

1 Q. Page 6, item 14 of the Application states that “At present 1% sulphur fuel
2 costs more than \$6 more per barrel than 2% sulphur fuel but it is forecast
3 that this incremental cost will be approximately \$3.00 per barrel by the end of
4 2006 and less than \$3.00 for 2007.” The SGE Acres Limited report entitled
5 “Air Emissions Control Assessment Holyrood Thermal Generating Station
6 Final report”, dated February 2004, page 4-7, section 4.3, states that “The
7 incremental cost of low sulphur fuel is forecast to increase over the period.”
8 Provide documentation, setting out the source, used to provide forecast costs
9 of No. 6 fuel with 1% and with 2% sulphur content over a sixteen-year
10 period?

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12
13 A. Hydro subscribes to an oil retainer consulting service offered by the PIRA
14 Energy Group, an internationally recognized firm providing energy market
15 advisory services. Hydro’s projections for No. 6 fuel with 1% and 2% sulphur
16 content are based on price forecasts regularly prepared by PIRA. These
17 projections reflect an underlying assessment for world crude oil markets as
18 well as for the various petroleum products derived from crude oil. PIRA’s
19 price forecast reflects a New York Harbour reference market price to which
20 Hydro’s fuel supply contract is based. To this reference price, Hydro applies
21 contract discounts, and the outlook for the US/CDN currency exchange rate
22 as assessed by recognized financial institutions in Canada, to project the
23 landed cost of No. 6 fuel at Holyrood in Canadian currency.

24
25 PIRA’s forecast reflects an oil market returning to normal operations following
26 the industry’s disruption in 2005 that saw the premium for low sulphur fuel oil
27 negatively impacted by hurricane damage to oil refineries and natural gas

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1 infrastructure in the US Gulf Coast. PIRA's longer-term forecast provides for
 2 a moderately increasing premium for lower sulphur fuel oil.

PIRA Energy Group Based No. 6 Fuel Price Forecast

		No. 6 Fuel 2% Sulphur	No. 6 Fuel 1% Sulphur	Low Sulphur Premium
		(CDN \$ Per BBL)		
2006	Jan	\$49.85	\$56.55	\$6.70
	Feb	\$45.30	\$51.00	\$5.70
	Mar	\$43.35	\$47.20	\$3.85
	Apr	\$38.75	\$41.80	\$3.05
	May	\$37.85	\$40.25	\$2.40
	Jun	\$38.60	\$41.05	\$2.45
	Jul	\$40.75	\$43.20	\$2.45
	Aug	\$42.40	\$44.85	\$2.45
	Sep	\$43.00	\$45.45	\$2.45
	Oct	\$42.85	\$45.30	\$2.45
	Nov	\$39.75	\$42.15	\$2.40
	Dec	\$38.20	\$40.65	\$2.45
	2006 Annual	\$41.70	\$45.00	\$3.30
	2007	\$42.40	\$45.15	\$2.75
	2008	\$44.75	\$47.45	\$2.70
	2009	\$45.35	\$48.05	\$2.70
	2010	\$45.65	\$48.35	\$2.70
	2011	\$48.80	\$51.60	\$2.80
	2012	\$51.55	\$54.40	\$2.85
	2013	\$54.15	\$57.10	\$2.95
	2014	\$56.70	\$59.80	\$3.10
	2015	\$59.30	\$62.40	\$3.10
	2016	\$60.50	\$63.70	\$3.20
	2017	\$61.75	\$65.00	\$3.25
	2018	\$63.00	\$66.35	\$3.35
	2019	\$64.35	\$67.70	\$3.35
	2020	\$65.65	\$69.10	\$3.45
	2021	\$67.00	\$70.55	\$3.55
	2022	\$68.40	\$72.00	\$3.60
	2023	\$69.80	\$73.50	\$3.70
	2024	\$71.20	\$75.00	\$3.80
	2025	\$72.70	\$76.55	\$3.85

Source:

Crude Oil & Fuel - PIRA Energy Group, Short-Term Oil Price Forecast 10-28-05.
 - PIRA Energy Group, Long-Term Oil Price Forecast 09-21-05 R.

US/CDN Exchange - Canadian financial institution forecasts as of 11-03-05.

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