

**Date : 2/29/2012 7:17:09 PM**

**CIMFP Exhibit P-01618**

**Page 1**

**From : "Bown, Charles W."**

**To : "Thompson, Robert"**

**Subject : Peckford letter**

**Attachment : COR-19163 Email Correspondence to Premier Dunderdale from Brian Peckford RE Concerns Surrounding the Process of the Muskrat Falls Review.PDF;OCOR-6423 Short version of Response to Peckford letter on Muskrat Falls.DOC;**

The letter and our draft response is attached. We are looking for additional direction on the response.

Charles

**Haynes, Brenda**

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**From:** Premier,  
**Sent:** Tuesday, February 21, 2012 9:48 AM  
**To:** Haynes, Brenda  
**Cc:** Shute, Tracy  
**Subject:** TRIM INCOMING CORRESPONDENCE : ICOR2012/0422 : Email from Brian Peckford to the Premier regarding his concerns with the process of the Muskrat Falls review

**Attachments:** Email\_Lower Churchill Project.html



Email\_Lower  
Churchill Project....

Good Morning Brenda,

Please have a response drafted for the Premier's signature.

If we could have the response at your officials' earliest convenience that would be greatly appreciated.

Thank you for your assistance.

Chantalle Hull  
Office of the Premier

-----< TRIM Record Information >-----

Record Number : ICOR2012/0422  
Title : Email from Brian Peckford to the Premier regarding his concerns with the process of the Muskrat Falls review

**E-mail Message**

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**From:** Brian Peckford [SMTP:brianpeckford@[REDACTED]]  
**To:** Premier, [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=PREMIER], FinanceMinister, [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=FINANCEMINISTER], Kennedy, Jerome [EX:/O=PSNL/OU=FIRST ADMINISTRATIVE GROUP/CN=RECIPIENTS/CN=JEROMEKENNEDY], telegram@thetelegram.com [SMTP:telegram@thetelegram.com], rwanger@thetelegram.com [SMTP:rwanger@thetelegram.com], pjackson@thetelegram.com [SMTP:pjackson@thetelegram.com], hereandnow.nl@cbc.ca [SMTP:hereandnow.nl@cbc.ca], newsroom@thewesternstar.com [SMTP:newsroom@thewesternstar.com]  
**Cc:**  
**Sent:** 2/21/2012 at 2:01 AM  
**Received:** 2/21/2012 at 2:01 AM  
**Subject:** Lower Churchill Project

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Open letter to Premier Kathy Dunderdale

Dear Premier:

Like other Newfoundlanders, I have been following the announcement of your administration's intention to develop the Lower Churchill River. Of course, as you know, I was heavily involved in this enterprise when I was Minister of Mines and Energy and as Premier. Many meetings over many years were held with Quebec Government representatives and Quebec Hydro officials. A deal was never consummated; actual engineering work was done by Techmont Engineering on the technical feasibility of laying an underwater cable across the Strait of Belle Isle and many discussions about the Anglo Saxon route which is now a part of your present proposal. Legislation was passed creating the Lower Churchill Development Corporation, a Federal Provincial body, which unfortunately was mysteriously allowed to expire. This Federal Provincial Corporation could have been of great assistance over the past few years.

That is a little history; important, I think, for context, if nothing else.

Times have changed. In the sixties and seventies and even eighties hydro was king. This is not necessarily so today.

Some have expressed concern over the announced project. I, too, have my concerns.

Let me be clear. It may be the best project ever. But the project has to be tested objectively, especially given the size and complexity of the project, and the

severe financial implications on the Province if the contingency identified is insufficient.

I submit that appropriate impartial assessment to this point has been lacking. Here are my reasons:

Number one:

It is unfortunate that the project was referred to the PUB. Frankly, the Board and its staff do not have the expertise to evaluate this project. The Board, as we all know, is really a regulatory body dealing with rates for electricity, motor vehicle issues and petroleum pricing as outlined in its mandate; it is not structured to assess a multi billion dollar project, examining it against other modes of generation and transmission. I admit it is a gray area and the Electrical Power Control Act, technically, provides the legislative power to so refer. But, I submit, it never was the intent of any legislation dealing with the PUB to make it the chief reference body on a project of this nature and scope. It involves much more than rates! In any case, with all due respect to the Board Commissioners and staff, the expertise does not reside at the Board to do the job. I think we can all agree on that. It is really unfair to the Board to thrust this project in their lap.

Number two:

The reference question precludes a number of options; it simply asks for the lower Churchill project to be tested against one other alternative: oil, a little wind and with some gas turbines for peak power. Unfortunately, the question had already provided the answer.

A far more comprehensive question needs to be answered involving other options, especially as it relates to natural gas. This will take some independent, expert study and analysis. It is true that natural gas is referenced in the NALCO submission and the Navigant Report, but in the former case it gets a scant eight pages referencing a 10 year old study (which is not completely relevant) and in the latter, a mere three pages. The only independent study, the Manitoba Hydro International report, was precluded from examining any other options. This is blatantly insufficient!

Number three:

This is NALCOR 's baby and I suspect, given the culture of its predecessor, or should I say its subsidiary, there pervades a bias for hydro power. Given the history, this is natural; the projects of Bay D'Espoir, Upper Churchill, Upper Salmon, Hind's Lake, and Cat Arm are all successful hydro projects in which

Newfoundland Hydro was involved . And, of course, there are the paper mills' hydro developments.

Holyrood, in contrast, was and is the poor cousin, an unfortunate necessary appendage as the Province grew. This is not a criticism. It is simply the way things developed. Newfoundland Hydro did a great job in bringing those projects on stream, no doubt about it. But as a result, unbiased advice here is questionable.

Number four:

There is deep concern in some quarters of the real likelihood of major cost overruns and the impact this could have on the financial integrity of the Province. Almost all major projects these days seem to have significant cost control problems due to labor issues and material supply. I suspect this project will be no different given the competition for skills resulting from the high level of construction activity present and projected in the Province.

Premier, as a consequence of the above, there is an unease abroad; everyone wants to believe this is the best way to proceed, but some are unsure that the level of certainty necessary for a project of this size to proceed has been established.

I recommend to you, therefore, that the Province establish a panel of experts to review all the work that has been done and to specifically address the natural gas options and test their viability and cost against the Lower Churchill Project as presently defined.

A lot has changed in this area as a result of the shale gas phenomenon of recent years. The whole North American energy equation has been turned on its head.

What is the preferred project now to meet the Province's electrical needs for the next three decades? Hence, a key question, among others, is:

Should the expiry of the Upper Churchill contract in thirty years be a factor in developing energy policy now? This is really not a long time in this context.

Thirty years from now Newfoundland and Labrador will have substantial very low cost hydro power, more than 5000 MW, triple what we will need, making this among the cheapest power on the planet. The present project talks about only twenty per cent (20%) of this.

Is the Province so focused on the Lower Churchill now that it is failing to see the

long term benefits (finally) of the Upper Churchill Contract expiration, and hence the possibility of a pristine Lower Churchill basin? I don't know, but I think it needs to be fully and independently explored. Should the question be framed as to how we can best get to 2041 to take advantage of this already developed cheap hydro?

This panel should be highly qualified people of international stature in energy policy including production, electrical generation / transmission and energy finance. They would be given all necessary support that they may need to conduct their work. A final report in six months seems reasonable. Of course, this would be a totally transparent exercise.

I do realize that under the present conditions that have been established the project is quite a distance 'down the road.' What I am recommending is to change these conditions and allow for a full, independent, transparent, expert analysis to be undertaken.

I believe some greater certainty is required and that the present proposal be subject to a broader set of questions undertaken by an objective, independent, transparent process.

People talk of legacy. Let's be doubly sure that only water runs down to the Lower part of the Churchill River and not the legacy of the Upper.

Brian Peckford

brianpeckford@ [REDACTED]

February 27, 2012

Mr. Brian Peckford  


Dear Mr. Peckford:

Thank you for your open letter of February 21. Our government appreciates the interest that people across the country have taken in the proposed Lower Churchill development and we are supportive of open public debate.

The attractiveness of the Lower Churchill Project is well known, and has been so for many decades. The proposed Muskrat Falls project will provide clean, renewable, and least-cost energy to our province, along with significant economic, social and environmental benefits for Newfoundlanders and Labradorians.

Nalcor Energy is taking a prudent, practical, and strategic approach to the development and is ensuring that best practices are being followed in all aspects of project planning. The staged-gate approach being used by Nalcor in the Muskrat Falls development ensures the province is minimizing potential project risks and making sound recommendations. Our government's investment in the development of Muskrat Falls is an investment for the entire province; an investment that will secure a strong renewable future for all Newfoundlanders and Labradorians with the promise of long-term energy security and stability as well as an important source of revenue.

The Lower Churchill Project will enhance the economic foundation of Newfoundland and Labrador, and provide significant benefits to the people of this province, particularly in Labrador. More than 75 per cent of the work for the Muskrat Falls Generation Facility will take place in Labrador with first consideration for employment provided to the Labrador Innu and then all Labradorians.

Once online in 2017, Muskrat Falls will arrest any further increases based on the price of oil, and will result in the retirement of the Holyrood facility. The development will result in the reduction of greenhouse gas emissions by over one million tonnes a year and eliminate the province's unhealthy reliance on the supply of imported fuel, therefore removing the volatility associated with future electricity prices.

We are now in a position to take control of the development of our natural resources, and that is exactly what we have proposed for Muskrat Falls. With that goal clearly in mind, I would like to address your comments on the potential use of the now-inactive Lower Churchill Development Corporation (LCDC), which is owned 51% by the Government of Newfoundland and Labrador and 49% by the federal government. In 2006, our government evaluated the options on how to pursue the development of the lower Churchill River and determined that the best way to maximize value for the residents of this province was to develop the project as a 100% Newfoundland and Labrador-owned venture. Rather than share ownership of our resource and the benefits from its development, our government has opted to retain ownership while pursuing both a strategic partnership with Emera and federal support in the form of a loan guarantee for the project.

I would also like to address your claims against the PUB review process for the Muskrat Falls project, including the issue of the PUB's expertise and ability to carry out its current mandate. Since 1996, the PUB has been responsible for approving all of Newfoundland and Labrador Hydro and Newfoundland Power's major capital projects, work which has always demanded significant technical expertise from both its own staff and from external resources. For its review of the Muskrat Falls project, the PUB hired Manitoba Hydro International (MHI), a subsidiary of Manitoba Hydro with 25 years of electricity consulting experience in over 60 countries, to review the technical feasibility and cost estimates of the two generation expansion scenarios under consideration. MHI's team consisted of specialists with expertise in load forecasting, risk analysis, project management, financial analysis, and power utility engineering. The PUB, with the assistance of MHI, is fully capable of conducting this analysis.

With respect to the scope of the PUB review, our government designed the reference question to include only those options that were determined to be technically and economically capable of providing safe, reliable generation to meet the province's electricity needs. This screening process had considered a portfolio of electricity supply options that could be theoretically considered to meet future requirements. It included options representing a range of choices from local indigenous resources, to importing fuels from world markets, to interconnecting with the North American electricity grid. Natural gas, both from offshore and imports, did not pass the screening process due primarily to concerns around security of supply and overall cost of energy produced.

You have also suggested that Nalcor has recommended Muskrat Falls because of a natural bias towards hydro projects. Newfoundland and Labrador Hydro's system planning department has always maintained a diverse inventory of potential generation projects to meet the growing demand in the province. The preference for hydro power development in this province is simply a matter of economics and of concern for the environment. This province is the envy of other jurisdictions that have not been blessed with an abundance of hydro and wind resources and unfortunately have to rely on fossil fuel alternatives.



Your letter also raised the issue of cost overruns on the Muskrat Falls project. It is clear the potential for cost overruns exists in all construction projects. For this very reason, Nalcor's team has built into its project estimates approximately \$1.1 billion in contingency and escalation costs. Nalcor also employs a rigorous and detailed cost escalation and risk management approach, validated by experts in the industry. Our government believes that overruns are more likely to occur if we do not pursue the development of Muskrat Falls. In that case, we would be trading the risks involved in a well-understood hydroelectric project for the risks involved in a number of thermal, wind and small hydro projects required to continue the isolated Island option, including the refurbishment of Holyrood.

You also suggested that we consider holding off on the development of Muskrat Falls until 2041. This approach does not address the fact that we will face an impending and sustained electricity supply shortage on the Island for the next 30 years that would require significant new generation. While upgrades at Holyrood will be necessary to get us to 2041, there are risks these upgrades will not be sufficient to extend the life of the plant to 70 years. This was highlighted by MHI in its report to the PUB. Such a thermal future also carries risks of fuel price volatility and an increasing likelihood that replacement of the plant will be required prior to 2041. Increasing federal GHG emissions regulations could also drive thermal generation costs higher. In essence we would be penalizing consumers today with higher electricity rates while we wait for 2041. In completing its sensitivity analysis for the Muskrat Falls project, Nalcor noted that there is a \$1.3 billion cumulative present worth benefit to Muskrat Falls over the option of maintaining the isolated Island, deferring the interconnect and using power from the Upper Churchill in 2041.

As I have stated in the past, our government has not yet made its final decision on whether to proceed with this project. I understand and share your desire to seek reassurance that this project is the best possible approach to meeting the future energy needs of Newfoundland and Labrador. It is for that reason that our government has asked the PUB to conduct its independent review and we continue to welcome input from residents, businesses and other interested parties. The PUB findings will help inform the government's decision-making process and ensure we are making the right decision in this important matter.

I appreciate your interest in the development of Muskrat Falls and thank you for taking the time to contact our government and outline your concerns.

Sincerely,

**KATHY DUNDERDALE, M.H.A.**  
Premier