Labrador West Mines Response

PUB Hearing on Labrador Interconnect System 3 November 2003





Impact of Labrador Interconnect on Mines

A common east/west Labrador rate effectively charges the mines twice for the infrastructure

- Labrador West electrical infrastructure paid by mines
 - Twinco (mines) does not charge NLH to transmit electricity to Labrador West
 - Local distribution systems were upgraded and then given to NLH for a nominal fee (i.e. \$1)
- As largest employer in both towns, mines are negatively impacted through:
 - Cost of living both in attraction and retention of employees
 - Local supplier cost increases

Agenda

- Overview of mines contribution to Labrador West
- Electricity infrastructure history
- Impact of an interconnected rate on the mines
- IOC energy consumption reduction initiative





Labrador City

Mining Town Incorporated in 1962 Population 9000 Sub-arctic climate







IOC Concentrator & Pellet Plant







Sept-Iles

- Population 25,500
- Deep-sea harbour accessible yearround
- One of the three largest Canadian ports for tonnage handled



Wabush Mines Pellet Plant & Terminal





Iron Mines are Important to Labrador

Activity	Number (2002)
Lab West Employees	1790
Salaries (Lab City)	\$ 137 million
Purchases within Province	\$ 157 million
Municipal and Provincial taxes	\$ 28 million
Contributions to education and community projects	\$ 2 million

Electrical Infrastructure Paid by Mines

- 1963 Twin Falls Power Corporation completes generation and HV infrastructure to supply Lab. West
 - Joint ownership by CFLCo., IOCC and Wabush Mines
- 1974 Water diverted away from Twin Falls generating station to increase capacity of Churchill Falls generating station
- 1985 Wabush Mines gave town distribution infrastructure to NLH for the nominal fee of \$1 and paid \$3.0M to upgrade
- 1992 IOCC gave Labrador City distribution infrastructure to NLH for the nominal fee of \$1 and paid \$2.5M to upgrade

Distribution assets were turned over in good condition

To date, NLH has spent \$10.0M upgrading these assets

Assets transferred with intention of unit rate increases being based on actual cost to service communities

Electricity Rates are an Indirect Subsidy

- Mines built communities in addition to plants
 - Houses for employees
 - Community infrastructure
 - · Recreation facilities (ex. golf course, ski hill)
 - Schools
- Done to attract and retain talented people
 - Indirect subsidy to raise the standard of living
- Similarly, mines paid for installation and maintenance of electrical infrastructure

Creation of a common Labrador rate spreads indirect subsidy between Lab. East and West at mines detriment Labrador is NOT Electrically Interconnected



- Backup generator in HV/GB was built when mines ran electrical distribution system
 - Corporate records show no indication of mines input being solicited

Cost Increase Ultimately Borne by Mines

- Mines are largest employer in Labrador West
- Increased costs for community are passed to mines via:
 - Higher costs from local suppliers
 - Employee demands to maintain living standard
 - Greater difficulty attracting talented people to the area

Mines can not afford to bear this cost twice



Increasing Price Pressure



Global Market Competition



Sales; inta

Wabush Mines Situation

- Small player on global scene
 - Recent move from producing for captive (owners) to open market
- Four owners recently lost: Finsider, LTV, ACME and Inland (three from bankruptcy)
- Stelco (major owner) is encountering severe economic difficulties
- Plants are 40 years old and require major CAPEX investment

IOC Situation is Serious and Urgent

- YTD concentrate production 12% below target
- YTD pellet production 6% below target
- Forecast shortfall of one million tonnes
- Order book is full and prices rising
 - Unable to fill current orders
- Production costs per tonne rising 21% higher
- Failed to meet 2003 safety targets
- Cash negative for past four years

IOC - Strong Fundamentals for Long Term Viability

- Abundant quality reserves
- Favourable market outlook
- Low electricity prices: IOC's competitive advantage
- Skilled labour force
- High quality product
- Globally diversified sales portfolio
- Year-round deep water port
- Cost effective expansion potential

Bright Future Only Possible with Support from All Stakeholders

- Shareholders continue to invest despite no dividends since 1999: patience running out
- Employees do more with less: maximize production while maintaining quality and safety standards
- Suppliers reduce prices
- Communities and Government be flexible and help remove potential cost pressures

Lab. West high quality assets and reserves can only be fully exploited if we all strive for the companies success

Energy Conservation Frees Capacity for Growth

- IOC full time 'Energy Manager' appointed in January 2003
 - Reports directly to V.P. Engineering and Product Delivery
- Goal minimise the impact of energy on IOC's value
 - Identify high value opportunity areas for energy conservation
 - Set and prioritise actions required to achieve conservation targets
 - Develop business case for management and follow up on implementation progress with operations/engineering
- Specific target areas for electricity
 - Reduce energy consumption
 - Reduce peak power loads
 - Smooth annual demand profile

Plan to Reduce Demand by at least 19MW

- Extensive mine pit to port energy audit conducted
 - \$150,000 commitment on IOC's behalf
- Energy Conservation Workshops held with 48 senior company representatives from all plant areas
- 137 ideas generated from four targeted sessions
 - All ideas were valued ± 30%, risks identified and prioritized
- Electricity conservation ideas to save 19MW scheduled in five year implementation plan
 - Additional conservation ideas expected from ongoing awareness campaign

Mines Should Not be Charged Twice for Town's Distribution Systems

- Labrador West electrical infrastructure paid by mines as an indirect subsidy for their employees
 - Twinco (mines) does not charge NLH to transmit electricity to Labrador West
 - Distribution systems were upgraded and then given to NLH for a nominal fee (i.e. \$1)
- Creation of a common Labrador rate spreads indirect subsidy to both communities
- Ultimately Lab. West electricity cost increase is unfairly born by mines at a time when they are most vulnerable