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2 Q. What consideration has been given to the excess power capacity that will become  
3 available associated with the termination of the Upper Churchill Falls Agreement in  
4 2041?

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6 A. In its analysis of interconnection alternatives, Nalcor compared the Interconnected  
7 Scenario (construction of Muskrat Falls and the Labrador Island Transmission Link)  
8 to deferral of the interconnection between Labrador and the Island to 2041, and  
9 then accessing Churchill Falls power. The following issues resulted in Nalcor  
10 screening out the deferred interconnection and selecting the Interconnected  
11 Scenario as the preferred interconnected option:

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13 Uncertainties and risks with the viability of this alternative are evident when the  
14 deferred interconnection was evaluated against Nalcor's four Island supply option  
15 evaluation criteria:

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17 • Security of supply and reliability

18 There is inherent uncertainty around guaranteeing the availability of supply  
19 from Churchill Falls in 2041 because it is difficult to determine the  
20 environmental and policy frameworks that will be in place 30+ years out.

21 There are other issues surrounding the CF asset with respect to HQ, as  
22 Nalcor is not the sole shareholder of the Churchill Falls operation.

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24 There is also significant risk associated with maintaining reliable supply  
25 through continued life extension measures for Holyrood generating station  
26 through to 2041. At that time, the first two units at Holyrood will be 70  
27 years old.

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- Cost to ratepayers

Deferral of the interconnection would result in significantly higher rates for Island consumers between now and 2041 and does not provide rate stability to Island consumers as rates are tied to highly volatile fossil fuel prices for the first 30+ years of the study period along with escalating maintenance costs for Holyrood and an increasing likelihood that replacement of the plant will be required prior to 2041.

- Environmental compliance

Island customers will remain dependent on fossil fuel generation for the first 30+ years of the study resulting in continued and increasing GHG emissions. Given the Government of Canada's decision to introduce GHG emissions regulation for coal fired generating stations, Nalcor's ability to refurbish Holyrood without conforming to GHG emissions regulation is doubtful, and replacement of the plant may be required between now and 2041.

- Risk and uncertainty

Each of the screening criteria above has significant risk and uncertainty that are not present in either the Isolated or Interconnected Scenarios.

The prospect of requiring substantial investment to Holyrood to extend its life beyond that contemplated in the Isolated Scenario, or the real possibility of requiring replacement of Holyrood and then retiring it in 2041, increases the probability that this option will be substantially more expensive than projected.

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In addition to the above screening criteria, deferral of construction of Muskrat Falls and the Labrador Island Transmission Link introduces other economic disadvantages:

- Value is lost by the Province through the deferral of monetization of Newfoundland and Labrador's energy warehouse. The revenue benefits of Muskrat Falls, Gull Island, other wind and small hydro developments throughout the Province will be foregone, thus reducing government's ability to invest in infrastructure and to provide services. Revenue that could have been used to fund long-term assets and infrastructure will have been used to purchase imported oil.
- Economic and employment benefits from domestic economic activity associated with domestic energy construction projects will be foregone for decades.

Finally, in comparison to the Interconnected Island scenario, the deferred interconnection is not economically justified as the CPW premium for deferral over the Interconnected Scenario (construction of Muskrat Falls and the Labrador Island Transmission Link) is \$1,283 million.