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Muskrat megaproject called burden for future generations

Critics question long-term risks of Labrador-based hydroelectric project

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The Muskrat Falls megaproject involves building a dam on Labrador's Churchill River. (CBC)

Critics of a proposed $6.2-billion hydro plant in Labrador say the battle over natural gas pipeline tolls in Canada shows how inflexible megaprojects can hamstring consumers as technology evolves.

They say the plan to bring Muskrat Falls power from Labrador to Newfoundland and then mainland markets locks the province into a 50-year deal that backloads risks for future residents and businesses who will be tied to the pricey venture.

They point out that, as in the cautionary case of the TransCanada Corp. (TSX:TRP) Mainline system for natural gas, emerging energy options can play havoc with even the most diligent megaproject business case.

Former premier Danny Williams championed the Muskrat Falls development before retiring from politics in late 2010. (CBC)

It's a major reason why utility customers should not be bound by government promoted deals that stretch far beyond feasible forecasts, said Brendan Sullivan, a St. John's businessman and former economist for the provincial government.

He said in an interview that the province and its Crown corporation Nalcor Energy are using "voodoo economics" to justify a long-term power purchase agreement.

The deal will stabilize rate hikes over several decades to avoid electricity bill spikes in early years when Newfoundland consumers are expected to need just 40 per cent of Muskrat Falls power.

Nalcor says this approach will cover debts and yearly operating costs with an 8.4 per cent return on equity as it treats consumers more equally over time.

But Sullivan argues the agreement essentially writes off depreciation later — "kicking the can down the road" for future generations — and that it wouldn't get past private shareholders who expect faster return on investment.

There's also the prospect of cost overruns.

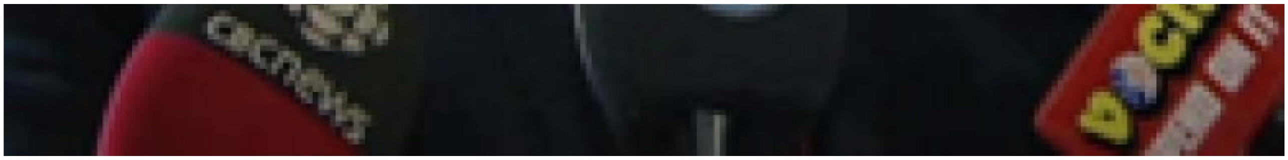
"I'm not aware of any other project that has actually come in on budget yet," Sullivan said of how publicly financed developments tend to bloat. "And the major parts of this project are not transparent."

'Finances at risk for little or no return'

Nalcor is exempt from access-to-information laws, and has the power through legislation passed under former premier Danny Williams to block the public release of auditor general reports it deems commercially sensitive.

"I think they are putting the province's finances at risk for little or no return," Sullivan said.

Ottawa has promised a loan guarantee or financial equivalent that could shave tens of millions of dollars off the project but details are still being worked out.



Nalcor CEO Ed Martin says Muskrat Falls will deliver power that Newfoundland and Labrador will need. (CBC)

In an email, Nalcor CEO Ed Martin said the province needs more power and that Muskrat Falls is cheaper than if Newfoundland generates its own energy, much of it dependent on an aging oil-fired plant.

Muskrat Falls "moves the island from dependence on thermal generation to the use of clean, renewable hydropower," he said. The province will otherwise be at the mercy of volatile oil prices, he added.

Studies based on Nalcor's initial business case suggest Muskrat Falls will cost $2.2 billion less through 2067 than if Newfoundland stays isolated, Martin said. But the provincial Public Utilities Board recently declined to refute or endorse such assessments, saying the numbers were too preliminary.

More solid fiscal forecasts will be made public along with the power purchase agreement later this year before the province decides to approve the project, Martin said.

Sullivan and other critics say a 50-year Muskrat Falls deal won't allow flexibility to respond to energy market shifts such as recent discoveries of massive shale gas pools. They say other options, including offshore natural gas and incremental generation projects, should be fully explored.

Brian Lee Crowley of the Macdonald-Laurier Institute, a public policy think-tank, has described Muskrat Falls as "a nutty project" that disregards increased natural gas supplies and other trends away from old-style megaprojects.

Consider the TransCanada Mainline pipe troubles.

A revolution in shale gas development has affected the cross-country network that for more than five decades has brought natural gas from Alberta to eastern residential and industrial markets. The result is an intense dispute over pricing.

The once-full pipeline is already running half empty -- making delivery more costly for consumers.

Higher tolls have been imposed despite the multibillion-dollar pipeline's declining use as TransCanada is owed a regulated payout from the Mainline network. Unfolding now is a high-stakes fight over pipeline pricing that's on its way to the National Energy Board for hearings starting in June.

Those who aren't sold on Muskrat Falls say there's a lesson here.

"With the benefit of hindsight, everyone who looks at this can see the recovery of costs for the TransCanada Mainline project was inappropriate," energy analyst Tom Adams said from Toronto.

"We back-end loaded the costs, we transferred (them) out into the future."

Now that the future has arrived, parts of the pipeline look increasingly obsolete as consumers grapple with higher costs, he said.

Newfoundland and Labrador is proposing an even more aggressive cost transfer based on assumed electricity demands that are by no means guaranteed, Adams said.

"You may be in a situation where you've got a very expensive power plant with no market to serve. And that's a nightmare scenario. That's a scenario that gets more or less into a bankrupt utility or a tremendous loss of investment value.

"What is difficult to explain here is how come the province is so stuck on this."