

Natural Resources

November 1, 2012

**Report Shows Grand Banks Natural Gas and LNG Not Options
to Provide Power to Island**

An independent report by Ziff Energy Group (Ziff) of Calgary has concluded that Liquefied Natural Gas (LNG) or the Grand Banks pipeline option are not viable alternatives to replace the existing oil-fired Holyrood Thermal Generating Station. The report was released today at a news conference in St. John's held by the Honourable Jerome Kennedy, Minister of Natural Resources. Minister Kennedy was joined by Ed Martin, President and Chief Executive Officer of Nalcor Energy.

"Ziff provided commentary on the availability and feasibility of natural gas as it relates to LNG and a pipeline from the Grand Banks as a source for power generation for the Island," said Minister Kennedy. "Ziff concluded that, at this time, natural gas is not a cost-effective, economically viable option to replace the Holyrood facility and address our province's energy needs."

Ziff's analysis confirmed that world-sourced LNG is not a viable alternative. The low and variable volumes of gas required to produce power at Holyrood would be a challenging economic barrier to securing long-term, firm LNG supply on world markets. The required investment in regasification and storage infrastructure, when amortized over such low and variable volumes, renders LNG as an uneconomic power generation option.

As it relates to the LNG option, Ziff states that even if low cost gas could be sourced from the United States, it would only be available at an oil index price in the range of 80 per cent to 90 per cent of Brent crude.

While it has been verified that natural gas is physically available in the province's offshore, it is not available on commercially viable terms for power generation. Oil and gas companies have evaluated natural gas monetization opportunities, and have not yet been able to identify an economic project. It is Ziff Energy's opinion that any investment in offshore infrastructure needed to supply gas to the Island such as facilities, wells, or pipelines and associated operating costs would not produce the return on capital required by these companies.

Ziff Energy concludes that even if Grand Banks natural gas were commercially available it would be prohibitively priced for Island power generation when compared with the proposed Muskrat Falls project. A cumulative present worth (CPW) analysis which compared alternatives to Muskrat Falls concluded that a Liquefied Natural Gas (LNG) scenario would be \$2.3 billion to \$2.7 billion more than Muskrat Falls, and a Pipeline Standalone Facility scenario would be \$6.6 billion more than Muskrat Falls. Both are also more expensive than the Isolated Island Option (Holyrood).

“Nalcor did an extensive review and screening of alternatives at Decision Gate 2 in November 2010 and natural gas, both offshore and LNG, were screened out at that time,” said Ed Martin, Nalcor CEO. “We were appreciative of Ziff’s analysis and the results confirmed Nalcor’s initial screening. We are focused on delivering the least cost alternative to consumers and that remains Muskrat Falls with a transmission link the Island.”

“Natural gas supplied from the Grand Banks would be prohibitively priced for Island power generation when compared with the cost of Muskrat Falls or refurbishment of Holyrood,” said Minister Kennedy. “In addition, full cycle LNG supply costs would likely be similar, or in excess of Holyrood, and significantly higher than the cost of the Muskrat Falls project. Ziff unequivocally establishes that natural gas is not an option, and validates the position that Muskrat Falls is the best option to deliver low-cost reliable electricity to ratepayers.”

To view the full Ziff Energy report on natural gas as an island power generation option, please visit: www.powerinourhands.ca

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