

Stan Marshall, President & CEO

Presentation to the Board of Commissioners
of Public Utilities: Rate Mitigation Review



Introduction

- Understand public concerns around rising electricity prices
- Working with the Provincial Government to find solutions to mitigate rates
- Participate in Province's Rate Mitigation Committee
- Full cooperation with PUB and its consultants

Definition

- Mitigation
 - Minimize the cost associated with Muskrat Falls
 - Use of Muskrat Falls assets to generate additional funds in Nalcor / Hydro to reduce electricity rates
- Nalcor Subsidization
 - Use of other Nalcor cash flows to reduce electricity rates
- Provincial Subsidization
 - Use of other Provincial cash flows to reduce electricity rates
- Other
 - Change in contractual and statutory arrangements to reduce electricity rates

Subsidization

- Once the Province has decided to subsidize rates, how you do it can be as important as the amount, from a regulatory perspective
- Interest of customers not identical to interest of taxpayers
- No regulatory principles to determine taxpayer subsidization of rates

Nalcor's Approach to Presentations

- Present Nalcor's mandate and short – and long – term corporate priorities
- Respond to Board's consultant reports in relation to those priorities
- Power Advisory will present its review of North American utility organizational and market structures
- Subsequent panels will address:
 - Organization Structure & Nalcor Energy Marketing
 - Finance Panel

Nalcor's Mandate

- To manage the Province's energy resources effectively and responsibly for the benefit of its people
- Mandate is derived from legislation, *Energy Corporation Act*, and Minister of Natural Resource's Mandate letter

Organization Structure

“Mission defines strategy, and strategy defines structure.”

Peter F. Drucker

- Current structure established in 2016 to ensure strict focus and Executive accountability for each priority
 - Hydro – Regulated operations focused on reliability and cost control
 - Nalcor – non-regulated operations focused on reliability, cost control and profitability of non-regulated activities
- Organization structure will change to reflect changing circumstances and priorities

Corporate Priorities in 2016

1. Successful completion of Muskrat Falls Project
2. Prepare electricity grid – and the company's operations - for integration of Muskrat Falls assets
3. Separation of Hydro with focus & accountability on core business and clarity for the Regulator
4. To use corporate competitiveness and strategic flexibility of non-regulated assets and operations to leverage commercial opportunities within the electricity industry to maximize benefits for customers and people of the Province

Results

- Stabilization and effective execution of the Muskrat Falls Project
- Increased efforts towards integration of new assets
- Hydro refocused efforts on core business
 - Increased reliability
 - Regulatory clarity
- Nalcor positioned to respond to commercial opportunities and maximize excess energy (available today and years to come)

Considerations Going Forward

- Immediate pressures
 - Muskrat Falls completion
 - Integration
 - Negotiations with HQ concerning Quebec court decision
- Near-term considerations
 - Maximizing commercial opportunities for in-province energy use and energy export
 - Atlantic Clean Power Initiative
- Mid - to Long - term considerations
 - Churchill Falls contract expiration in 2041
 - Gull Island Development
 - Other opportunities in Labrador

Planning Horizon

- In utility planning, 20 years is not long
- Consider the next 20 years:
 - Critical to stay-the-course on short-term priorities
 - MF completion – 2020
 - Integration and Reliability – 2020-2022/23
 - Utility planning decision must be advanced by CF(L)Co by 2031 at the latest
 - Interim period 2023-2031
 - Commercial, strategic, engineering, financial and legal expertise required for successful planning, negotiations, and implementation

Challenges

- Still face challenges
 - Development of LIL software by GE
 - Integration = art & science
 - Financial, commercial, technical considerations
 - Regulatory
 - Reliability standards for the completed system

Path to Steady State

- A structure that meets current and future requirements
- Have a plan for corporate efficiencies and resultant staff reductions
- Phased-in approach with orderly transition to mitigate risks rather than inject risk
 - Retention of key personnel
 - Maintain corporate focus
 - Safety
- Need to stay the course

Agreement

- Nalcor and Hydro agree with the majority of Liberty and Synapse's findings including:
 - Financial mitigation opportunities
 - Adjustments to Hydro's capital structure
 - Transfer of assets could increase power rates for customers
 - Opportunities to reduce future MFP O&M costs
 - Reducing FTEs for efficiencies and stabilization
 - Opportunities to increase revenues (i.e., Electrification)

Divergent opinions

- Nalcor and Hydro diverge from Liberty's views regarding:
 - Organizational structure
 - Expanding the scope of regulatory framework in NL
 - Nalcor Energy Marketing and its place within the organization
- These issues will be discussed in detail by the Nalcor/Hydro witnesses

Conclusion

- Nalcor's organization structure ensures it is structured to achieve its long-term mandate and its short-term goals
- Significant progress has been made in achieving our priorities
- Nalcor and Hydro aligned with the vast majority of Liberty and Synapse's findings
- Still face challenges and now is not the time for disruptive change

Stan Marshall, CEO and President, Nalcor Energy

Stan Marshall was named CEO, Nalcor Energy in April 2016. Previous to his time at Nalcor, he served as President and CEO and Director of the Board of Directors of Fortis.

Stan has held many senior executive positions throughout his career. His time with Fortis spanned 35 years and he was at the helm as President and CEO for more than 18 years.

Stan served as the Chairman of FortisBC Holdings Inc. (formerly, Terasen Inc.). He was a Director of Fortis Properties Corporation as well as a Director at FortisAlberta Inc., and FortisBC Inc. He has been Independent Director at Enerflex Ltd. since 2011 and he is Chair of its Human Resource Committee. He served as the Chief Executive Officer of Fortis Inc., Chairman of Central Hudson Gas & Electric Corp., Independent Director of Toromont Industries Ltd., Director of the Conference Board of Canada, Director of Maritime Electric Company, Limited, FortisOntario Inc., Belize Electricity Limited and also held Director roles with CH Energy Group and Caribbean Utilities Co. Ltd. Stan also served as the President at Fortis Turks and Caicos and was the Chief Operating Officer of Fortis Inc. He joined Newfoundland Power Inc., in 1979.

He is a retired member in good standing of the Law Society of Newfoundland and Labrador and a Registered Professional Engineer in the Province of Newfoundland and Labrador. Mr. Marshall holds a Bachelor of Applied Science Degree in Chemical Engineering from the University of Waterloo and Bachelor of Law from Dalhousie University.