

Date : 7/3/2014 8:56:10 PM

CIMFP Exhibit P-03852

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From : "Mullaley, Julia"

To : "Brown, Milly" , "Hynes, Darrell"

Subject : Fw: Quebec

Attachment : Shortened version Gull Island_ QCStrategyFor Premier June_14.pptx;pic28712.jpg;

For meeting tomorrow with Ed. I provided copy to Premier this afternoon. Thanks.

Julia

Sent from my BlackBerry 10 smartphone on the Bell network.

From: BTucker@nalcorenergy.com

Sent: Thursday, July 3, 2014 3:47 PM

To: Haynes, Brenda; Mullaley, Julia

Subject: Quebec

(See attached file: Shortened version Gull Island_ QCStrategyFor Premier June_14.pptx)

Hi there,

Please find attached deck being sent at Ed's request.

Thanks

Bev

(Embedded image moved to file: pic28712.jpg)
Bev Tucker
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You owe it to yourself, and your family, to make it home safely every day.
What have you done today so that nobody gets hurt?

LCP Ph 2 Gull Island Update

July 3, 2014

Boundless Energy



Confidential

Overview

- LCP Ph 2 (Gull Island) status update
- Key elements shaping PH 2 strategy
- Significant changes since last HQ engagement on Ph 2 GI
- Next steps

LCP Phase 2 Gull Island – Status Update

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Functional Area	Status
Engineering	<p>Generation</p> <ul style="list-style-type: none">- comprehensive feasibility studies & supporting geotechnical field work completed.- 2010 cost estimate updated in 2013 (class 4 estimate). <p>Lab transmission - desk-top assessment completed.</p>
Environmental	<p>Generation – received EA release, permitting in process.</p> <p>Lab transmission – not yet registered for EA (anticipated 4 years).</p>
Aboriginal	<p>Generation - Innu Nation IBA and land claims covered.</p> <p>Transmission – Innu Nation IBA has provision for an amendment process to include transmission, other affected aboriginal groups are not included in this IBA.</p>
Transmission access	<p>No transmission service requests currently pending.</p> <p>Previous studies completed in QC and ON (now dated).</p> <p>Decisions received on Regie complaint (2011) and associated judicial review (2013) re. 2006 trans request, not in NLH’s favor.</p>
Commercial	<p>Ongoing assessment of market opportunities – key markets: New England & Ontario.</p> <p>Ongoing engagement with potential partners, policy markers, market participants .</p> <p>Economic modelling of opportunities.</p>
Other technical work	<p>Water Management Agreement in place for Churchill River.</p> <p>Extensive hydrological data and analysis completed.</p>

Anchoring Back to Energy Plan

- *“First priority is to ensure NL’s current & future electricity requirements are met”*
 - ✓ **Ph 1 MUSKRAT**
- *“Build a transmission link between Labrador and the Island in conjunction with the Lower Churchill development and seek federal financial assistance in the context of GHG emission initiatives”.*
 - ✓ **PH 1 – LIL & ML**
- *“Achieving direct market access to ensure:*
 - *Fair share of economic upside potential over long-term*
 - *Positioning to realize long-term value of Upper Churchill”*
 - ✓ **Access achieved, or in process:**
 - **265 MW TSAs on HQT system**
 - **500 MW Maritime Link**
- *“Use electricity resources to actively pursue new industrial development “*
 - ✓ **Labrador Industrial Rates Policy**
 - ✓ **New Lab transmission line for industrial customer(s) e.g. Alderon.**

MF developed first → GI + other smaller hydro + wind to follow; future developments principally for export and/or new industrial load in Labrador.

Key Elements Shaping Strategy

- Court cases in process with HQ
 - Good Faith case
 - Declaratory Judgment case (1969 Renewal Contract terms)
- Quebec demand supply outlook
- Market opportunities for GI
- Political environment

CF/HQ COURT CASES

Good Faith Case

- Case brought by CF against HQ in QC Superior Court.
 - Claim filed Feb/2010
 - Hearing held Fall 2013
 - Decision anticipated Summer 2014
- Essence of case
 - CF is claiming that under QC civil law's duty of good faith, HQ is required to renegotiate the pricing terms of the 1969 power contract because HQ is reaping a windfall that neither party contemplated due to unforeseen changes in market circumstances.
 - CF is seeking a remedy that would provide a new market linked pricing formula effective Nov 30, 2009:
 - $1/3$ of avg sales price for HQ's domestic third party sales X % domestic sales
 - +
 - $1/2$ of avg sales price for HQ's export third party sales X % export sales

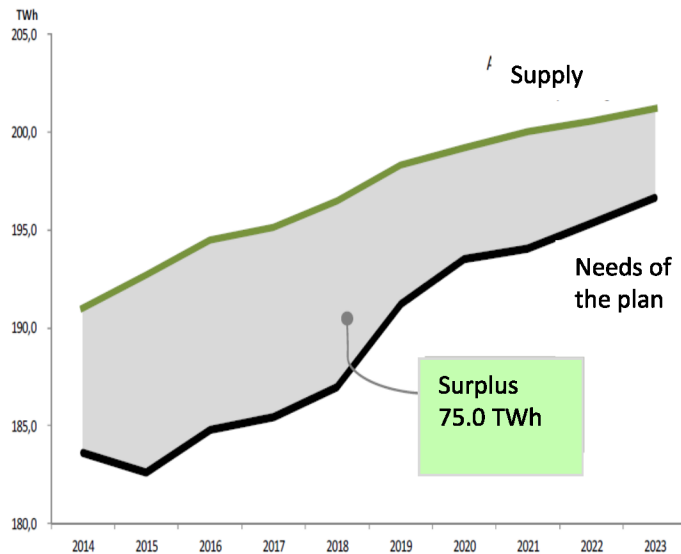
Declaratory Judgment Case

- Case brought by HQ against CF in QC Superior Court
 - Motion filed July, 2013
 - Court hearing scheduled for Fall 2015
 - Legal procedures ongoing, CF to file plea ~September (anticipated)
- Essence of case
 - Motion for court interpretation of the 1969 power contract, specifically:
 - Terms of contract in the renewal term regarding interpretation of “Continuous Energy” and whether as CF contends it limits HQ’s energy entitlement to equal monthly blocks
 - Whether CF can sell to 3rd parties amounts of power in excess of the 300 MW recall power.

QUEBEC DEMAND /SUPPLY OUTLOOK

Quebec – Demand /Supply Outlook

HQD Forecast Surplus Energy 2014- 2023



Source: HQD Supply Plan 2014-2023

- HQD (serves Qc domestic requirements) is forecasting a cumulative surplus of supply of 75 TWh over the next 10 years.
- HQD’s surplus position does not include other HQ resources not designated to serve native load.
- Based on Nalcor analysis of publicly available information, with CF contract in place and planned new developments it appears HQ has sufficient capacity and energy to meet domestic requirements until 2041.
 - Even if known northern projects (est~3000 MW) are developed, HQ still faces a potential shortfall below est minimum threshold requirements, however the shortfall is less.



MARKET OPPORTUNITIES

New England Market Opportunity

NE - significantly sized market ~27,000 MW, 130 TWh in 2013.

Needs supply diversification and GHG reductions.

Long-term regional procurement opportunity anticipated within next 12 mo.

- Heavily dependent on natural gas gen.
- NE facing growing reliability problems due to natural gas pipeline constraints, exacerbated by up to 8,300 MW of aging generation “at risk” for retirement.
- NE states have aggressive GHG emission reduction targets.
- NESCOE is advancing efforts for regionally coordinated clean energy procurement & cooperation on infrastructure issues (transmission and pipeline).
- Massachusetts large portion of market, experiencing highest prices
 - currently lacks authority for Distribution companies to enter into long-term PPAs for large hydro.
 - Clean Energy Resources Bill is in legislative process (authority for long-term hydro contracts) .
- US EPA announced proposed guidelines for state plans for GHG emission reductions from existing fossil fuel units.
 - State specific rules will collectively achieve a 30% reduction below 2005 levels by 2030.

Ontario Market Opportunity

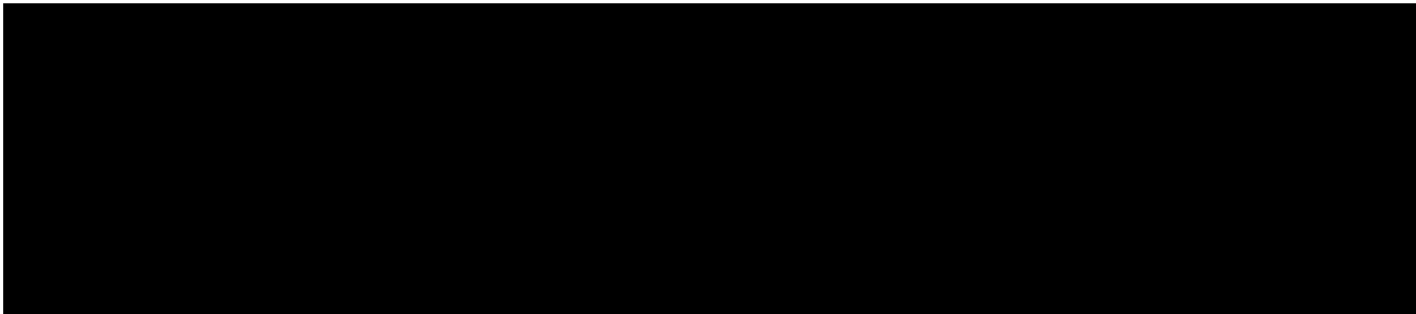
ON - significant sized market ~25,000 MW, 140 TWh, with aging nuclear fleet and need for dispatchable, clean generation in the upcoming decade.

- Fall 2013, updated Long-term Energy Plan released
 - Explicit recognition of benefits and flexibility offered by clean imports. Also states that contractual arrangements for firm imports will be pursued if they match Ontario's needs and are cost effective.
 - No new nuclear planned at this time.
 - 10,000 MW of nuclear reaching end of service life - plans to refurbish up to 8,500 MW (refurb period spans 2016-2031).
 - Natural gas fired generation will be used flexibly to respond to changes in provincial supply and demand and to support the operation of the system.
- Opportunity for long-term, creditworthy PPA with Crown agency.
- GHG reduction target 15% below 1990 by 2020.
- Ontario has been experiencing short-term market surpluses (loss of industrial load in 2008 and continued flat growth in demand), however aging nuclear plants presents potential long-term market opportunity.

POLITICAL ENVIRONMENT

Political Environment

Jurisdiction	
Ontario	<ul style="list-style-type: none"> - Government returned to power with a new majority. - Continuation of energy policy as outlined in LTEP - Principles - cost effectiveness, reliability, clean energy, community engagement, and an emphasis on conservation and demand management.
Quebec	<ul style="list-style-type: none"> - New majority federalist government - Energy policy - resuming Plan Du Nord (Charest Govt. initiative) that calls for \$47B renewable energy investment (3,000 MW hydro, 300 MW wind, 200 MW other) and \$33 B mining investment over 25 years. - Continuing policy to attract industry with energy surpluses.
New England	<ul style="list-style-type: none"> - Governors' terms end this Fall. Some uncertainty regarding future administrations' policies as it relates to large hydro - however expect to be open to Cdn hydro and long-term contracts – subject to price and protecting domestic renewables. - Political drive in Mass to pass the Clean Energy Resources bill before the end of session (July 31st). - Regardless of administration changes , if EPA GHG emission rule comes into effect, states will have to develop plans to meet 2030 targets by 2018 – hydro imports have a potentially significant role to play. Also, states have their own targets to achieve.
Government of Canada	<ul style="list-style-type: none"> - Majority Conservative Government - Heading into election year - Opportunity for financial support for clean energy project in context of (1) Keystone XL pipeline, (2) US Clean Power Plan /EPA proposed guidelines for existing power plants.



Significant Changes

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Changes	Implications
Sanction of MF	GI + other electricity projects available for export/indust load. Market access around QC. Increased market profile and credibility for Nalcor.
New majority Govt. in QC	Ability to take on historically challenging negotiation. Open to working with provinces and Fed Govt.
Majority Govt. in ON	Ability to pursue energy policy that could include imports of large scale hydro.
Clean Energy Resources bill in Mass + NE joint procurement opportunity anticipated	Long-term PPA opportunity in NE, previous discussions focused only on ON.
Two CF/HQ court cases pending	
NLH's complaints and judicial review re 2006 service request was unsuccessful.	

NEXT STEPS

