ABITIBI-CONSOLIDATED INC.

EVIDENCE OF DENIS JEAN

Q. Would you please state your name, address and occupation?

A. My name is Denis Jean. I reside in Montreal, Quebec. I am Senior Vice-President, Newsprint North for Abitibi-Consolidated Inc. (“ACI”). I am responsible for eight of ACI’s newsprint mills servicing the international market namely: Baie Comeau, Belgo, Clermont, Port Alfred and Saint-Félicien in Quebec; Bridgewater, United Kingdom; Stephenville and Grand Falls in Newfoundland. I also have overall responsibility in ACI for energy since energy costs are such a significant component of the cost of making paper.

Q. Are you aware of the power supply contracts in place between ACI and Hydro for the supply of electricity to ACI’s Stephenville and Grand Falls mills?

A. Yes. I am aware of the existing power supply agreements for these mills. However, I am not familiar with the details of those agreements. My interest is in the overall cost of energy.

Q. Are you familiar with the financial performance of the Stephenville and Grand Falls mills?

A. Yes. I am responsible for the financial and production performance of the Stephenville mill. In addition, I have a general knowledge of the financial performance of the Grand

Falls mill. Both the Stephenville mill and the Grand Falls mill manufacture newsprint for the international marketplace, which is highly competitive. The cost competitiveness of each mill is, therefore, a critical factor in ACI's planning process.

Q. What is the current status of the newsprint market?

A. There is currently an oversupply of newsprint in the market. This negatively affects both the ability to sell newsprint and the price at which it can be sold. As a result, many of our mills have had or will have down time this year and, in some cases, paper machines have been permanently shut down. As a result of September 11 and the world-wide economic decline, the newsprint market for 2002 is expected to be very soft.

Q. Does this have implications for your Stephenville and Grand Falls mills?

A. Yes. Both Stephenville and Grand Falls will experience several weeks down time in 2001 due to market conditions. However, other ACI newsprint mills with higher costs per tonne have been more negatively affected.

Q. Can you give examples?

A. Yes. ACI's two highest cost Canadian newsprint mills have taken more of the down time due to the current newsprint oversupply. One mill, until this year, had three <u>newsprint</u> ~~paper~~ machines in operation. <u>All three machines were shut down for four months in 2001. Subsequently, one machine was shut down permanently and another one was converted</u>

from newsprint to other grades of paper. The one remaining newsprint machine is scheduled for a further four weeks of downtime in December 2001. The proposed increase for 2002 puts Stephenville in the high cost category with those mills. The projected increase for 2004 would make Stephenville the highest cost ACI mill in Canada.

Q. What is the potential impact of Hydro's proposed rates on ACI's Stephenville and Grand Falls mills?

A. The world-wide oversupply of newsprint has eroded our revenue per tonne of newsprint. This has resulted in a need to reduce costs in Canada and elsewhere. Newsprint demand is declining in North America which increases the pressure on high cost mills. During the early 1990's there was also a long period of low newsprint prices. During that time ACI streamlined its operations in Canada and elsewhere and the efficiency of its mills was significantly improved. However, a number of mills did close.

ACI continues to work towards reducing its controllable costs..

In Stephenville's case, the cost of energy represents 20% of the cost of manufacturing a tonne of newsprint. As a result of significant efforts over the years at rate hearings before this Board, ACI has been successful in controlling and, in fact, reducing its energy costs at Stephenville and at Grand Falls.

Some of this reduction was effected in 2000, the first year that Hydro implemented the legislative requirement that Hydro's Industrial Customers no longer contribute to the subsidization of rural rates in Newfoundland and Labrador.

Hydro's current proposal has detrimental impacts for both Stephenville and Grand Falls.

Hydro's proposal for 2002, with a 3% rate of return on equity results in an increase of 17% in ACI's Stephenville and Grand Falls purchased power costs, when increases in Specifically Assigned Charges are taken into account.

Since the Stephenville mill purchases 100% of its mill energy requirements from Hydro, the impact of the proposed rate increase is very significant. If the proposed increases for 2002 are approved, Stephenville's electrical costs for firm energy will increase by $2.9 million in 2002 over 2001 which is an increase of $16.50 per tonne of newsprint produced .

The proposed implementation of an 11-11.5% rate of return on equity by 2004 is expected to result in further increases which, cumulatively, will amount to an increase of more than 30% in firm electrical costs at Stephenville. This includes a 23% increase in the average cost per kWh and the 7% attributable to the RSP contribution. This will result in an overall increase by 2004 of $28/tonne. In addition, changes in contractual provisions have additional cost implications for Stephenville which have yet to be fully quantified.

The Grand Falls mill generates a significant proportion of its own energy needs. Nevertheless, the proposed 17% increase in Hydro's Firm rates and RSP charge for 2002 will increase costs in 2002 by $750,000 in 2002 over 2000, an increase of $4/tonne. The further increase planned for 2004 as a result only of the implementation of Hydro's proposed rate of return on equity will add a further $2.75/tonne for a total of $6.75/tonne. Changes in contractual terms and Specifically Assigned Charges will result in additional costs which have yet to be fully quantified.

Q. How are the proposed rate increases for the Industrial Customers viewed by ACI?

A. ACI is disturbed by the magnitude of the proposed increases for 2002 and by the implications of Hydro's rate of return and capital structure proposals for the future. ACI's success over the last 10 years in reducing its electrical costs had improved the cost per tonne at Stephenville and Grand Falls. This, in turn, improved the viability of each of those mills. ACI is particularly perturbed by the differing effects of Hydro's proposals on rates for Industrial Customers vis a vis Newfoundland Power. The increases for ACI are totally out of proportion.

As noted above, increases of these magnitudes have significant negative impacts on the cost per tonne at each mill. This could affect the future viability of the mills and/or the amount of downtime which one or both of them may experience in the future.

A freeze on industrial rates would be in the best interests of ACI's Newfoundland mills, particularly Stephenville.