

January 14, 2015

The Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, Newfoundland & Labrador
A1A 5B2

Attention: Ms. Cheryl Blundon
Director Corporate Services & Board Secretary

Dear Ms. Blundon:

**Re: Newfoundland and Labrador Hydro - the Board's Investigation and Hearing into
Supply Issues and Power Outages on the Island Interconnected System**

By Order No. P.U. 49(2014) dated November 28, 2014 the Board approved a Capacity Assistance Agreement between Hydro and Corner Brook Pulp and Paper Limited for blocks of assistance in the amounts of 20, 40 or 60 MW. This Agreement involved, in part, an interruption of Hydro's firm supply of power to this Industrial Customer and Hydro therefore applied to the Board for approval of this arrangement.

At this time Hydro is pleased to file with the Board for its information two further capacity assistance agreements, both of which are attached here:

- A Capacity Assistance Agreement with another of its Industrial Customers, Vale Newfoundland and Labrador Limited, for an amount of capacity of up to 15.8 MW, though the actual amount of capacity assistance available for the winter 2014/15 period has been tested at 10.8 MW. Payments under this Agreement are comprised of a Capacity Fee of \$28/kW plus compensation for fuel consumed by Vale to provide the capacity assistance; and
- A Supplemental Capacity Assistance Agreement with Corner Brook Pulp and Paper Limited for additional amounts of capacity that this customer can provide from its hydro-electric generating resources of amounts of up to 30 MW. There are no "stand-by" capacity fee payments under this agreement; payments are not made unless capacity assistance is actually utilized by Hydro.

Hydro has included a proposal in its GRA to recover amounts pertaining to the capacity fees for these agreements and will be seeking recovery of these costs. Please note that there is no

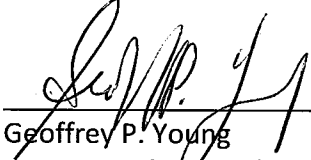
present proposal to collect the variable amounts under the agreements or of any amounts under the Corner Brook Pulp and Paper Limited Supplemental Capacity Assistance Agreement.

As these are supplies of capacity and energy to Hydro that do not affect the Industrial Service Agreements approved by the Board, no Board Order with respect to these agreements are being sought at this time by Hydro.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



Geoffrey P. Young
Senior Legal Counsel

GPY/jc

cc: Gerard Hayes – Newfoundland Power
Paul Coxworthy – Stewart McKelvey Stirling Scales
ecc: Roberta Frampton Benefiel – Grand Riverkeeper Labrador

Thomas Johnson – Consumer Advocate
Danny Dumaresque

THIS CAPACITY ASSISTANCE AGREEMENT is made in the Province of Newfoundland as of the 1st day of December 2014.

BETWEEN: **NEWFOUNDLAND AND LABRADOR HYDRO** a corporation and agent of the Crown constituted by statute, renamed and continued by the *Hydro Corporation Act*, 2007 Chapter H-17 of the 2007 Statutes of Newfoundland and Labrador and having its head office at St. John's, in the Province of Newfoundland and (hereinafter called "Hydro"), of the first part;

AND **VALE NEWFOUNDLAND & LABRADOR LIMITED** a company organized under the laws of Newfoundland and Labrador (hereinafter called "the Customer"), of the second part.

WHEREAS Hydro and the Customer are parties to an agreement whereby Hydro sells Electrical Power and Energy to the Customer which agreement is approved by, and which sales are at rates set by, the Board of Commissioners of Public Utilities for the Province of Newfoundland ("the Board") on March 9, 2012 in Order No. P.U. 6(2012) (herein after called "Service Agreement");

AND WHEREAS the Customer has thermal generating capability which enables it to provide electrical capacity to Hydro;

THEREFORE THIS AGREEMENT WITNESSETH that the parties agree as follows:

ARTICLE 1 **INTERPRETATION**

Anywhere in this Agreement, unless the context otherwise requires,

- 1.01 (a) "Capacity Assistance" means a net relief of 15.8 MW, or such lesser amount that is verified in accordance with clause 2.05, on Hydro's system.
- (b) "Capacity Assistance Delivered" is that amount of Capacity Assistance that has been both requested by Hydro and provided by the Customer from the Customer's generation.
- (c) "Capacity Assistance Request" means a request by Hydro from its Energy Control Center to the Customer to provide Capacity Assistance as set out in Article 2.
- (d) "Capacity Assistance Period" is a period of not more than six hours during which Capacity Assistance is provided in accordance with a Capacity Assistance Request.

(e) "Capacity Fee" means \$28 per kW per Winter for 15.8 MW, or such lesser amount that is verified in accordance with clause 2.05.

(f) "Winter" means the period from December 1 to March 31 inclusive.

ARTICLE 2

CAPACITY ASSISTANCE

2.01 Hydro may make Capacity Assistance Requests no more than two (2) times in a calendar day, no more than twenty (20) times in a Winter, each of a duration of not more than six (6) hours, and such that the total duration of such Capacity Assistance Periods does not exceed 100 hours in a Winter.

2.02 A Capacity Assistance Request shall be made upon not less than twenty (20) minutes notice prior to the time that the Capacity Assistance Period is scheduled to commence. Any request to cease a Capacity Assistance Period shall be made upon not less than twenty (20) minutes notice.

2.03 Any Capacity Assistance Request made by Hydro may be cancelled by Hydro if notice to cancel that Capacity Assistance is given by Hydro to the Customer not less than twenty (20) minutes before the time that the Capacity Assistance Period was scheduled to commence.

2.04 Hydro shall not request that a Capacity Assistance Period start until all but one of Hydro's gas turbine generators which are operable have been started and loaded. Hydro shall have the sole and absolute discretion to decide the loading of these gas turbine generators and to choose which of these gas turbine generators it holds in reserve for this purpose. In order to ensure the efficient use of its peaking resources, at any time after the commencement of the first Capacity Assistance Period of that day, Hydro may cease generating power from any or all of these gas turbine generators without affecting its rights to continue a Capacity Assistance Period.

2.05 The Customer must demonstrate the capability to operate its generation. The amount that the Customer can generate will be verified in a test by operating the generation at that level for a continuous period of one hour and as measured by the generation demand metering. The sustained generation level so verified, up to a maximum of 15.8 MW, will become the basis to calculate the Capacity Fee payments to be made under Clause 3.06 for the coming Winter. The test will be carried out at a mutually agreed time and for the second and third years of the Agreement, shall be carried out between November 15 and November 30 of each year of the second and third years of the term. The Customer will be provided an opportunity to repeat the test at another mutually agreed time during the same November 15 to November 30 period.

ARTICLE 3

PAYMENT AND METERING

3.01 Subject to Article 4, Hydro shall pay a Capacity Fee whether or not Hydro makes a Capacity Assistance Request.

3.02 In addition to the fees payable under Clause 3.01, Hydro shall, subject to audit and verification, pay the Customer for the fuel cost incurred by the Customer for the provision of Capacity Assistance during each Capacity Assistance Period. The energy and capacity provided by the Customer's generation during a Capacity Assistance Period which supplies the Customer's facility load requirements will be billed in accordance with the Service Agreement.

3.03 Fuel cost will be determined on a monthly basis by multiplying the total value of fuel consumed by the Customer's generators during the month by the ratio of kilowatt hours of Capacity Assistance Delivered to the total kilowatt hours that the Customer's generators produced during the month. Value of fuel consumed will be determined by multiplying quantity of fuel consumed by the Customer's average cost of fuel during the month.

3.04 The Customer shall provide to Hydro, no later than the first business day of the following month and in electronic format, time-stamped 15-minute interval demand metering data for the aggregate generation provided as per this agreement. The Customer shall also provide to Hydro, no later than the first business day of the following month, all necessary documentation to support fuel costs incurred by the Customer during the month.

3.05 The amounts paid to the Customer for Capacity Assistance provided to Hydro during a Capacity Assistance Period under this Agreement shall be the only amounts payable for such Capacity Assistance.

3.06 The Customer shall render its accounts two (2) times each Winter, once at the end of January and once at the end of March, and Hydro will, within twenty (20) days after the date of receiving such account, make payment in lawful money of Canada at the appointed office of the Customer or by means of direct deposit into a Canadian bank account of the Customer. Any amounts in arrears or overdue to the Customer after expiration of such twenty (20) days shall bear interest, before and after judgment, at the prime rate of the Bank of Montreal plus 2% annually until such balance is paid. The prime rate of the Bank of Montreal is the annual rate so established and announced by such bank at its head office in Canada as an annual rate of interest for demand loans payable in Canadian Dollars in Canada.

3.07 Subject to Article 4, the first Capacity Fee payment for the Winter of 2014-2015 shall be reduced pro rata to reflect the fact that Capacity Assistance was not available until December 16, 2014.

ARTICLE 4

CAPACITY FEE ADJUSTMENTS

4.01 In the event that Hydro makes a Capacity Assistance Request and the Customer fails to provide the Capacity Assistance, the Capacity Fee will be reduced by 50% as a result of the first failure to provide Capacity Assistance as requested during a Winter. For each additional failure to provide Capacity Assistance, the Capacity Fee will be reduced by a further 25%. If the Customer fails to provide Capacity Assistance three times during a Winter, the Customer forfeits 100% of the Capacity Fee.

Notwithstanding the previous paragraph, no Capacity Fee will be provided if the number of failures to provide Capacity Assistance equals the positive number of requests for Capacity Assistance.

4.02 The reduction in the Capacity Fee as provided for in section 4.01 is Hydro's sole remedy for any breach of the Agreement by the Customer, including a failure by the Customer to provide Capacity Assistance following a request from Hydro.

4.03 A party shall not be liable for failure to comply with its obligations hereunder due to an act of God or force majeure. "Force Majeure" herein means any event that is unforeseeable, and beyond a party's control, which causes a delay in or interrupts or prevents the total or partial performance by that party of any or all of its obligations under this Agreement including, without limiting the generality of the foregoing, war, riot, acts of vandalism, rebellion, epidemic, lightning, earthquake, flood, fire, explosion, government decrees or prohibitions or restrictions by any authority of competent jurisdiction affecting the obligations of the party suffering Force Majeure.

The party affected by Force Majeure shall promptly give written notice to the other party of the event for Force Majeure, stating therein the nature of the event, the obligations affected, the reasons and expected duration of any suspension of performance and the anticipated date of termination of the Force Majeure. The affected party shall use all reasonable efforts to remedy the event of Force Majeure as quickly as possible and shall resume compliance with its obligations hereunder as soon as reasonably possible upon termination of the event of Force Majeure.

ARTICLE 5

TERM OF AGREEMENT

5.01 This agreement commences as of December 1, 2014 and expires on March 31, 2018 provided however that either party may terminate this agreement by providing advance written notice to the other party to that effect no earlier than March 31 and no later than June 30, which termination shall be effective not earlier than for the following Winter.

IN WITNESS WHEREOF, each Party has executed this Agreement by its duly authorized representatives.

IN WITNESS WHEREOF, each Party has executed this Agreement by its duly authorized representatives.

Vale Newfoundland & Labrador Limited

Newfoundland and Labrador Hydro

Per: 

Per: 

Title: Director, Long Harbor Operations

Title: VP SYSTEM OPERATIONS and PLANNING

THIS SUPPLEMENTAL CAPACITY ASSISTANCE AGREEMENT is made in the Province of Newfoundland as of the 14th day of December 2014.

BETWEEN:

NEWFOUNDLAND AND LABRADOR HYDRO a corporation and agent of the Crown constituted by statute, renamed and continued by the *Hydro Corporation Act*, 2007 Chapter H-17 of the 2007 Statutes of Newfoundland and Labrador and having its head office at St. John's, in the Province of Newfoundland and (hereinafter called "Hydro"), of the first part;

AND

CORNER BROOK PULP AND PAPER LIMITED a company organized under the laws of Newfoundland and Labrador (hereinafter called "the Customer"), of the second part.

WHEREAS Hydro and the Customer are parties to an agreement whereby Hydro sells Electrical Power and Energy to the Customer which agreement was most recently approved by the Board of Commissioners of Public Utilities for the Province of Newfoundland on February 8, 2012 in Order No. P.U. 4(2012) (herein after called "Service Agreement");

AND WHEREAS the Customer has hydroelectric generating capability which enables it to provide electrical capacity to Hydro;

AND WHEREAS Hydro and the Customer are parties to an agreement whereby the Customer reduces its load pursuant to a request of Hydro such that it provides up to 60 MW of relief on the island transmission system which agreement was approved by the Board of Commissioners of Public Utilities for the Province of Newfoundland on November 28, 2014 in Order No. P.U. 49 (2014) (herein after called "Capacity Assistance Agreement");

THEREFORE THIS AGREEMENT WITNESSETH that the parties agree as follows:

ARTICLE 1
INTERPRETATION

In this Agreement, unless the context otherwise requires,

1.01 (a) "Mill Essential Services Load" means that amount of Mill Load required to operate the Customer's main power boiler and essential heating and lighting but in any event shall not exceed 10 MW.

(b) "Mill Load" means the Customer's 60 Hz electrical power requirements as

taken at its 66 kV supply buses, or at such other points agreed to in writing by the parties.

(c) "Secondary Energy" means the same as it does under the Service Agreement.

(d) "Supplemental Capacity Assistance" means a provision of capacity in excess of that which is required under the Capacity Assistance Agreement but which does not require the Customer to reduce Mill Load below Mill Essential Services Load (the maximum Supplemental Capacity Assistance is estimated to be approximately 30 MW).

(e) "Supplemental Capacity Assistance Period" is a period determined by Hydro at the time of the request of not less than three (3) hours and not more than six (6) hours during which Supplemental Capacity Assistance is provided in accordance with a Supplemental Capacity Assistance Request.

(f) "Supplemental Capacity Assistance Request" means a request by Hydro from its Energy Control Center to the Deer Lake Power control room to provide Supplemental Capacity Assistance in an amount to be determined by Hydro.

(g) "Winter" means the period from December 1 to March 31 inclusive.

ARTICLE 2 SUPPLEMENTAL CAPACITY ASSISTANCE

2.01 Hydro may make Supplemental Capacity Assistance Requests only following a Capacity Assistance Request for 60 MW under the existing Capacity Assistance Agreement approved in Board Order No. P.U. 49(2014), no more than twice in a calendar day, no more than twenty times in a Winter, each of a duration of not less than 3 hours and not more than six (6) hours, and such that the total duration of such Supplemental Capacity Assistance Periods does not exceed 100 hours in a Winter.

2.02 A Supplemental Capacity Assistance Request shall be made to the Customer upon not less than 15 minutes notice prior to the time that the Supplemental Capacity Assistance Period is scheduled to commence. Any request to cease a Supplemental Capacity Assistance Period, or to change the Supplemental Capacity Assistance amount, shall be made upon 15 minutes notice but a change in the level of Supplemental Capacity Assistance provided in a Supplemental Capacity Assistance Period does not i) constitute a new Supplemental Capacity Assistance Request; or ii) disentitle the Customer to payment under section 3.01 hereof for the period in the initial Supplemental Capacity Assistance Request.

2.03 Any Supplemental Capacity Assistance Request made by Hydro may be cancelled by Hydro if notice to cancel that Supplemental Capacity Assistance is given by Hydro to the Customer not less than 15 minutes before the time that the Supplemental Capacity Assistance Period was scheduled to commence.

2.04 The Customer's acceptance or rejection of a Supplemental Capacity Request is at the Customer's discretion. However, it is recognized that the Customer will do everything reasonable to deliver the Supplemental Capacity Assistance, without impacting the Mill Essential Service Load. There will be no penalties in the event the Customer can not meet a Supplemental Capacity Request.

ARTICLE 3 **PAYMENT**

3.01 Hydro shall pay the Customer a variable rate of 55 cents per kW per hour for the first 10 MW of Supplemental Capacity Assistance provided and 65 cents per kW per hour for Supplemental Capacity Assistance provided in excess of the first 10 MW block requested and provided during each Supplemental Capacity Assistance Period. The duration of the Supplemental Capacity Assistance Period in which the Supplemental Capacity Assistance Request is made will commence with the time of the original Capacity Assistance Period (as defined in the Capacity Assistance Agreement) and end at the termination of that same Capacity Assistance Period and the payment for that period will be based on the maximum Supplemental Capacity Assistance requested, supplied and sustained in that period. The duration of which will not be less than three (3) hours and not more than six (6) hours.

3.02 The amounts paid for Supplemental Capacity Assistance shall be the only amounts payable and no amounts shall be payable under the Secondary Energy and/or Capacity Assistance arrangements that exist under separate agreements with respect to Supplemental Capacity Assistance provided during a Supplemental Capacity Assistance Period under this Agreement but otherwise the Secondary Energy and/or Capacity Assistance arrangements will apply. The Supplemental Capacity Assistance, Secondary Energy and, Capacity Assistance agreements are separate agreements and amounts payable under any one agreement will not impact the amounts payable under the other two agreements.

3.03 The Customer shall render its accounts on a monthly basis at the end of each month and Hydro will, within twenty (20) days after the date of receiving such account, make payment in lawful money of Canada at the appointed office of the Customer or by means of direct deposit into a Canadian bank account of the Customer. Any amounts in arrears or overdue to the Customer after expiration of such twenty (20) days shall bear interest, before and after judgment, at the prime rate of the Bank of Montreal plus 2% annually until such balance is paid. The prime rate of the Bank of Montreal is the annual

rate so established and announced by such bank at its head office in Canada as an annual rate of interest for demand loans payable in Canadian Dollars in Canada.

ARTICLE 4
TERM OF AGREEMENT

4.01 This agreement commences as of December 14, 2014 and expires on March 31, 2018 provided however that either party may terminate this agreement by providing advance written notice to the other party to that effect no earlier than March 31 and no later than June 30, which termination shall be effective not earlier than for the following Winter Period.

IN WITNESS WHEREOF, each Party has executed this Agreement by its duly authorized representatives.

Corner Brook Pulp and Paper Limited

Per: 

Title: VP/GM CORNER BROOK Pulp & Paper Ltd

Newfoundland and Labrador Hydro

Per: 

Title: VP System Operations and Planning