Executive Summary

Assessment of the Proposed Projects Under the Churchill River MOU

Context and Purpose

• This submission evaluates the proposed new generation projects contemplated under the Churchill River MOU, including Gull Island and the Churchill Falls enlargement, with particular attention to their implications for the long-term well-being of Newfoundlanders and Labradorians.

• The analysis examines capital structure, equity ownership, risk allocation, projected returns, debt implications, opportunity cost, and alignment with Newfoundland and Labrador's long-term economic interests.

• The purpose of this analysis is to provide information to the public ahead of the referendum on the proposals outlined in the MOU, encouraging informed dialogue and presenting alternative options where appropriate.

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1. Scale of Financial Commitment and Public Risk Exposure

• The proposed projects involve multi-billion-dollar capital investments, with Newfoundland and Labrador Hydro responsible for a significant share of both equity and debt financing.

• The financing structure contemplates high leverage (approximately 75% debt), materially increasing provincial financial exposure.

• Debt incurred by Newfoundland and Labrador Hydro is effectively supported by the provincial government.

• The magnitude of debt exposure, relative to provincial fiscal capacity and existing public obligations, represents a central structural constraint.

• Project risks — including cost overruns, interest-rate shifts, construction risk, and production variability — would fall disproportionately on Newfoundland and Labrador.

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2. Risk Allocation Between Parties

• The MOU structure does not clearly demonstrate balanced risk sharing between Newfoundland and Labrador and Hydro-Québec.

• Newfoundland and Labrador assumes substantial upfront capital risk and long-term debt exposure, while Hydro-Québec secures access to electricity under predetermined pricing arrangements.

• If projected export prices, demand conditions, or production levels do not materialize as anticipated, Newfoundland and Labrador bears the primary downside exposure.

• The agreement does not clearly establish that expected returns are commensurate with the level of financial risk assumed.

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3. Expected Returns and Uncertainty of Projections

• Project viability depends on long-term forecasts of electricity demand and pricing extending several decades into the future.

• Forecasting electricity markets beyond 10–15 years involves significant uncertainty.

• Long-term projections may not fully capture technological change, demand volatility, regulatory shifts, climate variability, or structural market transformation.

• Return estimates should be evaluated under stress scenarios, including high-cost, low-price, and low-water conditions.

• Without transparent scenario analysis, projected returns may overstate certainty and understate risk.

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4. Opportunity Cost of Capital

• Capital committed to large-scale hydroelectric development cannot be deployed elsewhere.

• Newfoundland and Labrador faces alternative uses of capital and borrowing capacity, including debt reduction, domestic infrastructure, energy diversification, and social investment.

• The opportunity cost of tying substantial public borrowing capacity to a single long-term hydro strategy is significant.

• The proposed projects should therefore be evaluated not only on projected revenue, but on comparative returns relative to alternative provincial investments.

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5. Strategic Question: Development for Whose Benefit?

• The proposed projects would generate substantial electricity, much of which would support Hydro-Québec's export strategy and domestic supply model.

• Hydro-Québec's institutional objective is to minimize electricity costs to Quebec households and industry while capturing export rents.

• Newfoundland and Labrador's participation involves substantial capital commitment and risk assumption.

• A central strategic question arises: Do the proposed projects primarily enhance Newfoundland and Labrador's long-term economic development and fiscal capacity, or do they primarily reinforce Quebec's strategic energy advantage?

• The distribution of long-term benefits, including the implications of equity ownership shares and revenue allocation, requires explicit and transparent evaluation.

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6. BATNA and Alternative Development Sequencing

• The proposed projects should be evaluated against Newfoundland and Labrador's Best Alternative to a Negotiated Agreement (BATNA).

• Alternatives could include phased development, renegotiated pricing structures, greater exposure to competitive export markets, alternative partnership structures, or delayed capital commitments.

• Without clear articulation of credible alternatives, it is not possible to determine whether the proposed projects represent the province's best attainable long-term outcome.

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7. Alignment with a Broader Provincial Development Framework

• Multi-generational infrastructure investments should align with a clearly articulated provincial development strategy.

• Revenue generation alone is an incomplete metric for evaluating projects of this scale.

• Assessment should consider employment impacts, industrial development, electricity affordability, regional equity, Indigenous participation, and long-term fiscal stability.

• In the absence of a comprehensive provincial energy or resource development framework, it is difficult to determine whether the proposed projects optimally advance the general well-being of residents.

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8. Intergenerational and Long-Term Liability Considerations

• The proposed projects would create financial obligations extending decades into the future.

• Long-lived assets financed with high leverage increase exposure to future interest-rate conditions, market shifts, and fiscal pressures.

• Intergenerational equity requires that long-term commitments be evaluated not only for present benefits, but for the obligations imposed on future taxpayers.

Concluding Observations

• The proposed projects represent one of the largest public capital commitments in Newfoundland and Labrador's history.

• They entail significant debt exposure, long-term pricing commitments, and material forecast uncertainty.

• Based on currently available information, it is not possible to conclude that the proposed projects clearly represent the province's best available strategic option.

• A fully informed decision requires transparent risk allocation analysis, scenario-based return evaluation, comparison to credible alternatives, and alignment with a clearly articulated provincial development framework.
