OFFICE OF THE OFFICIAL OPPOSITION

CROSBIE **HYDRO**
ENERGY ACTION PLAN

ST. JOHN'S, NL
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For Immediate Release

PC Opposition Leader Ches Crosbie today released the Crosbie Hydro Energy Action Plan to protect electrical power consumers in Newfoundland and Labrador from an increase in rates caused by the Lower Churchill Project, and achieve a fair and equitable return from the Upper Churchill.

"Ours is the only party to lay out a rate mitigation plan," said Crosbie. "It is honest. It is affordable. It provides a foundation for hope, because it demonstrates that we can do this. If I am elected Premier, I will ensure Newfoundlanders' and Labradorians' electricity rates do not rise because of Muskrat Falls."

THE CROSBIE HYDRO ENERGY ACTION PLAN HAS THREE COMPONENTS:

1. Fully prevent power rate increases due to Muskrat Falls by using Nalcor cash flow, and returns and dividends, for rate mitigation, while implementing best practices for cost reduction, demand management and export revenue generation as recommended by the PUB.

2. As a temporary measure, if necessary, use a modest amount of the Atlantic Accord Fiscal Arrangement revenues owed by the Federal Government to Newfoundland and Labrador, to achieve full rate mitigation.

3. As a longer term measure, if necessary, use the August 31, 2016 expiry of tax exemptions for the export of power from the Upper Churchill, to achieve "a fair and equitable return to the province as the owner of the Churchill Falls resource", (as per Quebec Hydro Letter of Intent), and apply revenues to Lower Churchill rate mitigation.

BACKGROUNDER

LOWER CHURCHILL COMPONENT

On the basis of the best information available through the Interim Reports on the Public Utilities Board preliminary work, the Lower Churchill component is likely sufficient, in and of itself, to protect electrical power consumers in Newfoundland and Labrador from an increase in rates caused by the Lower Churchill Project.

- As noted by the Minister of Natural Resources in her February 19, 2019 letter to the PUB: "the interim report contains preliminary findings and significant work remains to more fully assess and quantify cost impacts and the options to offset them". **LINK:** http://www.pub.nf.ca/2018ratemitigation/correspondance/Letter%20to%20D%20Whalen.pdf

- Unlike the governing Liberals, Ches Crosbie and the PC Opposition believe the public deserves reassurance in the form of an Action Plan that goes beyond mere talk.

The Lower Churchill component of the Crosbie Hydro Energy Action Plan has five sub-components.

A) Hydro Returns and Dividends

- Funds are available from the Muskrat Falls dividend.
- The PUB's Interim Report (page 7) states: "Liberty noted that substantial returns of over $6 billion to Nalcor are forecast in the first 20 years of operation."
- These funds can be used to pay for rate mitigation.
- Liberty also references net dividends of $27 to $33 million a year from Nalcor's other lines of hydro business.
- "Liberty concluded that applying the returns and dividends to reduce the revenue requirement ... would avoid a very substantial portion of the increase in rates expected in the coming years."
- In 2021, Nalcor estimates the value of Hydro returns and dividends will be $90.4 million.
- Add to that the $33 million from other "net dividends" identified by Liberty.
- That equals $123.4 million in returns and dividends in 2021.
- A Crosbie Government would use those returns and dividends for rate mitigation.
- A Crosbie Government would make a reference to the Public Utilities Board, asking them for recommendations on how the contract ought to be amended.

(B) Export Sales

- Funds are available by maximizing export sales revenue.
- Electrification within the province can increase the revenue generated here at home.
- There are also lucrative export markets that can be tapped effectively.
- The Lower Churchill Project includes the new power corridor to the Maritimes through our partnership with Emera. This is a game-changer for export opportunities, and a Crosbie Government will be prepared to take full advantage of that.
- The PUB noted that conservation and demand management can "allow for increased export sales during higher-valued winter periods." (page 14)
- The PUB's Interim Report (page 16) states: "Based on its analysis Synapse concluded there was significant potential to increase export revenues from the sales of surplus energy, depending on the level of energy efficiency and electrification achieved."
- In 2021, Nalcor estimates the value of export sales will be $41.0 million.
- That export revenue would be available to mitigate rates.
- A Crosbie Government would be aggressive and positive in marketing surplus energy, and use the revenue to mitigate rates.

(C) Nalcor Restructuring

- Funds are available from achieving savings by restructuring Nalcor.
- The PUB's Interim Report (page 10) states: "Liberty suggested that a five percent cut in resources is not an unreasonable assumption based on preliminary work. Liberty estimated that a five percent cut in resources would reduce the revenue requirement by $10 million to $15 million per year."
- The PUB said that five percent cut could be used for rate mitigation.
- A Crosbie Government would double that to ten percent; and challenge Nalcor to be more aggressive in driving efficiencies without compromising the role of the province's energy corporation in fueling development.
- In 2021, the value of those savings would be up to $30 million.

D) Holyrood Savings

- Funds are available by applying savings achieved at Holyrood.
- The point of the Muskrat Falls Project was to retire the Holyrood Generating Station in order to avoid costly upgrades, to curb our reliance on petroleum for electricity, and to end the smoky emissions that have been blowing across the Avalon from one of our worst polluters.
- There are savings from the fuel that Holyrood would otherwise buy, and won't be buying, when Muskrat comes on stream, to burn and make electricity.
- The cost of oil to operate the Holyrood Generating Station varies with the price of oil and other factors. A savings estimate may be based on the amount of fuel Holyrood has burned in past years. A projection of $150 to $200 million is reasonable, and $150 million is selected as the more conservative of these figures.
- A Crosbie Government would apply any such fuel savings to mitigate rates.
- A Crosbie Government would also use any one-time greenhouse gas credits assigned to the province for retiring the Holyrood Generating Station in a way that would mitigate rates.

E) Nalcor Oil Revenue

- Funds are available from Nalcor cash flow from its petroleum arm.
- The 2007 Energy Plan stated (page 4): "Oil and gas, once produced and consumed, are depleted forever. We will maximize and effectively invest the value received from these resources to ensure current and future generations benefit from their development, while still providing a fair return to oil and gas companies that participate in the development of our resources."
- The Energy Plan further stated (page 30): "A major decision in this Energy Plan is the strategic investment of a significant portion of our non-renewable resource revenues in renewable energy infrastructure, such as transmission, hydro developments and wind generation. Sharing the benefits of today's activities with future generations is sustainable development in action."
- The Energy Plan further stated (page 13): "The Government of Newfoundland and Labrador will: ...Leverage our non-renewable oil and gas wealth into a renewable future by investing a significant portion of our non-renewable resource revenues in renewable energy infrastructure and development."
- The Energy Plan was based on the concept of tapping into non-renewable oil and gas wealth to help make the growth of renewable hydro infrastructure and operations affordable to Newfoundlanders and Labradorians.

- Nalcor is already profiting from petroleum development. Those revenues will grow in the years to come, and can be used to fuel new oil and gas sector development, but also to fuel the shift to renewable hydro, which will bring wealth to our province long after the oil and gas is gone.
- A Crosbie Government would use the profitable petroleum arm of Nalcor so Newfoundlanders and Labradorians do not have to bear rate increases for Muskrat Falls.
- In 2021, an estimated $231 million of the available funds from operations could be used for rate mitigation.
- This falls within the range of the $210 to $245 million per year that the government has directed Nalcor to source beginning in 2020-21 (according to the government's 2017 Budget speech).
- If that amount of funds is not available, the plan is to use Atlantic Accord funding on a temporary basis to help mitigate rates.

ATLANTIC ACCORD COMPONENT

- As a temporary measure, if necessary, a Crosbie Government would use a modest amount of the Atlantic Accord Fiscal Arrangement revenues owed by the Federal Government to Newfoundland and Labrador, to achieve full rate mitigation.
- This, too, is a way of using non-renewable resource wealth to fuel the growth of our renewable hydro energy sector.
- A Nova Scotia study in the early 2000's suggested Newfoundland and Labrador was receiving just 8% of offshore revenues while Ottawa was getting 92%.
- A decade ago, it took upfront and offset payments of $3.2 billion under the renewed Accord to address that inequity.
- We believe the province is owed hundreds of millions of dollars a year under the "principal beneficiary" guarantee of the 1985 Atlantic Accord.
- A Crosbie Government would fight for what we are owed, and, if necessary, use some of that additional revenue to mitigate electricity rates.

UPPER CHURCHILL COMPONENT

- As a longer term measure, if necessary, A Crosbie Government would use the August 31, 2016 expiry of tax exemptions for the export of power from the Upper Churchill, to achieve "a fair and equitable return to Newfoundland [and Labrador] as the owner of the Churchill Falls resource", (as per the "Statement of Intent Regarding Churchill Falls Negotiations" between Hydro and Hydro-Quebec dated February 1, 1984, page 1), and apply revenues to Lower Churchill rate mitigation.
- It has been recognized by various authorities over the years that tax exemptions for the export of power from the Upper Churchill expired in 2016, and that this province has the opportunity to take advantage of that.
- Section 92A was added to the Constitution Act in 1982 when the Federal Government patriated the Constitution. Sometimes called the resource amendment, it empowers the legislature of a province to "make laws in relation to the export from the province to another part of Canada of the primary production from non-renewable natural resources ... and the production from facilities in the province for the generation of electrical energy...."
- A Crosbie Government would explore what this means for our province and how best

to use or leverage this authority in order to benefit Newfoundlanders and Labradorians.

- If that revenue is available, and if it is needed to mitigate rates, then a Crosbie Government would use it to spare ratepayers in this province any increase caused by the Muskrat Falls Project.

BASELINE FOR MITIGATION

- The PUB asked Nalcor: "Please provide Nalcor's current forecast of domestic electricity rates for the period 2019 to 2039, including recovery of all costs associated with the Muskrat Falls Project assuming no rate mitigation policies are implemented."
- Nalcor provided the "Forecast Average Domestic Rates" in the document posted on the PUB website numbered PUB-Nalcor-029, linked at: http://www.pub.nf.ca/2018ratemitigation/responses/PUB-Nalcor-029.pdf
- The 2019 current Average Domestic Rate is 12.26 Cents/kWh
- Nalcor projects the 2020 Average Domestic Rate to be 14.67 Cents/kWh
- So, 14.67 Cents/kWh would be the baseline forecast domestic electricity rate immediately prior to the production of Muskrat Falls power in 2021.
- A Crosbie Government would mitigate rate increases at this baseline so the impact on ratepayers of Muskrat Falls is zero.
- This is not a promise to subsidize normal inflationary increases in the cost of service as per generally accepted public utility regulatory principles.

The following spreadsheet shows the numbers for one year, 2021, as an example. The numbers change in the subsequent years, as is clear in the sources referenced.

#	ITEM	VALUE IN 2021 ($M)
	MONEY REQUIRED	
1	Average amount per year to mitigate rates to 14.67 ¢/kWh	575.4
	MONEY AVAILABLE	
2	(A) Hydro returns and dividends	123.4
3	(B) Export sales	41.0
4	(C) Nalcor restructuring	30.0
5	(D) Holyrood savings	150.0
6	(E) Nalcor oil revenue	231.0
	TOTAL OF MONEY AVAILABLE	575.4

#	FOOTNOTES FROM TABLE ABOVE
1	**Average amount per year to mitigate rates to 14.67 ¢/kWh** "Based on the most current estimate of the Muskrat Falls Project costs it is expected that the average retail rate paid by customers of Newfoundland Power after commissioning of the project will increase to **22.89 cents per kWh.**" • Source: PUB Interim Report, page 21, **LINK: https://www.nr.gov.nl.ca/nr/publications/energy/PUB_rate_mitigation_options_and_paying_for_muskrat_falls.pdf** Nalcor projected Average Domestic Rate for 2020 (the baseline year before Muskrat Falls is producing power in 2021) = **14.67 ¢/kWh** • Source: PUB-Nalcor-029, page 1, **LINK: http://www.pub.nf.ca/2018ratemitigation/responses/PUB-Nalcor-029.pdf** Mitigation means reducing **22.89 ¢/kWh** to **14.67 ¢/kWh** = **8.22 ¢/kWh difference** "Hydro has estimated that each 1 cent per kWh in rate mitigation would require approximately **$70 million per year** in funding." • Source: PUB Interim Report, page 21, **LINK: https://www.nr.gov.nl.ca/nr/publications/energy/PUB_rate_mitigation_options_and_paying_for_muskrat_falls.pdf** (8.22 ¢/kWh) x ($70M/year) = **$575.4M/year to mitigate rates to the baseline**

2 **a) Hydro returns and dividends**

Muskrat Falls Dividends ($ millions) 2021 = 90.4

- Source: PUB-Nalcor-030, Table 1, page 3, **LINK:** **http://www.pub.nf.ca/2018ratemitigation/responses/PUB-Nalcor-030.pdf**

"Liberty noted that substantial returns of over **$6 billion** to Nalcor are forecast in the **first 20 years** of operation."

- Source: PUB Interim Report, page 7, **LINK:** **https://www.nr.gov.nl.ca/nr/publications/energy/PUB_rate_mitigation_options_and_paying_for_muskrat_falls.pdf**

"Other "net dividends" from Muskrat Falls Project exports, Churchill Falls, and Hydro regulated, which now includes a return based on Newfoundland Power's equity return as set by the Board, are estimated to be **$27 million to $33 million per year** from 2021 to 2025 which could also be available for rate mitigation."

- Source: PUB Interim Report, page 7, **LINK:** **https://www.nr.gov.nl.ca/nr/publications/energy/PUB_rate_mitigation_options_and_paying_for_muskrat_falls.pdf**

Add $90.4M to $33M = **$123.4 million**

3 **b) Export sales**

MF Export Dividends ($ millions) 2021 = 41.0

- Source: PUB-Nalcor-035, Table 1, page 3, **LINK:** **http://www.pub.nf.ca/2018ratemitigation/responses/PUB-Nalcor-035.pdf**

4 **c) Nalcor restructuring**

"In relation to the potential savings associated with Nalcor restructuring Liberty suggested that a **five percent cut** in resources is not an unreasonable assumption based on preliminary work. Liberty estimated that a five percent cut in resources would reduce the revenue requirement by **$10 million to $15 million per year.**"

- Source: PUB Interim Report, page 10, **LINK:** **https://www.nr.gov.nl.ca/nr/publications/energy/PUB_rate_mitigation_options_and_paying_for_muskrat_falls.pdf**

Double to 10 percent = $20 to $30 million per year

5 **d) Holyrood savings**

The cost of oil to operate the Holyrood Generating Station varies with the price of oil and other factors. A savings estimate may be based on the amount of fuel Holyrood has burned in past years. A projection of $150 to $200 million is reasonable, and $150 million is selected as the more conservative of these figures.

- Source: 2018 Q3 Report, pages 11 and 17, **LINK:** **https://nalcorenergy.com/wp-content/uploads/2018/11/MDA-Q3-2018-FINAL-11.15-web.pdf**
- Source: 2017 Annual Report, Appendix 1, page 11, **LINK:** **https://nalcorenergy.com/wp-content/uploads/2018/04/annual-report-2018-LOW_FINAL.pdf**
- Source: Environmental Benefits of Closing the Holyrood Thermal Generating Station (2012), page 1, **LINK:** **https://muskratfalls.nalcorenergy.com/wp-content/uploads/2013/03/Report-Environmental-Benefits-of-Closing-Holyrood-Generating-Station.pdf**

6 **e) Nalcor oil revenue**

For the period ended September 30:
Funds from Operations ($ millions) YTD 2018 = $269

- Source: Q3 2018 Financial Update, November 16, 2018 (slide deck), slide 7, **LINK:** **https://nalcorenergy.com/wp-content/uploads/2018/11/Investor-Call-Deck-Q3-2018-Post-AC-Final-for-Call.pdf**

Assuming consistent funds, $269M in 9 months = **$359M in 12 months (2018)**

Compare:
- $370M in 2017 (12 months)
- $279M in 2016 (12 months)
- $149M in 2015 (12 months)

- Source: 2017 Annual Report, Appendix 1, page 5, **LINK:** **https://nalcorenergy.com/wp-content/uploads/2018/04/annual-report-2018-LOW_FINAL.pdf**

With an estimated $359M available in 2018 and Nalcor continuing to grow revenues, this forecast directs **$231.0 million** of the Funds from Operations toward rate mitigation

This falls within the range of the $210 to $245 million per year that the government has directed Nalcor to source beginning in 2020-21 (according to the government's 2017 Budget speech).

- Source: 2017 NL Budget, page 4, **LINK: https://www.budget.gov.nl.ca/budget2017/speech/speech.pdf**

If that amount of Funds from Operations is not available, the plan is to use Atlantic Accord funds on a temporary basis to make up the difference in order to help mitigate electricity rates using returns from oil and gas development.

"IF I AM ELECTED PREMIER, **I WILL ENSURE** NEWFOUNDLANDERS' AND LABRADORIANS' **ELECTRICITY RATES** DO NOT RISE BECAUSE OF **MUSKRAT FALLS.**"