

October 5, 2018



Dear 

Re: Your request for access to information under Part II of the *Access to Information and Protection of Privacy Act* (File # NR-183-2018)

On September 28, 2018, the Department of Natural Resources received your request for access to the following records/information:

I am seeking copies of the following notes as outlined below

Nalcor Energy Second Quarter 2018 Financial Results

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.

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 that reads "Rod Hynes". The signature is written in a cursive style with a large, stylized "R" and "H".

Rod Hynes
ATIPP Coordinator

Information Note
Department of Natural Resources

Title: Nalcor Energy Second Quarter 2018 Financial Results

Issue: To summarize Nalcor Energy's Second Quarter (Q2) 2018 Financial Statements and Management's Discussion and Analysis (MD&A) planned for August 22, 2018 release.

Background and Current Status:

- The Q2 2018 report includes results for Nalcor, its subsidiaries, and its share of investments in joint arrangements. The table provided in Annex A shows key financial highlights. In addition, a table of profit by business segment is provided in Annex B.
- Nalcor's Q2 profit of \$23 million was a decrease of \$55 million from \$78 million for the same period in 2017. Nalcor states that the decrease was primarily a result of impacts associated with Hydro's 2013 General Rate Application (GRA) which had a favourable one-time impact in 2017, the close out of the ExxonMobil Canada lease at Bull Arm in 2017, and higher exploration and depreciation costs. These impacts were partially offset by higher oil revenue.
- Capital expenditures decreased by \$405 million to \$390 million in Q2 2018 from \$795 million in Q2 2017, primarily due to decreases in capital incurred in Lower Churchill Project (LCP) Transmission, Muskrat Falls, NLH Regulated and Oil and Gas.
- Nalcor's debt to capital ratio was 66% as at June 30, 2018, slightly lower than 67% at December 31, 2017.
- NLH's (Regulated and Non-Regulated) revenue increased by \$8 million in Q2 2018, primarily due to the normal operation of the Rate Stabilization Plan mechanism for fuel cost variance. There was also an increase in power purchases of \$2 million to \$17 million over the same quarter in 2017 primarily related to energy imported across the Maritime Link and increases in power purchased from wind sources and Corner Brook Pulp and Paper. This was partially offset by reduced industrial customer requirements due to the IOC strike in Labrador West during Q2 2018.
- Q2 2018 financial results for Power Supply (LCP Transmission, Churchill Falls and Unregulated Power Supply operations such as Menihek) were comparable to Q2 2017. During the quarter, Churchill Falls derived 67% of its revenue from sales to Hydro-Quebec and 33% from other revenues (including sales of energy to Hydro).
- Energy Trading Q2 2018 profit was \$3 million, comparable with Q2 2017. The realized export electricity price for the quarter was \$37 CAD/MWh. The report notes Energy Trading is also focusing its efforts to optimize market opportunities, on behalf of Hydro Regulated, to displace fuel consumption at the Holyrood Thermal Generating Station (HTGS).
- Oil and Gas saw an increase in profits of \$16 million in Q2 2018 (\$37 million) over Q2 2017 (\$21 million). This was primarily related to an increase in revenue from higher average Brent prices per barrel (realized price of \$89 CAD/bbl) and an increase in production volumes associated with Hebron production. The increase in revenue was partially offset by less favourable foreign exchange.

Analysis:

- Nalcor's business risks and uncertainties that could materially affect the business, financial condition, and results of operations are reported to be generally consistent with those disclosed in the annual Management Discussion & Analysis section for the year ended December 31, 2017. These included:
 - Electricity System Integration Risk - Nalcor noted the integration of Muskrat Falls and related transmission assets into the existing asset base is complex.
 - Oil and Gas Production Volume Risk - Nalcor noted it is largely dependent on the operators to manage risks associated with production and development, and that unanticipated declining production could adversely affect Nalcor's financial position.
 - Sustainability of Future Electricity Rates - Nalcor noted concerns that the projected rates are not sustainable. In addition, projected rates may cause uncertainty in cash flows and asset valuations and may incent customers to take conservation measures and demand side management actions, further increasing rates.
- The Public Utilities Board (PUB) retained Liberty Consulting Group to monitor Nalcor's efforts related to integration of Muskrat Falls and related transmission assets. Liberty expressed criticism of Nalcor in both its initial monitoring report and in the subsequent 2nd quarterly report released May 24, 2018. In response to the first report, the Department of Natural Resources (NR) requested that Nalcor develop a risk register and mitigation plan. Nalcor has done this and continues to state that it is on schedule.
- Nalcor points out in its outlook that 2018 will be a significant transitional period with large investments shifting from the development phase to testing and operations for the LCP transmission assets. NLH regulated plans to use energy both from Labrador and off-island purchases across the Maritime Link to displace Holyrood generation.
- In its GRA that is currently before the PUB, Hydro Regulated initially applied for a deferral account that would include fuel savings and costs associated with off-island purchases with net savings set aside for the benefit of customers. On July 16, however, a supplemental GRA settlement agreement was reached between all parties (subject to final PUB approval) which will see the deferral account application removed. Instead Hydro Regulated will include actual expected costs of off-island purchases net of fuel savings associated with HTGS in current rates.
- Planning has begun to transition Oil and Gas to a stand-alone Crown Corporation and this will continue through 2018.

Action Being Taken:

- The Q2 2018 Financial Statements and MD&A will be publicly released on August 22, 2018.
- Natural Resources officials will continue to monitor Nalcor's financial results.

Prepared/Approved by: R. Bates / C. Snook / J. Cowan
 Ministerial Approval:

August 20, 2018

ANNEX A- KEY FINANCIAL RESULTS

Q2 2018 Nalcor Consolidated Highlights		
For the period ending June 30		
	2018	2017
Revenue(\$ millions)	233	226
Operating Profit (\$ millions)	23	78
Profit (\$ millions)	23	78
Funds from Operations(\$ millions)	69	121
Capital Expenditures(\$ millions)	390	795
Electricity Sales (TWh)		
NLH Regulated	1.7	1.7
Export – Hydro Quebec	7.2	7.2
Export – Other Markets	0.5	0.4
Oil production (thousand bbls)	880	870
As at	June 30, 2018	December 31, 2017
Total Assets(\$ billions)	18.1	18.0
Total Liabilities (\$billions)	12.9	12.9
Capital Structure (Debt / Capital)	66%	67%

Source: Nalcor Energy

ANNEX B – NALCOR PROFIT BY BUSINESS SEGMENT

Business Segment Profit- Q2 2018 and Q2 2017			
<i>(millions of dollars)</i>	2018	2017	Variance
Hydro	(13)	28	(41)
Power Development	(1)	(1)	0
Power Supply	6	5	1
Offshore Development	37	50	(13)
Corporate	(4)	(3)	(1)
Inter-segment	(2)	(1)	(1)
Profit for the period	23	78	(55)

Source: Nalcor Energy