

**The National Post****October 30, 2009****FP1****1/4****N.S., N.L. wary of Quebec's power****NB Power buy creates utility energy giant in Atlantic region**

HALIFAX • Yesterday's proposed deal to sell NBPower to Hydro-Québec has sparked anxiety across Atlantic Canada about the transfer of critical energy assets to a large and powerful province outside the region.

Hydro-Québec, the world's largest hydroelectric producer, has emerged the early winner in a high-stakes contest with Newfoundland and Labrador to secure control — via New Brunswick's prized transmission lines — of Atlantic Canada's only direct route into the lucrative U.S. electricity market.

"It's a power grab and it's despicable," said Danny Williams, the Newfoundland Premier, this week.

Darrell Dexter, Nova Scotia's Premier, in more muted but no less forceful language, questioned the wisdom of "selling Maritime interests."

All four Atlantic premiers had agreed to meet next month to talk about energy cooperation. They were scheduled to gather in Churchill Falls in Labrador — upstream from the spot where Newfoundland wants to develop a massive new hydroelectric project on the Lower Churchill River, in the hope of selling thousands of megawatts of power to hungry U.S. customers.

Shawn Graham, New Brunswick's Premier, has now said he may not attend the meeting, and his decision to cast his lot with Quebec has thrown a wrench into the energy aspirations of his East Coast neighbours.

Newfoundland has the most to lose. The easiest route for its Lower Churchill power is through Quebec, but there are decades of bad blood between Newfoundland and Hydro-Québec, thanks to the infamous 1968 agreement that gives Quebec the lion's share of profit from the

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existing hydro development upstream of Churchill Falls, while leaving Newfoundland with only scraps for the next quartercentury.

Newfoundland is determined to avoid this mistake with the new Lower Churchill development.

It was considering bypassing Quebec by laying undersea transmission lines to Cape Breton, and sending power through the Maritimes and on into the United States.

Meanwhile, Nova Scotia had hoped to benefit from the fees it would earn transmitting Newfoundland's electricity on to New Brunswick. It was also hoping to sell its own green energy to U.S. customers from an innovative new tidal-power project in the Bay of Fundy.

Now it appears Nova Scotia will have to pay HydroQuébec for access to the New Brunswick grid, and Newfoundland will be forced to negotiate with the company, no matter which route it finally chooses to transmit its power

Those negotiations will be complicated by the fact that Hydro-Québec, which exports large amounts of its own surplus power, considers Newfoundland a competitor in the U.S. market.

"The Lower Churchill will be in direct competition with Hydro-Québec's own power sources. So the company isn't going to be all that enthusiastic about helping Newfoundland and Labrador into the marketplace at the lowest possible cost," says Charles Cirtwill, president of the Atlantic Institute for Market Studies, a Halifax-based economic think-tank.

"Hydro-Québec will be in a position to make it more challenging for Newfoundland to sell its power to the U.S. at a competitive price.

"That's part of the reason Hydro-Québec is doing this deal, because they see another significant competitor coming, and they're trying to

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put themselves in the best position. Is it going to block the Lower Churchill development entirely? Not at all. But is it going to reduce the amount of profit Newfoundland can make from it? Absolutely."

Mr. Cirtwill says HydroQuébec can't block Newfoundland, or any other province, from using its transmission lines to export power. North American trade regulations require utilities to let competitors transmit power through their portion of the grid, at reasonable toll rates.

"The challenge for Newfoundland will be the negotiation of that toll," he says.

In a letter to Mr. Graham on Wednesday, Mr. Williams warned that if the deal to sell NB Power goes through, Hydro-Québec will have a "stranglehold over the Atlantic region."

Mr. Cirtwill says that's rather excessive. No matter who owns the electricity assets in New Brunswick, the government will still regulate open access to the transmission lines, and also have final say over what rates Hydro-Québec can charge residential and commercial customers.

Hydro-Québec also has deep pockets, and is likely to invest in New Brunswick to improve and expand its transmission grid — a benefit for all Atlantic Canada.

But there remain concerns that giving Quebec control of New Brunswick's energy assets gives it a lever over the Atlantic economy that may influence political issues down the road.

"Quebec has a history of using its federal power to influence decisions made by Ottawa," Mr. Cirtwill says. "What if we end up with a situation where the New Brunswick regulator makes a decision Hydro-Québec doesn't like? Will that friction spill over into other

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areas? Will it taint discussions at the next premiers' meeting or affect the next debate on equalization?

"With a very activist government the size of Quebec, you do run the risk of seeing these kinds of things."

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