Twenty answers on Muskrat Falls from the premier

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On Oct. 16, Russell Wangersky wrote a column for The Telegram entitled "20 questions for the premier," which posed questions about the development of the Muskrat Falls project.

In the spirit of continuing to present the facts about this project, I write to respond to these questions and to address Wangersky's agenda — does Muskrat Falls make sense for taxpayers and ratepayers?

In Newfoundland and Labrador, our demand for eletricity is growing and we need a new source.

The Muskrat Falls project is the alternative that will provide safe, reliable, clean energy at the lowest long term price to the people of the province.

Our alternative is to continue to buy oil to generate electricity. This option is more expensive by a significant margin and would see our ratepayers continue to give their money to foreign oil companies.

On the other hand, we can invest in a renewable energy project that will generate electricity and revenue for as long as water flows down the Churchill River.

By investing in our own project and benefiting from the sale of surplus electricity, this project is also the best option for the taxpayers of the province.

Before answering the questions, I note that Wangersky was dismissive of my comments about the outcomes of the recent meetings of the New England governors and Eastern Canadian premiers related to hydro development and the role it can play in the New England marketplace.

It is important for readers to know that the northeast U.S. electricity market is an important destination for many Canadian power developers, even though this market has not offered the same level of premium prices for renewable energy from Canada as it has to its own domestic suppliers.

The recent decision by the New England governors and their electricity regulator to endorse the import of Canadian hydro power and to study the means to import upwards of 3,600 megawatts (MW) of electricity can be seen only as a fundamental change and a significant opportunity to achieve premium prices for our clean, renewable hydro power from one of the more lucrative markets in the U.S.

In the interest of full disclosure, we have made available online Rhode Island Gov. Lincoln Chafee's comments from the recent New England governors and Eastern Canadian premiers meeting where he clearly states the available markets for our power in the U.S.

Q 1: How do comments by Nova Scotia's newly elected Premier Stephen McNeil affect the federal government loan guarantee for the project? (McNeil told The Canadian Press, "I can be very clear to her that if it's not in the best interests of Nova Scotia ratepayers, then we would not be supportive. … Until we see something new, Muskrat Falls is where it is, which is on the drawing board.")

A: The merits of the Muskrat Falls project stand on their own and have been verified and supported by several independent experts. We have always said we designed this project without the notion of a federal loan guarantee and can move forward without it.

That being said, we are very confident we will finalize the loan guarantee and move forward with the support of the Government of Nova Scotia and a favorable outcome from the Nova Scotia Utility and Review Board (UARB).

Q 2: What happens if Nova Scotia doesn't play? After all, the very start of the loan guarantee agreement states, "It is essential to Canada that the projects have national and regional significance. …" How does that change if Nova Scotia says so long?

A: We are part of a strong partnership on the Muskrat Falls project. Nova Scotia is a signatory to the loan guarantee agreement with the government of Canada and has also signed an agreement with our province in support of this project.

In addition, Nova Scotia has made specific changes to its legislation to increase its renewable energy requirements — 40 per cent renewable electricity by 2020. Power from Muskrat Falls can contribute significantly to achieving this target. We are confident that Nova Scotia will continue to support this project.

Q 3: Premier Dunderdale has said two other things: one, that the project could go ahead without Nova Scotia, and presumably, without the federal loan guarantee: "This project was planned around the people of Newfoundland and Labrador and could stand on its own merit, only for the people of Newfoundland and Labrador, and it did and it does. … So if in your wildest dreams you had to come to a place that they were not at the table anymore, this project still makes sense for us." But she has also said the project can't go ahead without the federal loan guarantee. Which one is true?

A: The decision to proceed with Muskrat Falls was made without the benefit of the federal loan guarantee and was based entirely on the best option to meet the long-term electricity needs for the people of the province. We were sequently successful in securing a federal loan guarantee which will result in an additional benefit of over $1 billion to ratepayers.

With this benefit in hand, we continue to work with the Government of Canada, the Government of Nova Scotia, Nalcor and Emera to finalize project financing and loan guarantee requirements and we are confident that the process will conclude successfully.

Q 4: What about new and cheaper power sources? This province has no regulatory mechanisms to allow the sale of power and, with Muskrat Falls, has actually moved to make it illegal for companies to generate and sell power into the grid. Does this mean we are going to turn our backs on innovative methods to generate power in order to prop up Muskrat Falls and more expensive electricity? And does that make sense?

A: We have been in discussion with alternative energy proponents and they are currently under consideration. However, it has been demonstrated time and time again that the Muskrat Falls project is the lowest-cost option to meet the long-term energy needs of the province.

While Bill 61 provided NL Hydro with exclusive rights to supply power to retailers and industrial customers, this does not necessarily preclude NL Hydro from entering into other power purchase arrangements. We would need to ensure that any such arrangements are of benefit to Newfoundland and Labrador ratepayers.

Q 5: What is the status of the province's search for lenders for the project? A : Nalcor started its request for financing process for $5 billion in debt financing for the Muskrat Falls project in June 2013, and major Canadian and global financial institutions were invited to submit proposals. Through the federal loan guarantee, this debt financing will benefit from Canada's AAA credit rating and, as a result, it was well received in the financial markets.

Nalcor has received competitive proposals and they are currently being evaluated. Q

6: What interest rate are those lenders being told to expect to make?

A: As a result of Canada's AAA credit rating, it will solicit interest rates that are benchmarked off the Government of Canada long-term bond rate. As noted above, Nalcor has received competitive proposals from the financial markets and they are evaluating these responses. Lenders were asked to provide their best and most competitive terms.

Q 7: Nalcor has yet to release whether or not there is a power purchase arrangement (PPA) with Newfoundland Hydro — that arrangement will require ratepayers to pay for electricity whether it's used or not. Will that PPA continue to be in limbo until all the bills come in?

A: Nalcor has stated that there will be a power purchase agreement in place between Nalcor and Hydro for power from the Muskrat Falls project. We anticipate this being finalized in the near future, and it will then be made publicly available.

Q 8: The federal loan guarantee requires full insurance of the project. Has Nalcor obtained insurance?

A: Nalcor is reviewing proposals from insurance underwriters and will have coverage in place as required by the federal loan guarantee.

Q 9: What's the rate for insurance, and what kind of risk are the insurers concerned about?

A: Insurance costs were included in the Decision Gate 3 (DG3) estimate. Nalcor is reviewing proposals for third-party liability insurance, as well as construction insurance to cover the assets under construction.

Once assets are placed in service, similar coverage will be provided as part of Nalcor's overall coverage. No unique or unusual risks have been identified as concerns. The insurance market in general has stated that they see the project as being quite attractive from a risk perspective. Nalcor's early engineering and site-preparation work focused on minimizing risks early in the project through extensive planning, detailed design and engineering.

Q 10: How much has it cost to find a solution to the quick-clay landslide threat of the north slope?

A: The concerns that have been publically raised about the north spur have been addressed through engineering feasibility studies. From its perspective of project developer, Nalcor is confident that the geotechnical conditions at the north spur are well understood, with the final details being confirmed following a field program completed this year. Nalcor is confident in the approach for the north spur and the cost estimate for this was included in the DG3 project estimate.