Q. When the Twinco lease expires at the end of 2014, will the associated power continue to be sold to the mining companies as at present and on the same terms? Will such sales be considered a regulated activity? Will any of the Twinco assets be taken over by NL Hydro and become part of its rate base? More generally, will there be any impacts on regulated ratepayers in the Labrador Interconnected System when the lease expires? Please explain.

A. Please see the attached Press Release from the Provincial Department of Natural Resources dated December 11, 2012.

Natural Resources
December 11, 2012

New Policy Introduced to Ensure Competitive Electricity Rate for Industrial Customers in Labrador

A series of legislative amendments, introduced in the House of Assembly today (Tuesday, December 11) will help ensure a transparent and fair rate for all industrial customers in the region and will assist in keeping the rate competitive with other Canadian jurisdictions. Amendments to the *Electrical Power Control Act, 1994 (EPCA), and the Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, (CFLCo Lease Act)* will allow for the creation of a new electricity rate policy for industrial customers on Labrador's Interconnected System.

"In contrast to the rest of the country, there is currently no published industrial electricity rate for Labrador, which provides challenges for companies interested in development opportunities," said the Honourable Jerome Kennedy, Minister of Natural Resources. "Companies require a degree of certainty on power rates and availability when it comes to making decisions to invest. This new policy will introduce one rate for all Labrador interconnected industrial customers, and allow for better planning for industry and potential developments while establishing competitive and fair rates."

Upwards of $10 billion to $15 billion of investment in Labrador mining projects may be realized over the next decade, dependent in part on the availability and cost of power. If these projects proceed they will bring major economic benefits to the province, as well as provide significant opportunities for service and supply companies. As the recent increases in the price of iron ore have driven renewed interest in iron ore developments in Labrador, a number of projects are currently under study.

Throughout consultations with existing and prospective industrial customers during the summer of 2011 to the spring of 2012, concerns were raised about the rate staying competitive with Quebec and other jurisdictions. Natural Resources officials met with IOC, Wabush Mines, Vale, Alderon, New Millenium/Tata Steel, and Grand River Iron Sands. A range of energy rates was discussed, including estimates of 2015 electric generation rates under the new policy. Competitiveness with rates in Quebec was a common theme from all the companies consulted.

"The Provincial Government is listening and responding to the needs of industry stakeholders," said Minister Kennedy. "The new industrial rate policy was developed based on guidelines established in the provincial Energy Plan, meeting the central principles that the industrial rate should promote viable industrial development and also consider market value for energy resources. This policy will place our industrial rate among the lowest in the country, which will help advance the tremendous interest we are currently seeing in mining developments in Labrador."

The new electricity rate policy will be implemented in part in January 2013 and fully in January 2015. The new industrial rate will be recalculated annually which will help to keep the rate and the province competitive with other jurisdictions. It will establish a single published electricity rate, including both generation and transmission for all industrial customers on the Labrador Interconnected System.

For further information on the legislative amendments, please see the backgrounder below.

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BACKGROUNDER
Labrador Industrial Electricity Rate Policy

In contrast with the rest of Canada, there is currently no published industrial electricity rate for Labrador. This provides challenges for new developments that require certainty in planning before making decisions to invest. The two existing industrial customers on the Labrador system, IOC and Wabush Mines, are supplied power under long-standing contracts which will expire by January 1, 2015. With significant investment in new iron ore developments being contemplated, a Labrador industrial rate policy, based on the guidelines in the 2007 Energy Plan, has been established.

The policy will establish a single published electricity rate, including both generation and transmission, for all industrial customers on the Labrador interconnected system. The generation rate would be posted by Newfoundland and Labrador Hydro and recalculated annually based on a transparent formula that, among other things, allows Hydro to earn market value for electricity sales as well as keeping the rate competitive with neighbouring provinces. The formula calculates a weighted average price from two blocks of power: a Development Block and a Market Block.

The Development Block, supplied from the former Twinco block and a portion of the recall block (both from Churchill Falls), will be provided below external market prices. Up to the current day this power has been sold to industrial customers at rates based on historic arrangements reached in the 1960s. These rates are well below current market value and commercially reasonable rates. The new rate will be set at a commercially reasonable level but will still be provided below external market prices in order to encourage economic development. The Development Block will be available to all industrial consumers (existing and future) and will be fixed at 239 megawatts (MW), the recent average consumption level of the existing customers in Labrador.

The Market Block would be all remaining industrial power required beyond the Development Block and its price would be linked to external market prices. It would be supplied from the remaining Churchill Falls recall block and other generation sources in Labrador, including Muskrat Falls. The Market Block would allow Hydro to earn market value for these electricity sales and, as such, would meet a guiding principle of the Energy Plan that industrial rates consider market value for energy resources.

As the long-standing contracts with IOC and Wabush Mines do not expire until 2015, and the effect of the Market Block will be small in early years, the policy will phase in naturally, with the industrial rate rising to levels remaining very competitive with neighboring jurisdictions over about three years starting in 2013.

In addition to charges for generation, industrial customers will pay an additional amount based on the costs of required transmission. Under the recommended policy, transmission service and rates would be fully regulated by the PUB beginning in 2015 based on the cost of service principles currently in use on the Island. Transmission owners would be entitled to recover costs and collect a rate of return on their assets in Labrador.

Based on current analysis, it is estimated that the Labrador industrial generation rate will rise from $6 to roughly $45 per MWh by 2020. This translates to a new all-in rate (including roughly $20 per MWh in transmission charges) of $65 per MWh, which is comparable to projections for industrial rates in Quebec and British Columbia in that year.

The industrial rate policy will not affect Labrador residential and commercial rates.

2012 12 11 1:10 p.m.