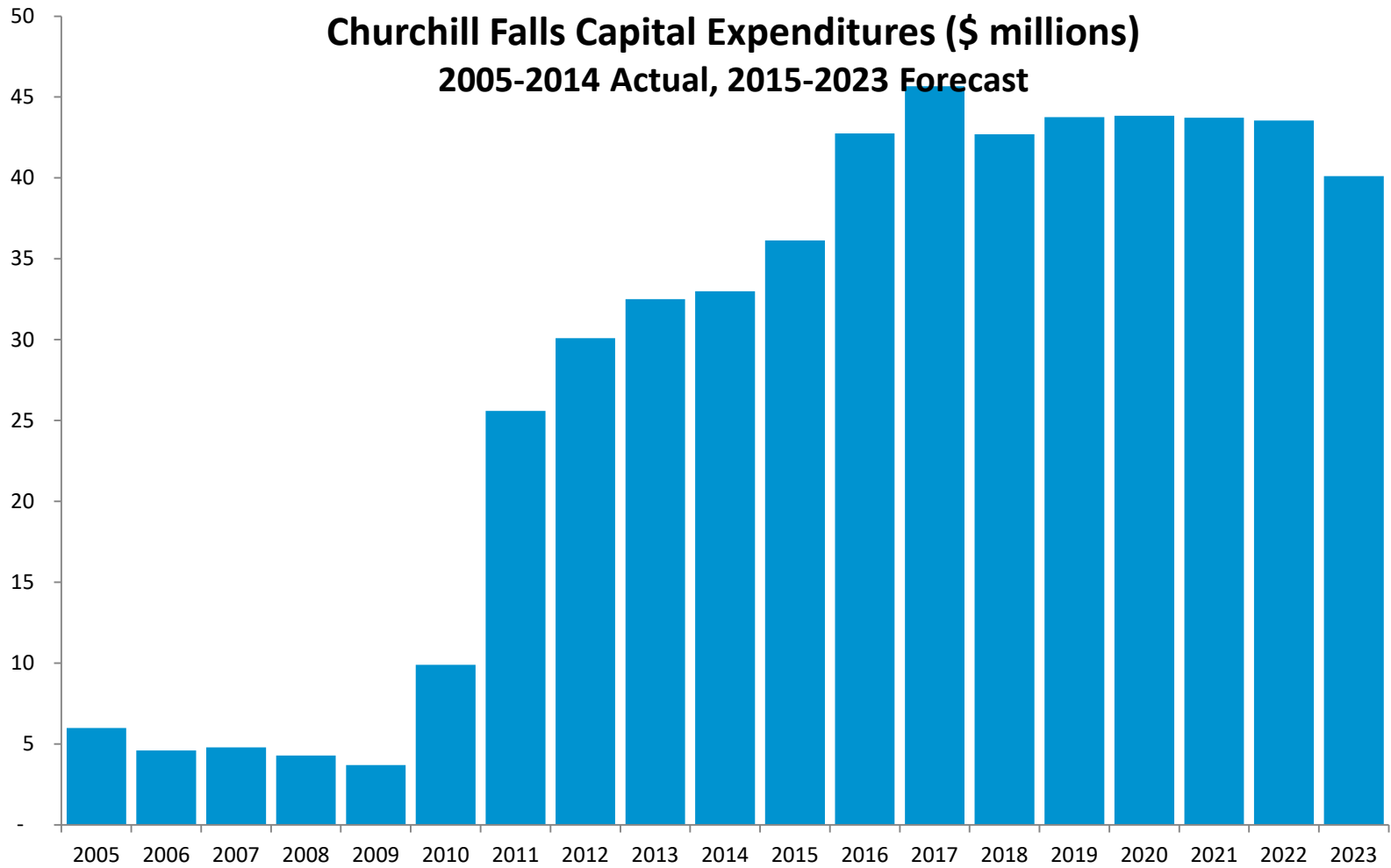
Aging Assets – Transmission



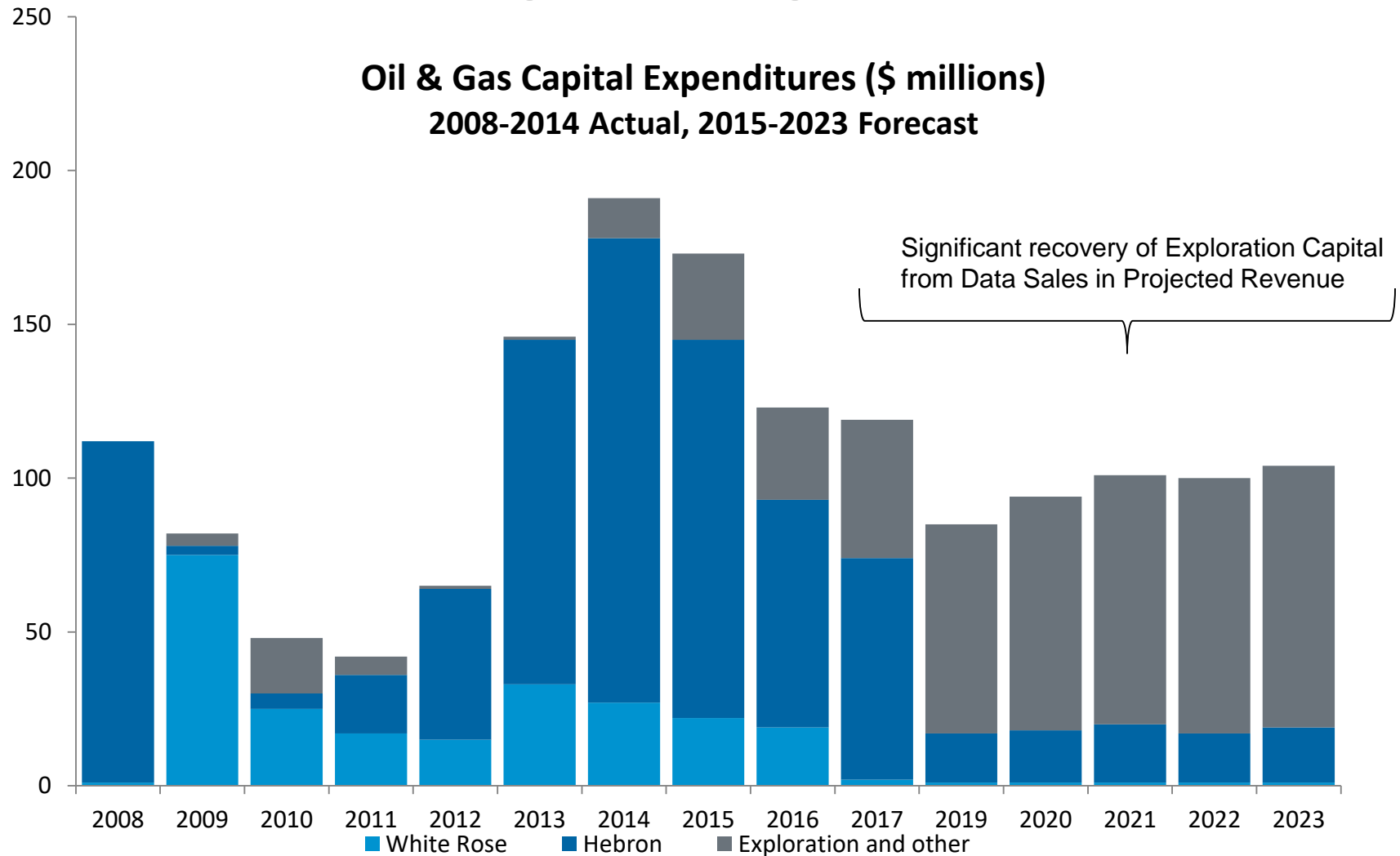
Hydro Capital Expenditure



Churchill Falls Capital Expenditures

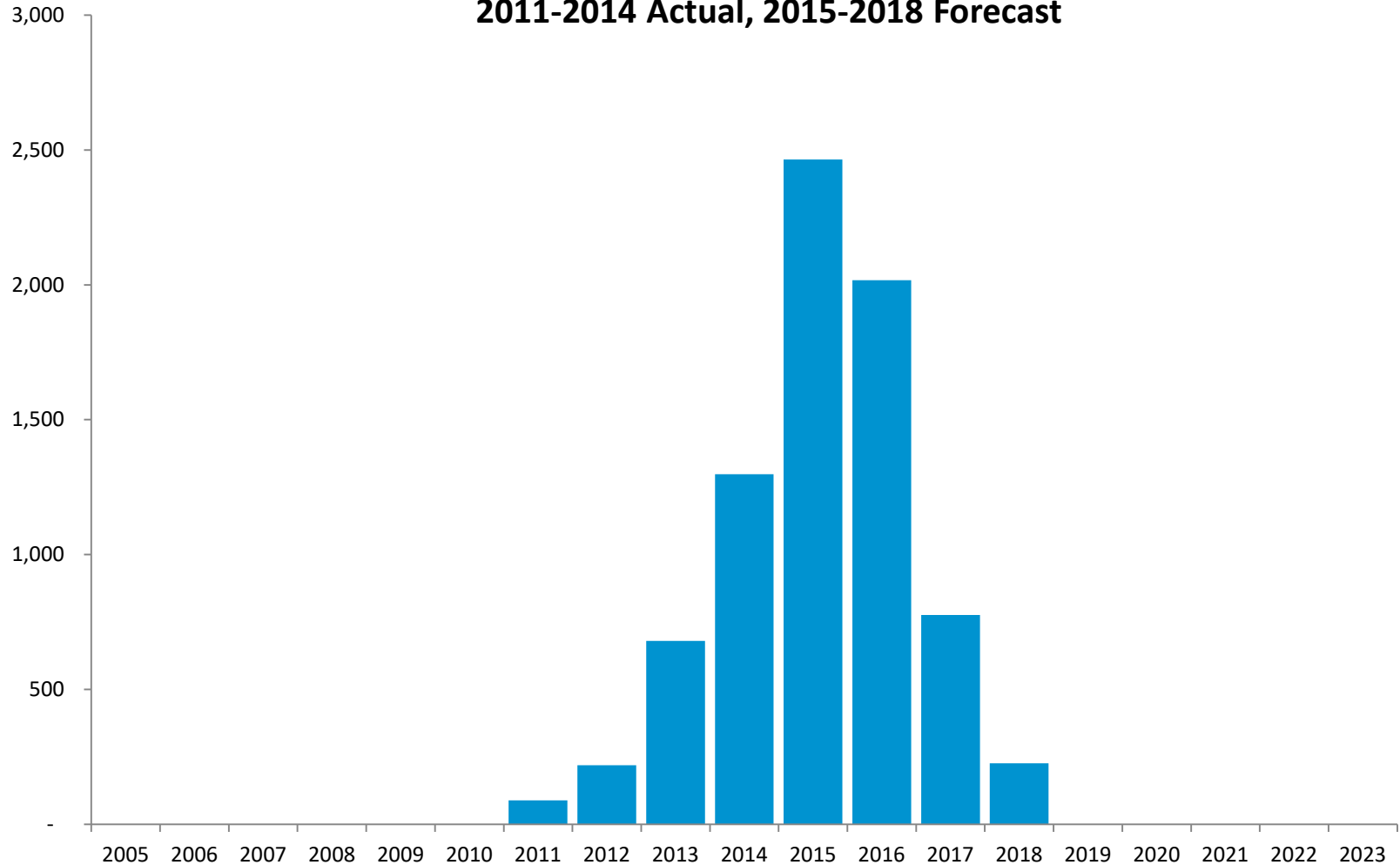


Oil and Gas Capital Expenditures



LCP Phase I Capital Expenditure Profile

LCP Phase I Capital Expenditures (\$ millions)
2011-2014 Actual, 2015-2018 Forecast

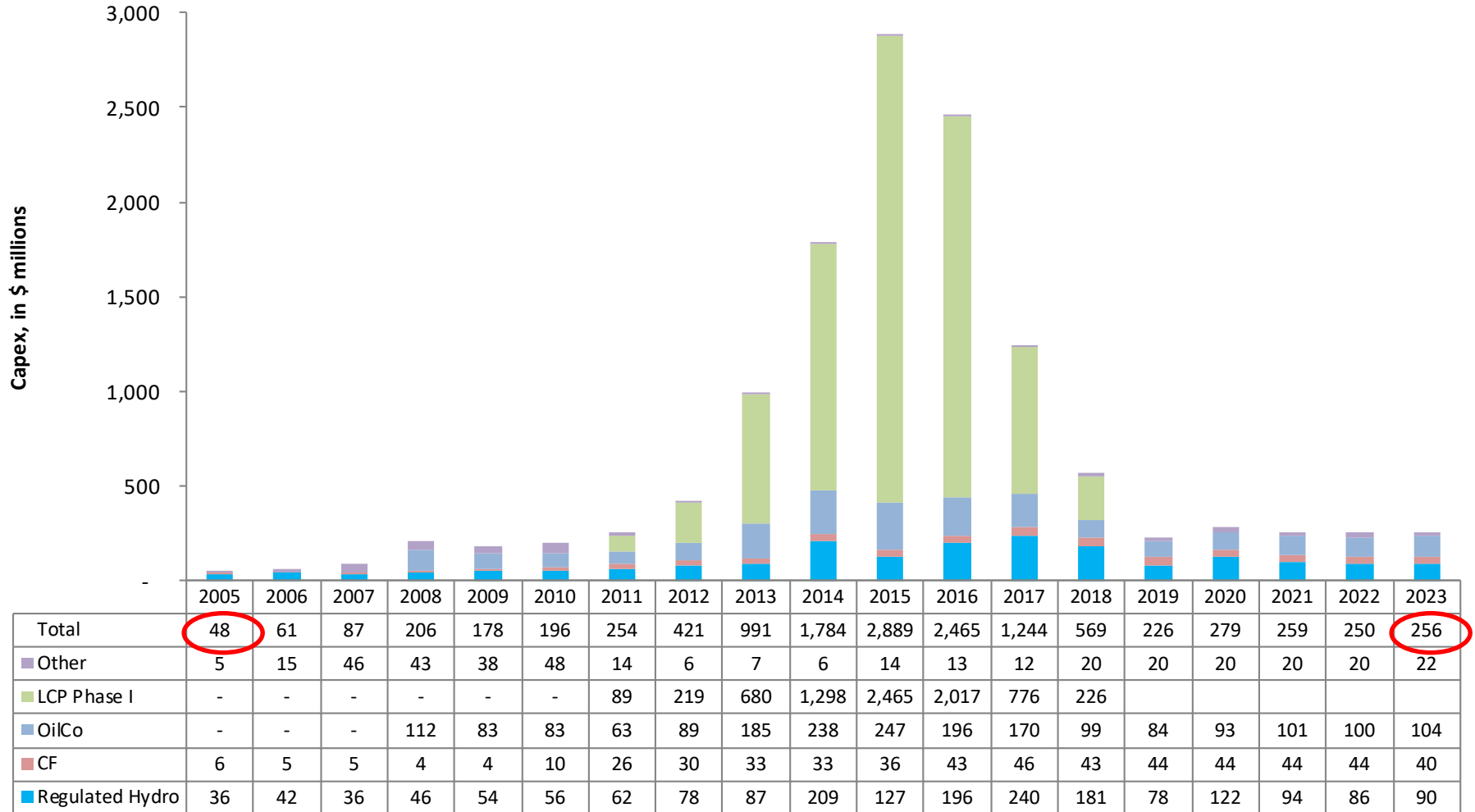


MF/LIL - 2015

- Capital expenditure efficiency is the key business driver
- Focus on best practice project execution
- Expenditures based on competitively bid work packages – work execution and labor productivity key drivers
- Management organization consistent with large project management

CF is 65.8%

Capital Expenditures (2005 – 2023)



NET INCOME AND OPERATING EXPENSE SUMMARY

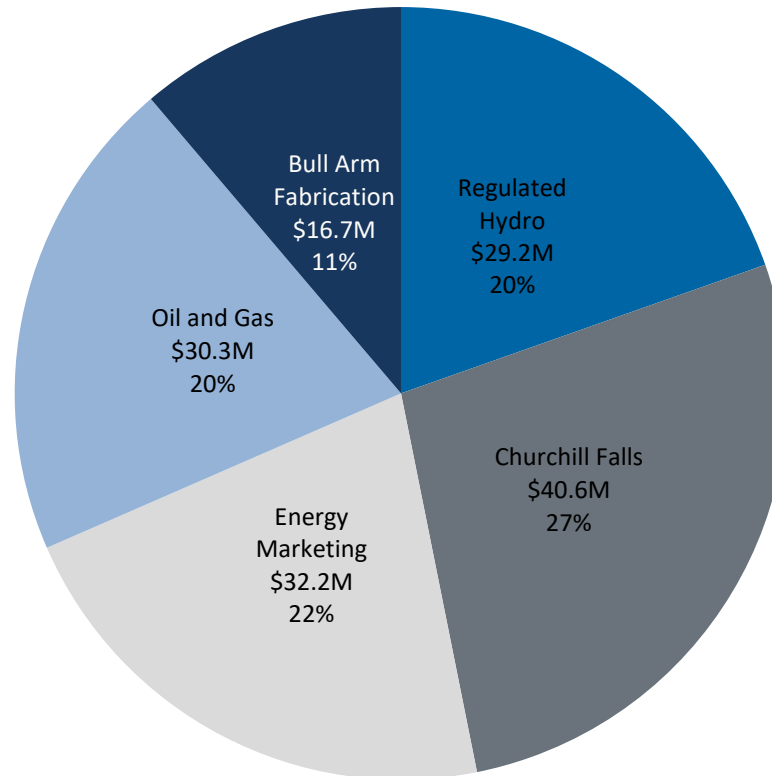
Net income

Segments	2014 Actual	2015 Budget
Regulated Hydro	17.6	29.2
Churchill Falls	20.2	40.6
Energy Marketing *	38.0	32.2
Oil and Gas	37.1	30.3
Bull Arm Fabrication	17.3	16.7
Phase 1 Lower Churchill Project	(2.4)	(0.5)
Corporate and Other	(12.2)	(23.5)
Net Income	115.6	125.0

*Includes Export Sales, IOC and Menihek

2015 Net Income by Line of Business⁽¹⁾

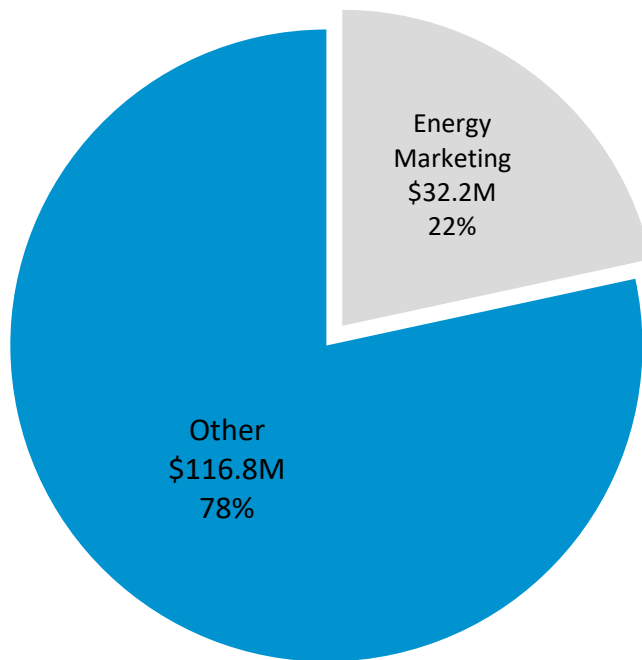
2015 Budget - Net Income
 (excluding LCP Phase I and Corporate and Other)
 in \$ millions



⁽¹⁾ Excludes LCP Phase I and Corporate and Other

Energy Marketing - 2015

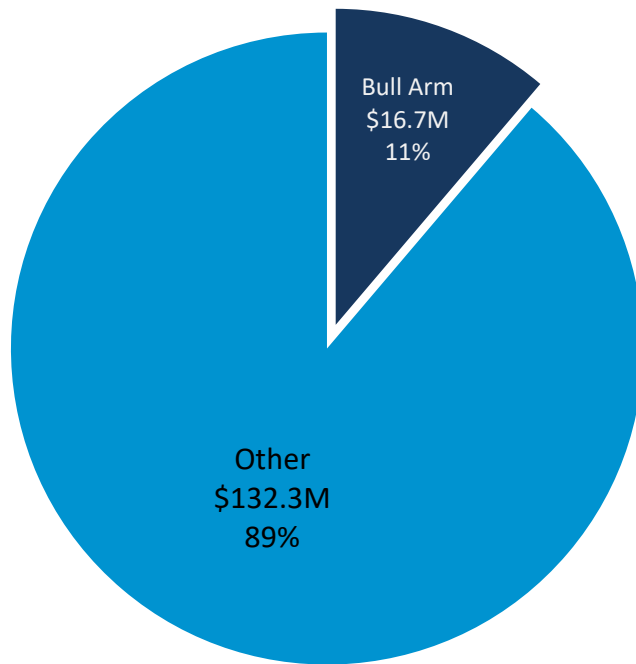
2015 Budget - Net Income
(excluding LCP Phase I and Corporate and Other)
in \$ millions



- 22% of 2015 Budget Net Income
- Cost base primarily fixed transmission costs
- Low cost overhead operation (21 people)
- Commodity price driven
- Selling directly into US markets in 2015
- Production available function of Labrador demand

Bull Arm Fabrication - 2015

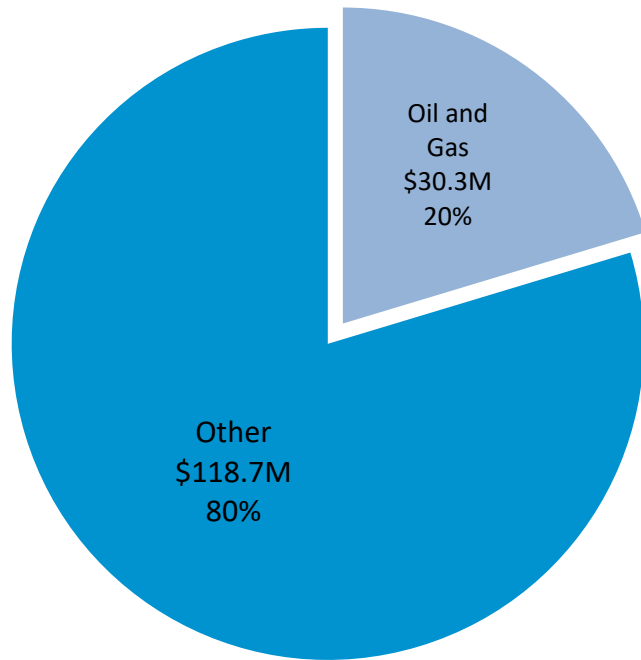
2015 Budget - Net Income
(excluding LCP Phase I and Corporate and Other)
in \$ millions



- 11% of 2015 Budget Net Income
- Low cost overhead - 6 person Nalcor operation
- Income a % of Hebron expenditures
- Focus on asset management and future strategy

Oil and Gas - 2015

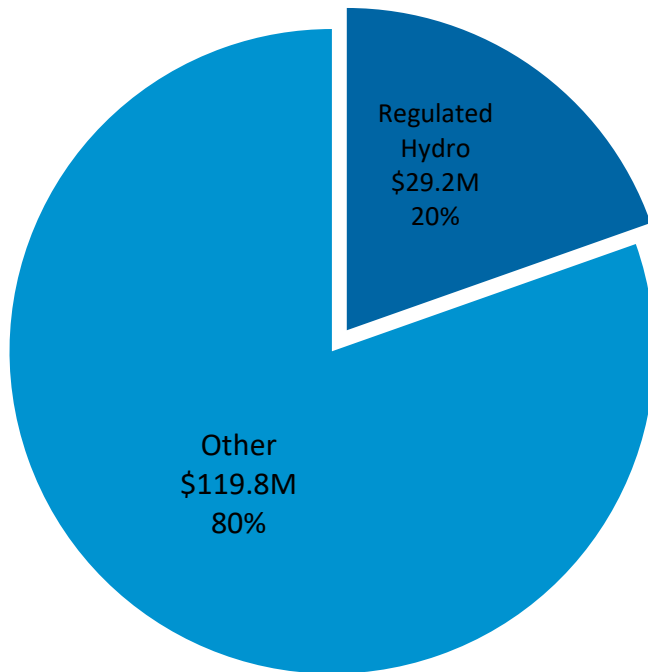
2015 Budget - Net Income
(excluding LCP Phase I and Corporate and Other)
in \$ millions



- 20% of 2015 Budget Net Income
- Cost base primarily depletion expense; reserves/production
- Producing assets operating and capital function of consortium decision making
- Low cost, hi quality overhead - 27 person operation
- Exploration strategy execution ongoing
- Commodity price driven
- \$800 million of capital next 5 years – focus on capital expenditure efficiency
- Self funding in 2017

Hydro - 2015

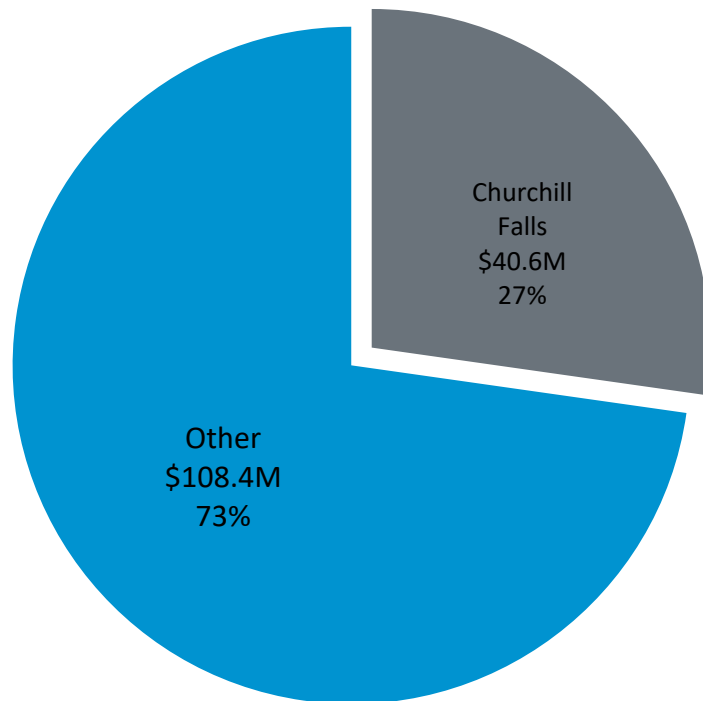
2015 Budget - Net Income
(excluding LCP Phase I and Corporate and Other)
in \$ millions



- 20% of 2015 Budget Net Income
- Controllable costs limited
- Focus on customer reliability – operating and capital investment
- Revenue/Cost regulated by PUB
- Cost savings accrue directly to customers

Churchill Falls - 2015

2015 Budget - Net Income
(excluding LCP Phase I and Corporate and Other)
in \$ millions



- 27% of 2015 Budget Net Income
- Fixed income based on power contract non-escalating revenue
- FTE's and operating cost generally held flat - doing more with same
- Focus on controllable opex and capex efficiency in an aging asset environment
- Preparation for 2041

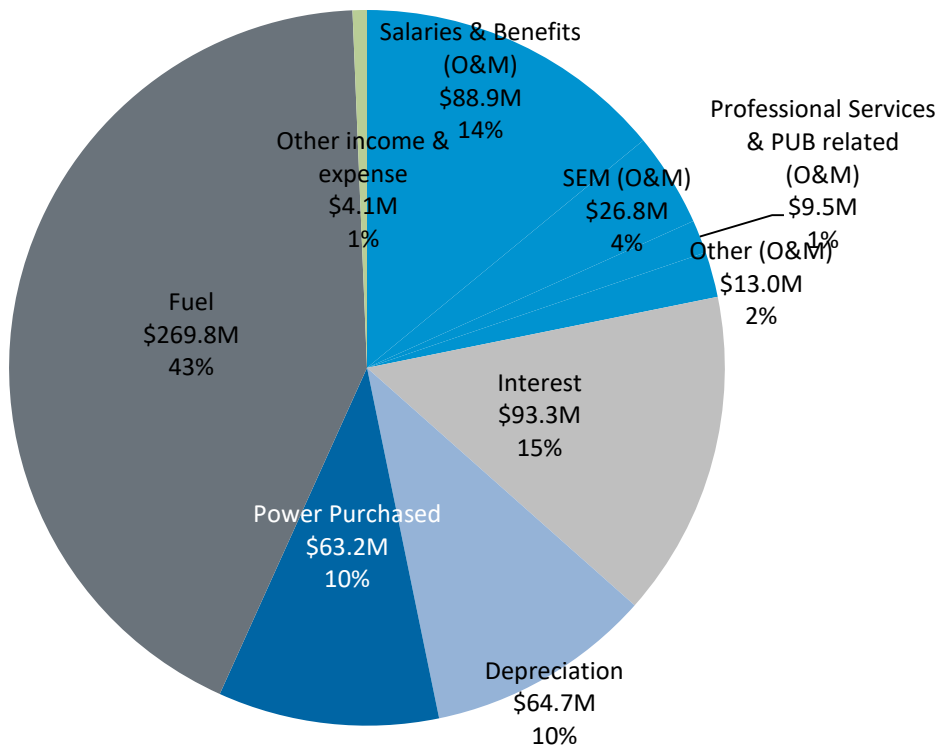
Nalcor Operating Cost by Segment

Segments	2015 Budget (\$ million)	2015 Budget (%)
Regulated Hydro	\$138.2	55.3%
Churchill Falls	42.7	17.1
Energy Marketing	27.8	11.1
Oil and Gas	15.1	6.0
Bull Arm Fabrication	1.6	0.6
Phase 1 Lower Churchill Project	0.8	0.3
Corporate and Other	23.5	9.4
Total Operating Costs	\$249.7	

Nalcor's Savings Contributors

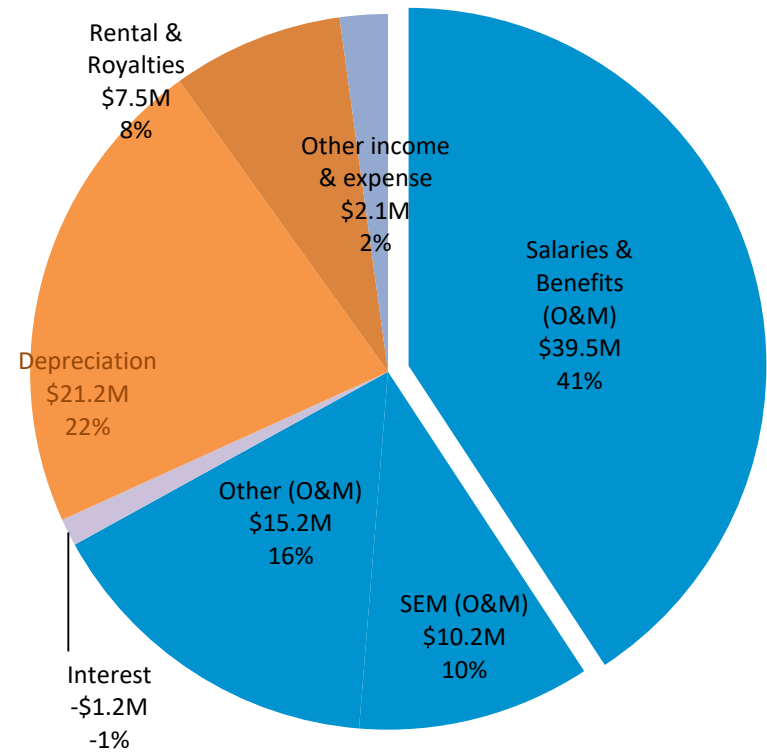
2015 Budget - Regulated Hydro

in \$ millions

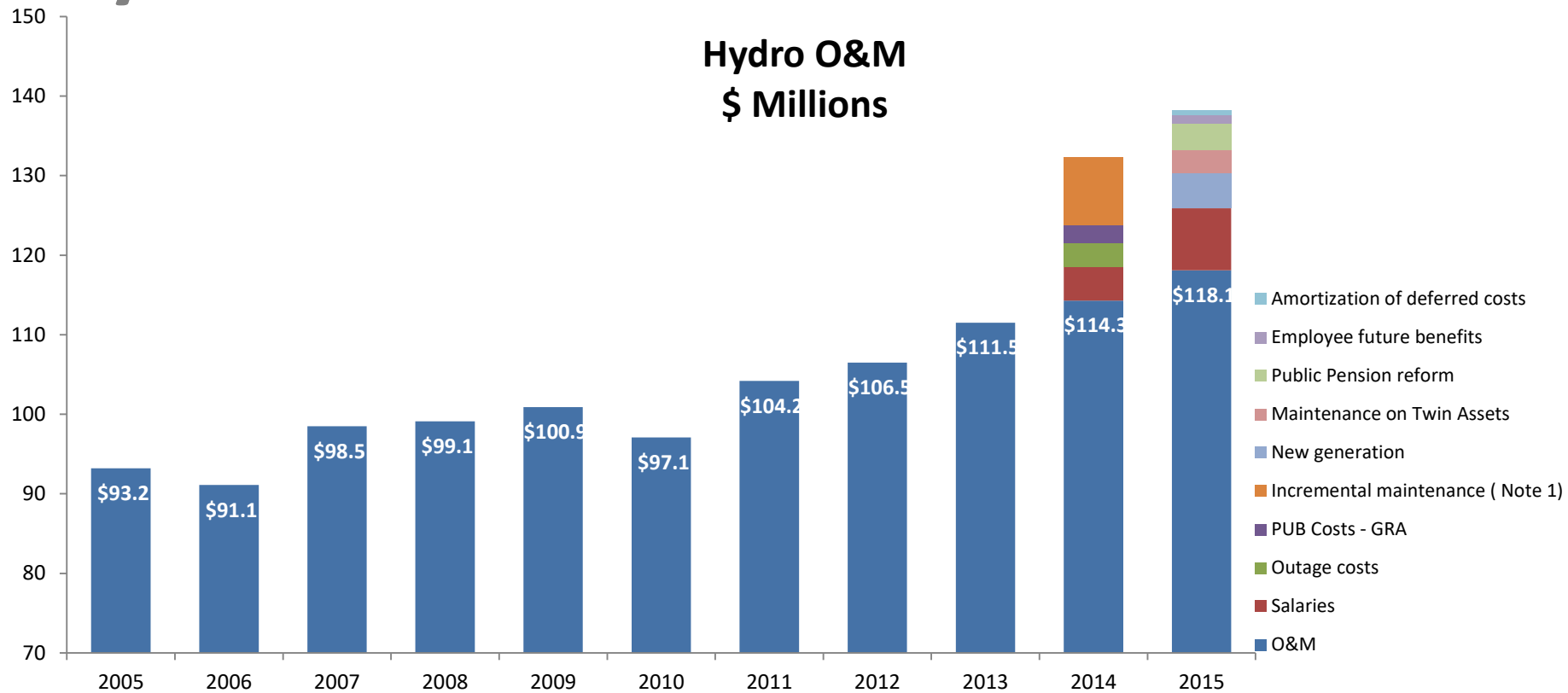


2015 Budget - Churchill Falls

in \$ millions



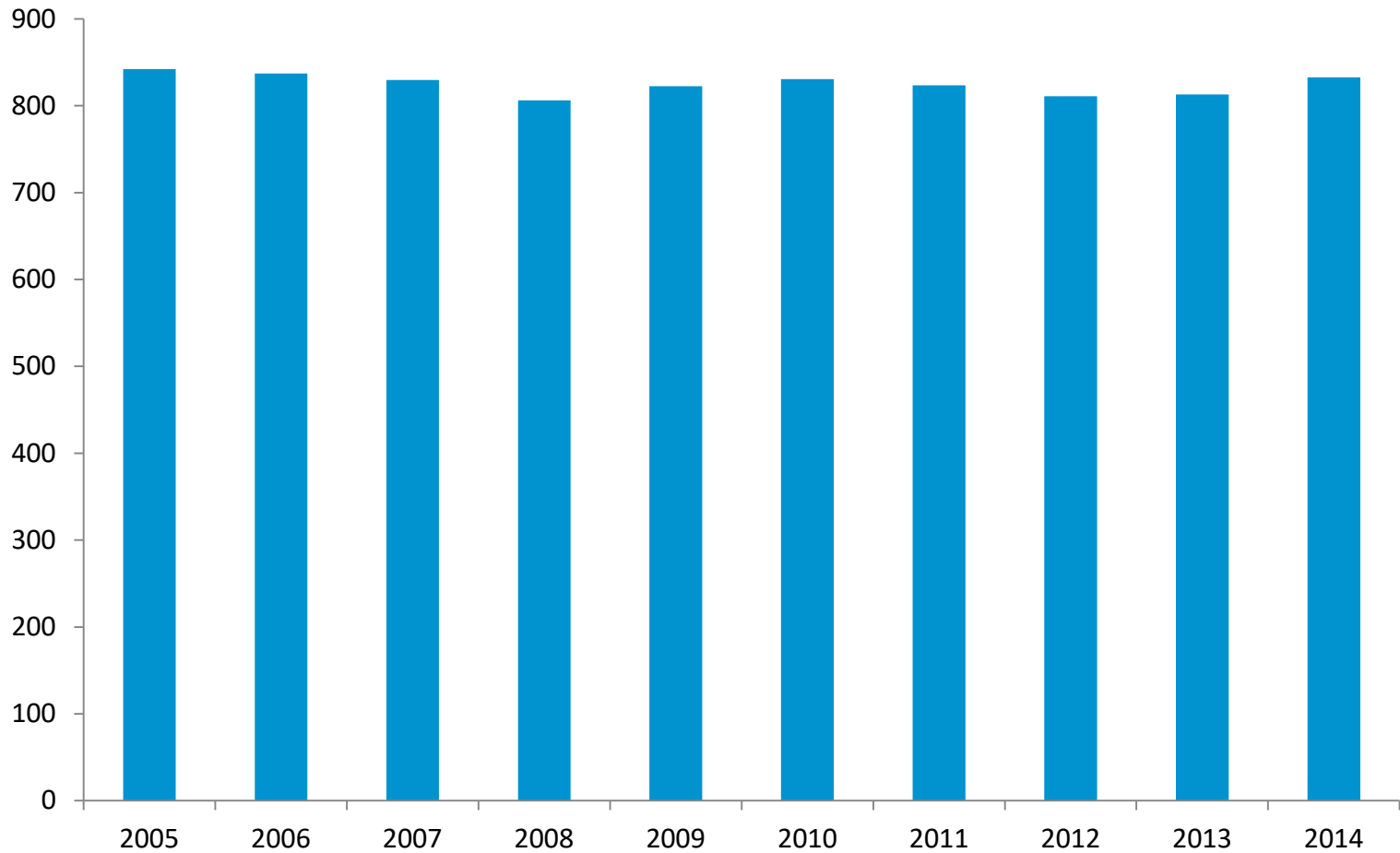
Hydro O&M Costs



Note 1: Includes January outage; outage follow up; deferred breakers and transformers and other corrective work.

Hydro People

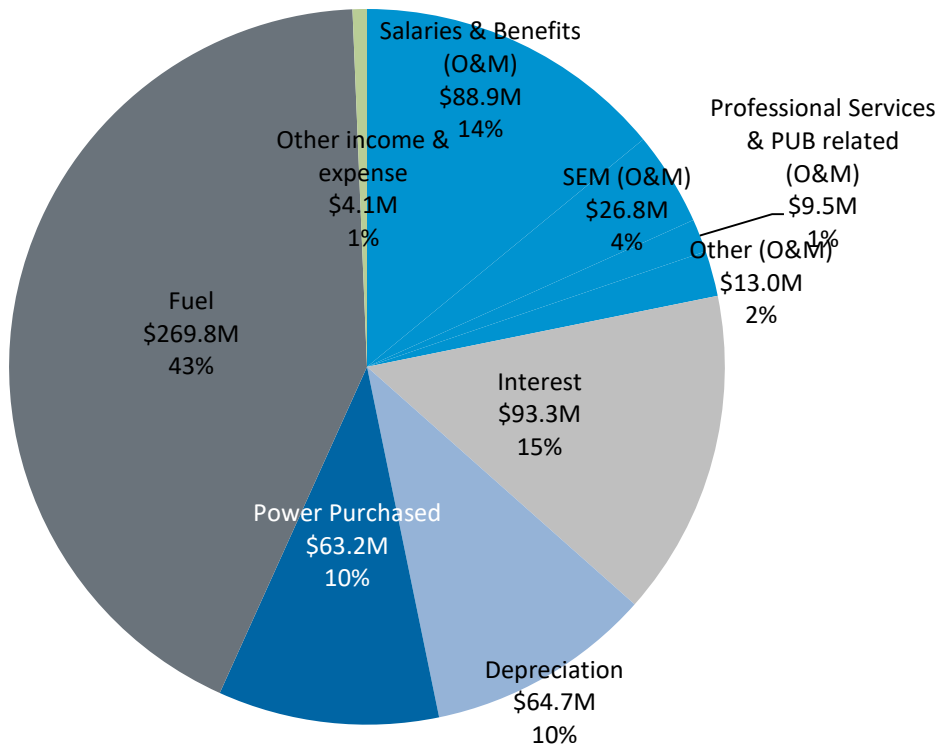
Hydro FTE 2005-2014



Nalcor's Savings Contributors

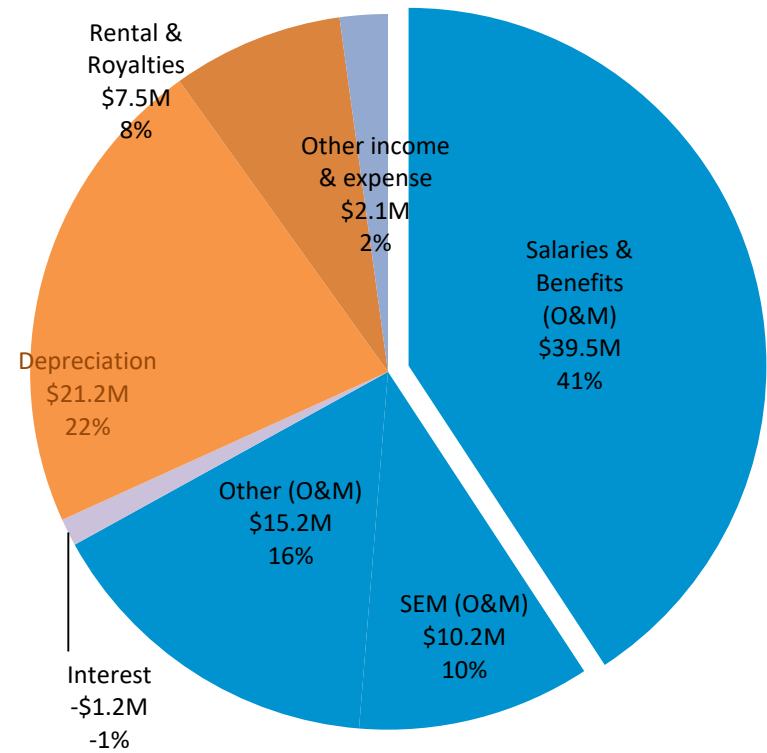
2015 Budget - Regulated Hydro

in \$ millions

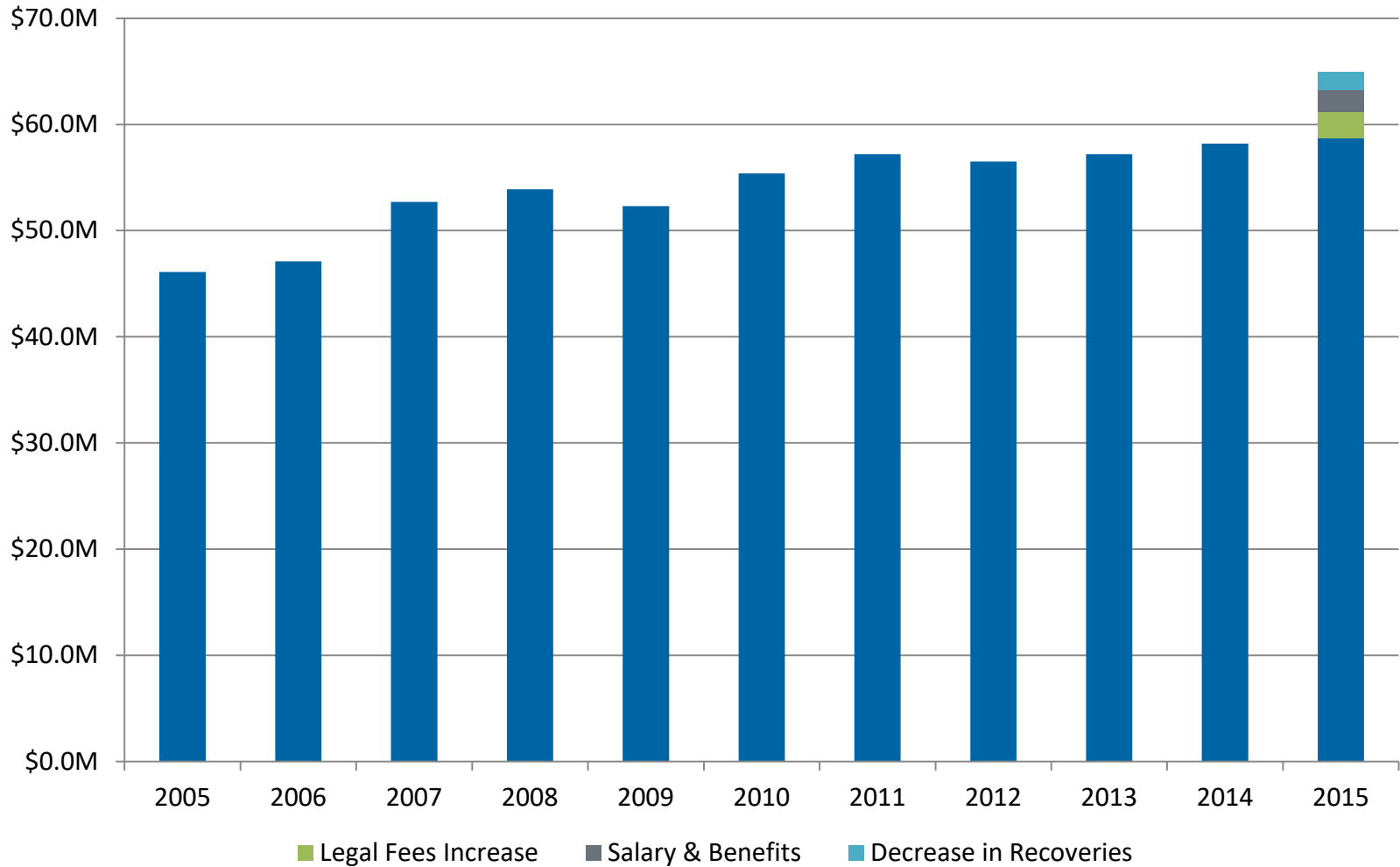


2015 Budget - Churchill Falls

in \$ millions

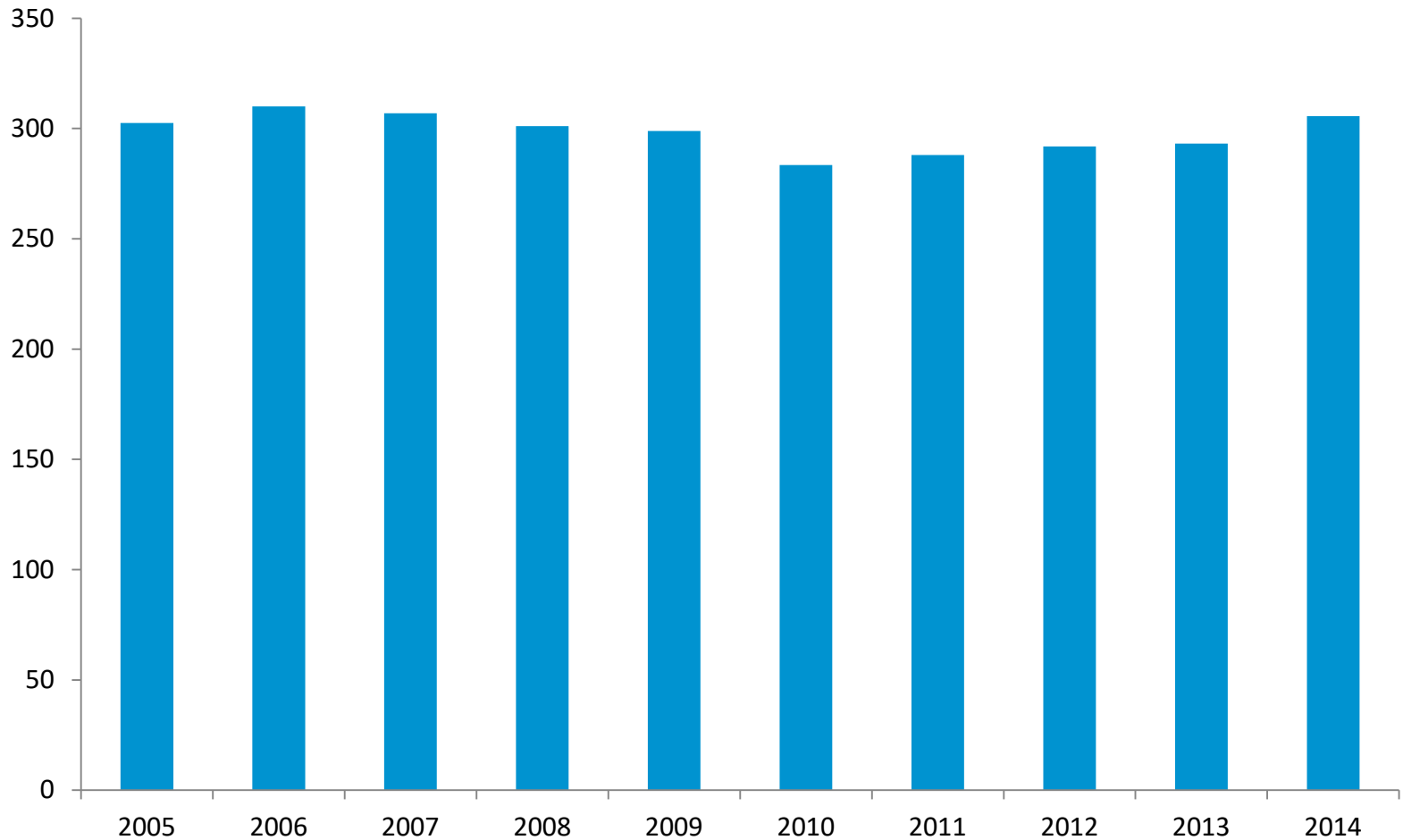


Churchill Falls O&M Costs



Churchill Falls People

Churchill Falls FTE 2005-2014



CORPORATE AND SUPPORT SERVICES SUMMARY

Key Messages

- Significant growth in size, depth and breadth of the company since 2005, large multiples
- Significant increase in governance, regulatory, operating and capital activities since 2005
- Number of total Nalcor/Hydro employees has been optimized
 - increased ~ 16% since 2005, excluding MF/LIL/ML. and ~23% including MF/LIL/ML
- Benchmark data indicates Nalcor has less or the same number of corporate support people than competitors

Corporate and Other - 2015

	2014 Actual	2015 Budget
Corporate Relations	\$0.9	\$1.4
Executive Leadership	3.4	4.5
Finance/CFO	6.7	8.3
HROE	1.1	1.6
Non-Regulated Operations	2.2	1.0
PE&TS	0.6	0.3
LCP	0.3	0
Strategic Planning & Business Development	0.9	1.6
Total	\$16.1	\$18.7
Less: Maritime Link Interest Adjustment	-3.8	
Business Development Revenue	-0.1	
Add: RFCI Operating		3.0
Business System Project		1.8
Total	\$12.2	\$23.5

Key Financial Metrics

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Annual Oil Production (000 bbls/year)	n/a	661	3600 - 4600

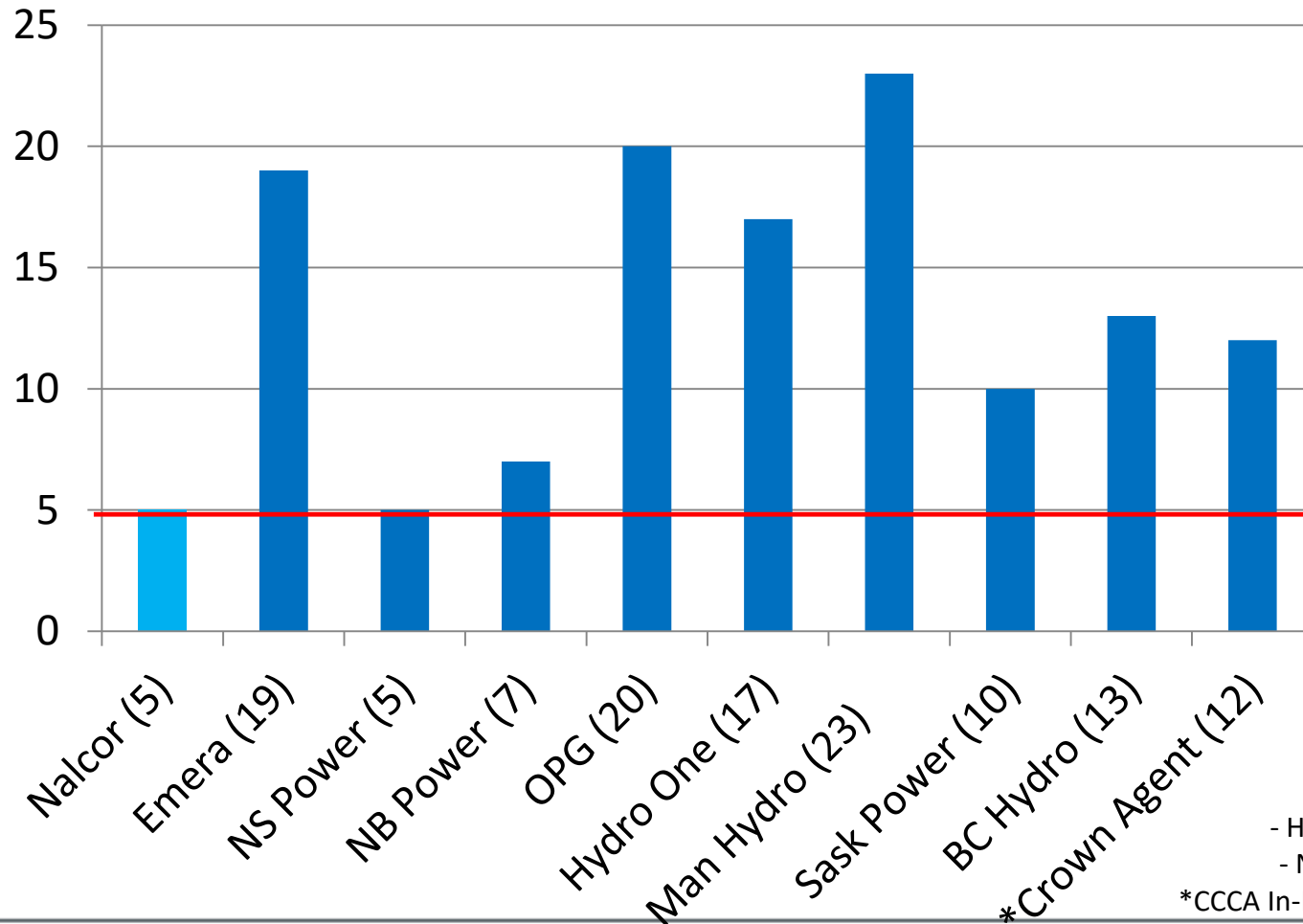
Note: Capital Expenditure amounts exclude Maritime Link

Key Activity Data

	2005	2014
GOVERNANCE		
▪ Number of companies/boards	5	15
▪ Number of board members	20	36
▪ Number of board and committee meetings per year	28	70
REGULATORY BURDEN		
▪ Regulatory Decisions	8	28
• NLH – Number Regulatory Staff	7	6 (+2)
• NP - Number of Regulatory Staff	n/a	12
▪ RFIs	Limited	Huge Increase
▪ Public Enquiries per year	Negligible	> 400
EMPLOYEES		
▪ Number of Nalcor employees	1,145	1,327
• Lower Churchill Project	0	75
▪ Recruitment per year	81	326

Legal

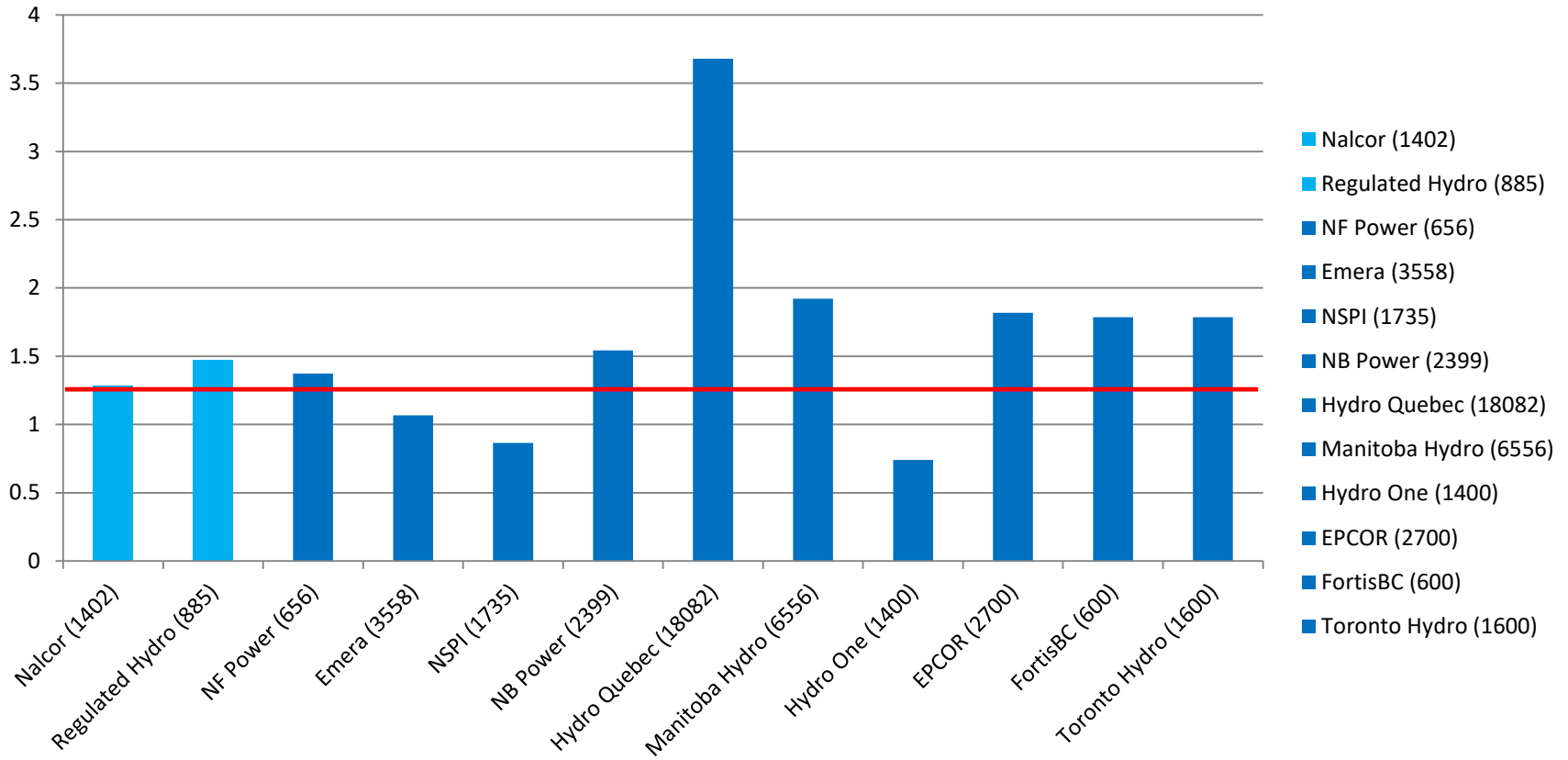
Number of Lawyers



NOTE:
 - Hydro Quebec: 110
 - No AB comparator
 *CCCA In-House Barometer

Human Resources & Labour Relations

Ratio Core HR/LR per 100 EEs

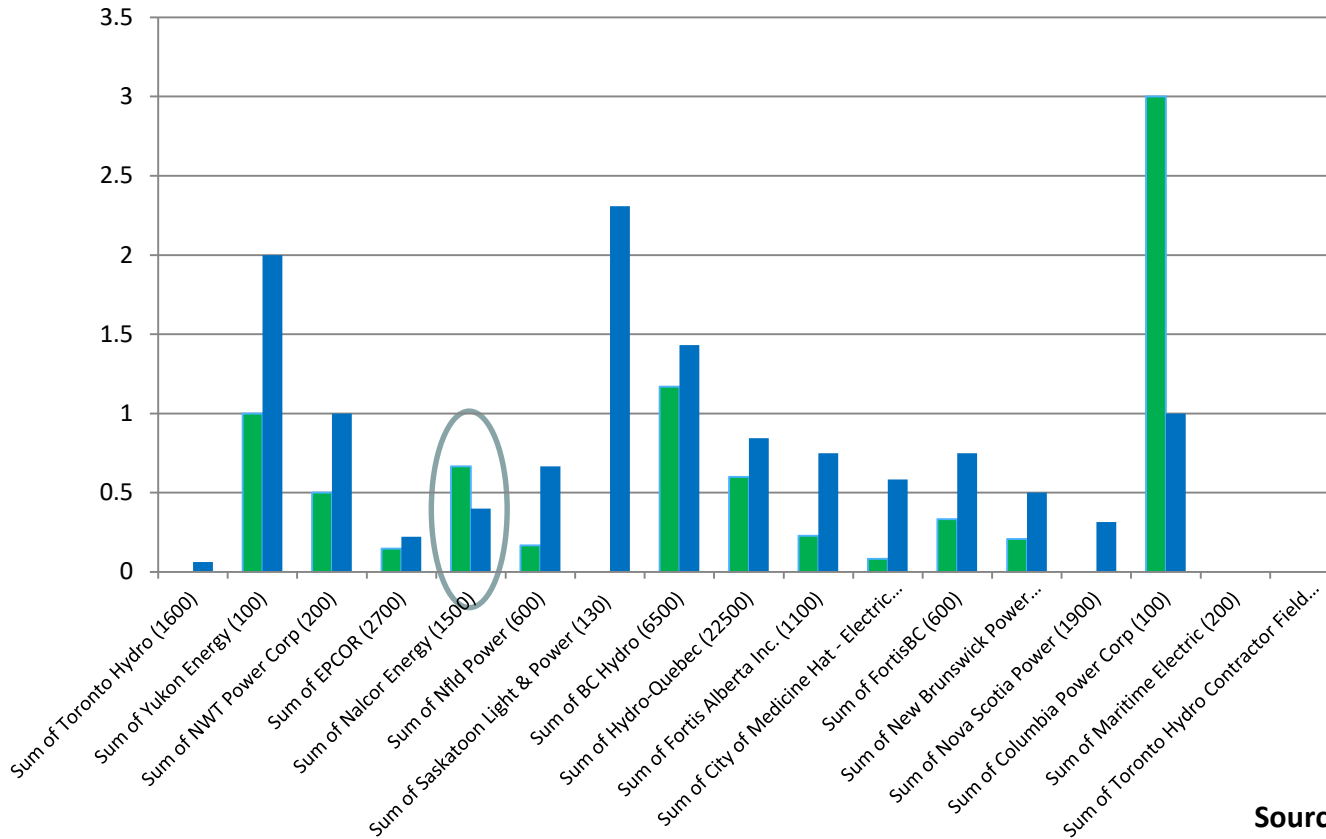


Safety/Health & Environment

Ratio of Staff per 100 Employees

■ FTE / 100 employees (using ENV):

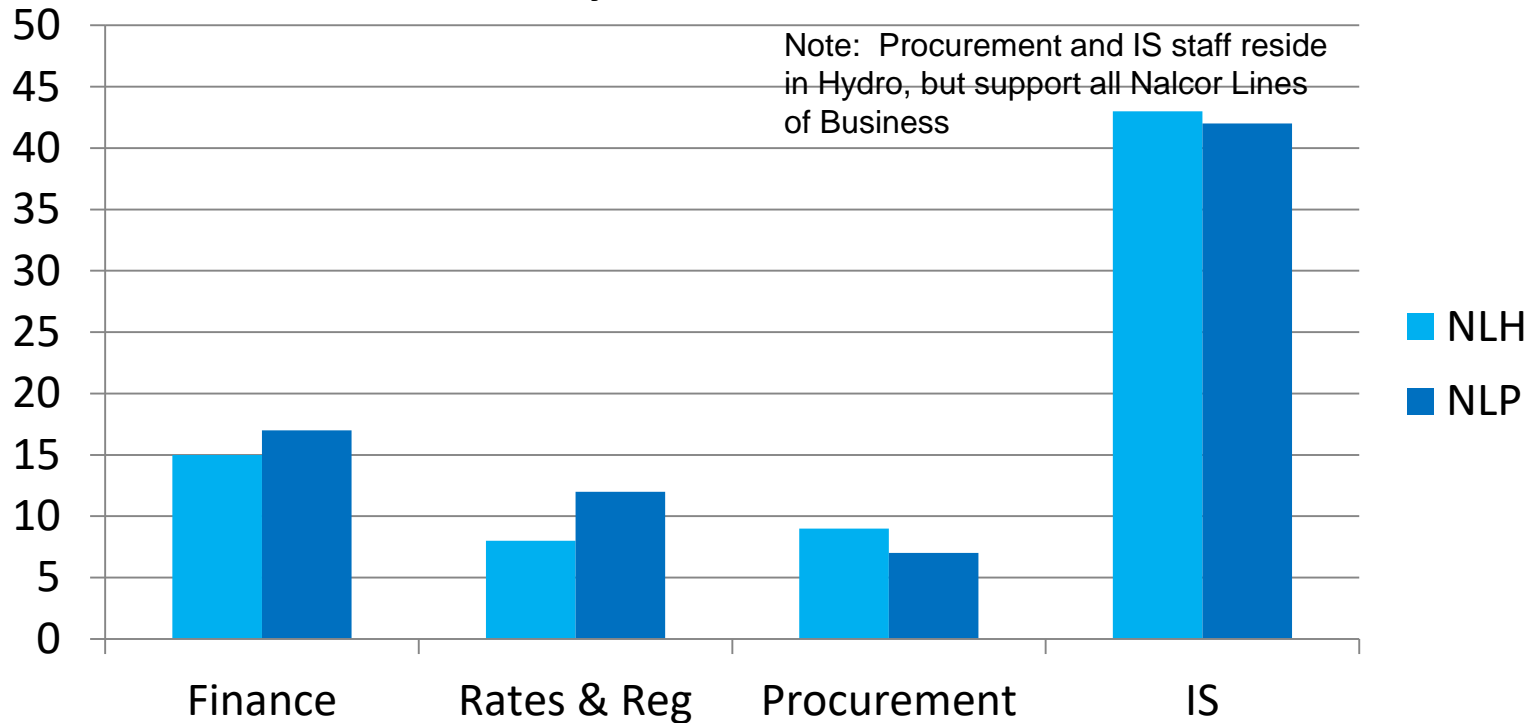
■ FTE / 100 employees (using OHS):



Source: Toronto Hydro Study

Finance

Hydro vs. NLP

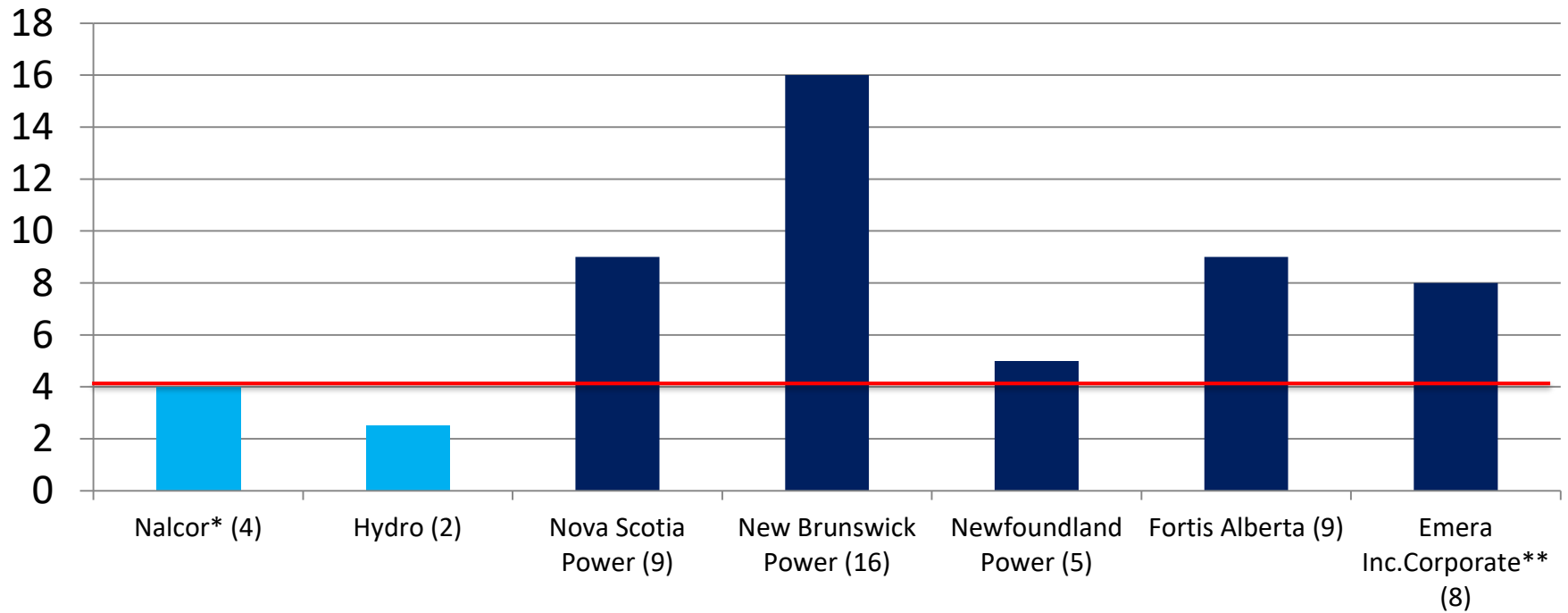


Conclusions:

- Hydro’s business is larger and more complex than NP
- Many of Hydro’s functions provide service to all of Nalcor (not just the regulated utility)
- Despite these factors, the comparable Hydro resource levels on these select functions are 4% lower than NP

Corporate Communications

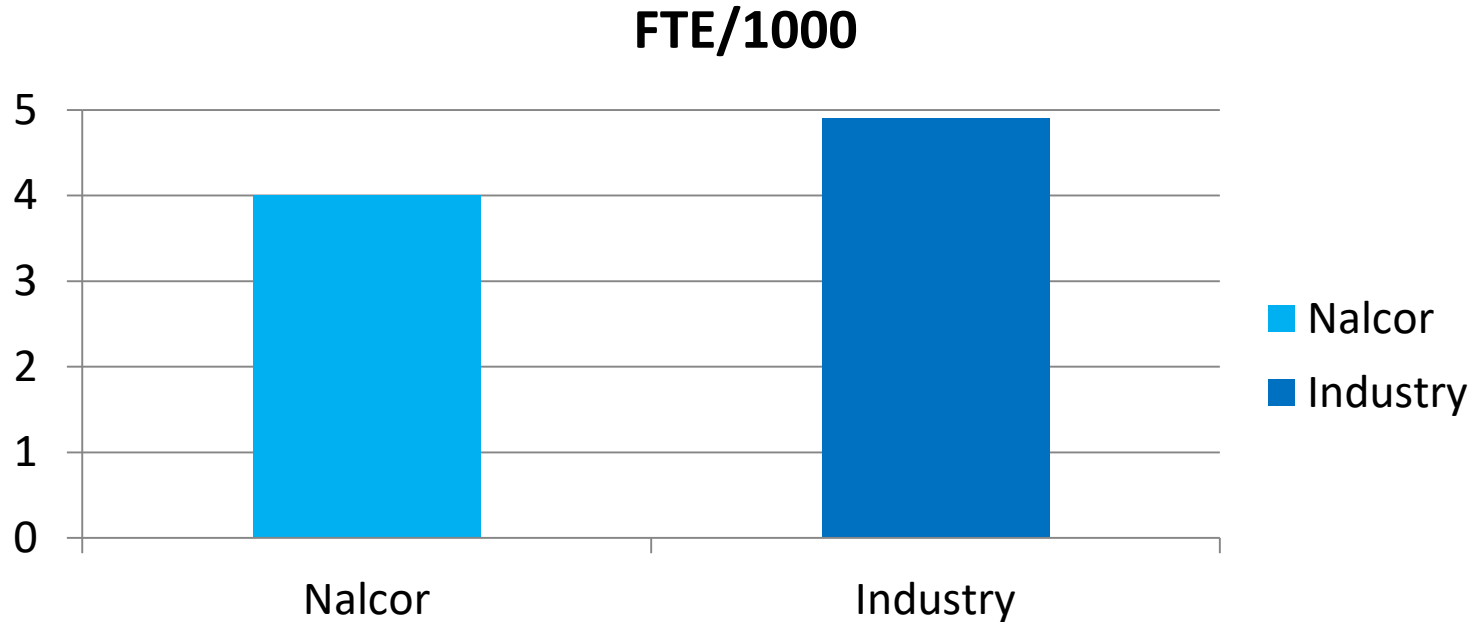
FTEs



* Nalcor includes Shareholder Relations, does not include LCP Comms staff (4)

** Emera Inc. remaining subsidiaries have embedded communications teams.

Internal Audit (not including LCP)



Note: (1) Source Data 2010 IIA Research Paper