

NLIS 1
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MHI Analysis and DG3 Cost Estimates Support Development of Muskrat Falls

The Government of Newfoundland and Labrador today released the Decision Gate 3 (DG3) cost estimate for the Muskrat Falls hydroelectric project, and a report by Manitoba Hydro International Limited (MHI). The MHI report confirmed the engineering, costs, and project planning completed by Nalcor Energy, and affirms Muskrat Falls as the least-cost option for electricity generation in the province.

The Honourable Kathy Dunderdale, Premier of Newfoundland and Labrador, released the cost estimates and findings of the MHI report at a news conference in St. John's today (Tuesday, October 30). Premier Dunderdale was joined by the Honourable Jerome Kennedy, Minister of Natural Resources, and Ed Martin, President and Chief Executive Officer of Nalcor Energy.

"The MHI analysis of the DG3 cost estimate supports Muskrat Falls as the least-cost alternative to meet the future energy needs of Newfoundland and Labrador," said Premier Dunderdale. "Our strategic investment in Muskrat Falls will ensure rate payers have reliable power and stable electricity rates. Energy independence will help us reach our maximum potential and ensure a prosperous future for Newfoundland and Labrador."

In November 2010, when the Muskrat Falls project was first announced, the estimated capital cost was \$6.2 billion, which included \$5 billion for the generation station at Muskrat Falls, the Labrador-Island Transmission Link, and \$1.2 billion for the Maritime Link that will be constructed by the province's partners in the project, Emera Inc. The capital cost for the project is now \$7.4 billion. The cost to Newfoundland and Labrador is \$6.2 billion. The cost of the Maritime Link remains at \$1.2 billion until Emera Inc. completes their cost analysis.

MHI confirmed that Muskrat Falls, with the Labrador-Island Link, will provide stable rates for homes and businesses in Newfoundland and Labrador. The independent analysis undertaken by MHI involved the most up-to-date information on load forecasts, new generation plans and revised cost estimates including capital costs, operating costs, financing costs, fuel and interest.

The analysis completed by Nalcor Energy and confirmed by MHI demonstrates that after all expenses are taken into account, there is a \$2.4 billion preference in 2012 dollars for Muskrat Falls over the Holyrood (Isolated Island) option. MHI stated in its report that "the Interconnected Island option remains the least cost option to meet the needs for capacity and energy to supply the forecasted load in Newfoundland and Labrador."

Capital costs identified in the report are based on the completion of approximately 50 per cent of the engineering and detailed design work for the project, the results of early site work completed near Muskrat Falls, and include actual bid values for major components.

“The costs of both the Muskrat Falls and Holyrood options have increased proportionately as a result of cost escalation and improved scope definition,” said Minister Kennedy.

“Through extensive planning, detailed design and engineering, we have now more clearly defined the scope of the Muskrat Falls project and established an informed, high-quality cost estimate. As we move towards the debate in the House of Assembly and a decision on project sanction, it is crucial to have the best information available to inform Newfoundlanders and Labradorians about the project and in the coming days will be releasing more information to better inform the public.”

Development of Muskrat Falls will not increase the province’s net debt as anything borrowed will be invested in a revenue-generating asset. This asset will generate dividends for the province that will be more than sufficient to service the debt. The province’s fiscal capacity, combined with the current low-interest rate environment, provides the means to ensure that residents and businesses have reliable, affordable electricity for decades to come.

“We are very pleased to see this project take another major step toward a final sanction decision,” said Ed Martin, President and Chief Executive Officer of Nalcor Energy. “The results of this review by MHI validate years of analysis, planning and design by a dedicated team of experts at Nalcor. We remain confident that the development of Muskrat Falls will provide the most affordable energy solution for homes and businesses in Newfoundland and Labrador.”

MHI is internationally regarded as an expert in hydroelectric utility planning, design and development. The company has provided assistance to power utilities, governments, and private sector clients in more than 70 countries in the efficient, effective, and sustainable delivery of electricity. The company was hired by the province as an independent consultant to review and analyze the DG3 data and analysis related to the development of Muskrat Falls. A copy of the MHI report, along with additional information about the DG3 final sanction estimate is available at www.powerinourhands.ca.

- 30 -

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