Q. Consumer Question: If oil went to $150.00 or $200.00 per barrel what effect would that have on the Island Load?

A. If the cost of heavy fuel oil utilized at Holyrood increased to $150 or $200 per barrel on a sustained basis, Hydro's short run marginal cost of electricity would then rise to $240 /MWh to $320 /MWh and the average blended price for electricity would increase for all consumers. By way of comparison, the average all in price of residential electricity in 2010 was approximately $120 /MWh and the average cost of fuel oil utilized at Holyrood in 2011 was approximately $155 /MWh. A sustained real increase in the average price paid by consumers would result in a moderate demand response. However, because electricity is price inelastic, the overall impact of a sustained increase in the price of oil is to increase the average real price for electricity paid by consumers and therefore to reduce economic welfare.

Oil prices at levels of $150 /BBL and $200 /BBL and beyond are plausible price levels in the long term planning period for generation expansion planning. Nalcor's reference fuel oil pricing projections are contained in Exhibit 4 and contemplate such pricing levels. This is one of the fundamental reasons why Nalcor has recommended the least cost Interconnected Island alternative which confers on consumers the benefits of a known and stable cost structure for the regulated utility which delivers increasing economic value over time.