

Commentary on a Possible Takeover of NB Power by Hydro Quebec

Recently discussions have arisen about some type of expanded commercial relationship between the power systems in Quebec and New Brunswick. Since 1995, I have studied and written about NB Power's deteriorating commercial condition and the implications for consumers and the province's public finances. Over the course of this work, I have testified before the Crown Corporations Committee of the provincial Legislative Assembly and the Energy and Utilities Board.

Hydro Quebec's interest appears not to be driven by transmission access to markets through New Brunswick and some devious plan to block potential power developments in Labrador access to U.S. markets but instead appears to be driven by the high price of oil and the low value of power. Declining power demand in most areas in Northeastern North America, plunging natural gas prices, and the high Canadian dollar have contributed to a steep decline in the value of electricity. One result is that so far in 2009, Hydro Quebec's export revenues were down by 30% relative to the same period last year.

Hydro Quebec is likely to remain responsive open-transmission-access rules of the U.S. Federal Energy Regulatory Commission. It is a pathetic statement about our federation that the U.S.'s international electricity trading rules bring more liberality to Canadian power markets than our own inter-provincial transmission access provisions.

Premier 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 Smallwood sought out and willingly signed and that has been 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 are lucky that Nalcor, their Crown energy company, is not out in the market trying to sell high cost power right now.

Irrespective of the outcome of negotiations with Quebec, NB Power's debt represents a terrible future burden on consumers. Some of the utility's assets are sound, but many are impaired. NBP's transmission system, designed as a sonnet ring, is a thing of beauty. Notwithstanding recent pipe integrity problems, Belledune is a good pulverized coal unit, although it was excessively costly to build. Beyond these good assets, many other aspects of NB Power's system are a mess. The refurbishment problems at the Point Lepreau nuclear station are now well known. What is less well known is the fact that even when running, Point Lepreau's operating cost per unit of output is substantially more costly than the Darlington station in Ontario, which itself performs in the lower quartile of reactors in North America. NB Power's largest hydro-electric station, typically responsible for 20% of the New Brunswick's power, on the Saint John River at Mactaquac, is suffering from one of the worst cases of degenerative alkali aggregate reaction in a major hydro-electric facility anywhere in the developed world. The engineering

firm Acres appears to have played a role in improperly specifying the preparation of the concrete used to build the spillway and power house in the 1960s. Recently, NB Power made an important, albeit far too long-delayed, initiative to improve its efficiency by closing its obsolete Grand Lake generating station and the associated coal subsidiary serving the small, highly polluting station. Environmental remediation costs for the site, which is badly affected by acid mine drainage, could represent a significant long term liability.

NB Power is 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. NB Power's oil dependence gives Quebec a strong position given the current conditions in the power and oil markets. Using excess Quebec generation to displace oil usage appears to provide potential benefits for NB customers. These benefits are however insufficient to overcome the legacy of debt and the impaired condition of many of NB Power's assets. The best available outcome for New Brunswick's power consumers arising from a deal with Quebec is a lower rate of increase than would otherwise happen with the status quo.

One factor that impairs the public understanding of matters related to NB Power is its poor standard of its financial reporting. As of the date of this posting, NB Power has still not released its financial results for the fiscal year that ended in March this year. NB Power and Nalcor Energy (Newfoundland and Labrador Hydro) are the only major utilities in Canada that do not publish quarterly financial statements.