

Honourable Tom Marshall
Minister of Finance and President of Treasury Board
Speaking Points – Muskrat Falls Debate
November 9, 2012

Thank you Mr. Speaker.

I appreciate the opportunity to rise in this honourable house and speak in support of what is one of the most significant projects in our province's history. Muskrat Falls has received more public attention than any other project that I can think of. Since being first announced in November, 2010 this plan to develop the Lower Churchill has provided considerable fodder for media and the opposition parties. The local call-in radio programs have been inundated with callers who sit on both sides of the debate. The amount of material that has been prepared and disseminated is staggering.

I've reviewed the materials. I've met with the experts. I've heard the reasons why this project is so important to Newfoundlanders and Labradorians. I've also listened to the naysayers who have been against Muskrat Falls from the beginning, despite the reams of evidence that proves this is a sound project. With all that, I am confident in putting my support behind Muskrat Falls as being crucial to ensuring that generations of Newfoundlanders and

Labradorians have an affordable, reliable and green source of electricity. A source of electricity that they own. A source of electricity that is not tied to volatile global oil prices and is 98 per cent clean and renewable. A source of electricity that other jurisdictions would love to have.

Based on the recently released DG3 numbers, the total estimated cost of the Muskrat Falls Project is \$7.4. Of this amount, \$1.2 billion relates to Emera's Inc's share of the Project. The remaining \$6.2 billion will be financed through a combination of an equity contribution from the Province and project debt financing which will be financed through Nalcor and the project subsidiaries.

The \$6.2 billion has increased from DG2 estimates by \$1.2B. It should be noted however that at DG2 only 5% of the engineering effort had been completed. The DG3 estimate includes a growth allowance of 13-15 per cent to provide for any unanticipated expenses and the level of engineering effort has increased to 50%. Engineering work normally completed for a DG3 decision would be approx. 30%.

Nalcor has completed detailed analysis and has refined its estimates. The level of project definition and the detail in the cost estimates provides a high degree of confidence to support a decision to move forward with the project. This detailed and sound analysis has also been validated by external consultants particularly in the most recent report from MHI.

When the DG3 numbers were updated for the interconnected island alternative or Muskrat Falls, estimates were also updated for the isolated island alternative. Costs for the isolated island alternative escalated by a similar percentage as Muskrat Falls. To evaluate the 2 options, MHI looked at the Cumulative Present Value of the Projects. The CPW is used to measure the present worth of alternative options. It focuses **only** on costs including:

- Capital expenditures for the construction of facilities
- Operating costs
- Fuel costs
- Cost of purchased power

The preferred option is the one that minimizes the cumulative present worth of costs.

Muskrat has a Cumulative Present Worth that is \$2.4 billion less than the Isolated Island Option. Sensitivity analysis was also completed on increases in fuel, capital expenses and interest rates.

All the scenarios conclude that Muskrat Falls is the preferred alternative.

The economic benefits of Muskrat Falls will be felt in every corner of Newfoundland and Labrador. As the largest project that this province has undertaken, the construction of Muskrat Falls will provide a significant boost to industry, labour and the provincial treasury during the construction period to 2017 and following the construction into the operational phase of the project.

It is estimated that the net economic benefit to the province will be \$6.1 billion. With 1,500 jobs each year during construction and a peak of 3,100 jobs, there will be \$1.9 billion in income alone to labour and business. There will be \$2.4 billion in rate savings to homes and businesses and \$1.6 billion in revenue to the province. The project will also lead to \$600 million in savings related to reduced carbon and GHG emissions.

With workers from 70 trades and occupations needed to fill 9,100 person years of direct provincial employment, Muskrat Falls will provide invaluable experience to the province's trades people. Experience that they will be able to bring to future projects that

they work on. Experience that they can use to further strengthen Newfoundland and Labrador.

The benefits to Labrador will be considerable. Of the total person years of employment, 5,800 will be in Labrador. There will be \$500 million in income to Labradorians and Labrador-based businesses. Innu businesses alone will have \$134 million available to them for various construction projects.

The Project will lead to infrastructure improvements in the upper Lake Melville area, including upgrades to the port, airport, roads and broadband. Nalcor will also continue its community presence in Labrador, lending a hand to programs that support the interests and concerns of local residents.

As the Minister of Finance, I always have an eye to the treasury and it is estimated that construction of Muskrat Falls will see \$290 million in tax revenue to the Government of Newfoundland and Labrador.

This province has been fortunate to have our oil and gas resources. It has been very good to us and the benefits we have received have allowed us to do great things. We've been able to build

infrastructure and finally offer the progressive programs and services that other regions of the country have taken for granted for so long. However we are too dependent on oil as it accounts for a third of all provincial. There is a need to diversify the economy and the Muskrat Falls project provides the opportunity to diversify our revenue base to ensure the province's fiscal stability.

With Muskrat Falls there will also be electricity available for industrial development in Labrador. The mining industry is already a significant contributor to the provincial economy with mineral shipments in 2012 estimated to be worth about \$4.1 billion. Currently, the industry employs approximately 8,000 men and women across the province.

In terms of potential, there could be upwards of \$10 - \$15 billion of investment in Labrador mining projects possible over the next decade. Dr. Wade Locke recently prepared a paper on the economic impact of iron ore mining in Labrador and concluded that production could grow from the current 26 million tonnes per year to 81 million tonnes if all projects proposed were developed. Over a 21 year period, that would mean an additional \$80 billion in new capital and operating expenditures, 358,000 person years of

employment, and \$117 billion in GDP. The provincial treasury could also see an additional \$17.5 billion in tax revenue.

Let me talk about financing. This government has taken great steps to improve the province's financial situation since coming to power in 2003 and we would not do anything to jeopardize the work that we have done to date. We have set a target to reduce the net debt per capita to the all province average within ten years. We used to be the worst in the country, but we are already seeing improvement with Ontario and Quebec now behind us. That goal is still in place.

We will provide an equity investment in Muskrat Falls that will be financed through a combination of cash and debt. Let me be clear though. Even though we will finance a portion of the equity stake through borrowing, we have the capacity to do so and there will be no impact on the province's net debt as we will be investing in a revenue-generating asset. Let me repeat that. Muskrat Falls will not impact the province's net debt.

We will structure the term of any debt to take full advantage of the low interest rate environment and will use dividends from the project for debt servicing. Our borrowing strategy will take into

account the favourable interest rate environment and the timing of cash flows from the project flowing to the province through dividends.

The current borrowing rate for Newfoundland and Labrador for a 30 year term would be approximately 3.5 per cent. Given indications by Canadian and US monetary authorities, rates are expected to remain relatively stable within a narrow range for an extended period of time. I've heard the critics say that Muskrat Falls will bankrupt the province or that electricity rates will double or even triple. Nothing could be further from the truth. Muskrat Falls is a self-sustaining investment for the province. Dividends from the project will be more than sufficient to meet any debt servicing requirements. Then of course there are the significant economic benefits that I have just discussed as well.

We are close to finalizing the federal loan guarantee. It should be noted that the federal loan guarantee does not cover the debt acquired by the Province however it will reduce the cost of Nalcor's project debt and will result in lower power costs for taxpayers.

Discussions on the federal loan guarantee are commercially sensitive. We are unable to disclose the details right now, however once the transaction is finalized we will certainly share the details with public.

Upon conclusion of the Federal Loan Guarantee, and the participation of Emera, Nalcor will prepare to place the project debt in the market with an expected Financial close of the project in calendar Q4 2013. At the point of financial close, the final debt/equity ratios will be finalized and the Province will confirm its base equity investment in the Project.

Muskat Falls will provide stable electricity rates for generations of Newfoundlanders and Labradorians and all residents of the province will greatly benefit from rate savings. On average, Holyrood supplies 15 to 25 per cent of the Island's electricity needs. At peak, the plant burns 18,000 barrels of oil a day and in 2011 alone fuel costs were \$135 million. Fuel costs under the isolated island scenario account for more than 62 per cent of the Cumulative Present Value compared to less than 16 per cent under the interconnected scenario. Over the coming decades, that adds up to billions of dollars that would go to international oil companies. Instead, Muskrat Falls would allow us to make a long term

investment in a provincially owned, revenue-generating asset. As well, given the volatility in the price of fuel, the capital investment in the Interconnected Island Scenario is required to mitigate the risk of higher fuel prices over the long term and provide rate stability for the ratepayers.

Electricity rates for residents up to 2030 would increase by \$38 per month with Muskrat Falls and would increase by \$82 without Muskrat Falls. Under the Isolated Island Scenario we would pay the increased costs to the fuel companies and would not receive anything in return. Instead, this project sees the increase in rates go towards supporting construction and would result in lower costs and lower volatility out to 2030.

Muskrat Falls is the right project for us to meet our energy needs. It is consistent with the vision that we have laid out in our Energy Plan. It helps diversify the economy and will provide us with renewable energy revenues. It puts us in the driver's seat and allows us to continue down the path towards self-sufficiency and long-term prosperity. On top of all that, the project is self-sustaining from a financing perspective

I am tired of hearing the refrain from critics who say that Newfoundlanders and Labradorians can't do this or can't do that. That we don't have the know-how or the expertise to complete projects that are in the best interests of residents. That we should rely on sources outside of the province for our own well-being. This government knows we have the skills and resources required to undertake Muskrat Falls. We have a chance to determine our own economic fate. It is critical that we not let that chance pass us by.

There have been talks to develop the Lower Churchill for decades. The Muskrat Falls project in its current format has been discussed for almost two years. The Governments of Newfoundland and Labrador, Nova Scotia and Canada think it is a good project. Emera, Nalcor and Manitoba Hydro International think it is a good project. I think it is a good project.

Muskrat Falls is undoubtedly the largest and most significant initiative that we have ever undertaken. But it is the right project at the right time for Newfoundlanders and Labradorians.

Thank you.