Reviewing all the alternatives

The Telegram (St. John's) · 28 Mar 2012 · BY DAVID VARDY AND RON PENNEY Ron Penney writes from St. John's. David Vardy writes from Conception Bay South.

As we await the report of the Public Utilities Board (PUB) on the Muskrat Falls reference, due on March 31, it is important to reflect on what the board has been asked to do, and the restrictions and limitations placed on the board with respect to the board's mandate and the time it has been given to do the task assigned to it.

The board has been asked to compare only two alternatives: the isolated island option and Muskrat Falls. As we now know there are other options which have not been carefully considered. They include the use of natural gas as a fuel for the Holyrood thermal plant, access to Churchill Falls power after 2041, and conservation and demand management.

None of those alternatives has undergone the kind of vigorous analysis which ought to be done before we move to final project sanction of Muskrat Falls.

Dated information

In the case of natural gas, Nalcor is relying on a study which is 10 years old and which does not take into account what is happening with shale gas. We understand that a more recent study was commissioned and we have asked Nalcor for a copy of the report. With respect to conservation and demand management, we know from the Joint Review Panel report that we are well behind the initia- tives taken in other jurisdictions.

We seem to have lost focus on what should be our main objective, as identified in the province's own Energy Plan, which is to position ourselves to take full advantage of the end of the Upper Churchill Contract in 2041. The question that the PUB should have been asked is what steps can we take to get ourselves to 2041 at the lowest possible cost, which would have involved a complete examination of all possible options, not just two.

As to process, we all know that the board was not given the time it needed to do justice to the question it was asked. Of particular concern is that the planned technical conference had to be abandoned, which would have provided an opportunity for Newfoundland Power and other interveners to ask questions of Nalcor and critically challenge the proposal. Nevertheless, much useful information has come forward to better inform the public debate.

The Nova Scotia example

Contrast this with what will happen in Nova Scotia, where there will be a full regulatory review, by their Utilities and Review Board, of Emera's participation in the Muskrat Falls project, with full opportunity for interveners to ask questions and with evidence given under oath and subject to cross-examination.

There will not be any artificial deadlines imposed on the Nova Scotia board, and most importantly, their board can consider other alternatives.

Demand for energy has been virtually level over the past 20 years. While Vale Inco will soon be coming on stream, there is no surge in demand or energy crisis which compels us to make an immediate decision on this project. Other concerns include the following:

• The 57-year-long planning period selected by Nalcor for its assessment and the assumption that current technology will remain unchanged over such a long period is inappropriate. It is unrealistic to limit the field of choice to two options and to assume that technology will remain unchanged.

• The PUB has been relying on Class 4 cost estimates, which are subject to high capital cost overruns, because of insufficient project definition, and will be revised prior to project sanction. The PUB is basing its advice upon different and less accurate cost estimates than the estimates government will be using for its final decision.

• Nalcor Energy, the parent company, will enter into a "take or pay" power purchase agreement, indexed for inflation, with its wholly owned subsidiary, Newfoundland and Labrador Hydro. Nalcor is not regulated by the Public Utilities Board. With this lack of regulatory oversight, there will be no protection of the interests of the electricity ratepayer.

• Power rates in the early years will not recover the full "cost of service," requiring higher equity and lower debt in its capital structure, which will add to the cost of capital. The protracted cost recovery period of 57 years will result in a long recovery period for return on invested capital and this protracted payback period may impact on financing, particularly in the absence of a federal loan guarantee.

• The high reliance on provincial equity capital is in contrast with the risk sharing inherent in the use of the Lower Churchill Development Corporation (LCDC), based upon 49 per cent ownership by the federal government and 51 per cent ownership and control by the province. The LCDC legislation remains in place. This option has not been fully explored by the government.

• Muskrat Falls depends upon the flow of water from Churchill Falls, and the reservoirs feeding into the Upper Churchill, which is governed by Hydro-québec under the 1969 power contract. However, we note that Hydro-québec is not a signatory to the 2009 Water Management Agreement, relying for protection of the Churchill Falls power contract based on the fact "that the Cf(l)co/hydro-québec Power Contracts are protected by Section 5.7 of the EPCA." (Letter to the PUB from Hydro-québec dated Dec. 15, 2009; the EPCA is the Electrical Power Control Act enacted by the legislature of Newfoundland and Labrador).

• Closure of the Holyrood plant may create reliability issues, partic- ularly if the Avalon Peninsula is cut off from the rest of the system.

We are very concerned that we are about to make a decision on the biggest and riskiest capital project ever undertaken in this province without the necessary due diligence which we have the right to expect from our government.

Review all the alternatives

We continue to urge government to fully explore all alternatives before Muskrat Falls is sanctioned. It is not enough to say that Muskrat Falls has been debated for 40 years, which is, in fact, not the case.

To be accurate, Muskrat Falls was considered, and wisely rejected, some 32 years ago, and the debate has only been recently recommenced. It is a two-year debate, not a 40-year one.

We also continue to urge the government to have a dedicated debate on the project but only at the point when all alternatives have been properly studied and reported on to the public and the House of Assembly.

Government should take the time prudently to assess options which will take us to 2041 at minimal cost. A project of this size and risk must be subject to a vote of our elected representatives on a resolution proposed by the government. We should expect nothing less in a democracy.