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Summary:

ELECTRICITY RATES: "Minister Tom Marshall" is calling to talk about electricity rates.

Friday, July 08, 2011 02:34PM Item # 11

VOCM - St. John's

Standing Order: NO

PG-Finance

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PETE SOUCY: We are now going to go to Minister Tom Marshall, who's been waiting on the line. Minister Marshall?

TOM MARSHALL: Pete, how are you?

PETE SOUCY: Good to talk to you, sir.

TOM MARSHALL: Nice speaking to you. First time caller.

PETE SOUCY: Really?

TOM MARSHALL: Beautiful day out here on the west coast, and I wanted to talk to you about electricity rates and where they're going in the future.

PETE SOUCY: Okay.

TOM MARSHALL: And as you know, the problem we have is that rates are going higher and they're going higher because a significant part of the electricity we consume is manufactured using oil. And that's the, you know the plant in Holyrood. And you know, I think rates have gone up 40 percent in the last five years or so and they're going up again unless we can get off that oil. That's got to be the objective. When Holyrood was built, I understand the early 70s, you know a barrel of oil was three bucks and this year it's what, is about 100, 97 yesterday. So if we have to continue to have electricity or a significant part of electricity we use, based on oil that we're buying from places like Russia and Iraq and Venezuela, our

experts that we rely on are telling us that the prices are high now, they're going to stay high and they're going higher. So we got to get off oil. You know, we got to get on to hydro because it's cleaner and it's cheaper. And so, you know, the experts, the Newfoundlanders and Labradorians who work at Nalcor, which is the energy company that's owned by the people of the province, they're telling us that the way to go to get off Holyrood, get off burning oil to produce electricity, is to go hydro. And they looked at doing what they call the isolated island option and they looked to Muskrat. And they're saying the cheapest way for us to do it is we go with Muskrat. Prices are still going to go up in the next 17, sorry until 2017, until Muskrat is built. But once that happens, instead of rates going up 4 to 6 percent as they're doing now, that they'll only go up by about, less than 1 percent a year, maybe around a half a percent a year. So we're doing Muskrat Falls, the reason for doing Muskrat Falls is not because it's a great environmental project, which it is, not because of the jobs it's going to create, which it will, not because of the boost to the economy it's going to give, which it will. The main reason we're doing Muskrat Falls is to keep oil rates stable for the people of the province. And that is extremely important and that'll be the first stage of the Lower Churchill development. So it's for us. Another benefit of that is that there's going to be about five kilowatt hours of power produced at Muskrat. We need two here.

PETE SOUCY: Yeah.

TOM MARSHALL: One will go to Nova Scotia and they'll build this Maritime link. And then in the interim, we can send the other two terawatt hours of power, we sell on the spot market in the Maritimes or in New England, but eventually we're going to need that here as well. So that's why Muskrat has to be done, and then after Muskrat is done, hopefully by that time we will have finalized matters to be able to get the Gull Island power through Quebec into Ontario or in the US and that will provide us with export energy and that will provide us with wealth for children and grandchildren, and then also the Upper Churchill will come back in 2041 and that's the only – a lot of things we've talked about over the years is diversifying the economy. How do we use the oil that we've got now, which we know we're going to run out of at some point. We don't know exactly when, but there is going to come a day when it's going to be gone. So how do we utilize that wealth now to turn it into something that will provide us with renewable energy? And the answer there is the whole Churchill River, the Lower and eventually the Upper when it comes back.

PETE SOUCY: Well, you've mentioned a lot of things there, and I'd like to just go back to a couple of them --

TOM MARSHALL: Sure.

PETE SOUCY: -- if you wouldn't mind.

TOM MARSHALL: Sure.

PETE SOUCY: The extra power that you're saying, the extra two that we have that we can, you know, sell now or call back later for our own use, you know, in fact we could possibly use that as a, you know, way to bring new industry here --

TOM MARSHALL: Exactly.

PETE SOUCY: -- that we have the power. You know, is that indeed not going to be tied up long term? You know, is it the government's position that this will only be sold on a temporary basis, that we're not going to get locked into any kind of long term contracts?

TOM MARSHALL: Well, you know, I guess you don't know what the future is going to bring, but my understanding is is that those two terawatts will be sold on the spot market because it's anticipated that they'll be needed here. We're hoping they'll be needed there. We're hoping that we can use it, as you say, to maybe offset, you know, a lot of manufacturing and industry has gone to emerging economies and they've done so because the wage rates are so low in those countries. So maybe we can use our stable energy costs to offset that. And that will be the beauty to attract industry to Labrador and to the island.

PETE SOUCY: But we also know the people who enter into contracts like this like to have some security well into the future.

TOM MARSHALL: Right.

PETE SOUCY: And so they like to sign things long term so that they don't have to worry about where the power is going to be coming from in five, 10, 20 years.

TOM MARSHALL: That's true and that may be an option. I know that we've got, you know, the 300 megawatts of recall power in the Upper Churchill. Sometimes that's sold on long term contracts and sometimes it's sold on on the spot market. Depending on the market. I know that 300 megawatts or what portion of that does go into the spot market, most of it is sold in the nighttime because Quebec would keep the more expensive rates for themselves, right.

PETE SOUCY: Right.

TOM MARSHALL: But yeah, I mean if you do get a long term contract, well that's an option and the beauty of the Maritime link, which Emera is going to build so at least we won't have to initially raise the money to build that. We'll pay for that by giving them one terawatt a year for 35 years. But then, you know, I can see new wind being developed. I can see new projects being developed on the island that we

can shoot down through there.

PETE SOUCY: Yeah, there's a story in the paper today about the energy innovation road map and it mentions all sorts of potential for various technologies to supplement power I guess down the road.

TOM MARSHALL: Yeah. I didn't see that article, but I remember talking to Peter Fenwick when I did the pre-budget consultations in Stephenville. He indicated, he asked the question can other projects tap into it, and of course they can. But it's so important, you know I mean we all see how energy costs have gone up over the last 10 years. And you know, if you produce your electricity based on oil, you know it's going higher, and that's why we got to do Muskrat Falls. I mean it's a big project. I'm not a guy who loves doing large projects. But we've got to keep the rates down and this is the best way, at least the experts at Nalcor are telling us this is the way that we can get the cheapest rates available.

PETE SOUCY: Let me throw one more thing at you now that I have you here, if you don't mind, if you have time. I'm just reading something now. Let me paraphrase off an e-mail that we received here at the show.

TOM MARSHALL: Right.

PETE SOUCY: It says: 'Nalcor has not proven that rates will go up as much as they are projecting by 2017. There is assumptions. They have not provided anything to us to justify those assumptions. Take the latest 7 percent increase approved by the PUB. Two Nalcor officials stated in a letter to the editor in the Telegram last week that the increase is due to the increase in oil prices. This is factually untrue', this e-mail is telling us. It says, 'approximately half of the increase is due to increases in municipal taxes being charged to utilities in the province and the other half is due to pension expenses and severance costs to former employees of Newfoundland Power.' So it says only a small fraction is due to oil prices.

TOM MARSHALL: Pete, Nalcor is owned by the people of Newfoundland and Labrador.

PETE SOUCY: Sure.

TOM MARSHALL: Most of the people working at Nalcor, they are Newfoundlanders and Labradorians who are going to have to pay out of their pockets their electricity rates and their heating rates as well. Why would they mislead us? It makes no sense. Obviously when you build a project, a hydroelectric project, the costs of that project, the ratepayers ended up paying for it. We all know that. And yes, you know, equipment gets old, it has to be replaced. The ratepayers will pay for that. People who work, will want raises, will want pension

benefits and those things have to be paid for. But the big one, everybody knows the big one is oil. We've got to get off that oil. That's what's driving this.

PETE SOUCY: Certainly. A lot of people understand that, and no one I think has any argument about, in terms of an environmental argument. But just going back to this e-mail. It says if Muskrat Falls was onstream right now, we would still be seeing most of that 7 percent hike being added to our power bills. So it just sort of seems to suggest that the whole get off oil argument is not the entire picture, that there are other factors that are going to, you know, be involved in this hike, this increase, the 7 percent increase.

TOM MARSHALL: But part of the debate of whether we should do this or not, I mean the only reason I want to do this, I support this project, I want to see lower rates for the people of the province. It makes sense. But you know, it's all caught up with the fact that, you know, the politics of it, the fact that we're going to have an election, the fact that people are going to call into your show like I'm doing now in support of it and others are going to call in, and no matter what we say or I say, I mean people are going to come up with the opposite reasons. But all I know, and this is what jumps out at me is that when Holyrood was built, oil was \$3.00 a barrel, now it's \$100 a barrel. Do the math. You know, there's 18,000 barrels burned down there a day.

PETE SOUCY: Yeah.

TOM MARSHALL: And you know, the price, there's, you know, if they can't find oil, price is going to go up over time. It'll be volatile in the interim of course.

PETE SOUCY: Minister Marshall, we have to go to break. I appreciate your call today. Thanks very much, and please by all means, call us again.

TOM MARSHALL: Well, thanks, Pete. I'll do that.

PETE SOUCY: Okay.

TOM MARSHALL: All the best.

PETE SOUCY: Talk to you again. Thanks.