

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

Presented to FCPP

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Winnipeg, April 30, 2014

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

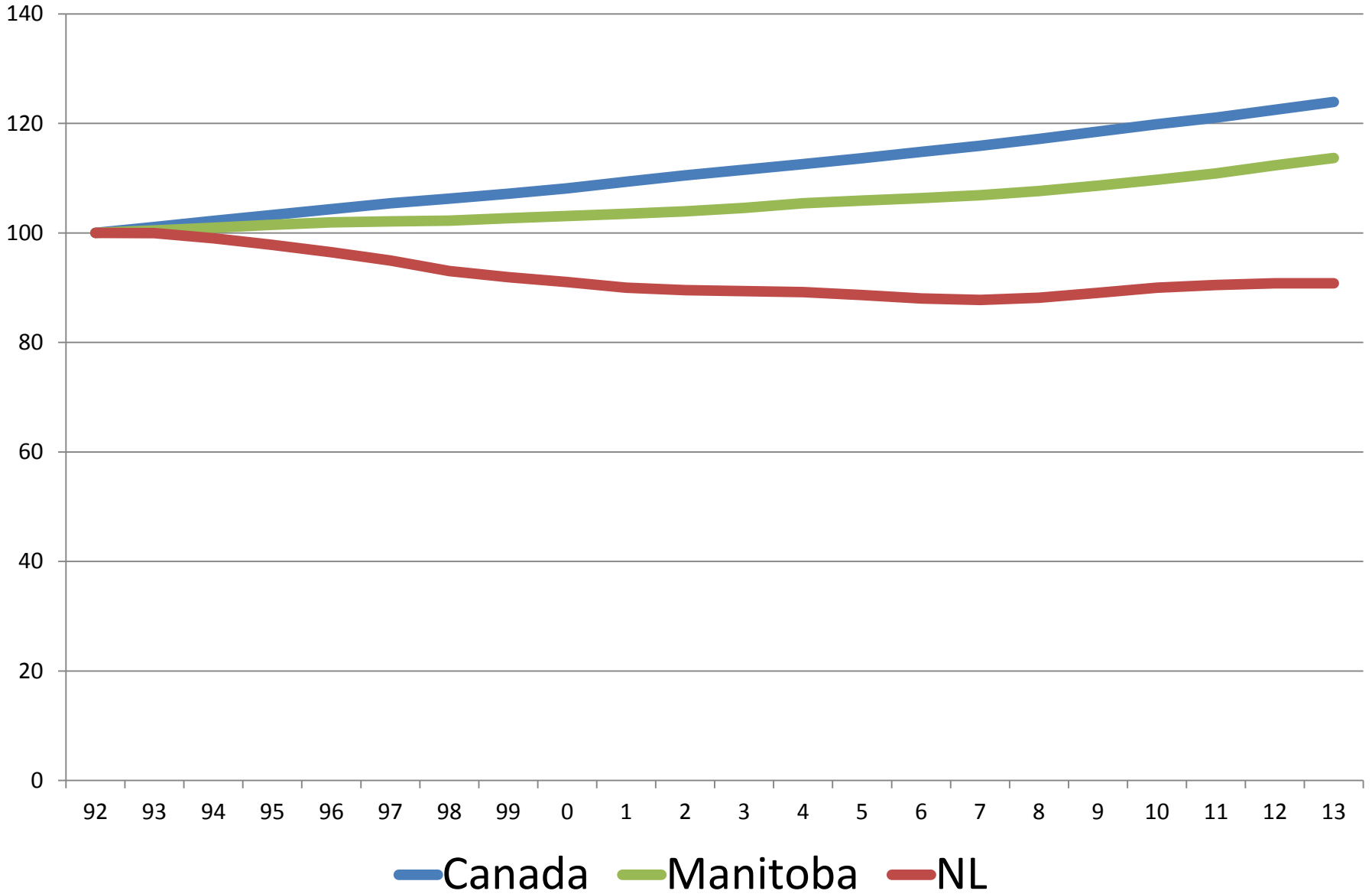


Chart 2. Gross Domestic Product per Capita

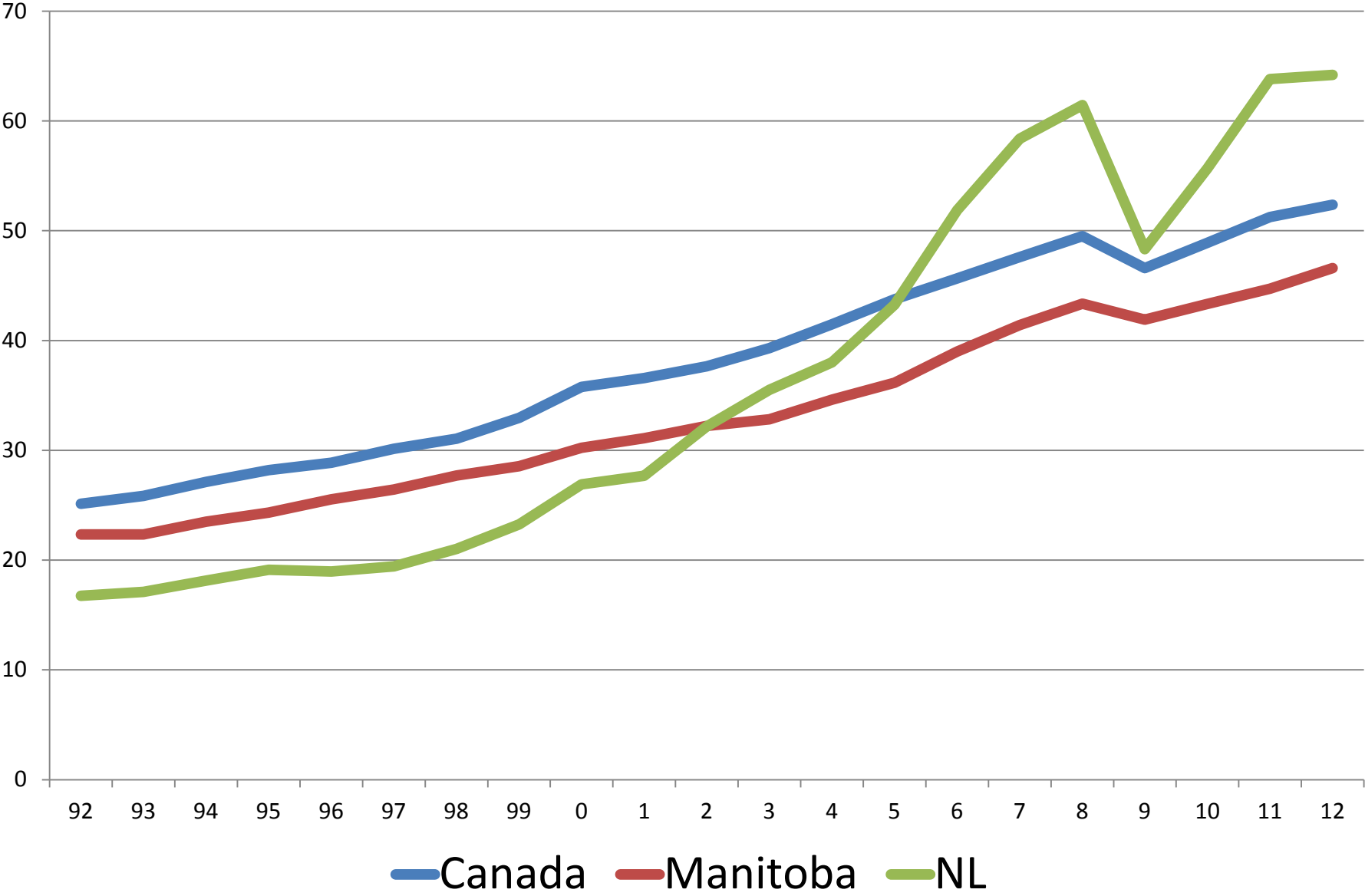
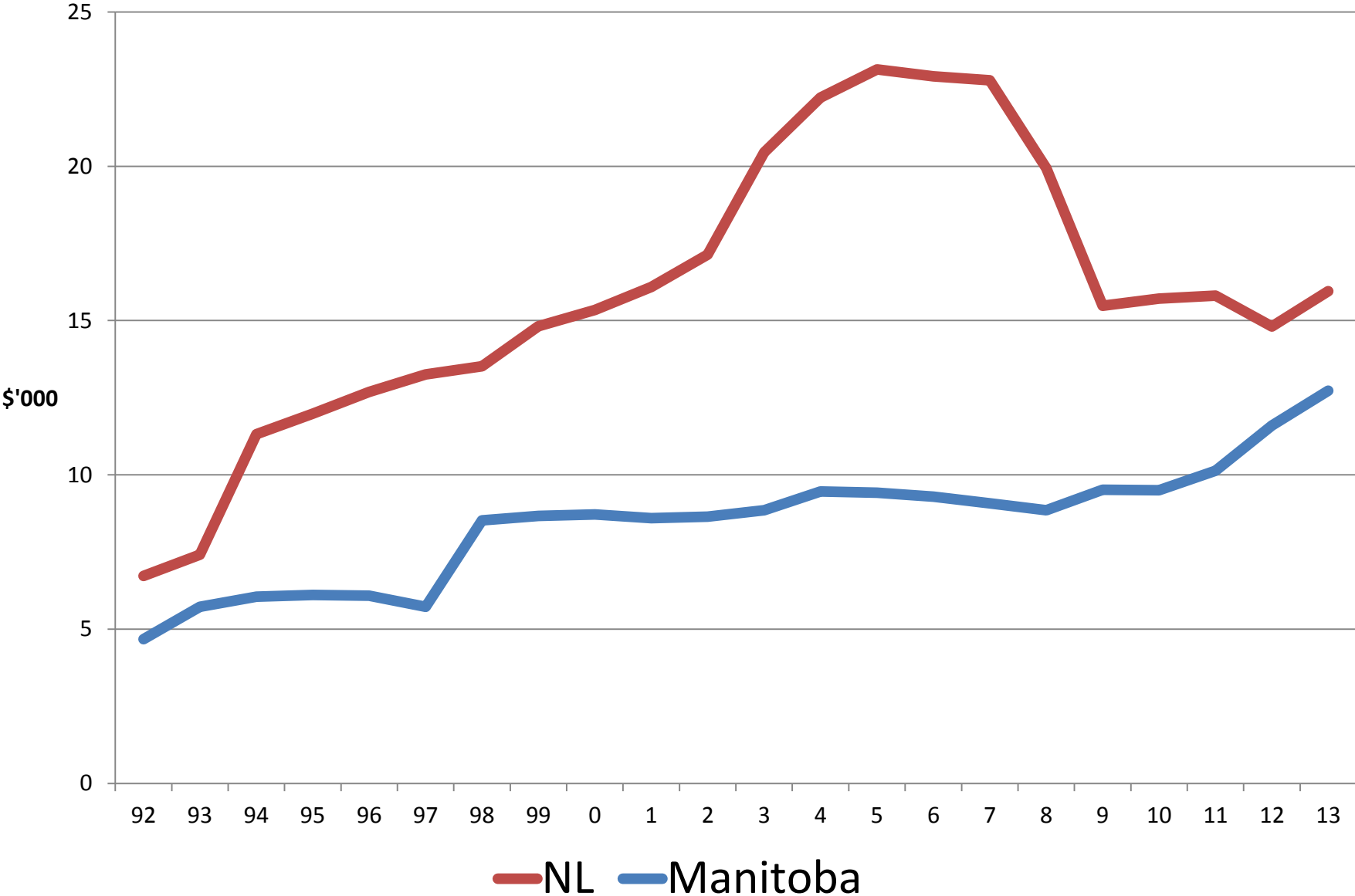


Chart 3. Net Debt per Capita, Manitoba and NL



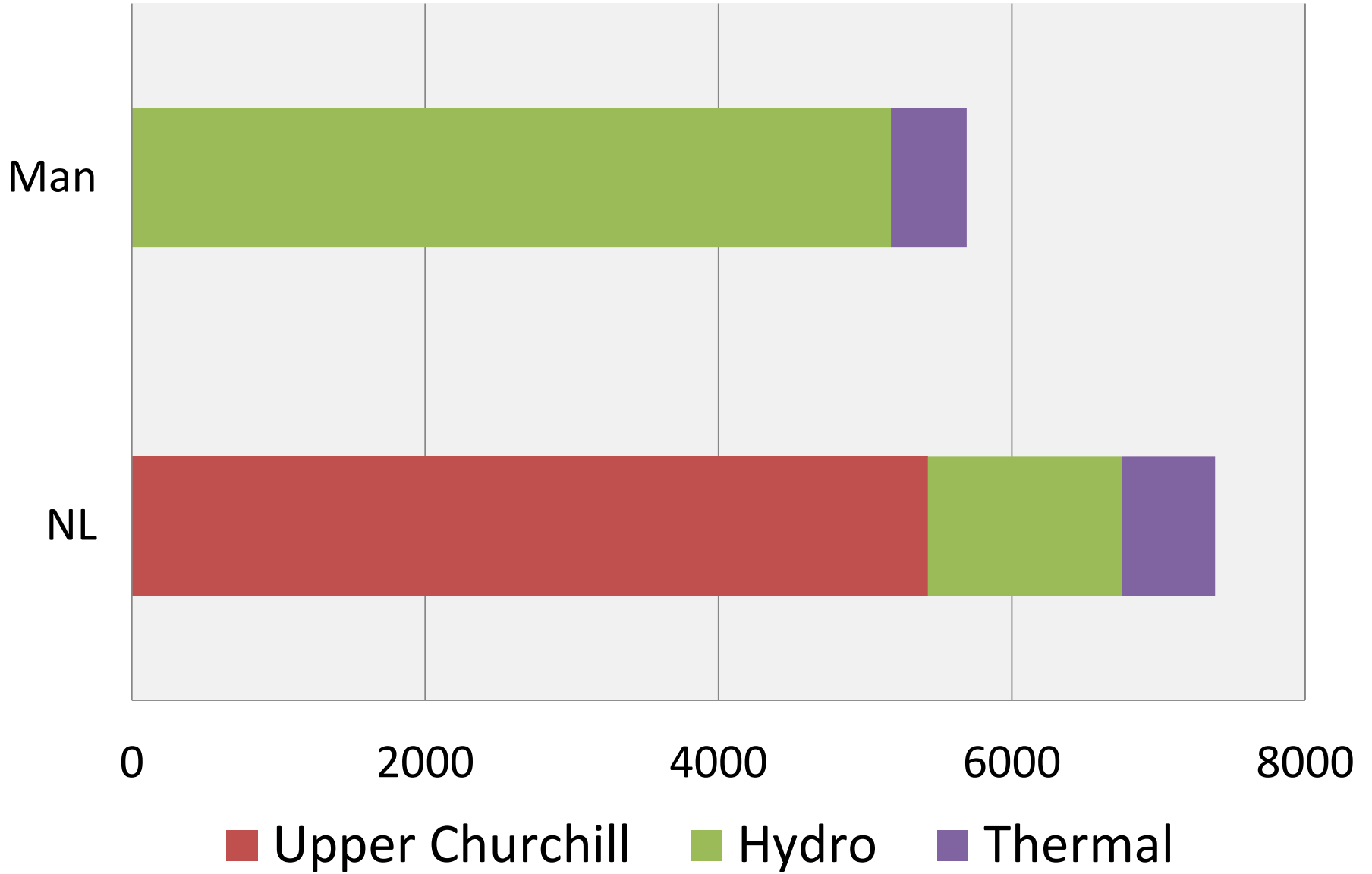
Power systems

- 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



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.