

Deal offers N.B. a life raft

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Commentary

Struggling under a legacy of botched decisions - the Orimulsion fiasco with Venezuela, the Belledune coal plant's cost overruns, Point Lepreau's refurbishment, and decades of propping up money-losing operations at the highly polluting Grand Lake coal operation to name but a few - a life raft has appeared on the horizon, offering New Brunswick electricity customers a way out.

Some allege that Hydro-Québec's plan is designed to tie up transmission access to markets through New Brunswick. Some even claim that a devious plan is afoot to block potential power developments in Labrador from access to U.S. markets.

The commercial basis for this deal lies elsewhere. The financial drivers that Hydro-Québec has decided are sufficient to sustain its huge rate discount guarantees are the huge power surplus in Quebec, declining demand all around, high oil prices, labour efficiencies down the road, the benefits of consolidating nuclear operations and the potential for cost savings through more coordinated dispatch of generation resources.

NB Power has been the most oil-dependent grid-connected utility in North America, obtaining a large fraction of its generation from Orimulsion, heavy fuel oil, petroleum coke and diesel fuel. Mitigating these costs provides Quebec's potential return on investment. Incremental export power sales are probably a relatively minor component of Quebec's plan.

Transmission access is a regulatory issue, not an issue of who owns the wires. Hydro-Québec is likely to remain responsive open access transmission rules of the U.S. Federal Energy Regulatory Commission, one of Hydro-Québec's key regulators. It is a regrettable statement about Canada that the U.S.'s international electricity trading rules bring more trade freedom to Canadian power markets than our own inter-provincial transmission access provisions.

Newfoundland Premier Danny Williams has attacked Quebec's interest in NB Power as a threat to Newfoundland's prospects for developing the Lower Churchill's hydro-electric potential. Charged with emotion arising from historic Churchill Falls grievances - a contract that Newfoundland's then-premier Joey Smallwood sought out and willingly signed, a contract twice confirmed by the Supreme Court - Premier Williams imagines inter-provincial intrigues to be Quebec's motivation. This emotionalism blinds some Newfoundlanders to the real commercial challenges to the Lower Churchill's development. Just as natural gas from the Mackenzie delta is now recognized as uneconomic in light of foreseeable market conditions, the factors that have driven down power prices in northeastern North America make the economics of Lower Churchill development unviable for the foreseeable future.

Newfoundlanders should count themselves lucky that Nalcor, their Crown energy company, is not out in the market trying to sell high cost power right now. So far in 2009, Hydro Quebec's export revenues were down by 30 per cent relative to the same period last year. Low natural gas prices and soft demand have created a buyer's market in Boston, let alone in northern Maine, where wholesale power market conditions are even softer.

Some have criticized the deal for not providing rate parity with Quebec for New Brunswick's residential, commercial and institutional customers. Consumers need to recognize that NB Power's debt represents a burden of accountability that cannot be wished away. The historic decisions to create jobs, not through efficiency, but by way of the short-term benefits of megaprojects, have consequences.

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