

October 4, 2018



Dear [REDACTED]:

Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-152-2017)

On September 20, 2018, the Department of Natural Resources received your request for access to the following records/information:

Please provide a copy of the following briefing note: Agreement for the optimization of hydraulic resources.

I am pleased to inform you that a decision has been made by the Department of Natural Resources, confirmed by the Deputy Minister, to provide access to the requested record. The record is attached.

We are providing access to the most information possible but have made redactions in accordance with Sections 29(1)(a), 35(1)(d), 35 (1)(g) and 35(1)(f) of *ATIPPA, 2015* as follows:

29. (1)(a) The head of a public body may refuse to disclose to an applicant information that would reveal advice, proposals, recommendations, analyses or policy options developed by or for a public body or minister.

35. (1) (d) The head of a public body may refuse to disclose to an applicant information which could reasonably be expected to disclose information, the disclosure of which could reasonably be expected to result in the premature disclosure of a proposal or project or in significant loss or gain to a third party;

35. (1) (f) The head of a public body may refuse to disclose to an applicant information which could reasonably be expected to disclose positions, plans, procedures, criteria or instructions developed for the purpose of contractual or other negotiations by or on

behalf of the government of the province or a public body, or considerations which relate to those negotiations

35. (1) (g) The head of a public body may refuse to disclose to an applicant information which could reasonably be expected to disclose information, the disclosure of which could reasonably be expected to prejudice the financial or economic interest of the government of the province or a public body.

As set out in section 42 of the Act you may ask the Information and Privacy Commissioner to review the department's decision to provide access to the requested information. A request to the Commissioner must be made in writing within 15 business days of the date of this letter or within a longer period that may be allowed by the Commissioner. Your request should identify your concerns with the department's response and why you are requesting a review.

The request for review may be addressed to the Information and Privacy Commissioner is as follows:

Office of the Information and Privacy Commissioner
2 Canada Drive
P.O. Box 13004, Stn. A
St. John's, NL. A1B 3V8

Telephone: (709) 729-6309
Toll-Free: 1-877-729-6309
Facsimile: (709) 729-6500

Pursuant to section 52 of the Act, you may also appeal directly to the Supreme Court Trial Division within 15 business days after receiving the department's decision.

Please be advised that responsive records will be published following a 72 hour period after the response is sent electronically to you or five business days in the case where records are mailed to you. It is the goal to have the responsive records posted to the Completed Access to Information Requests website within one business day following the applicable period of time. Please note that requests for personal information will not be posted online.

For further details about how an access to information request is processed, please refer to the Access to Information Policy and Procedures Manual at <http://www.atipp.gov.nl.ca/info/index.html>.

If you have any questions, please feel free to contact me at 709-729-0463 or rhynes@gov.nl.ca.

Sincerely,

A handwritten signature in black ink, appearing to read "Rod Hynes". The signature is written in a cursive style with a large, stylized initial "R".

Rod Hynes
ATIPP Coordinator

Information Note
Department of Natural Resources

Title: Agreement for the Optimization of Hydraulic Resources

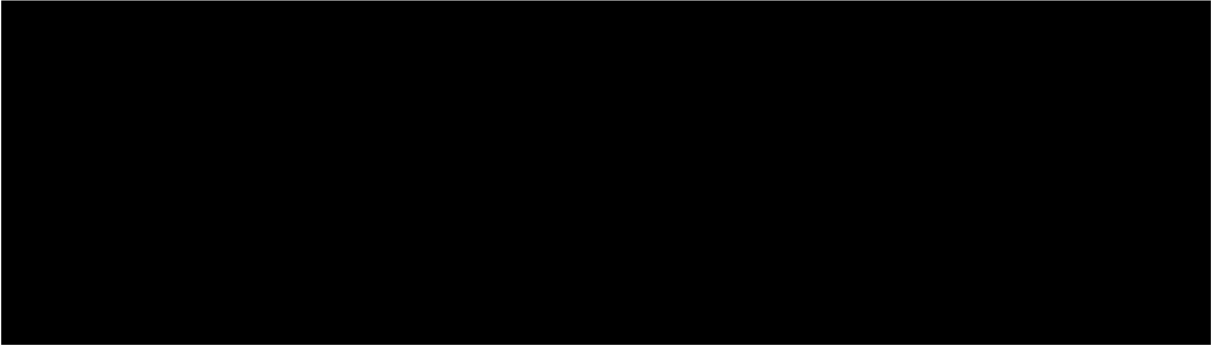
Issue: To provide an overview of the proposed approach to optimize hydraulic resources.

Background and Current Status:

- The Maritime Link (ML) and the Labrador-Island Link (LIL), connect Newfoundland to the North American electricity grid. This interconnection can allow Newfoundland and Labrador Hydro (NLH), in concert with other Nalcor subsidiaries, to optimize the use of existing NLH regulated hydroelectric (“hydraulic”) assets and unregulated Nalcor subsidiary Nalcor Energy Marketing (NEM) assets for the potential benefit of ratepayers.
- The NEM assets involved are primarily its transmission rights over the ML and through the Maritime provinces which Nalcor Energy secured in its Muskrat Falls Project (MFP) commercial arrangements with Emera Inc.
- NLH and NEM have reached a pilot agreement for the optimization of hydraulic resources.
- Pursuant to the *Public Utilities Act*, this agreement requires approval by the Board of Commissioners of Public Utilities (PUB). NLH filed an application with the PUB seeking approval for the agreement on August 23, 2018.
- NLH and NEM have identified two methods for optimizing use of these assets: ponding, and monetizing “spill energy.”
- Ponding refers to the purchase and import of low-cost energy from external markets during low-price off-peak hours to serve NLH’s customers rather than using NLH hydraulic assets, thus allowing NLH reservoirs to fill, and then exporting and selling of an offsetting amount of energy at another time when external peak demand market prices are higher relative to when the import occurred. This can provide a new opportunity to provide additional revenues to NLH.
- Spill energy refers to the diversion of water to bypass turbines, resulting in unrealized hydroelectric generation for the water that has been diverted. Prior to interconnection with the North American grid, NLH had no means to export energy exceeding on-island needs.

Analysis:

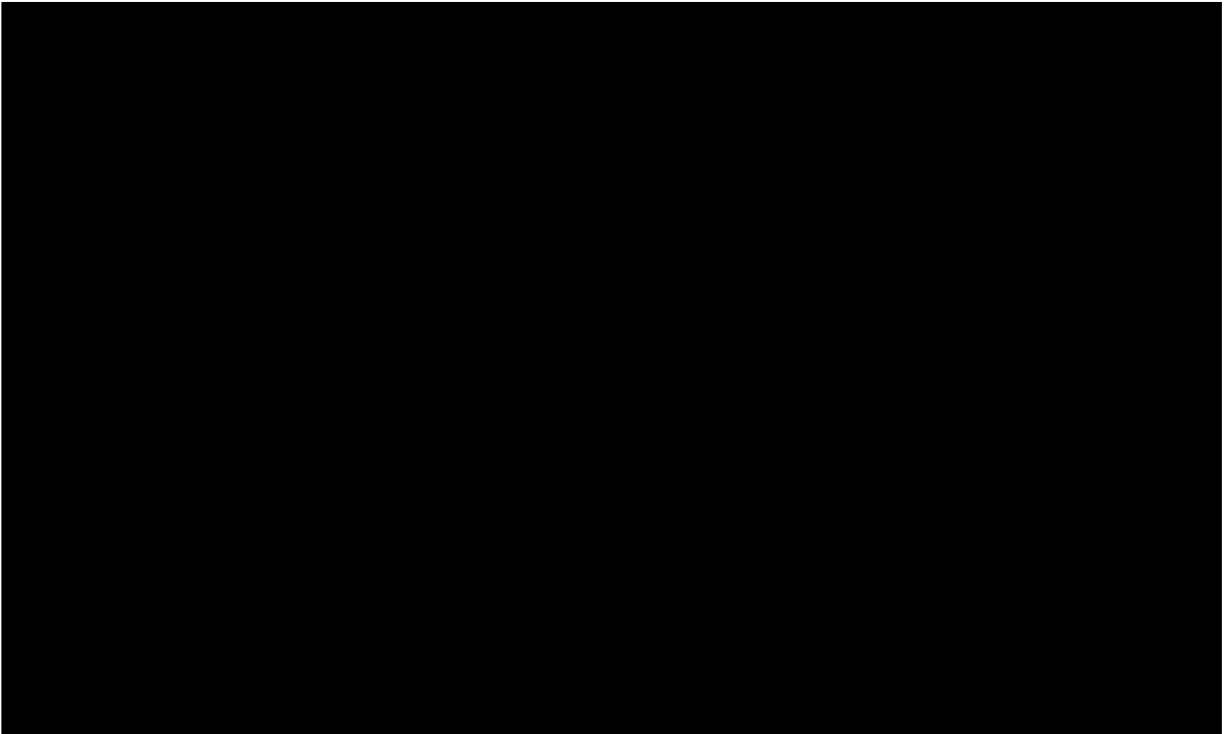
-
-



S.29(1)(a)
S.35(1)(d)
S.35(1)(f)
S.35(1)(g)

- This NLH application to the PUB seeks approval of a “Pilot Agreement” that will expire on the earlier of December 31, 2020 or upon the approval by the PUB of the executed “Final Agreement.” This pilot agreement is intended to provide an opportunity to take advantage of ponding and spill energy sales immediately, while further scoping how and if the arrangement will work over the long term.
- The application does not place a specific monetary value estimate on the optimization opportunities.
- It is proposed that the net gains associated with optimization activities be set aside in a Deferral Account, the disposition of which would be determined by a future PUB Order.

-



S.29(1)(a)

S.35(1)(d)

S.35(1)(f)

S.35(1)(g)

-

-

- An explanation of how ponding and spill export sales are calculated is included in Annex 1.

Action Being Taken:

- NR will continue to monitor and advise on this issue and the related PUB application.

Prepared by/Reviewed by: M. Janes, C. Snook / J. Cowan
Ministerial Approval:

August 28, 2018

Annex 1 – Calculation of Ponding Optimization and Spill Exports

Ponding Optimization = (A - B) + C + D

A = Hydro's revenues in dollars from the sale of Pondered Energy to Nalcor Energy Marketing (NEM) (Ponding Exports). These revenues shall be calculated net of all transmission losses and Actual Net Costs incurred by NEM in selling Ponding Exports into external markets.

B = Hydro's costs of purchasing Pondered Energy from NEM in dollars. Costs of Ponding Imports shall include the electricity purchases costs paid by NEM for the Pondered Energy, including all transmission losses, and Actual Net Costs incurred by NEM in purchasing Ponding Imports.

C = Reimbursement by NEM to Hydro for the cost of Ponding Spill in dollars. Should Pondered Energy be spilled (Ponding Spill), NEM will reimburse Hydro for the value of that spilled energy. The value of Ponding Spill will be computed on a Last In First Out basis as the most recently Pondered Imports will be assumed to be spilled, multiplied by the amount of Ponding Spill.

D = Cost of Pondered Energy in dollars to serve native load, if applicable, should Hydro use Pondered Energy to serve native load. The cost of Pondered Energy used to serve native load will be based on the average cost of all Pondered Energy in Hydro's reservoirs at the time Pondered Energy was used to serve native load multiplied by the amount of Pondered Energy used by Hydro.