

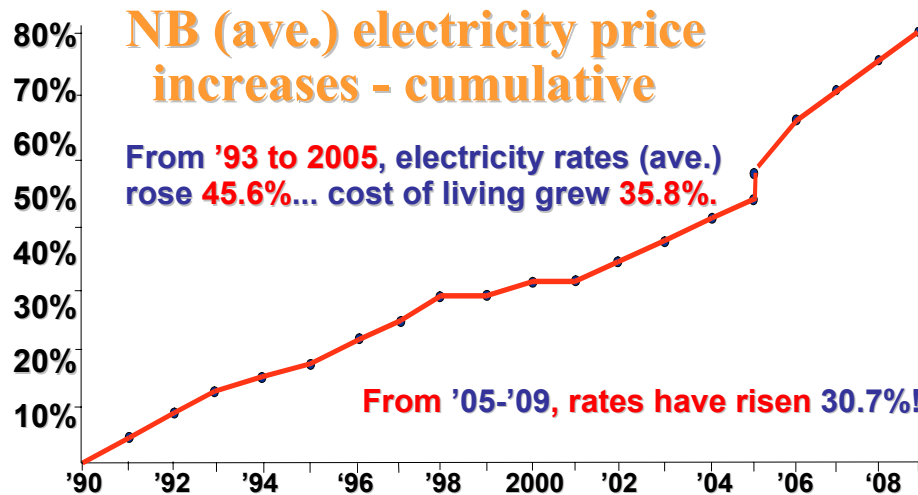


NB Power 'Deal'

Industry has been arguing long & hard for a **longer term, strategic approach** to deal with challenges created by **rising energy costs for manufacturers**, as well as the **utility...**

electricity rate increases **capped** at 3% for 3 yrs (thru' 2010-'11)...
... but facing very real prospect of **double digit rate increases!**

NOTE: NBP filings Sep.'05= 11.6%, Apr.'07=9.6%; GOV'T caps Mar.'06, Jan.'08

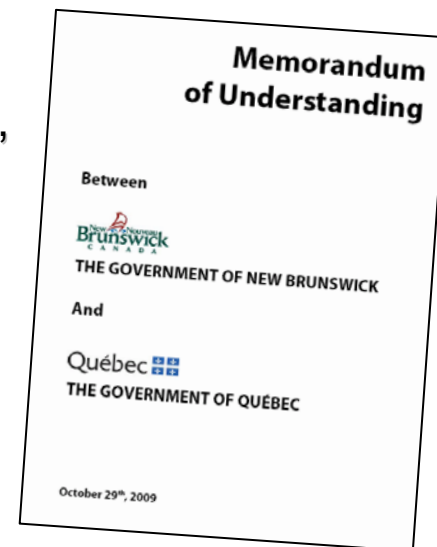


It's clear... **something HAS to be done!**

Industry 'Info Session' (09-12-3): **NB Power 'Deal'**

TIMELINE...

- Jan.'09:** Premiers Graham & Charest conversation re: opportunities for regional energy 'cooperation'
- Feb.'09:** preliminary discussions by Chiefs of Staffs
- Jun.'09:** formal discussions commence (NB891)
- Sep.'09:** MOU "contemplated"
- Oct.'09:** MOU signed
- Nov.'09:** Legislative Ctee begins deliberations re: regulatory regime
'Independent Advisory Panel' (6) created
- Jan.'10:** conclusion of public consultation/ Advisory Panel report
Legislative Ctee report / enabling legislation tabled;
- Apr.'10:** proposed agreement takes effect



Associations' initial reaction...

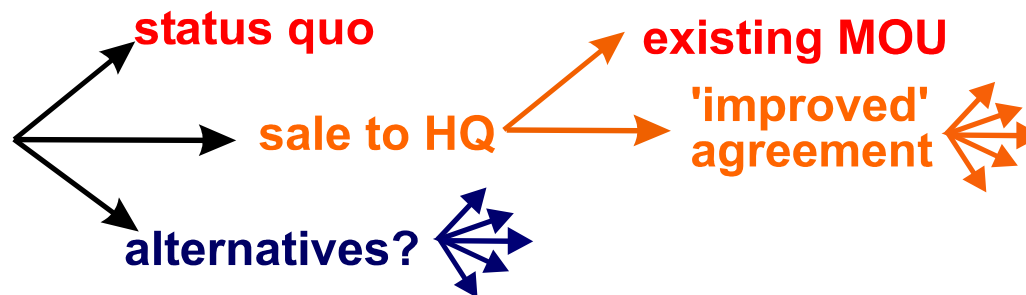
appears to be good deal... if only to avoid future rate hikes!...
but (obvious) need to undertake closer examination ('devil's in the details')

Evaluation approach...

- 'technical' merits (eg. impact on rates; NPV & future value; 'security')
- strategic factors (eg. procurement & economic development)
- policy issues (eg. legislation, regulation)

*Evaluation must be based on **FACTS** & not **EMOTION!***

Decision Process...



SYNOPSIS of the DEAL...

NB receives:

- **payment** of **\$4.75B**, plus costs for replacement energy exceeding **\$525M** during Pt. Lepreau refurb (est.@ \$800M)
- provision of **Heritage Supply (HPS)** of 14TWh energy (at plant/ retail meter) @ **reduced rates** for industrial (L,M) & capped rates for other (RCW);
 - 'order of magnitude' estimate of ratepayer **savings= \$800M** (NPV= \$700M) over 5 yrs
 - savings stated to be shared b'twn **industry, 40%** & **residential/commercial, 60%**
- NB maintains **liabilities** for closure of (4) fossil fuel plants & Mactaquac (recovered by tax payer as opposed to rate payer)
- NB forgoes **potential future NBP earnings** (ave. **\$48M** from '03-'09);
'income taxes' (ave.**\$25M**) & **debt management fees** (ave. **\$21M**);
PILTs (prop.tax, utility tax & ROW, ave. **\$44M**) maintained
- NB no longer pays **services charges on debt** (ave. **\$180M** from '03-'09)

SYNOPSIS of the DEAL...

Hydro Quebec (HQ) receives:

- hydro facilities & Pt. Lepreau, after refurb (NB maintains fossil fuel plants) plus transmission & distribution **assets**
NOTE: **book value of plant, property & equip.**@ '08= **\$3.3B** (=\$6.7B@cost)
incl. fossil fuel plants & Lepreau construction-in-progress (=\$0.6M@ '08)
- other NBP assets, incl. shareholder **equity** (= \$351M@ '08)
- 'new' customer base= (direct/ indirect) **375k**; (HQ has 7%? excess capacity)
- value of NB 'geographic position' in electricity **grid**, eg. 'opportunity revenues';
(NOTE: NB exports ave. \$257M from 2003-'08; primary value of grid is proximity to HQ & New England; likely only realized only by 'sale' to HQ or in-province generation)
- value of **carbon credits** realized by closing fossil fuel plants
(value wouldn't likely be realized by NB due to lack of renewable resources)

IMPACT on RATES...

- **near term (5yrs)...**

- lg. industrials (L class; 5MW+ demand) = **~28%** reduction in yr 1;

- lg. industrials (M class; 750kW-5MW)= **~17%-23%** reduction in yr 1;

NOTE: rates will **escalate at HQ L/M rates** in years 2 to 5

- **sm. industrial**, general service, wholesale, residential (RCW) **frozen for 5yrs**;

NOTE: **avoids** (at least!) recent cap on NB Power **increases, ~3%/ yr**

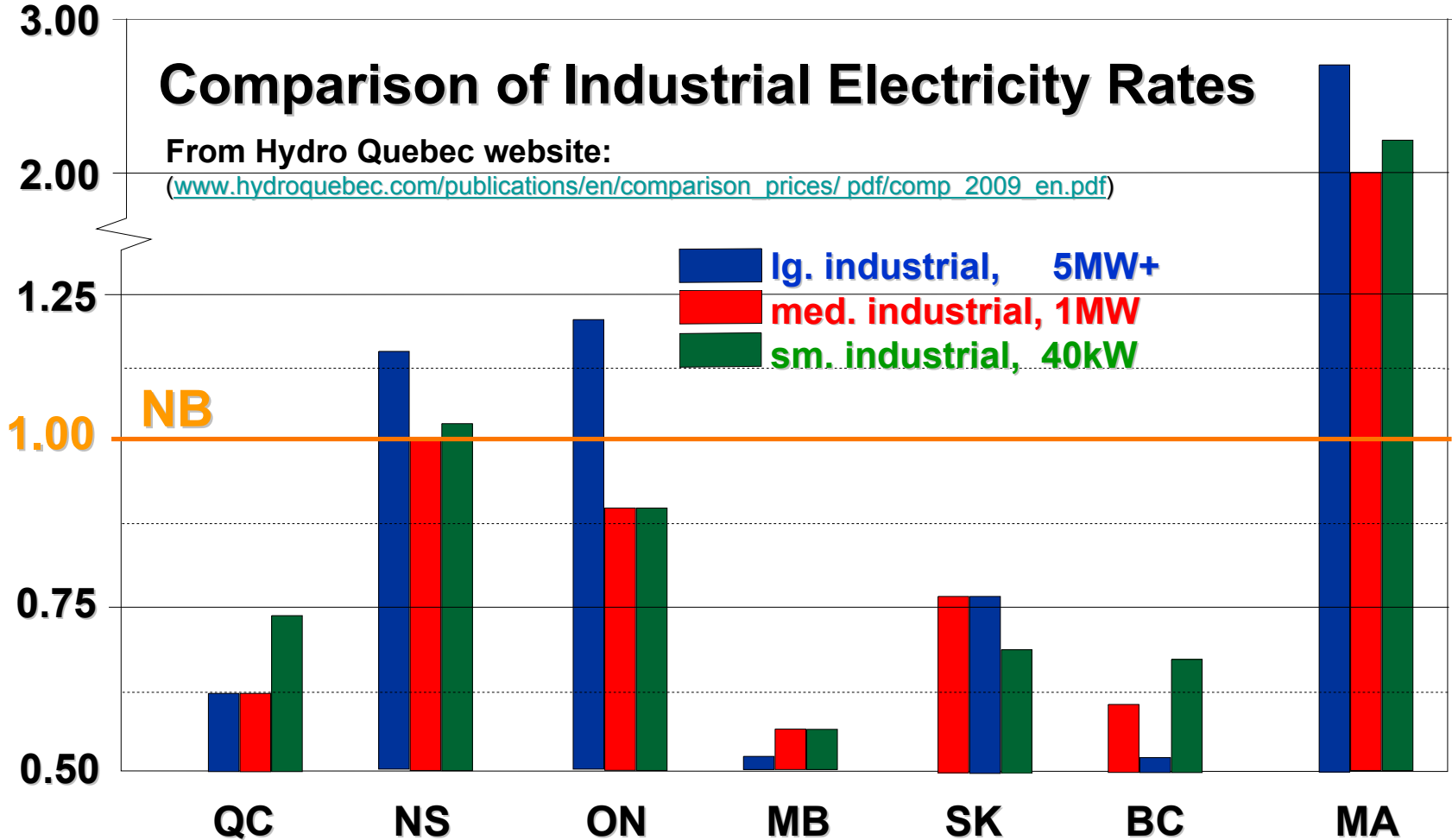
- **HQ HPS** established for industrial (L & M)= 4.5TWh & RCW customers= 9.5TWh;

- any **incremental load** sourced by 'bids'

- **costs** req'd to meet incremental L&M demand is **factored** into rates annually & **deferred** to yr.6 (w/ interest) for RCW demand



IMPACT on RATES...



IMPACT on RATES...

- **longer term** ...

NOTE: 'unbundled rates'= charges for energy (HPS+ incremental load)+ transmission + distribution...

transmission & distribution tariffs to be determined by EUB
on 'cost of service' basis, incl. fair & reasonable ROE;

- costs (incl. OM&A & amortization=\$ 232M @'08, or 19% of utility's total costs) is now 'bundled';
- incl.ROE now in rates is minimal (book value@'08= transmission, \$413M & distribution, \$481M);
- future tariffs will also incl. cost of upgrades to grid, incl. QC-NB interconnection (\$200M?);

energy:

- **L&M HPS**= electricity rate in yr.5, less (yr.5) transmission/ distribution costs;
- **RCW HPS**= electricity rate in yr.5, less (yr.5?) trans./dist. costs,
plus cost of incremental energy (yrs.1-5) & interest

NOTE: cost of HPS energy **escalates** @ NB CPI;

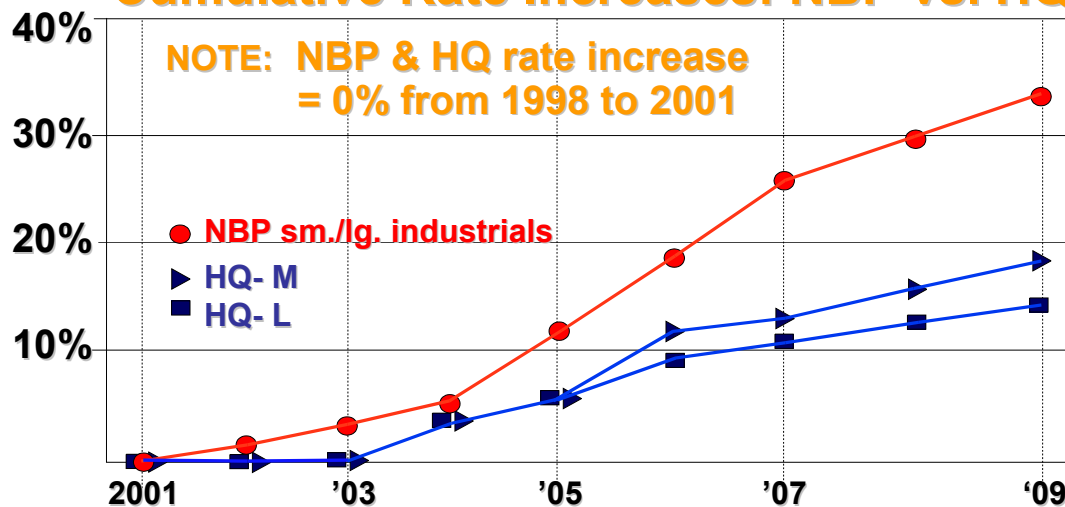
- cost of **incremental supply** (>HPS) set by market (N.England market price?)

IMPACT on RATES...

- trends...

- **NB rates**: 1998-2009 ave. **+2.8%/yr** (+4.6%/yr from '04-'09);
- **HQ rates**: 1998-2009 ave. **+1.4%/yr** (+2.8%/yr from 2004-'09);

Cumulative Rate Increases: NBP vs. HQ



- **CPI-NB**: 1998 thru' 2009 (Sept.) ave. **+2.1%**
w/ high 3.4% ('03) & low 0.6% ('98); (1992-2009 ave. +1.8%)



**Canadian
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Industry 'Info Session' (09-12-3):

NB Power 'Deal'

**CANADIAN
MANUFACTURERS
AND EXPORTERS**
20/20
BUILDING
OUR VISION FOR
THE FUTURE



GENCO: 3 602 MW

Nuclear-

Pt. Lepreau 635 MW

Hydro-

Mactaquac 672 MW

Beechwood 113 MW

Grand Falls 66 MW

Tobique 20 MW

others (3) 24 MW

Thermal-

Dalhousie 300 MW

Grand Lake 57 MW

Coleson Cove 978 MW

Belledune 478 MW

Courtenay Bay 110 MW

C-Ts-

Millbank 399 MW

St. Rose 100 MW

Grand Manan 27 MW

TRANSCO: 6 801 km

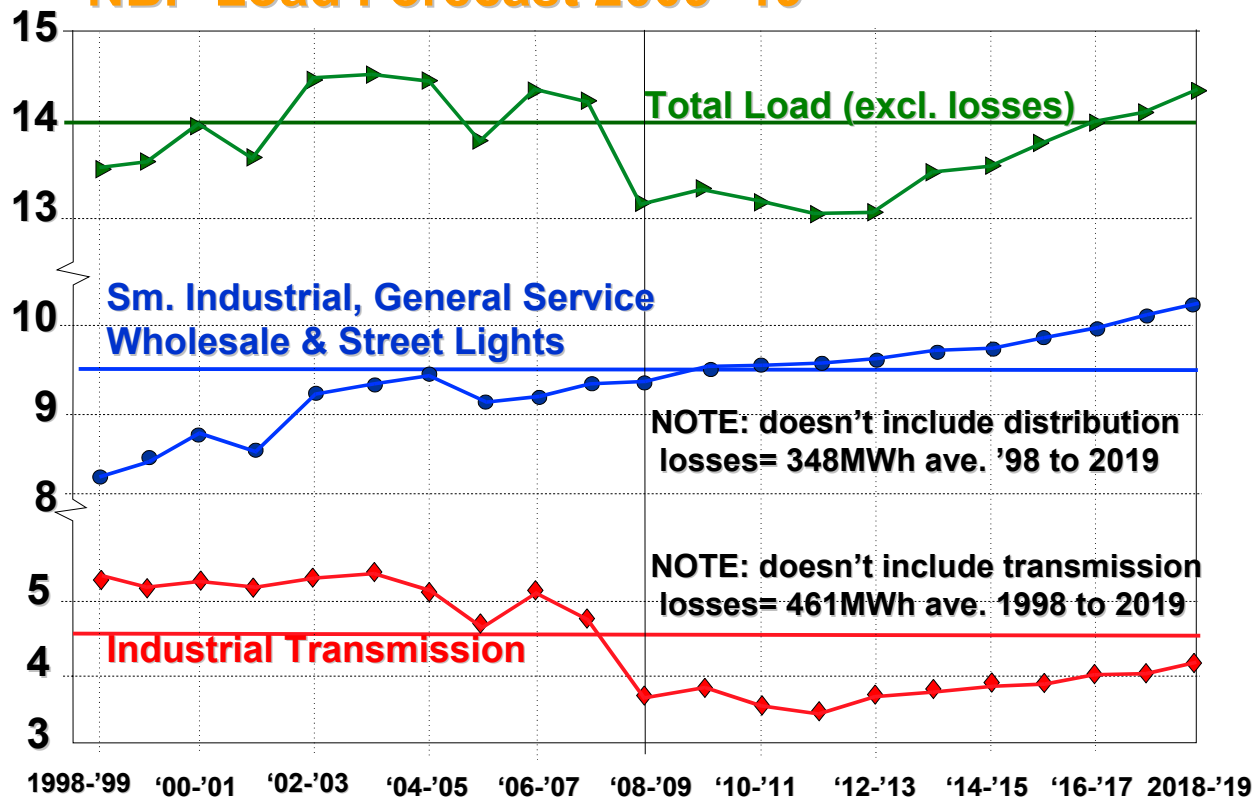
- Import = 1 980 MW

- Export = 2 677 MW

SYSTEM CAPACITY...

- **In-province consumption** (excl. losses, ave. 0.8TWh) =
13.5TWh ('09-'10f); 13.1TWh ('08-'09e); **historic high= 14.6TWh** ('03-'04)

NBP Load Forecast 2009-'19

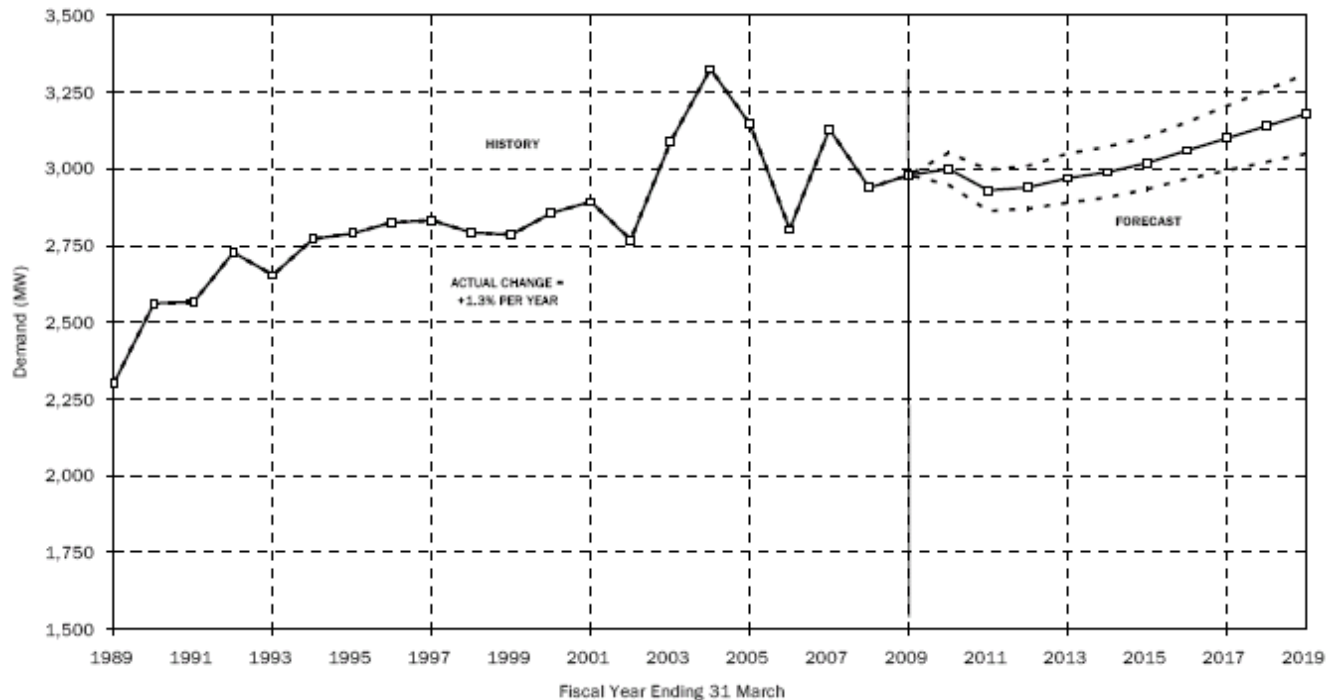




SYSTEM CAPACITY...

- **peak demand = 2980MW** ('08-'09e); historic high= **3326MW** ('03-'04);
- NB to close **Grand Lake** (coal,57MW) & **Dalhousie** (oil,300MW);
already scheduled to close due to environmental/ fuel costs

Figure 9: High & Low Peak-Hour Demand Forecast Scenarios



SYSTEM CAPACITY...

- NB retains **Coleson Cove** (oil, 978MW) & **Belledune** (coal, 458MW); operates @ cost of fuel & toll (fixed costs = \$3.25 & \$5.00/ kW/mo.)
 - can be shut down w/ 1yr notice
(projected @ 2015, depends on CO2 'levies' & availability of alternatives for supply)
- NB **import capacity** = **1680MW** (incl. **700MW**-1080MW from QC)
NB **export capacity** = **2377MW** (incl. 700-785MW to QC)
 - interconnections b'twn QC & NB must be **upgraded** to provide HPS?
- HQ **export capacity** = **6795MW** (incl. **2275MW** -to New England)
HQ **import capacity** = **5660MW** (excl. 5150 from Churchill Falls)
 - HQ is currently negotiating w/ US utilities to construct \$800M, 1200MW (owner-operated) line b'twn Sherbrooke substation & s. New Hampshire

SYSTEM CAPACITY...

- **HQ generation capacity= 206.6TWh @ peak demand= 36.4GW**
from 59 facilities (97% renewables)
 - ('08) in-province **load= 170.4TWh** (peak demand= 37.2MW)
to 3.9M customers;
 - exports= 21.3TWh (7% **surplus capacity**)
- **HQ('08) sales= \$12.7B** (NBP=\$1.7B); **profit= \$3.1B** (NBP=\$89M);
interest cov.= 2.12 (NBP=1.59); **debt ratio= 67%** (NBP=91%)

OTHER CONSIDERATIONS...

- NB maintains authority for **energy policy**;
 - **regulatory** framework to reflect QC;
 - **EUB** oversees access to grid (open/ transparent)
- HQ offers jobs to all NBP **employees** upon closing;
 - undetermined impact on **associated facilities**?! (eg. Port of Belledune)
- MOU says little re: **procurement** policies
("respect & maintain...role as customer")
 - HQ ('08) purchases= 2.66B (50% goods); 11% outside QC

**Industry 'Info Session' (09-12-3):
*NB Power 'Deal'***

QUESTIONS???