Regulatory Oversight of Energy Megaprojects in Newfoundland and Labrador and Manitoba: A Tale of Two Debacles

Presented to FCPP

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Overview

• Compare NL and Manitoba hydro projects
• Export revenues
• Water management
• Fiscal impact
• Regulatory oversight of Crown Corporations
• Protecting future generations through a strong Public Utilities Board
My vantage point

• Economist, policy adviser and former PUB chair.

• The rule of law requires deference to quasi-judicial boards.

• My objections to Muskrat Falls:
  – Failure to follow due process,
  – Fundamental economics wrong.
Comparison

- Manitoba population 1,250,000 and growing/NL population 512,000 and declining
- NL land mass 62% of Manitoba
- Cod moratorium 1992
- Oil revenues 36.5% of revenues in NL
- GDP growing
- Public debt high and growing ($538 M deficit in NL this year)
Chart 1: Population Changes Since 1992

- Canada
- Manitoba
- NL
Chart 2. Gross Domestic Product per Capita

Canada, Manitoba, NL
Power systems

• NL Hydro owned by Crown Corporation Nalcor Energy-Generation and Transmission
• Newfoundland Power owned by publicly traded Fortis Inc. –Distribution on Island
• Manitoba Hydro-vertically integrated
• Comparison of rates-retail residential St. John’s, 12.55 cents per kwh, Winnipeg, 7.63 cents, Montreal
Role of Hydro power

• Manitoba and NL mostly hydro power
• Holyrood thermal plant in base power 490MW
• Churchill Falls 5,428 MW all power sold to Quebec except for 300 MW recall power used in Labrador
• 65 year power contract-revenues $127 M
• Sales price one quarter of a cent per kWh
Chart 4. Electric Power Capacity

Man

NL
Churchill Falls

- 65 year contract inequitable
- 2041 Churchill Falls will revert to NL
- Muskrat Falls seen as bridge to 2041
- Purchase of power unexplored alternative
- Muskrat Falls capacity 824 MW
- Unit cost high
- Gull Island capacity 2250 MW
Muskrat Falls driver

- Replacement of Holyrood thermal plant
- Interconnection with Island and Mainland
- Investment of non-renewable revenues
- Better fit than Gull Island
- Cost $7.2 B without Maritime Link
- Maritime Link $1.8 B
- Federal Loan guarantee
Agreement with Nova Scotia

• 20 for 20 principle, 20% of MF energy for 20% of capital cost - Emera to build Maritime Link
• Excess capacity on Maritime Link for Nalcor
• Renegotiation forced by UARB of Nova Scotia
• Additional 1.8 TWh
• 57% of Muskrat Power to Nova Scotia, up from 20%
• Contradicts concept that MF for domestic use
Exports

- NEB reports export revenue dropped from 6.8 cents per kWh in 2008 to 3.3 cents in 2012.
- Manitoba Hydro export revenue down from $625 in 2008 to $363 in 2012.
- Export potential important for MH
- MISO load growth and coal displacement
- Renewable portfolio standards/carbon pricing
- Danger of losing money on exports
Federal loan guarantee

- Exports to Nova Scotia important
- Export revenues will not cover full cost
- Enables $5 B federal loan guarantee
- Access to capital at 3.80%
- Guarantee necessary to finance project
Subsidies

• MH uses export revenues to reduce domestic rates
• No such commitment in NL where domestic ratepayers will subsidize Nova Scotia utilities
• Industrial customers seeking low cost power subsidized by ratepayers
• Will MH lose money on exports, with ratepayers picking up the deficit?
Rising electricity rates

• Rising rates in Manitoba and NL under all options
• Long term price stabilization but higher short and medium term prices
• Elasticity of demand higher long term than short
• Demand likely to shrink unless offset by higher population growth-load forecasts too high
Oversight problematic

- Auditor General role
- In NL AG may be blocked
- Quarterly reports from Nalcor
- Nalcor not regulated
- Muskrat Falls exempted from PUB regulation
- No cost estimate to complete project since October 2012
Regulation in NL and Manitoba

- Capital budget review in NL not in Manitoba
- NL PUB given reference but full authority denied
- Limited to two alternatives
- Process flawed
- MH filed submission August 16, 2013; report due June 20, 2014 – 10 months
- Nalcor filed submission November 10, 2011; report due from PUB March 31, 2012-five months
Regulation (continued)

- NL PUB could not recommend because of Class 4 estimates and outdated load growth
- NFAT panel not asked to consider Bipole III or prior expenditures on Keeyask
- NL government sanctioned Muskrat Falls December 2012, in spite of two negative reviews—one by the PUB and another by a joint federal provincial environmental panel
Reliability Hearing

• Major outages early this year
• PUB Inquiry
• Nalcor wanted to limit review to pre-interconnection period
• Nalcor has claimed the interconnection will provide emergency power
• NP and others wanted the full review
• PUB will be reviewing both periods
• PUB may conclude that Muskrat Falls is not sufficient without base power on the Avalon Peninsula for back up
Fiscal impact

• Manitoba is drawing revenues from hydro development through capital tax, water power rentals and guarantee fee
• In NL there is no guarantee fee, no capital tax and low water rentals
• Instead government is infusing $2.2 B in cash as equity for the project
Conclusions

• Both provinces have embarked on a high risk capital program
• Both have compromised the regulatory process and failed to allow proper oversight
• Nalcor Energy not regulated; Muskrat Falls exempted from PUB jurisdiction
• Federal loan guarantee capped at $5B; who will absorb cost overruns?
• Manitoba Hydro’s budget not subject to board review without Cabinet reference
Conclusions (2)

• Amendments to NL Electrical Power Control Act make it illegal to compete with Nalcor

• Nalcor TLs cannot be used to wheel power-in contradiction of NL’s advocacy for free trade in electrical energy and wheeling rights through Quebec
Improved oversight

• Regulatory boards need to be both strengthened and streamlined
• Governments should have final decision on large projects but only after a full, independent, transparent review
• Commissioners should be appointed for fixed term through open process with confirmation by all party legislative committee or judicial panel
Improved oversight (2)

• PUB should play oversight role on projects with the power to determine prudence of investment before inclusion in rate base
• Such is the case in Nova Scotia with the Maritime Link, with UARB oversight
• Citizen and stakeholder participation should be encouraged through use both of intervener funding and appointment of consumer advocate
Improved oversight (3)

• Intervener funding available in Manitoba
• Consumer Advocate appointed by government in NL
• In Nova Scotia the Consumer advocate is appointed by the UARB
• Better to have appointment by all-party committee or by judicial panel
Improved oversight (4)

• Access to information should be improved with appeal to freedom of information commissioner
• AG should have unfettered access
• Public policy dialogue should be enhanced through centres such as the FCPP
• Challenge: Rebalance the relationship between crown corporations and citizens
Questions?

• I look forward to a good Q and A session and will be available to chat after the meeting.