10

Upper Churchill: Can we wait until 2041?

Key Factors

In the debate surrounding the development of Muskrat Falls, it has been suggested that Newfoundland and Labrador has the option of refurbishing the Holyrood Thermal Generating Station and/or taking other stop gap measures until 2041 when the Upper Churchill power contract expires and energy from the Upper Churchill become available for domestic and export use. This option is not realistic for a variety of reasons:

Corporate structure of CFLCo

- CFLCo is owned by Newfoundland and Labrador Hydro (NLH) and Hydro-Quebec (HQ) jointly, with NLH owning 65.8% of the common shares and HQ 34.2% of the common shares. In 2041, NLH will not have absolute authority over the corporate actions of CFLCo.

cannot assume that free or cheap power

- It is not appropriate to simply assume that Newfoundland and Labrador will receive cheap or free power when the HQ Power Contract expires in 2041. It is entirely possible that the province will be required to purchase power from CFLCo at prevailing applicable market rates.

reliance on Holyrood until 2041

- It is doubtful that life extension efforts at Holyrood could continue to provide reliable power for an additional 30 plus years. At that time the first two units would be 70 years old.[1] → Still have to build transmission line to Island at some point

increased reliance on oil

- Deferring Muskrat Falls will mean increased reliance on oil and volatile prices for electricity as rates will be tied to fuel prices. (Note: See accompanying paper on electricity rates for a description of oil forecasts and other issues pertaining to fuel pricing).

- Deferring Muskrat Falls prevents the province from capitalizing on opportunities through export sales and/or industrial expansion in Labrador. → ~~no~~ Not enough power for many companies

For these reasons and others described below, it is not feasible to defer Muskrat Falls under the assumption that the province will have plenty of cheap or free power in 2041.

Nov 4/12

UPPER CHURCHILL - Can we wait until 2041?

p. 1 - Key factors - suggestion that NL has option of refurbishing Holyrood or taking other stop gap measures until 2041 when UC contract expires

- CFLCo owned by NLH (65.8%) and HQ (34.2%) → in 2041 NLH will not have absolute authority over actions of CFLCo
- incorrect to assume that NL will receive cheap or free power → likely have to purchase power from CFLCo at prevailing market rates
- doubtful that Holyrood can last another 30 years
- deferring MF means increased reliance on volatile oil prices
- deferring MF prevents NL from capitalizing on export opportunities / mining in Lab

pp. ~~1-2~~ 2 - 1927 Privy Council Decision

pp. 3-4 ~~2-3~~ - Upper Churchill Development

p. 4 - Legacy of the Upper Churchill Contract

2010 HQ annual report - $1.03 B ($82 mwh) → pays $2.50 mw

- NLH received $76m
- Energy Plan - Quebec received $19B NL $1B

p. 4 - Twin Falls Power Corp. (Twinco) → 225 MW for IOC and Wabush Mines

- Wabush and IOC pay less than $5 mwh

p. 5 - Summary of Principal Legal Documents

pp. 6 ~~4-5~~ - Pre-August 31, 2041

- Twinco contract expires at end of 2014 → "commercially reasonable" price

pp. 6-7 - Post-August 31, 2041 → significant change in electricity industry

- neither CFLCo, power plant, or power "revert" or "return" to province
- not an asset solely to satisfy power demands in province
- legal, financial and corporate obligations with CFLCo

- every reason to expect that ~~some or all~~ VC power will be delivered to province
- impossible to predict 30 years from now what power price will be
- province will realize significant benefits post 2041
- In 2012 require certainty that power obligations can be met → do not have that certainty with VC in 2041

pp. ~~6-7~~ 7-8 - Churchill Falls as an alternative to Muskrat Falls
- would require maintaining Holyrood until 2041 then Labrador-Island Link

1. Security of supply and reliability → 2041 uncertain / NL not sole shareholder / Holyrood's existence
2. Cost to ratepayers → reliance on oil and likelihood that Holyrood will have to be replaced
3. Environmental compliance → GHG emission regulations and replacement of Holyrood
4. Risk and uncertainty → 3 screening criteria NL project in either Isolated Island or MF

pp. ~~6-7~~ 9 - Conclusion - NL will not get free power in 2041
- maintaining Holyrood until 2041 and LIL more expensive than MF
- needs of customers must be met btw now and 2041
- province cannot afford to take only stop-gap measures
- "Waiting for available Upper Churchill power in 2041 is not a practical, economical or sensible alternative to Muskrat Falls."

pp. 11-14 - Annex A - Principal Legal Documents
- p. 11 - Water Lease
- pp. 11-12 - Power Contract btw CFLCo and HQ - May 12, 1969
- p. 12 - 1998 Power Contract - 300 MW
- p. 13 - GWAC - November 1/98
- p. 13 - Shareholders' Agreement - June 18/99
- pp. 13-14 - Water Management Agreement btw CFLCo and Nalcor - March 9/10