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LOWER CHURCHILL HYDRO DEVELOPMENT COULD BE PART OF THE ANSWER TO CANADA'S ELECTRICITY WOES SAY TD ECONOMISTS

- Market conditions provide support to the development of the project;
- Ontario and Quebec particularly hungry for new sources of power;
- Federal government showing keen interest in getting involved;
- Other barriers, such as addressing the needs of First Nations and getting environmental approval, appear to be surmountable.

TORONTO – The proposed hydroelectricity development at Lower Churchill in Newfoundland & Labrador could go a long way toward ensuring sustainability of Canada's electricity supply, said TD economists in a newly-released study *Lower Churchill River Hydroelectricity Development: the Project's Day in the Sun May Have Finally Arrived*. The report is available on the TD Economics website, at www.td.com/economics. Although the idea of developing Lower Churchill has been considered for about three decades, the probability of the project going ahead has never been brighter than it is today. "Canada as a whole is in need of new sources of power, and with the nation stepping up its efforts to lower greenhouse gas emissions, big hydroelectric projects such as Lower Churchill are receiving a major shot in the arm," said Derek Burleton, Associate Vice President and Senior Economist at TD Bank Financial Group.

Ontario and Quebec in need of power

The recent thrust toward constructing some 3,000 MW of generation capacity at Gull Island and Muskrat Falls at Lower Churchill stems in large part to the significant improvement in market opportunities over the past few years. Not only did the 2003 power blackout that sideswiped Ontario and eight U.S. states raise awareness of the fragility of electricity systems in North America, but both Ontario and Quebec governments have issued warnings that their respective provinces are confronting looming power shortages. "Even in Newfoundland & Labrador, which has enough electricity to satisfy its domestic needs, Lower Churchill power could potentially displace

supplies generated by the less-environmentally-friendly oil-fired units at Holyrood, not to mention facilitating the operations of large industrial projects,” Burleton added.

Federal appetite has grown for east-west power grid

Another tailwind blowing in favour of Lower Churchill development has been the increasing interest of the federal government in the power file, and notably, in assisting the development of an east-west power grid. In the past, Ottawa has elected to stay on the sidelines with respect to electricity infrastructure development, owing in part to the fact that electricity falls under provincial jurisdiction. However, armed with a strong fiscal position, the rising concerns about power supplies in the country’s two largest provinces, and the need to take steps to lower greenhouse gas emissions, the federal government appears to be changing its tune. “The April 2005 federal Kyoto plan announced some \$10 billion for environmental measures by 2012, a portion of which will be eligible for investments in renewable electricity sources such as hydro power,” said Burleton.

Other barriers are more surmountable

No doubt, there remain roadblocks that will need to be dealt with before the vision of developing Lower Churchill becomes a reality. And, chief among them are addressing the needs of aboriginal communities and receiving environmental approval. Nonetheless, these factors appear more surmountable than ever. For one, the players involved in the negotiations, namely the government of Newfoundland & Labrador, have got the message loud and clear that First Nations will need to be involved in the process from the outset if there is any hope of achieving success. On the environmental front, there are some favourable attributes that will help it pass the test. “For instance, the fact that Lower Churchill would be a “run of the river” development, and result in relatively little flooding, will be helpful,” says Burleton.

Project’s economic benefits could be substantial

To the extent that hydroelectric power from Lower Churchill flows to regions that are facing power shortages, this would provide a net benefit to Canada as a whole. Still, there is no denying the fact that the largest share of the benefits would be enjoyed by

Newfoundland & Labrador. In the short run, there would be a significant boost to both employment and economic growth associated with the construction phase of the project. The longer-term rewards related to the development would be generated primarily through higher incomes in the province, and hence, stronger government revenues. “This elevated revenue profile would assist the Newfoundland & Labrador government in tackling the province’s fiscal challenges,” added Burleton.

Call for expressions generates interest

In January 2005, the Williams government issued a request for expressions of interest and proposals in the development of the Lower Churchill project. At the time of writing, the government announced it had received a substantial 25 proposals, of which up to 10 were considered by a preliminary review to be comprehensive, including a joint submission by the Ontario and Quebec governments and construction group SNC-Lavalin. Burleton says, “the strong response to the call for expressions adds credence to the view that the time is right for the Lower Churchill development.” A committee consisting of representatives from the provincial government and Newfoundland & Labrador Hydro is now making an initial assessment of the applications, with the complete process, including commercial negotiations, likely to take up to 18-24 months.

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The report *Lower Churchill River Hydroelectricity Development: the Project’s Day in the Sun May Have Finally Arrived* (including charts and detailed tables), is available in PDF format on TD Economics’ Home Page at: www.td.com/economics.