

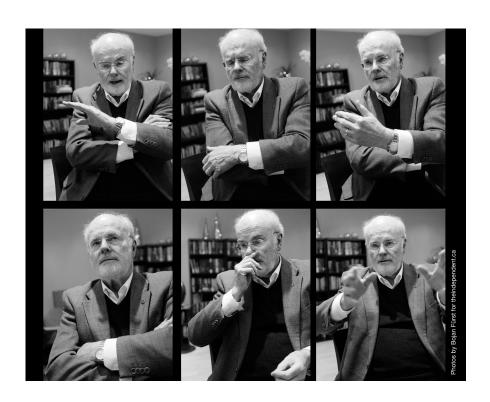








THE INDEPENDENT



'What we can learn for the future': David Vardy on the Muskrat Falls inquiry

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he name David Vardy has been linked with criticism of the Muskrat Falls project since its earliest days, when he had already retired from public service. Vardy, a former Clerk of the

Executive Council and Secretary to Cabinet and chairman of the Public Utilities Board, says the questions we really need to answer are about democracy and how we as a society are

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any further remediation can be undertaken. So I think that would be one thing that the commission should be doing sooner rather than later.

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what I wanted was a panel of people that were verv knowledgeable about construction projects. And what do we end up with? We end up with a family law judge that knows nothing about any of this stuff. We got a terms of reference that are the pits. But anyway, you play the cards you are given, right?

The big news is there's a new sheriff in town. His name is Richard LeBlanc, the commissioner. That's where the dialogue is going to take place and so people are focusing their attention on this commission.

What the commissioner can do to add value to this is to add some kind of technical review process, independent of Nalcor, that needs to review the safety science and review the remedial measures that have been undertaken—and then make some determination as to whether

like what So Ι the commissioner has done so far. He's gone out and he's got a forensic auditor. That's a good thing. And the fact that he's invited comments from people who want to interpret his terms of reference. But I'm very concerned. And you know why? Because you're going to end up with David and Goliath. And Goliath is going to be Nalcor.

"Hanging in the balance here is the North Spur as a major health and safety issue that has not yet been properly dealt with."

Q: How does the recent North Spur landslide impact the way you interpret the terms of reference for the Muskrat Falls inquiry?

There are things that need to be dealt with on a timely basis with regard to this whole project. I think that one of the biggest issues that's hanging in the balance here is the North Spur as a major health and safety issue that has not yet been properly dealt with.

I don't expect that the commissioner is going to be able to give a definitive ruling on this because this is a highly technical matter. I am hopeful

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undertaken. I think that's really one thing that should be dealt with up front.

"But the most important thing of all is what we can learn for the future."

Q: What can the inquiry tell us?

Some people look on this inquiry as soul searching to find out what went wrong and looking backwards in time to see what mistakes we made. But the most important thing of all is what we can learn for the future.

First, what can we do in terms of making ourselves a better society? Because it seems to me that we have strayed from democratic principles here. This whole project was dealt with by a small clique in government, led by the former premier who pushed all this through the cabinet, of Assembly, the House pushed it through the parliament of Newfoundland

through the government of Canada by getting a loan guarantee without getting proper due diligence.

I think what happened here is that democracy has been usurped. Democracy needs to be reinvented here. The way we practice democracy is not working for us in province. How could we have inflicted this project upon ourselves without due process, without proper review by the Public Utilities Board, without paying full attention to the report of the joint environmental panel that reported back in 2011. All these things were ignored. The panel was ignored, the **PUB** was ignored, the jurisdiction of the PUB was overruled, the project was exempted from the PUB. So I think that's one of the key things that we need to get out of this thing. That's number one for me-democracy. How do we build stronger democratic institutions and avoid the pitfalls of messianic leaders who take us down the wrong path and bypass all the due diligence that needs to take place and simply govern by the dictate of their own particular hubris and arrogance?

Number two. How do we as a society respond to this? How do we get ourselves out of this hole? What is the

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financial to undermine credibility and plunge us into outright stark raving bankruptcy? So I think that's a real concern and I think people have minimized the prospect of bankruptcy living in a fool's paradise. I think that the Government Canada is not about to let us off the hook. Why would they?

"I think we have to look at all the options, including mothballing the facility at Muskrat Falls as being too dangerous to operate."

Q: There's a lot of doom and gloom talk around Muskrat Falls. Can we handle it, financially?

No. No we cannot handle this. We need a bailout.

Q: How can we minimize the negative impacts?

I think we have to look at all the options including mothballing the facility at Muskrat Falls as being too dangerous to operate. It may well be that, at the end of the day when we look at North Spur, it may well be that we cannot operate this safely without putting a lot of people in jeopardy.

And we have to look at markets for power. And I'm sure that Nalcor has been looking across Canada to look at alternative markets, but the answer is always the same. You look at trying to sell: Ontario doesn't need any power right now and Quebec certainly doesn't.

Alberta did something very interesting just around Christmas time. Alberta went out and they put out a call for proposals for renewable power, a large block of renewable power. They ended up with a 10-year contract for power at 3.76 cents per kilowatt hour. They didn't have to invest in any megaprojects. These were a bunch of small projects private sector people put together. Very advantageous.

One of the fundamental changes that has to happen here is bringing the Public Utilities Board back in. They by were excoriated Dunderdale and her government. And by all the PC Thev governments. excoriated for what they did, for actually taking their job seriously of looking at least cost options. What we now

ard to be at one of it of this? Public ould be gorated.

he big vjects, are we're looking at costs at Muskrat Falls which are way behind that. We have to look at the idea of buying power from somewhere else. Most likely Quebec is the source. We have to look at bringing in a little power, if we need any power.

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we didn't need any megaprojects. You need to have more efficient use of electricity. In Newfoundland and Labrador the big problem is we have electric space heating. It's not an efficient use of electricity.

We have to ask ourselves a question: Can we buy some power from Hydro-Québec if we need any? If we need any power we don't need very we're much because demographically challengedand when prices of electricity go up, people's consumption down. That's goes the fundamental law of economics.

I think that what's happening across Canada is reflecting what's going on in the United States, and that is that the benchmark price for electric power is being set based upon the abundance and pricing of natural gas. So from coast to coast the sale price now is looking something like three

Although if we want to apply proper conservation demand-side management and reduce our demand for power that will involve a little bit of public policy change. That's if we want implement some incentives for people to get rid of their electric resistance-type space heating.

I moved out of a large house four years ago into a small apartment. I've got about one quarter of the space I used to. I've got 1160 square feet. It costs very little to heat my apartment. But everybody has to start to behave differently. We all have to start to be more conservation minded. Those are the things we have to do. We have to look at changing our behaviour. I don't think that the big solutions, the mega projects, are the answer. built But we've the transmission line and, if we need power, let's buy some power from Quebec.

"The project was a gift, it was a gift for Dwight Ball."

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with it. But he went ahead with it. Then they could have said we're going to do this right. We're going to go ahead with it, we're going to do it right, get all the environmental stuff right. They don't even do that.

Q: You talked earlier about the democratic deficit here in Newfoundland and Labrador. What is it?

Democratic deficit is a failure decision of the making process to take account of all that's the information available. It means the institutions that are supposed to be protecting us have been disabled. So you've got a speedometer on your car that's been disabled, you don't know how fast you're driving. So what you've got is the institutional failure of the Public Utilities Board not being allowed to do its work. So that's what I talk about when I talk about democratic deficit.

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the current The other thing I'm talking about is the unbridled power the executive. In democratic essentially twoparty system where parliament reigns supremewhich really means the party rules supreme-the people don't rule supreme.

Q: How did Muskrat Falls first become an issue you wanted to get involved in?

It first became an issue for me before it was announced. I was retired and I was involved with the Harris Centre and one day I was reading the newspaper and I hear the news that Danny Williams says we're going to build Muskrat Falls and the people of Newfoundland are going to pay for it. It's going to be all for us. And I said to myself doesn't 'this fit because there's too much risk involved in this.' And the of Newfoundland people shouldn't be doing it.

"We're going to be awash in energy. We won't need it."

Q: Are we worse off if we stop the project?

Let me give you one more story. It relates to what economists call demand elasticity. A simple concept: apples go up in price, the demand for apples is going to go down. Price of apples go up, chances are people are going to eat more oranges,

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So what do economists say is going to happen based on elasticity studies when the power rates double? There's a bunch of studies that have been done. There are different elasticity coefficients, but you take one of the coefficients that are in the middle of the pack and it works out to be -0.4. If you look at how much we're power actually consuming in Newfoundland, only on the island today, it's measured in terms of kilowatt It's hours. seven billion kilowatt hours. Now what would happen if prices go up by 50 per cent and the elasticity of demand is at -.04? You know that seven billion kilowatt hours will drop to 4.2 billion kilowatt hours. Which essentially means there will be zero, zero demand for Muskrat Falls. Nobody would buy any Muskrat Falls power.

The second part of the story is when the prices go up, not decline sharply, the amount of revenue you are going to collect is going to go down as well. It's going to go down.

So you start out with an electrical power system in Newfoundland and Labradorand the cost of operating the system today, including Newfoundland Power, Newfoundland Hydro, the whole system before Muskrat Falls cost us \$700 million dollars. You know how much that's going to go up? That's going to go up from \$700 million to \$1.5 billion, okay? So we're going to have to find another \$800 million revenue. And what I just told you is you're not going to get any revenue.

You can jack up the prices all you want, people are not going to buy more power. They're going to buy less. So we're going to end up with less revenue and you're not even going to be able to maintain the existing electrical power system. You're not going to have any market for Muskrat Falls power. But along comes people like Ed Martin and says, ah, but we're going to export that power. We're going to make gobs of money, gonna export that power. Well, look at what the prices are in New England, in Nova Scotia. The prices for power, the stock market price, is 10/6/2018

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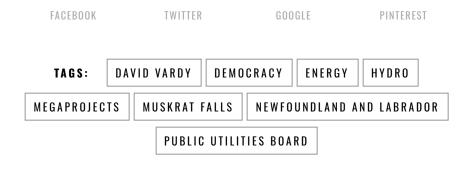
pay for going to l it's not revenue.

At the end of the day, it's going to be the Government of Canada, because it's the Government of Canada that can find the money that's needed to keep this thing going. That's the reality.

The other night I put this question to Stan Marshall. Because he had this chart and this chart had very ambitious, optimistic projections for the

the next 10, 20, 30 years, all based static on population. But I said to Stan, you're not taking account of the elasticity effect. There's going to be a sharp, abrupt cut. And he didn't have an answer to that one. Nobody has answer that an to question.

He said, but our rates are not going to be that much different than Nova Scotia. And that's true, but in Nova Scotia they do not use electric for space heating. So what we'll do is we'll emulate Nova Scotia, we'll curtail our use of electric for space heating. And that'll knock out megawatts of power right away. We won't need it. We're going to be awash in energy. We won't need it.



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