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Subject : G & M - Muskrat Falls and the power of obstinacy

Muskrat Falls and the power of obstinacy

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Mother Nature just forced two of Canada's premiers to show what they're made of, after winter storms left thousands of their citizens without electricity.

Ontario's Kathleen Wynne was sugar, spice and everything nice, delivering groceries and feeling everyone's pain. Even when she bungled a gift-card distribution to the powerless, she showed that her heart was in the right place.

Newfoundland and Labrador's Kathy Dunderdale, however, seemed to lead her province through the outages with neither heart nor head. With most of the Rock in the dark, she dismissed the situation as a non-crisis that underscored the wisdom of her government's controversial Muskrat Falls hydroelectric project. "Would I have done things differently? Absolutely not," she insisted after power was mostly restored.

Newfoundland premiers have rarely been known for humility, and Ms. Dunderdale seems to be keeping the tradition alive. But her self-assurance is misplaced. The rolling blackouts of recent days are the result of reliance on existing electricity infrastructure that has been starved of investment while Ms. Dunderdale's government places all its bets on Muskrat Falls.

At \$7.8-billion on paper – a figure that does not include likely cost overruns – the 824-megawatt Labrador development is the most expensive conventional power project in the country. Hydro-Québec is currently building a 1550MW hydro project on the Romaine River for less than Nalcor, Newfoundland's provincial utility, is paying to generate barely half as much power at Muskrat Falls. And the Romaine project is considered uneconomical by many energy experts.

With such iffy economics, Muskrat Falls would have remained just an idea in the minds of Ms. Dunderdale and predecessor Danny Williams had Prime Minister Stephen Harper not promised to back the project with a federal loan guarantee. Mr. Harper's gesture did him no political good – his party won only one seat in Newfoundland in 2011, a seat it promptly lost in last year's by-election.

Ottawa's unprecedented backing of a provincial power project generated plenty of ill will in Quebec, however, cementing Mr. Harper's image as a leader inimical to Quebec's interests.

The federal guarantee enabled Nalcor to piggyback on Ottawa's triple-A credit rating. The utility borrowed \$5-billion for Muskrat Falls last month in a bond issue managed by Toronto-Dominion Bank and Goldman Sachs. The guarantee will enable Nalcor and Nova Scotia utility Emera (which will build a \$1.6-billion underwater transmission link from Newfoundland to Cape Breton) to save \$1-billion on interest and shift part of the risk for Muskrat Falls to Canadian taxpayers.

Newfoundlanders and Nova Scotians aren't off the hook, though. They will see big price increases as power from Muskrat Falls comes on stream in 2017. The project promises to create as much interprovincial conflict as the ongoing hydro feud between Newfoundland and Quebec.

That feud, which stems from the low price Quebec pays for power from the 5,400MW Churchill Falls hydro project upriver from Muskrat Falls in Labrador, is what led Newfoundland to seek revenge and pair up with Nova Scotia now. But with long-term electricity surpluses in Quebec and most of North America, Newfoundland seems set to wind up the loser once more.

Nova Scotia's Utility and Review Board forced Emera to negotiate a better deal with Nalcor. The agreement reached in November requires Newfoundland to provide Emera with "surplus" Muskrat power at "market prices." Those prices are currently a fraction of the per-unit cost of electricity from Muskrat Falls. Expect disputes over the definition of surplus and market prices. One province's gain will inevitably mean the other's loss and much bitterness will ensue.

The 6,000 NunatuKavut southern Inuit-Métis whose lives will be most affected by the Muskrat Falls project reject Ottawa's claim that the development's environmental costs are outweighed by the economic benefits from investment and jobs in Labrador and beyond.

It is true that Muskrat Falls could lead to lower carbon emissions in Newfoundland and Nova Scotia. But there are easier ways to cut emissions at Newfoundland's oil-fired Holyrood power station, which went offline on Sunday. The province could install pollution abatement equipment. Or it could replace Holyrood with cleaner natural gas-based generation, given offshore gas supplies, the low capital cost of such plants and the ability to locate them close to consumers.

That would provide a bridge until Newfoundland retakes control of Churchill Falls in about 25 years, a relatively short period in power years. But what Ms. Dunderdale lacks in humility she seems to make up for in another trait shared by past Newfoundland premiers – obstinacy.