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Report Shows Muskrat Falls will Stabilize Electricity Rates for Consumers

A report on electricity rates concludes that Muskrat Falls will result in lower and more stable rates for consumers compared to the Holyrood Isolated Island option. The paper, *Electricity Rates Forecasting: Muskrat Falls will Stabilize Rates for Consumers*, was released today by the Department of Natural Resources.

“In the Energy Plan, we stated that our priority is to meet current and future electricity needs with environmentally friendly, stable and competitively-priced power,” said the Honourable Jerome Kennedy, Minister of Natural Resources. “The hydroelectric power generated from Muskrat Falls will ensure that ratepayers receive a secure, renewable source of power at the least cost possible and stop the trend of increasing rates based on oil prices.”

Electricity rates between 2001 and 2011 for the average ratepayer on the Island have increased 32 per cent or approximately $45 per month, which is an annual average increase of approximately 2.8 per cent. This increase was based largely on increased oil prices.

The report illustrates that between 2011 and 2016 for the average ratepayer on the Island, rates are projected to increase by an additional 16 per cent or approximately $30 per month, an annual average increase of 3 per cent. These increases have nothing to do with the development of Muskrat Falls and are again based on a forecast increase in oil prices, and increasing electricity demand.

Muskrat Falls will result in lower and more stable rates for consumers compared to the Holyrood Isolated Island option. From 2016 to 2030 without Muskrat Falls, electricity rates for the average ratepayer are projected to increase by 38 per cent, approximately $82 per month. In the same period, with Muskrat Falls rates for the average ratepayer will increase by only 18 per cent, or approximately $38 per month.

"We understand how important electricity costs are to consumers," said Ed Martin, Nalcor CEO. "Our focus has been to determine the path forward that provides the lowest rates for consumers and Muskrat Falls with a link to the Island will curb the volatility and growth we see in electricity rates today and ensure our rates are stable well into the future."

The cost of electricity production on the Island is directly linked to electricity demand and oil prices. Muskrat Falls will reduce the province’s dependence on oil and ensure that ratepayers are not vulnerable to price volatility and uncertainty with respect to supply and demand of global oil markets. Crude oil prices are predicted by experts to stay above $100 per barrel, as referenced in PIRA's *Forecast Methodology and Assessment of Future Oil Price Trends* also released today by the Provincial Government. The electricity rates report illustrates that without the development of Muskrat Falls, Holyrood will have to be used more and the cost of operating it will increase with rising world oil prices. Holyrood currently generates between 15 to 25 per cent on average of the Island's electricity annually. At peak demand, the plant burns 18,000 barrels of oil a day. In 2017, for example, the annual cost of oil to generate electricity at the Holyrood plant is projected to be $324 million without Muskrat Falls.

"With Muskrat Falls, revenue that was previously used to purchase oil will be used to cover the cost of the project; billions of dollars that would go to international oil companies will be used to pay for a provincially-owned revenue-generating asset," said Minister Kennedy. "Muskrat Falls will ensure the province is not susceptible to volatile fuel prices and ratepayers are not vulnerable to electricity prices based on global oil markets. It is the right time to move forward with the development of Muskrat Falls and capitalize on the tremendous benefits this project will provide for the people of Newfoundland and Labrador."

To view the full discussion papers, please visit: www.powerinourhands.ca.

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Key Points

Electricity Rates Forecasting: Muskrat Falls will Stabilize Rates for Consumers

- Historically, Newfoundland and Labrador residents have paid less than the Canadian average for their electricity. Jurisdictions with the lowest rates typically have large hydroelectric generation.
- Electricity rates between 2001 and 2011 for the average ratepayer on the Island have increased 32 per cent or approximately $45 per month, reflecting an annual average increase of approximately 2.8 per cent.
- Electricity rates between 2011 and 2016 for the average ratepayer on the Island are projected to increase by an additional 16 per cent or approximately $30 per month. These increases have nothing to do with the development of Muskrat Falls.

- From 2016 to 2030 without Muskrat Falls, electricity rates for the average ratepayer would increase by 38 per cent or approximately $82 per month over the same period. From 2016 to 2030 with Muskrat Falls, electricity rates for the average ratepayer will increase by 18 per cent or approximately $38 per month.
- Without the development of Muskrat Falls, Holyrood will have to be used more and the cost of operating Holyrood will increase with rising world oil prices. At peak, the plant burns 18,000 barrels of oil a day.
- 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 fuel costs were $135 million.
- Ratepayers are vulnerable to price volatility and uncertainty with respect to supply and demand related to global oil markets. Crude oil prices are predicted by experts to stay above $100 per barrel.

PIRA's *Forecast Methodology and Assessment of Future Oil Price Trends*

- PIRA Energy Group is an international consulting firm known for its comprehensive and detailed research and market analysis of energy markets. PIRA is retained by more than 500 companies in over 60 countries.
- PIRA suggests that global economic growth that will average 3.6 per cent per year between 2012 and 2025.
- PIRA suggests that energy efficiency improvements will proceed at a slightly faster rate in the future than they have over the past decade, driven by a combination of higher price, environmental pressures, and growing supply security concerns and policies to slow consumption growth.
- PIRA forecasts that in the long term, global oil prices will rise, due to increasing demand requiring new supply at a higher cost.
- PIRA estimates that overall oil demand will grow 1.5 per cent per year over the 2012-2025 period with all of the net growth in the developing world, particularly China, India and the oil-exporting nations. From just under 90 million barrels per day today, oil demand will reach 110 million barrels per day by 2025.
- Long-term forecasts indicate that the price of crude oil will average approximately $100 to $105 per barrel ($2011).

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