

What is Muskrat Power Going to Cost?

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This week we learned a little more about the Muskrat Falls proposal from John Dalton of Power Advisory LLC, a consultancy. The 37 page report is more user friendly than some on this topic. But what readers most want to see is the resulting price of the electricity, which is nowhere to be found. Nor is there a projection of annual costs for the proposed project and the two alternatives they examined. The report is nevertheless a helpful if incomplete contribution to the discussion.

The basic idea is that Nova Scotians pay \$1.52 billion for enough electricity to meet 8% of our power requirements—about the amount produced by one of our coal plants. When we finally find out how that translates into a price it is going to look expensive.

There are two mitigating considerations. First, the price is largely fixed for 35 years so it may look less expensive ten or twenty years from now. Secondly, there is another block of up to 16% of our requirements. This is available at a much better price based on prices in New

England, less the cost to transmit it there. We can take that power whenever the pricing is attractive.

The second block clearly represents a valuable option. The question is, how much of a premium are we paying on the first block to get that opportunity?

The report compares Muskrat Falls with an option to import from Hydro Quebec, and an option for locally built wind and gas generation. The report compares Muskrat Falls with two options: imports from Hydro Quebec, and a combination of both locally built wind and gas generation.

It is based on how much electricity Newfoundland wants to sell rather than the amount that Nova Scotia needs. NSP provided the consultant a demand projection that was level for the entire period from now until 2052.

There are many reasons to think this is high: previous projections by NSP have forecast that efficiency efforts, net of demand growth, would reduce consumption by 1.5% per year; the Port Hawkesbury mill which by itself uses 8% of Nova Scotia's total demand might close; some large users will find it attractive to convert to natural gas instead of buying electricity; Nova Scotia's high electricity rates are likely to discourage current and future energy intensive users; the number of working age Nova Scotians is forecast to decrease by 17% over the next 20 years. So we may not need any new power sources for a decade or more.

Hydro Quebec was not approached, so we do not really know their position. Perhaps they would have presented an option better tuned to our needs. For that option, and even more so for Muskrat Falls, there is a real risk of prolonged outages because of ice storms, so coal plants will have to be kept serviceable as backup.

There are many unknowns going forward: will a viable tidal technology emerge? Will new natural gas finds provide a reliable local supply? Will the Port Hawkesbury mill survive? These uncertainties would argue against making large long term commitments.

Nova Scotia is asked to take these risks and to pay for the privilege. The payoff is the ability to purchase from the larger block of attractively priced energy. It is, however, somewhat dissatisfying that New Brunswick and Prince Edward Island, and for that matter New England, will have the same access without taking any risk. Nor will they have paid a higher price for the premium block to get access to the cheaper electricity.

At the same time the arrangement is a huge win for Newfoundland which gets to unload 60% of the Muskrat Falls power until they need it, while gaining access to an end run around Quebec. Nova Scotia pays 20% of the project cost for a 35 year access to a little less than 20% of the power. Newfoundland gets the benefit of Nova Scotia's geography for nothing and owns all the energy after 35 years.

Imagine if Jim Irving or Danny Williams was negotiating for Nova Scotia. Would they recommend to ratepayers a deal where we are paying a higher average rate than New Brunswick and PEI for the same electricity?

There is a financial arrangement for Muskrat Falls power that represents good value for Nova Scotia. What we have so far does not look like it.



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