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From : "Maclean, Heather"

To : "Shute, Tracy"

Subject : docs to print for Minister Kennedy

Attachment : rates_slide_dg2_2012act.ppt;SN - Electricity Rates final .doc;

Can you print for Minister Kennedy?

Heather MacLean

Director of Communications

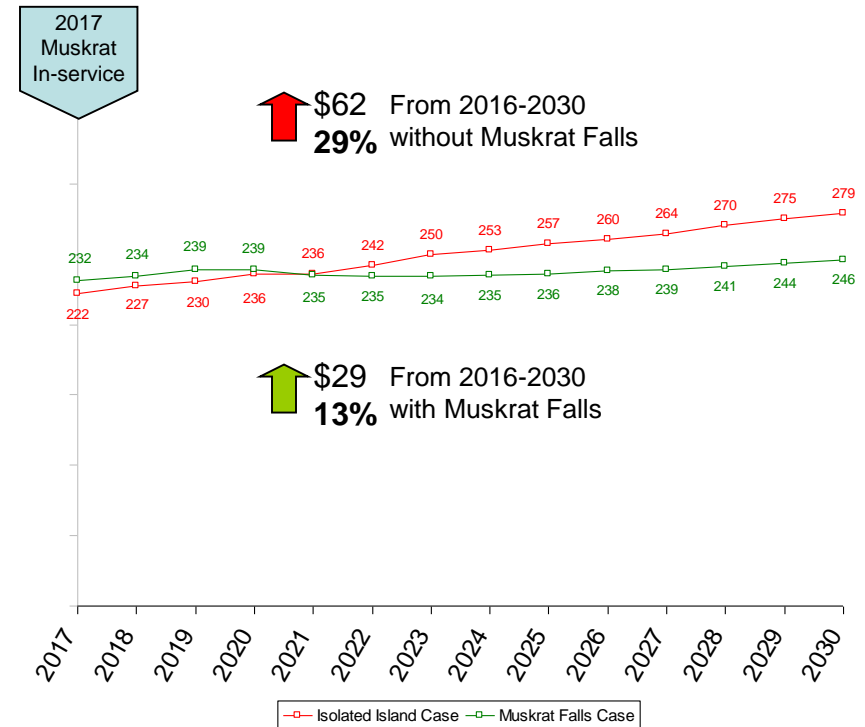
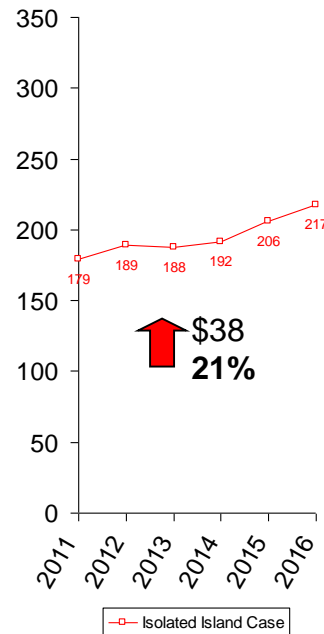
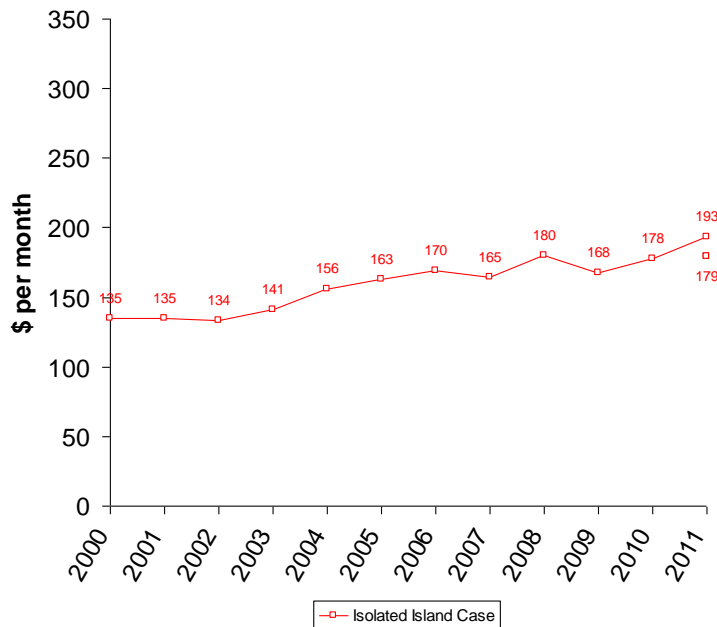
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Historical and Projected Monthly Electricity Bills

Profile 3: Average of all Island customers



Based on the **average monthly electricity consumption** of all Island customers (1517 kWh per month); includes taxes; includes provincial HST rebate for years 2011 and beyond; Newfoundland Power own rate increases for distribution would have additional cost increases; data points up to 2011 indicate actual rates in effect at July 1 of each year; 2012 includes Hydro's RSP increase scheduled to take effect July 1; data for 2013 and later is based on forecasts as per Decision Gate 2 data (November 2010).

Electricity Rates

Thank you Mr. Speaker.

3 opportunities to speak during budget debate for 20 minutes at a time.

I have clearly identified that there is a need for power. I have also demonstrated that MF is the best option to meet this demand. Today I will focus on the third issue - electricity rates.

Our Energy Plan is clear that we would seek long-term stability for the ratepayers of Newfoundland and Labrador, and acquire a secure and environmentally friendly source of power.

If the Island remains dependent on oil-fired generation, the cost of power would be much higher over the long term and continue to rise well into the future.

When Muskrat Falls is on stream and delivering clean, renewable hydro power – some of the cleanest and most economical power available to the province - rates will stabilize and will remain so long into the future.

Critics who have said repeatedly that power rates will double have deliberately misled the people of NL

In order to demonstrate that these critics are wrong, I will outline our methodology that clearly demonstrates electricity rates will not double.

In a previous talk, I outlined the methodology behind demand forecasting and demonstrated that we absolutely do need additional power to meet the needs in our

province. MHI and others have validated Nalcor's demand forecasts and the methodology used.

Electricity system costs are based on demand. We must ensure that generation is available to meet demand.

Nalcor has cost out both the Muskrat Falls option and the Isolated Island option, through a process that has been validated by MHI.

Nalcor's cost estimates are developed for a 50-year time frame, which is the standard window for the financing of large hydro project. Over this time frame, the Isolated Island option includes \$6 billion in fuel costs alone, or 45% of the total costs.

Since rates in this province (and in most other jurisdictions) are set based on system costs, we have converted the costs of the two preferred options into electricity rates for each year in the future.

We need to understand how these rates translate into actual monthly bills that residents will be paying, so we have developed three customer profiles:

- Profile 1: represents the demand from the average Island residential customer who does not use electric heat (775 kWh per month on average); there are 90,000 customers in this category.
- Profile 2: represents the average customer who does use electric heat (2058 kWh per month); 140,000 in this category.
- Profile 3: is the average of all residential customers on the Island (1517 kWh per month)

Whether or not the province proceeds with the development of Muskrat Falls, electricity bills for the average customer (Profile 3) are projected to increase 21 percent, or \$38 per month between now and 2016. This increase is caused by the expected

increase in the cost of oil at Holyrood and the increasing use of Holyrood as demand grows.

In 2017, when Muskrat Falls is expected to deliver first power, the average electricity user on the Island will pay \$232 per month.

This \$232/monthly, rising to \$246 in 2030, will generate enough revenue to pay all costs of the project including capital costs, financing costs, operating expenses, and still ensure a return on equity for the province.

Based on what we know today and subject to DG3 numbers, the average monthly rates for the average Island customer (1517 kWh per month) are as follows (detailed charts attached):

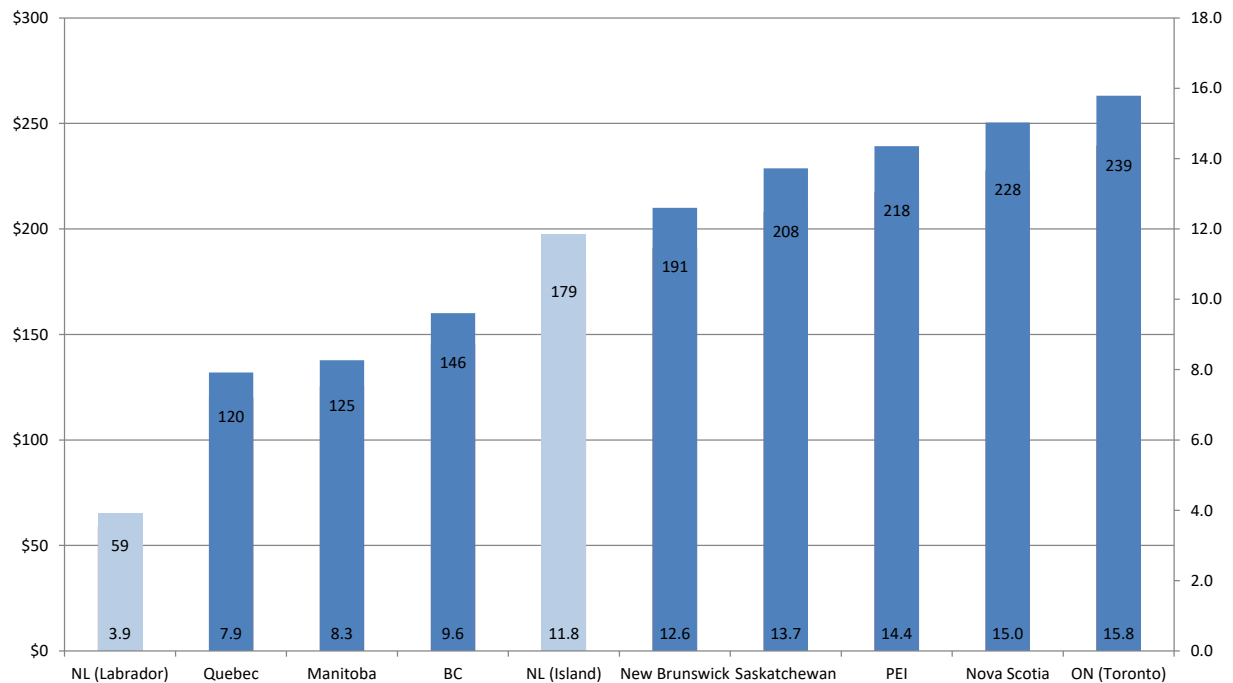
	Muskrat Falls	Isolated Island
2000	\$135	
2011	\$179	
2016	\$217	
2017	\$232 (up \$15 from 2016)	\$222
2030	\$246 (up \$29 from 2016)	\$279 (up \$62 from 2016)

This analysis is based on actual electricity demand data and costs of electricity. There is no guessing or big assumptions; only facts.

Rates are then expected to stabilize over time and will be less with Muskrat Falls than without.

As of April 2012, residential electricity rates in Labrador are the lowest in Canada and tax-included rates on the Island are lower than all other provinces besides British

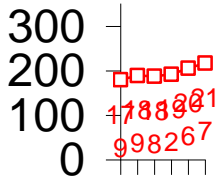
Columbia, Manitoba, and Quebec (the jurisdictions whose electricity generation is largely from hydroelectricity).



The fuel price projection used for setting electricity rates on the Island has climbed from \$103 per barrel to \$119 per barrel – \$16 more per barrel over the next 12 months.

As a result, on April 24, Hydro announced that the wholesale rate for electricity will increase by approximately eight per cent resulting in an RSP adjustment to consumers of an estimated 5.4 per cent effective July 1, 2012.

Rising oil prices and the increasing demand for power mean that electricity rates are increasing. Rate increases which we are experiencing have nothing to do with the development of Muskrat Falls, and are tied to the volatility of oil prices and our reliance on Holyrood to generate power.



As more power is needed Holyrood is being used more and therefore more oil used.

At its peak Holyrood burns 18,000 barrels of oil per day



Estimated that cost of fuel between 2017-2067 is \$6.0B

Isolated
Island Case

Experts advice us that price of oil will continue to rise

MF eliminates our dependence on oil and price volatility that goes with it

MF will stabilize then reduce electricity rates

In 2017, the cost of fuel oil (about 45% of total system costs) goes to near zero and the cost of Muskrat Falls appears in rates.

So we can spend \$6.0 billion on oil which goes to big companies or we can build an asset in the province which has value for our people.