Fiscal Pulse

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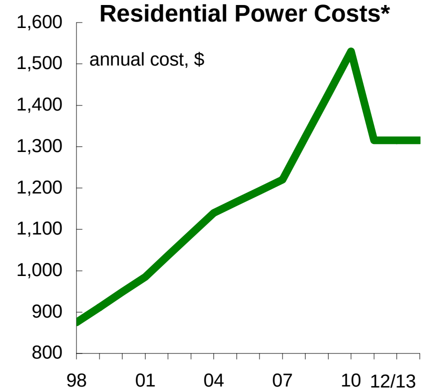
The Prince Edward Island Energy Accord

Prince Edward Island Annual Residential Power Costs*



*Annual household consumption of 650 KWh.
Source: PEI Energy Accord, November 2010.

Announced in November 2010, the *Energy Accord* responds to PEI's longstanding dependence upon costly power generated off the Island from fossil fuels. PEI maintains that historically its power rates, among the Provinces, have typically ranked at or close to the highest. Annual increases in PEI's power rates have averaged close to 5% since 1998, almost double the CPI inflation rate, despite the provincial government's various policy responses such as price cap models.

Working with the Maritime Electric Company Limited (MECL), the *Energy Accord* aims to initially reduce and then stabilize power rates, plus raise PEI's reliance on locally owned wind power. The *Accord* draws upon the provincial government's lower-cost financing capacity, its legislative powers and its relationship with the Government of Canada.

After actively seeking a new *Power Purchase Agreement* (PPA) during 2010, including discussions with Hydro-Québec, PEI collaborated with MECL to negotiate a five-year PPA with NB Power to supply over half of the Island's energy requirements. The terms of the PPA will allow MECL to decrease power costs for PEI customers. The new five-year *Energy Accord* will be effective March 1, 2011, in line with the new PPA. The expiry of the current PPA and the timing of the negotiations for a new agreement are fortuitous given the prospect of excess power supplies over the next half decade and the de-linking of natural gas costs from oil prices.

Key features of the new PPA are summarized below.

- The base line cost of PPA power during the first year will be 14% below 2010 levels for all rate categories, followed by a freeze in rates for the second year to the end of February, 2012 *(see graph, p. 3)*.

- For the three years beginning in March 2013, projected annual rate increases will be 2.5%, roughly equal to forecast inflation.

- Almost all of the projected rate increases stem from the refurbishment of the Point Lepreau nuclear station that supplies about one-fifth of MECL's power. This facility's refurbishment was expected to last 18 months for a return to service in 2009. Instead, the project is three years behind schedule, with completion now slated for the fall of 2012. PEI will now underwrite the deferral costs, estimated at $2 million per month, replacing the more expensive 7% private-sector based debt/equity financing previously used. When Point Lepreau returns to service, costs currently borne by governments will be retired over the longer term via electricity bills, contributing to the 2.5% rate increase for PEI power customers beginning March 1, 2013.

- MECL is currently party to a *Participation Agreement* to obtain about 15% of its power from NB Power's thermal Dalhousie plant. The power from this plant is now considered expensive, so PEI will shoulder the $9-$13 million exist cost, with savings on lower-priced power through the PPA, wind and nuclear sources expected to eventually offset the exit cost.

- To avoid in-year power bill volatility, power bill rates will be consistent throughout the year with a 'true-up' adjustment at year-end to adjust for any under/over charges. This year-end adjustment is expected to be relatively minor.

A new 200 MW submarine cable is required to transfer power reliably to the Island, replacing the two existing submarine cables at an estimated $90 million cost. The Province will seek federal assistance and consult with residents before finalizing its long-term plans.

- Planned efficiencies in MECL's operations include integrating its $0.6 million Demand Side Management Program into PEI's $1.8 million Office of Energy Efficiency, with any incremental costs to the Province made up from overall savings to the government from the *Accord.*

A nonpartisan, 'expert' *Commission on the Future of Electricity on PEI* will be established. After a research phase from April to December 2011, Islanders will be consulted from January to May, 2012, with a final report anticipated from June to September, 2012.

To further reduce PEI's carbon footprint and help establish the Island as a global leader in the integration of wind-generated electricity for domestic use, the Prince Edward Island Energy Corporation will install an additional 30 MW of publicly owned wind power capacity by January 2013, raising wind's share of Island power consumption from 16% in 2008 to 33% by 2013. Power from this new wind capacity, plus electricity from the 10 MW wind farm at North Cape, owned by the Wind Energy Institute of Canada and scheduled to come on stream by early 2012, will be purchased under a twenty-year agreement by MECL at an initial price of $78/MWh that will rise 0.5% per annum.

The PEI government intends to step up its intergovernmental discussions on several power-related issues including: greater federal compensation for the Lepreau delays given Ottawa's ownership of AECL; federal financial assistance with the new cable; stepped-up action on energy strategies for Atlantic Canada; and, greater intergovernmental collaboration on energy efficiency and other Demand Side Management policies.

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