

Fiscal Pulse

Muskrat Falls Project Update

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- **First power now Q3 2019; intensified effort to mitigate the impact of higher project costs.**

Nalcor, Newfoundland and Labrador's energy corporation, now estimates that the Muskrat Falls hydroelectricity project on the Lower Churchill River, including the Labrador-Island Link and related transmission infrastructure, will cost \$9.1 billion (see table below). With financing and other expenses, the project's revised total cost is \$11.4 billion.

The Muskrat Falls generating station (824 MW), before financing expense, is now expected to cost \$4.8 billion, with the river diversion slated for this year. First power is now expected during Q3 2019, with full power by Q2 2020.

The Labrador-Island Link and the other transmission assets are expected to be in service by Q2 2018, a shorter delay. All of the transmission towers are installed with the wire stringing accomplished, and the Strait of Belle Isle section is expected to be completed by the end of 2016. The revised cost for all the transmission infrastructure is almost \$4.3 billion, 47% of the pre-financing project cost.

Nalcor maintains that the option of halting the Muskrat Falls project is not practical. Three-quarters of the project's revised \$9.1 billion cost already is spent or committed. The Province requires a new source of power given the scheduled decommissioning of the Holyrood thermal generating station (490 MW) in 2021, though the plant will be kept available for several years after the full commissioning of the Muskrat Falls project. Nalcor also has a 35-year contract to provide power annually to Nova Scotia.

With the decline in North American market prices for power, oil & natural gas since the project was sanctioned in December 2012, the risks of the Muskrat Falls project have escalated. As Nalcor now states, this first stage of the Lower Churchill River development is larger than the Province requires, particularly with the major downward revision in projected Island interconnected power sales. In 2036, sales are expected to be 1.4 terawatt hours (roughly 15%) less than the forecast used in the sanction of the Muskrat Falls project.

Electricity rates for domestic customers in 2021 are estimated to be 21.4¢ per kilowatt hour, about 6.3¢ higher than the forecast rate at sanction given the lower sales volumes and higher project costs now anticipated.

In line with the current government's objective of reliable power at competitive prices, Nalcor over the next four years is committed to reversing, as much as possible, the projected rate increase, seeking greater

Muskrat Falls Hydroelectricity Project: Estimated Costs and Timeline

\$ billions except where noted

	Cost Estimates				Forecast In-Service		Expenditures To Date		
	Dec.2012	June	Sept.	June	Dec.2012	June	B. Committed Not		A&B, % of
	Sanction	2014	2015	2016	Sanction	2016	A. Spent	Spent by May 2016	
Labrador Transmission Assets	0.69	0.83	0.88	0.88	Q2 2017	Q2 2018	0.67	0.10	88
Labrador Island Link	2.6	2.8	3.1	3.4	Q2 2017	Q2 2018	1.7	1.2	85
Muskrat Falls Station (824 MW)	2.9	3.4	3.7	4.8			2.3	0.89	67
First Power					Q4 2017	Q3 2019			
Full Power					Q2 2018	Q2 2020			
Sum of Component Costs	6.2	7.0	7.6	9.1			4.7	2.1	75
Financing & Other Costs	1.2	1.3	1.3	2.3					
Total Project Costs	7.4	8.3	8.9	11.4					

Source: Nalcor.

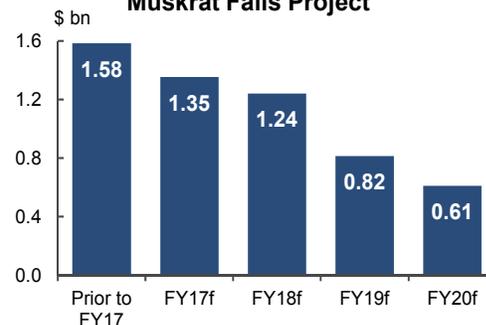
revenues from the project and stepped-up efficiencies. Discussions are ongoing with the federal government for assistance beyond the guarantee it provided for the \$5 billion of Project Bonds.

The Province's equity in the Muskrat Falls project is now expected to top \$5 billion (*side chart*). Given the significant prudence contingency that the government assumed in its borrowing requirements, the financing program outlined in its spring *Budget* from fiscal 2016-17 (FY17) to FY19 remains sufficient. To date in FY17, the Province has completed almost half of the \$3.4 billion financing requirement for this fiscal year, raising \$1.6 billion.

This announcement of Muskrat Falls' revised project metrics marks another milestone in Newfoundland and

Labrador's multi-year fiscal repair effort. As the government balances multiple priorities, the strain on its residents and provincial economic growth is recognized. In late May the federal government announced that it was deferring repayment of the Province's loan for prior overpayments of Equalization. With \$267 million outstanding on this loan, and the Province targeting balanced books as of FY22, Ottawa has rescheduled monthly payments to begin again in April 2022 for ten years. With this near-term saving, the Province is adjusting the *Temporary Deficit Reduction Levy* introduced in its April *Budget*. The minimum threshold is being raised to \$50,000 of taxable income and the *Levy's* application above this threshold has been made more progressive.

Newfoundland and Labrador's Projected Equity Investment for the Muskrat Falls Project



Source: Nalcor.

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