



Public Utilities Board Hearings Labrador West College of the North Atlantic

Hyron Regional Economic Development Board
Economic Zone 2: Labrador City, Wabush, Churchill Falls
118 Humphrey Rd, Labrador City, NL, A2V 2J8

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On Behalf of the Hyron Regional Economic Development Corporation we would like to thank the Public Utilities Board for this opportunity to present our objections to the proposed rate increases for 2008-2011.

While we applaud the Board of Commissioners of Public Utilities for issuing orders Nos. PU 41 & 42- granting interim approval of electricity rates for consumers in the Province, which resulted in no rate increase for Labrador West; we would be remised if we did not object the rate-equalization phase-in process scheduled for 2008-2011.

This document will attempt to highlight the negative impacts that this rate equalization will have on our residents, small, medium and large industries, our way of life and future economic development prospects. We will attempt to highlight the realities of life in Labrador West. Specifically we will examine:

1. Climate Conditions
2. One-Industry Town phenomenon
3. Demographic Changes

We will also demonstrate the negative effects on the following:

1. Small & Medium Enterprise
2. Large Industry
3. Recruitment & Retention
4. Not-for-profit sector
5. Services & Amenities
6. Economic Growth Opportunities

Regional Snapshot:

Labrador West Climate

Labrador West residents reside in one the harshest regions of Canada. At 1800 feet above sea level, situated on top of a plateau, the sub-arctic winters are long and snowfalls are great. Historically, Labrador West winters average 8 months, with sub zero temperatures reported some 10 months of the year. Today, we are experiencing -28 degrees, -48 windchill. The land is snowcovered from October – May, with average annual snowfalls of 366 cms (12 feet). The majority of Labrador West residents use electricity as the primary home heating method.

Winter months receive low daylight hours – sunrise at 8:30 am and sunset at 4:30 pm- and as such residents use a great deal of energy to keep their home illuminated during those dark days.

Geographic Location

The Twin Towns of Labrador City and Wabush are located in the Labrador Interior, 24km from the Quebec border. While fully equipped with services and amenities for residents, the communities are more than 550km away from another major center- with relatively no services in between. The cost to travel to and from the area has sky rocketed in the past two years and residents find themselves traveling less frequently- therefore remaining in the community for longer periods of time throughout the year. Affordable hydro rates are one of the retention tools used to keep residents from leaving the area.



One Industry Town Phenomenon

The communities of Labrador City and Wabush are both One Industry Towns, the main economic engines of each community being the Iron Ore Mining companies: IOC and Wabush Mines, employing 500 and 1700 workers respectively. The nature of any mining industry is that it is cyclical- while current global demand for Iron Ore is peaking, downturns in global demand and market prices are expected within the next 10 years. In struggling periods, as in the 1980s the major industries of Labrador West cannot sustain hydro subsidies and increasing hydro costs- invariably negatively affecting the residents of Labrador West.

Demographic Change

Labrador West is experiencing rapid changes in demographics and a major shift in the transient worker mentality. A large percentage of retirees are choosing to remain in Labrador West as third generation families are becoming common place. Nearly 80% of retirees are remaining in the area. With an estimated 65% retirement rate in the next 2-3 years, the number of retirees to remain in the area is anticipated to be high. The retention of retirees and recruitment of replacement workers has initiated an unprecedented housing need in Labrador West. Current developments are slow, but advancing and the lack of available housing has driven the housing market up by approximately 70%.

Retirees remaining in the area are in receipt of pensions and are on a fixed income allowance- thus any increase in hydro could potentially result in residents not able to afford to pay the costs to heat their home. Senior's needs are increasing in the region and many seniors wishing to remain in Labrador West are forced to leave their homes and move into apartments as a result of increasing hydro rates. Studies have indicated there is demand for a Personal Care Home in the area, for which developers are increasingly aware of the imminent hydro rate increases. Major increases in the hydro rates could impede further advancements in the development of a personal care home facility in Labrador West, which could lead to a loss of senior residents.

The retirement of the baby boomers has resulted in a young workforce. 88% of the region's population is currently under the age of 55. Young workers and their families are drawn of Labrador West for several reasons; quality of life, affordable housing, affordable hydro, access to good health care and education as well as recreational facilities. Over the past five years Labrador West has experienced increasing travel costs, increasing housing costs (due to the retention of retirees and economic growth), and increasing hydro. These increases in fundamental costs of living have had and will continue to have a negative effect on the recruitment and retention of the region's young workforce.

The region's labour market is comprised of a highly skilled workforce with above national average education levels. 40.7% of the region's workforce is in resource based industries. Mining, oil and gas, construction and other industries requiring skilled workers are becoming increasingly competitive as the shortage of skilled workers continues across the country. Industries, companies and communities have to work collaboratively to develop recruitment and benefits packages for employees. An increase in hydro rates will add to an ongoing challenge of recruiting and retaining new workers.

Effect on Small and Medium size Enterprise (SME)

The Proposed Hydro rate increase for 2008-2011 will have an extraordinary effect on small and medium sized business in Labrador West. Many small and medium sized businesses have a set profit margin for which they account for overhead and adjust their prices accordingly. Major increases in overhead will invariably affect price and will be passed onto the consumer- driving up the price of goods and services in the region. If the price point of goods and services exceeds what the competition (for example big box stores) can offer, small businesses simply will not be able to survive.

Effect on Large Industry

Changes to energy costs will have huge effects for major industry, affecting their bottom-line directly. In periods of high ore demand the major mining companies of Labrador West may be able to sustain the increasing costs of hydro, but in periods of low demand, where the mining industry is cyclical in nature, the mining companies will not be able to sustain subsidies, and operations. Increased hydro rates could have such devastating effects as: reduction in hydro subsidization (affecting recruitment & retention), layoffs, or downsizing of operations.

We would also like to highlight that the mining companies established the system that we currently use in Labrador West and as such should not be included in the 'Labrador Interconnected System'.

Effect on Recruitment & Retention

As was previously noted, the demographic makeup of Labrador West has greatly changed in the past 5 years. With retirement levels at an all time high and all employers actively seeking replacement workers, the need for attractive benefit packages is pivotal to successful recruitment and retention. Above corporate benefits and wage packages young workers are seeking the 'full package'; quality of life, cost of living, recreation, entertainment, adequate health care and education as well as competitive salaries and benefits. In northern regions, such as Labrador West it is increasingly important to have the 'full package' because of the harsh winters and remoteness that can sometimes diminish the 'attractiveness' of living in the north.

The competition for skilled workers is becoming increasingly fierce and Labrador West industries, community partners and municipalities are working vigorously to develop recruitment and attraction materials that will entice both workers and new businesses to the area. This initiative is becoming increasingly challenging, as the cost of housing, travel and hydro are all rising. The region has to work against these challenges to build an attraction model that will still entice workers and businesses to this northern region.

Effect on Not-for-profit

Many Not-for-profits have already experienced devastating impacts to their operations and services as a result of increasing hydro rates. Those not-for-profits operating their own facilities and buildings are no longer able to sustain the overhead costs associated with energy costs and have had to find alternate solutions or cost-sharing arrangements which have had negative impacts on services. Not-for-profits are also being affected by funding cuts, both provincially and federally and are being forced to find alternate means of financing their operations. This invariably results in less attention on the organization's mandate and core functions. Many not-for-profits have been forced to cut staffing levels and minimize services as a mean of saving dollars.

The hydro rate increase for 2008-2011 could potentially cause irreparable financial losses to the not-for-profits that have become the social, economic, and recreational backbone of Labrador West and are such an integral part of society as a whole.

Effect on Economic Development Opportunities

Affordable power and sufficient access to industrial power are the keys to further development in Labrador West. The region is well-positioned for further economic development opportunities and is working to develop a business attraction model, of which affordable energy will be key. As one-industry towns, the ability to diversify the local economy is the means to ensure long-term sustainability for the region. Without access to affordable power the region stands to miss out on many possible development opportunities.

Rate Increase- Unfounded

The residents and businesses of Labrador West are already paying rates that are too high, far exceeding the costs to service the area. Increasing rates again is just simply unfounded gouging. Electrical energy consumed within the LIS is produced at Churchill Falls and sold to NLH for approximately ¼ cent per kilowatt hour. NLH charges consumers within the LIS electrical rates that are 11 times the cost to produce power for these customers. The Hyron Board supports the position of the Town of Labrador City's recommendation to apply Section 92A (4) of the Canadian Constitution ensuring that the

burden of subsidizing rural electricity rates within the areas serviced by diesel generation should not fall exclusively on electrical consumers within the areas served by Newfoundland Power and the LIS. The Hyron Board supports the town's recommendation to spread this burden over all electrical production of the Province including that exported by means of a per kilowatt hour tax imposed on such production.

Conclusion

The Hyron Board is strongly opposed to the proposed rate increase for Labrador West. The decision by Newfoundland and Labrador Hydro to equalize rates between Labrador West and Happy-Valley Goose Bay is resulting in consumers in Labrador West subsidizing those in other regions of Labrador. The expectation that residents will continue to pay astronomical hydro rates for 8 months of the year while other costs of living are steadily increasing will only result in the out-migration of our residents to warmer, more economical regions of the country.

The residents of Labrador West will be paying rates that are far in excess of what it actually costs to service Labrador West. Actual cost of distribution should be taken into account for rates being charged so that they are not discriminatory.

The Hyron Board feels that the industries, communities, and partner organizations can work collaboratively with Hydro to find a solution that will meet the needs of the residents, industries and create a favorable business development center in Labrador West.