NL Debt, Fiscal Sustainability and the Churchill Falls MOU Initiatives

A Presentation to the Atlantic Association of Applied Economists (Canadian Association of Business Economics)

A Presentation by Wade Locke and Doug May

St. John's, April 15, 2025

Adrift in a Fiscal Fog, but there is still hope

"In the global economic chaos caused by tariffs and changing alliances, we will be calm, strategic, steadfast, and determined," Siobahn Coady(Minister of Finance) said. "Always remember that superb sailors are made by turbulent seas." Budget 2025

"It was not the year for us to force going back to balance this year," Coady told reporters. "Every year it is a balance of where we are with the economy."

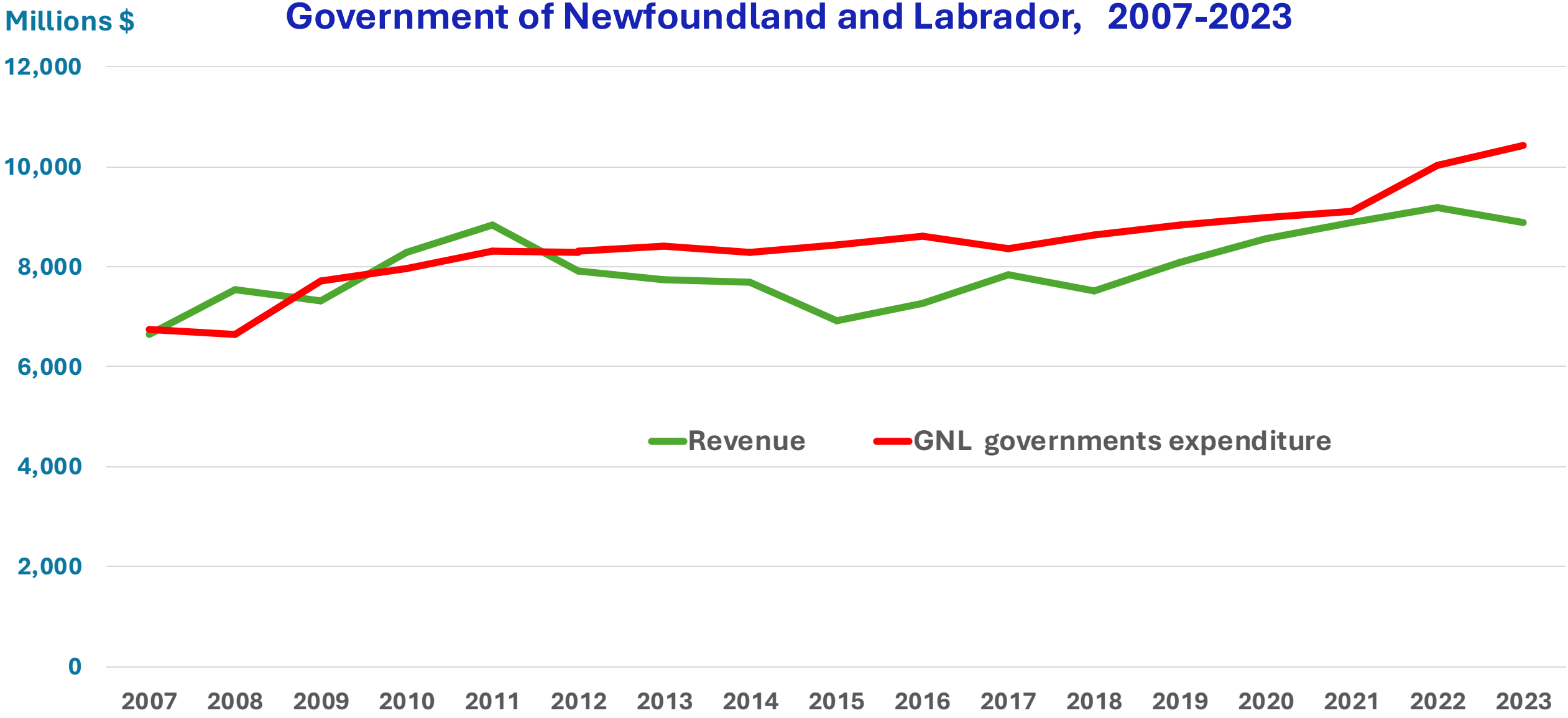
https://www.cbc.ca/news/canada/newfoundland-labrador/n-l-tables-stay-the-course-budget-with-projected-372m-deficit-and-record-spending-1.7505554

Perpetual theme: In balancing the budget and ensuring fiscal stability, if this is not the year, then we can always hope and plan for next year or the following year or the year after that



- Since the period of oil transformation (2006-2012), the Government of Newfoundland and Labrador has run deficits.

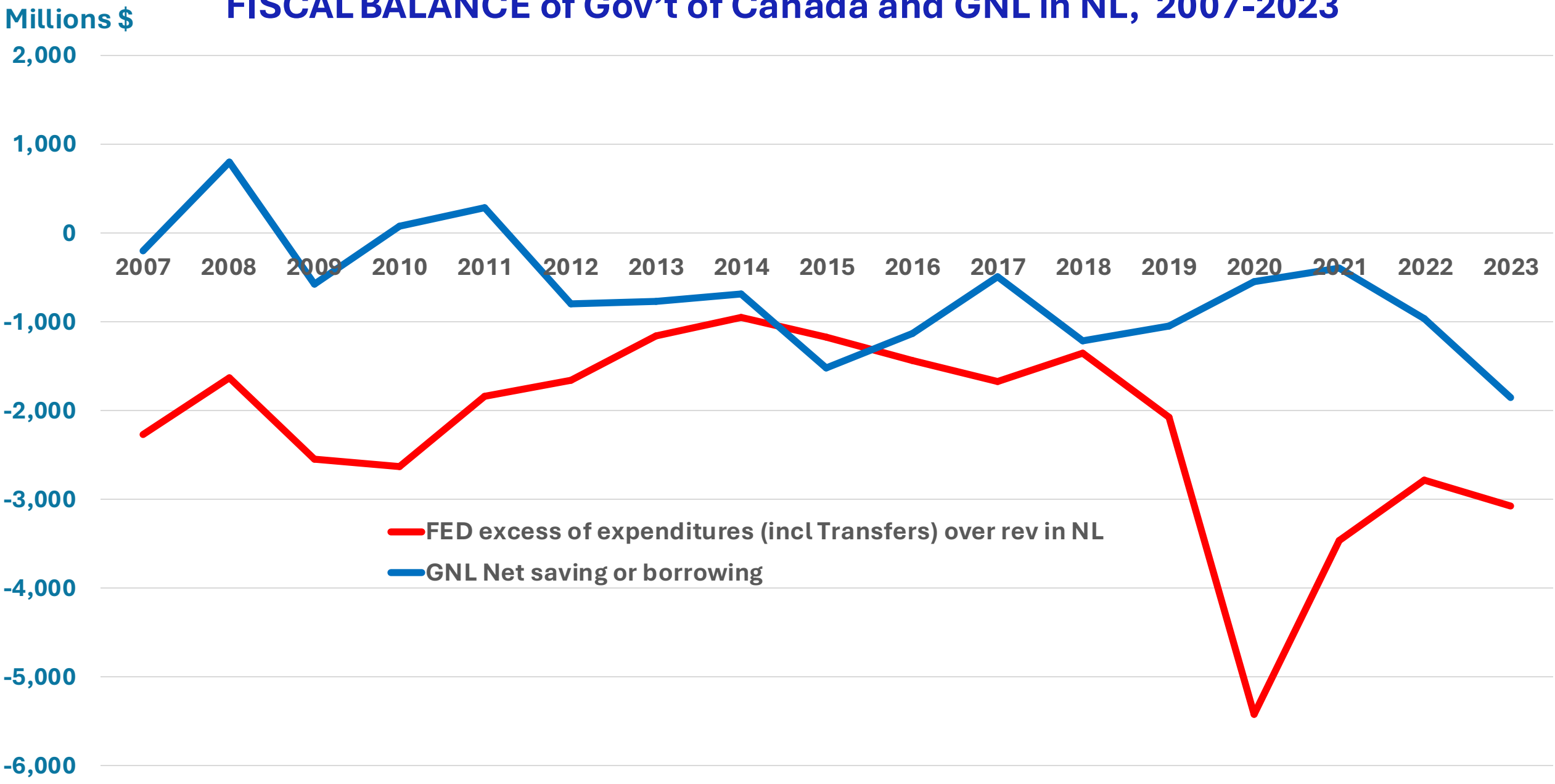
Revenues and Expenditures of the Government of Newfoundland and Labrador, 2007-2023



Source: Statistics Canada Table 36-10-0450-01 based on FMS allowing provincial government comparisons

- The GNL's fiscal balance has deteriorated, increasing net borrowing and debt. Rising federal net expenditures have partially supported the economy. We assume this has been through transfers to individuals, promoting household expenditures on final goods and services.

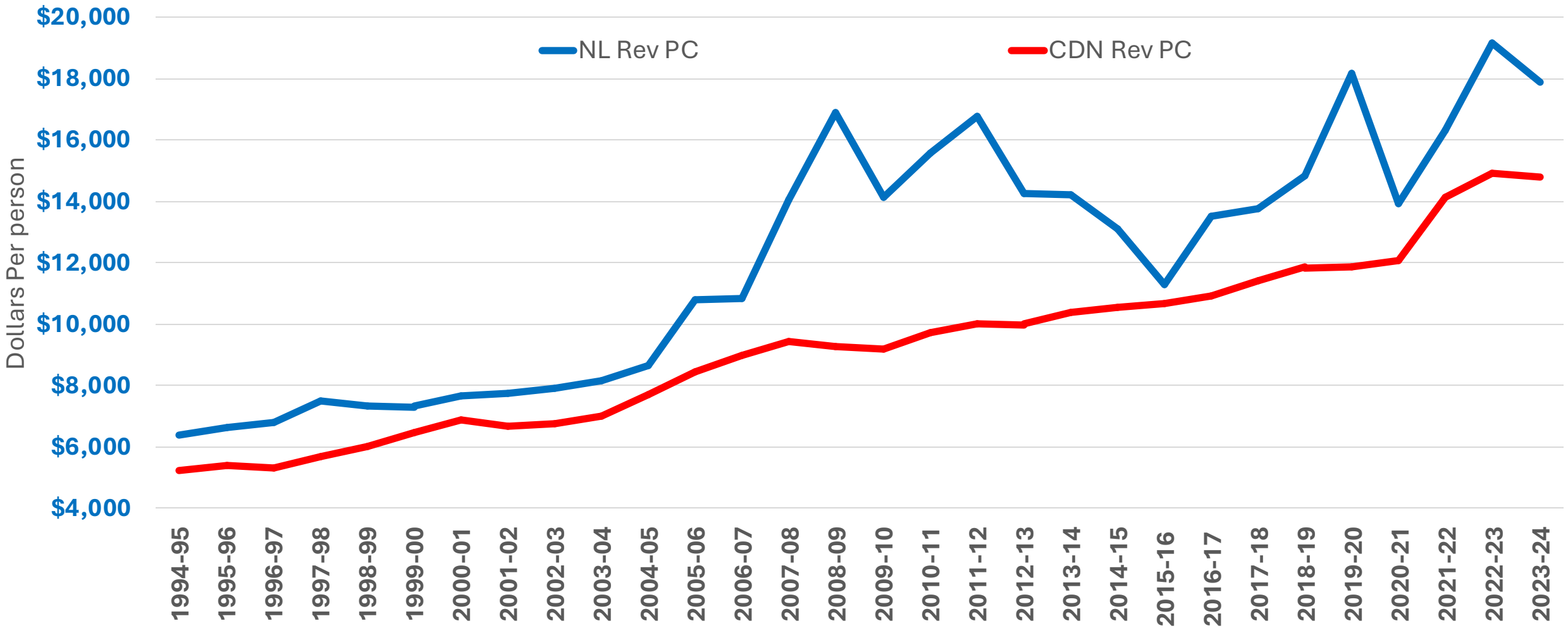
FISCAL BALANCE of Gov't of Canada and GNL in NL, 2007-2023



Source: Statistics Canada Table 36-10-0450-01 based on FMS allowing provincial government comparisons

- Revenues per capita for the GNL are above the all-province average. They are the highest of any province, including Alberta.

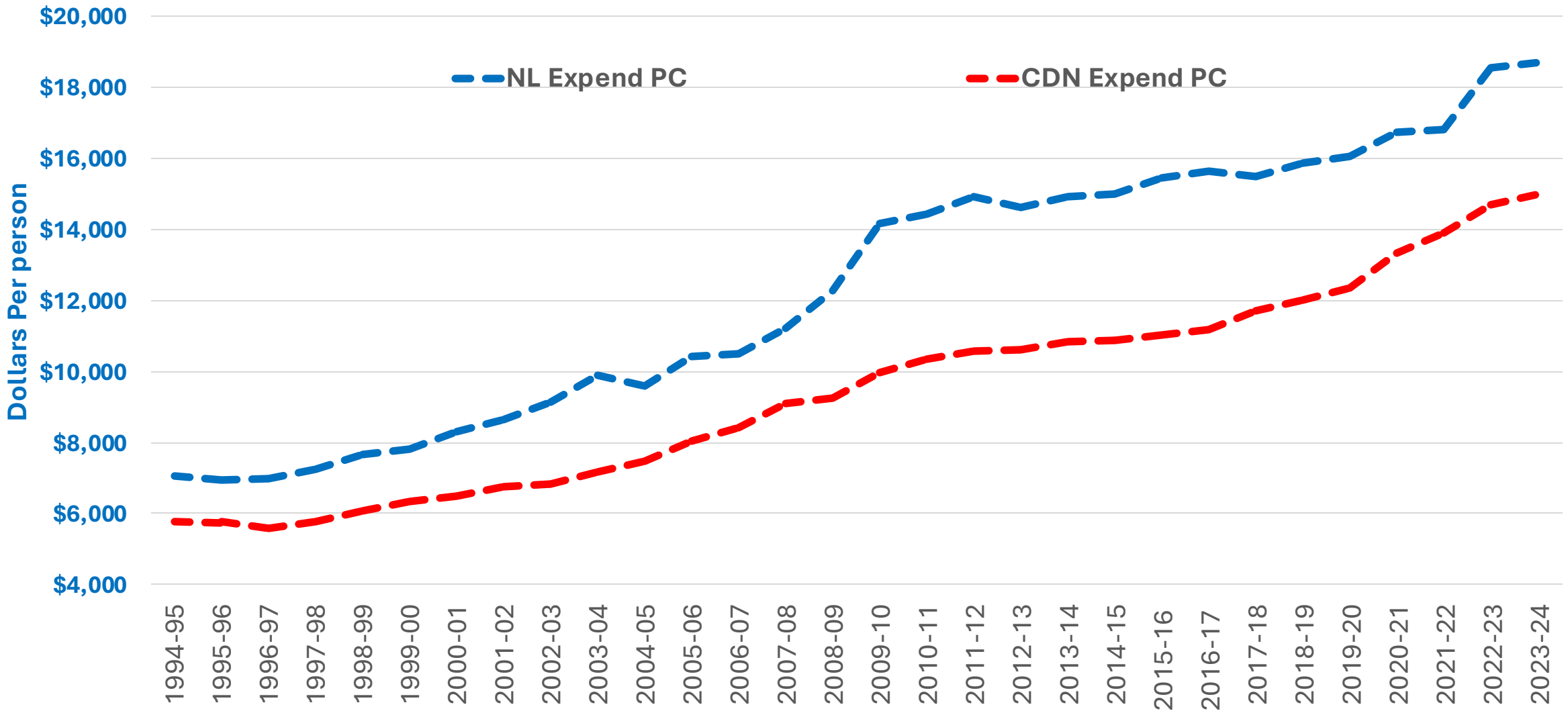
Provincial Government Revenues Per Capita - NL Compared to All Provinces



Source: Author's calculations based on Government of Canada Fiscal Reference Tables - https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2024.html & CANSIM Table 17 100 005

- The same observation that is held for revenues is also accurate for expenditures. The main expenditure categories are health care and education. Evidence on the outcomes from these two expenditures supports that they are the lowest among all Canadian provinces.

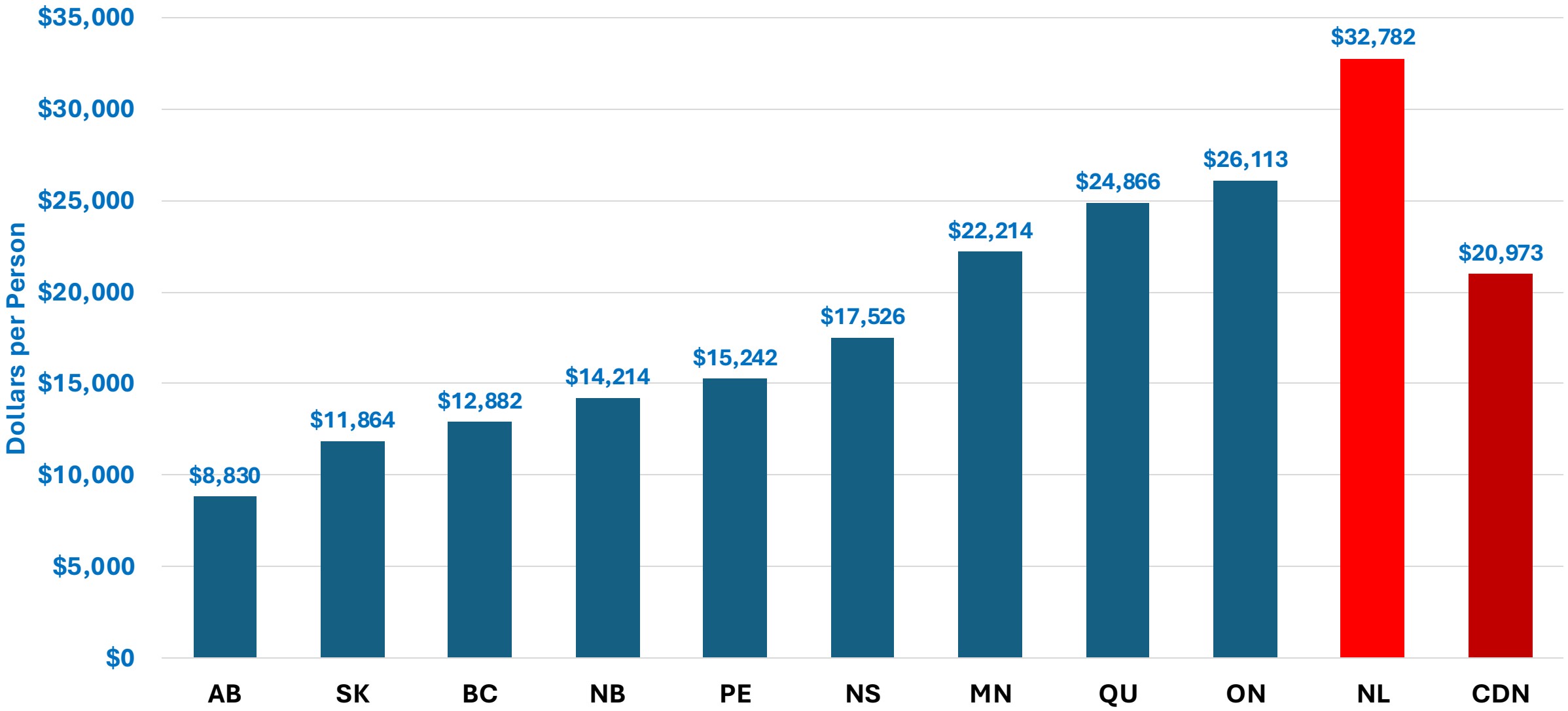
Expenditures Per Capita - NL Compared to All Provinces



Source: Author's calculations based on Government of Canada Fiscal Reference Tables - https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2024.html & CANSIM Table 17 100 005

- The political culture, which has existed since Confederation, of incurring provincial government deficits has resulted in the highest net debt per capita among provinces.

Net Debt Per Capita by Province and Canada: 2023-24

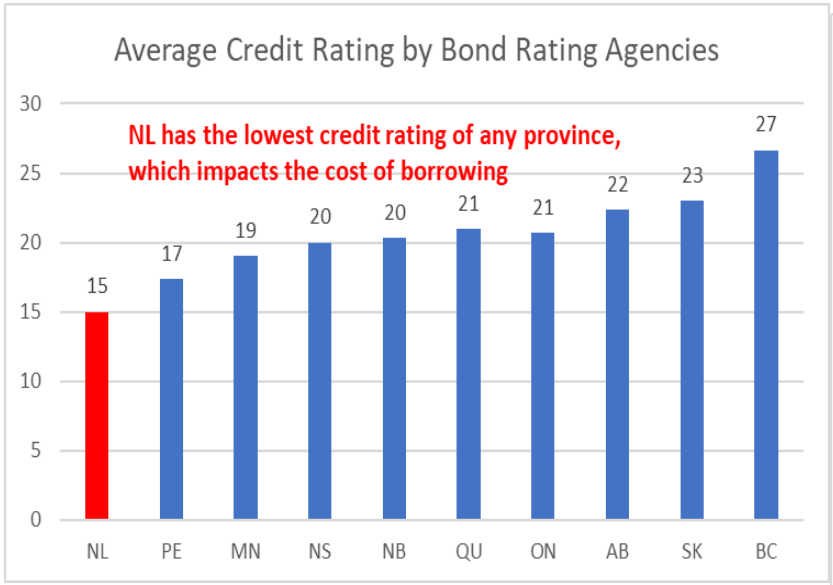


Source: Author's calculations based on Government of Canada Fiscal Reference Tables - https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2024.html & CANSIM Table 17 100 005

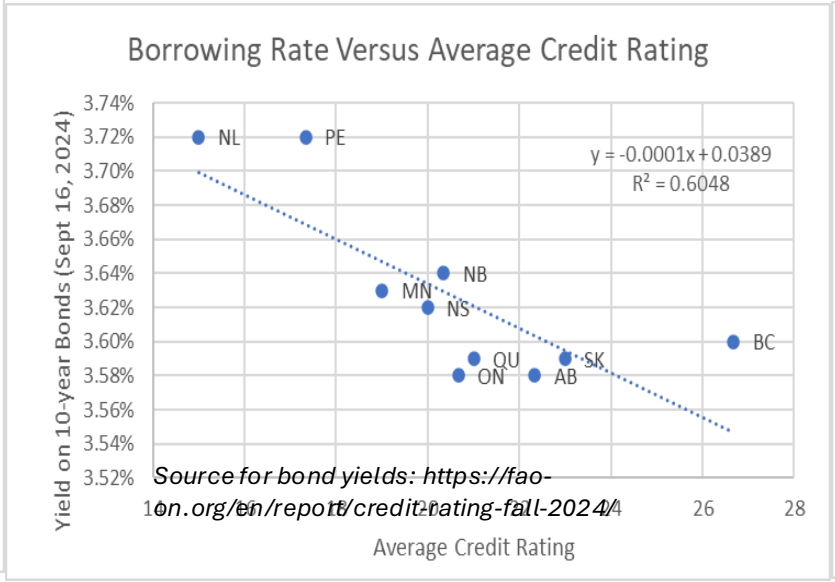
- High levels of per capita debt and the culture of annual deficits have resulted in low credit ratings, higher borrowing costs, and more significant relative amounts of debt coming due.

Harbingers of Debt (low credit ratings, higher costs of borrowing, large amounts of debt coming due)

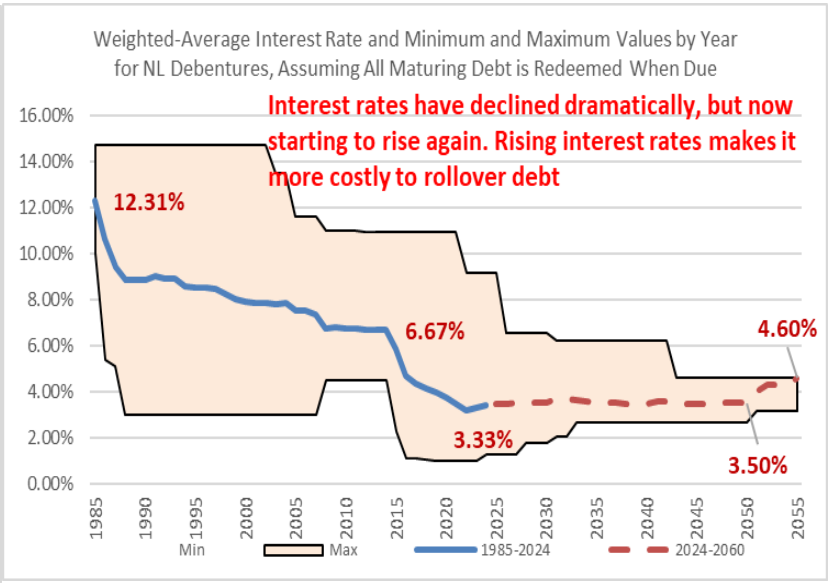
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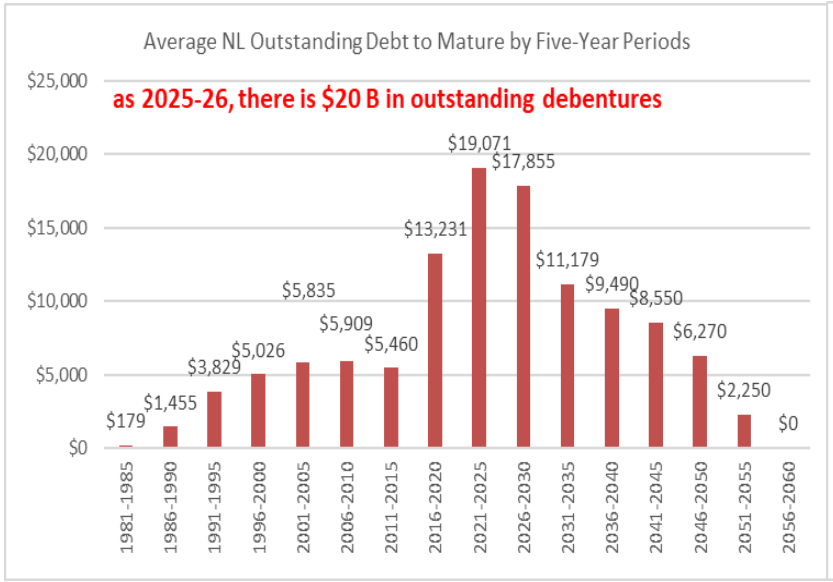
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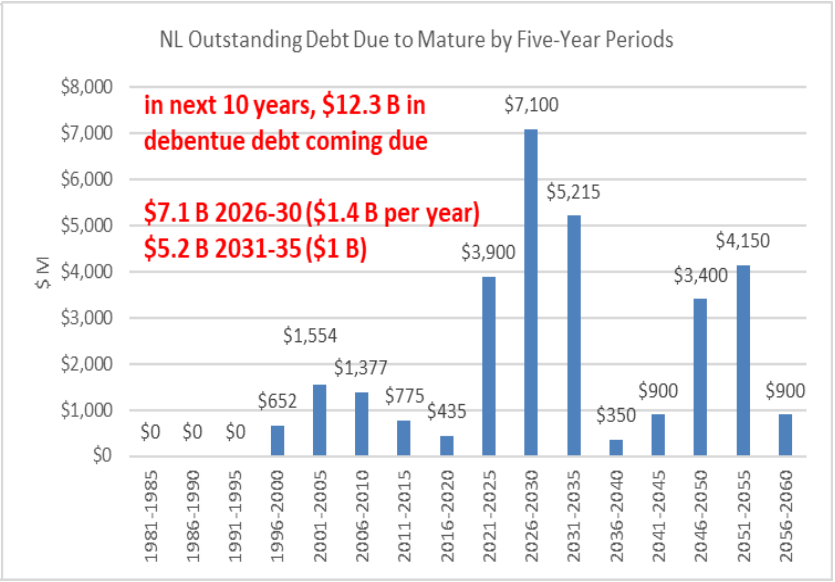
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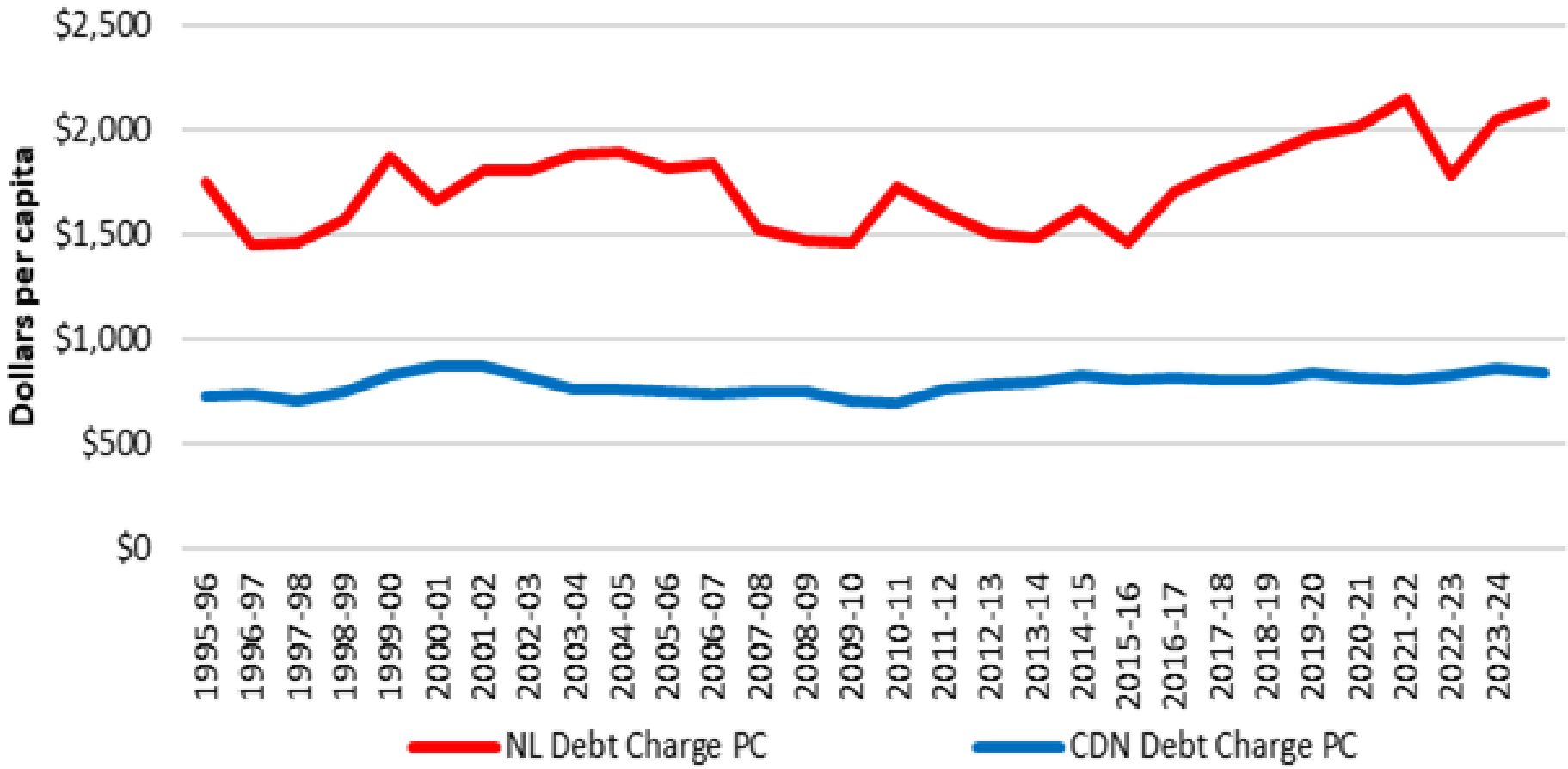
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While there might not be a specific number that we can point to with respect when we are in debt trouble, if you have more debt per capita and higher debt servicing costs than any other province, and you have the lowest credit rating, the highest borrowing costs and they are increasing and large amounts of debt is coming due, then you might have a debt problem

- High levels of per capita debt and the culture of annual deficits have resulted in low credit ratings, higher borrowing costs, and more significant relative amounts of debt coming due.

Debt Charges Per Capita - A Comparison of NL to All Provinces



Source: Author's calculations based on Government of Canada Fiscal Reference Tables - https://www.canada.ca/en/department-finance/services/publications/fiscal-reference-tables/2024.html & CANSIM Table 17 100 005

How much would have to go to debt retirement to bring NL to the all-province per capita debt

- The all-province per capita debt is approximately $21,000, while NL's per capita debt is $35,896 ($19.45 B/ 541,820 people)

- This implies reducing NL debt by $8.1 B

- Over 40 years and assuming a 4.6% for provincial interest costs, the province would have to put $500 M per annum for the next 30 years to bring NL's per capita debt down to the all-province average $21,000 (i.e. $11,4 B/541,820 people)



Churchill Falls

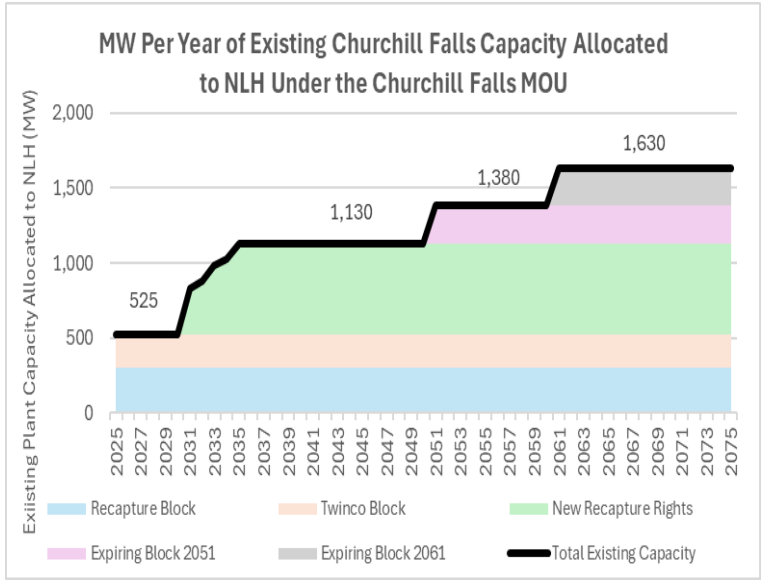
The Largest Underground Powerhouse In The World

The Proposed Projects and Changes Under the MOU with Quebec

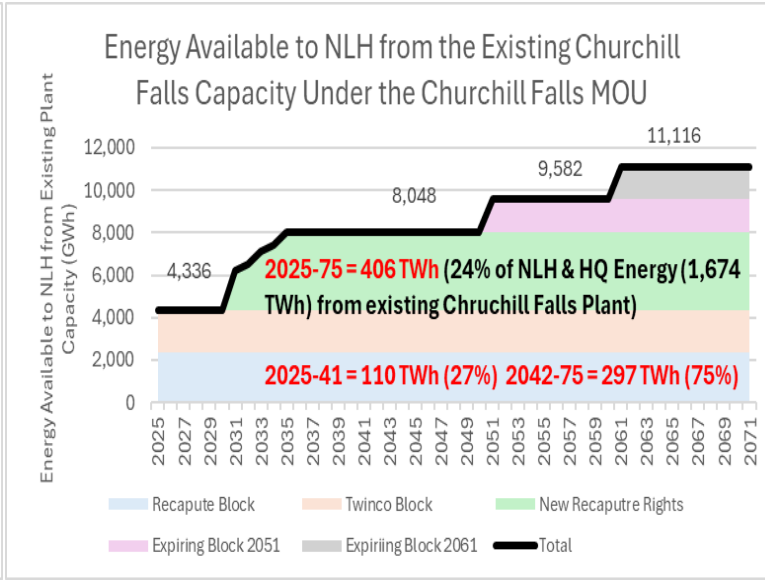
- **Upgrading** the existing 11 turbines
- **Enlarging** the existing structure with two new turbines
- **Creation** of new generating facilities at Gull Island on the Churchill River
- **New Transmission Lines**
- New price for existing power & reallocation of existing power capacity toward NLH

- The charts on this slide and the next relate to the **contractual** prices proposed under the MOU for **existing** CF power, NOT for additional power generated under the extension of the current CF generation facilities. The PVAP (Present Value of Average (forecasted) Prices) as calculated by Newfoundland and Labrador Hydro is 5.9¢/kWh. The APVP (Average Present Value of forecasted Prices) by Wade Locke is 2.64¢/kWh which is the relevant measure.
- Forecasted electricity prices for the CF extension or Gull Island have not been made public.
- While it has been noted by Newfoundland and Labrador Hydro that a price escalation process will be put in place so that future prices may be higher than the published forecasted ones, details of the process are not available.

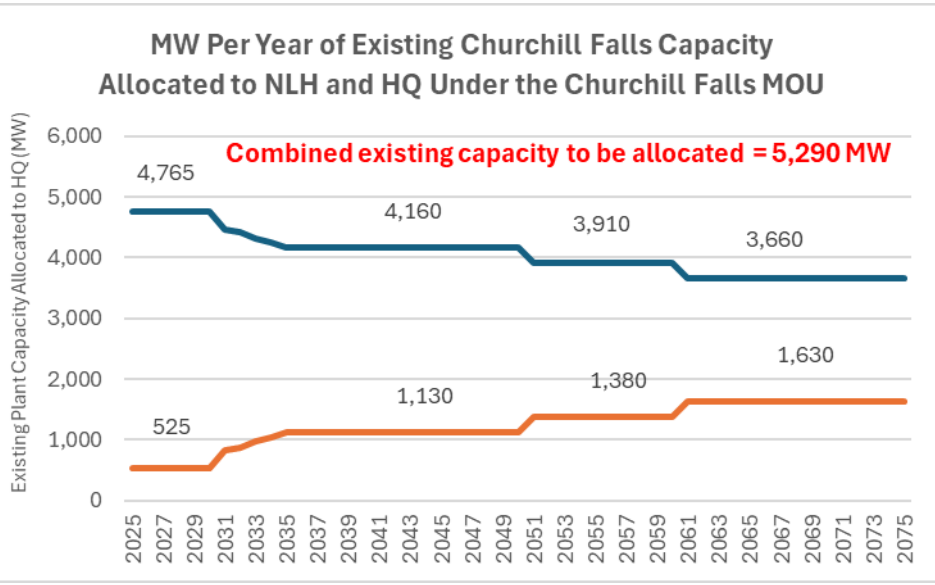
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MW Per Year of Existing Churchill Falls Capacity Allocated to NLH Under the Churchill Falls MOU
Existing Plant Capacity Allocated to NLH (MW)
525
1,130
1,380
1,630
Recapture Block
Twinco Block
New Recapture Rights
Expiring Block 2051
Expiring Block 2061
Total Existing Capacity

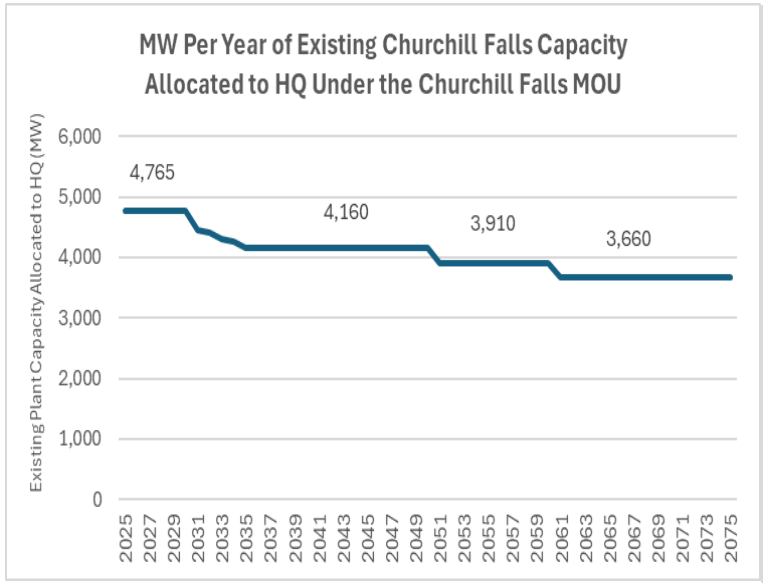
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Energy Available to NLH from the Existing Churchill Falls Capacity Under the Churchill Falls MOU
Energy Available to NLH from Existing Plant Capacity (GWh)
4,336
8,048
9,582
11,116
2025-75 = 406 TWh (24% of NLH & HQ Energy (1,674 TWh) from existing Chruchill Falls Plant)
2025-41 = 110 TWh (27%) 2042-75 = 297 TWh (75%)
Recapute Block
Twinco Block
New Recaputre Rights
Expiring Block 2051
Expiriing Block 2061
Total

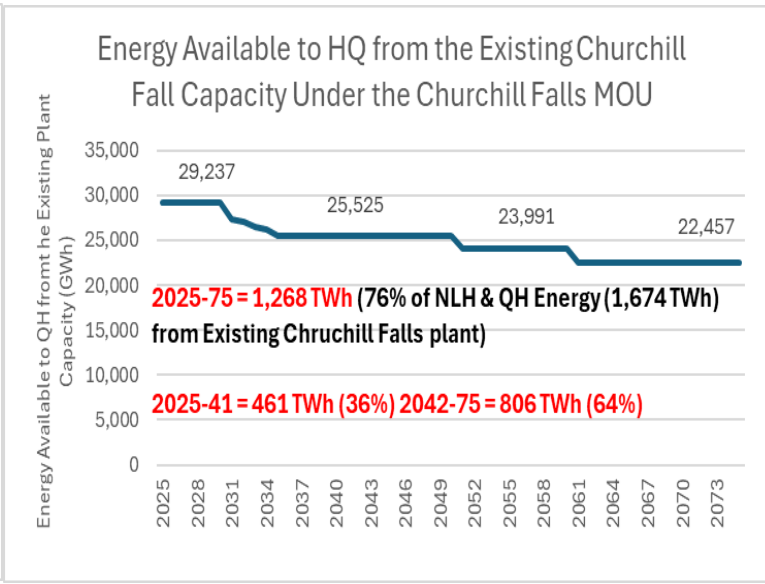
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MW Per Year of Existing Churchill Falls Capacity Allocated to NLH and HQ Under the Churchill Falls MOU
Existing Plant Capacity Allocated to HQ (MW)
Combined existing capacity to be allocated = 5,290 MW
4,765
4,160
3,910
3,660
525
1,130
1,380
1,630

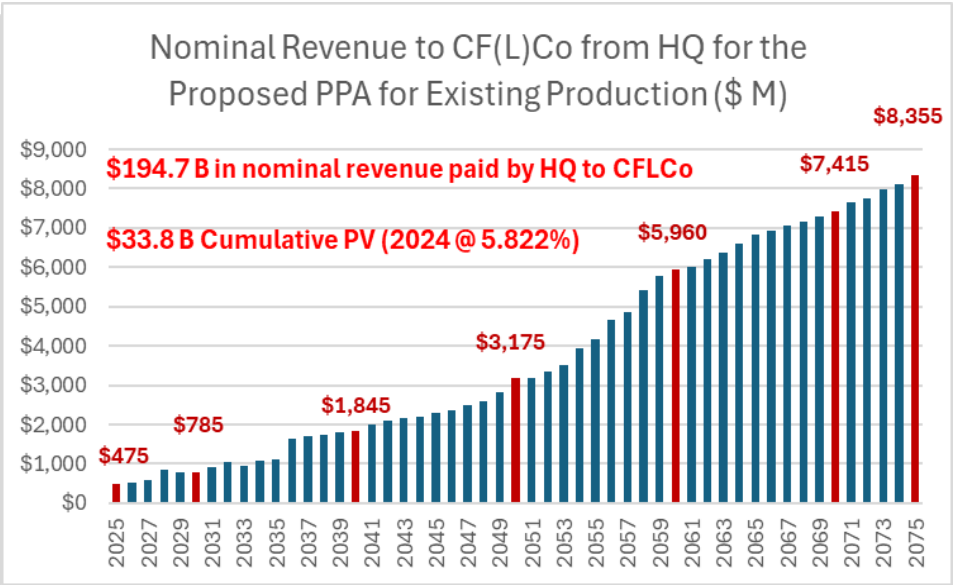
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MW Per Year of Existing Churchill Falls Capacity Allocated to HQ Under the Churchill Falls MOU
Existing Plant Capacity Allocated to HQ (MW)
4,765
4,160
3,910
3,660

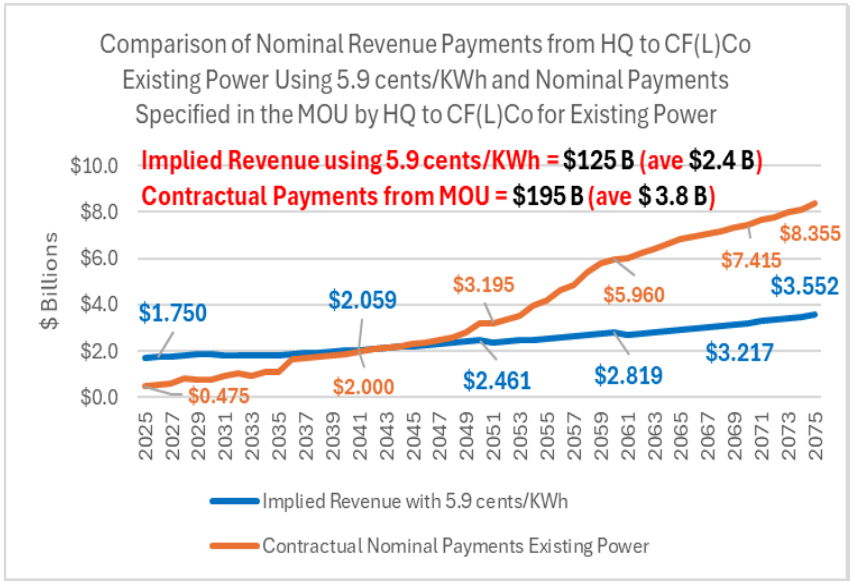
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Energy Available to HQ from the Existing Churchill Fall Capacity Under the Churchill Falls MOU
Energy Available to QH fromt he Existing Plant Capacity (GWh)
29,237
25,525
23,991
22,457
2025-75 = 1,268 TWh (76% of NLH & QH Energy (1,674 TWh) from Existing Chruchill Falls plant)
2025-41 = 461 TWh (36%) 2042-75 = 806 TWh (64%)

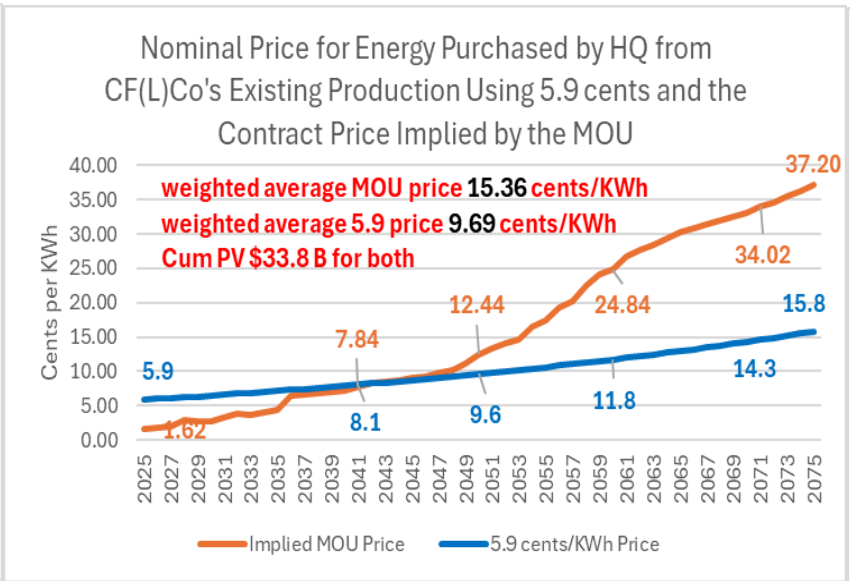
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Nominal Revenue to CF(L)Co from HQ for the Proposed PPA for Existing Production ($ M)
$194.7 B in nominal revenue paid by HQ to CFLCo
$33.8 B Cumulative PV (2024 @ 5.822%)
$475
$785
$1,845
$3,175
$5,960
$7,415
$8,355

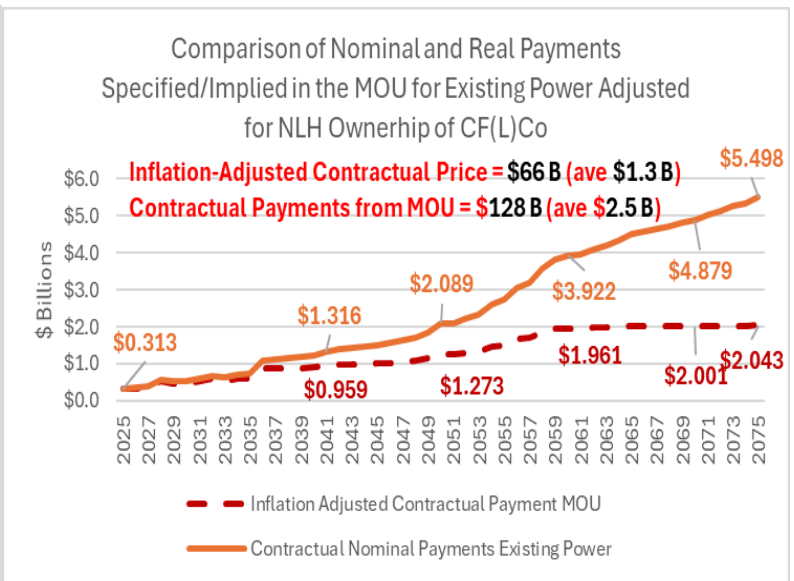
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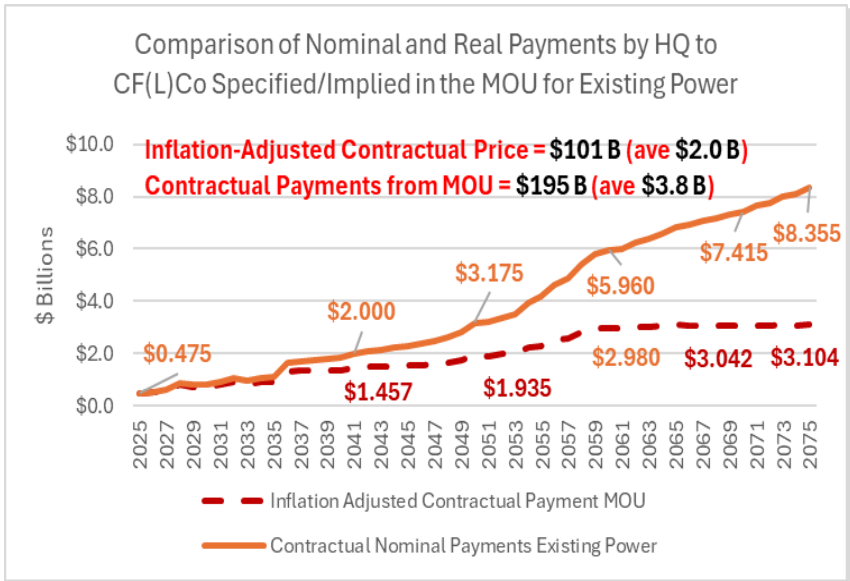
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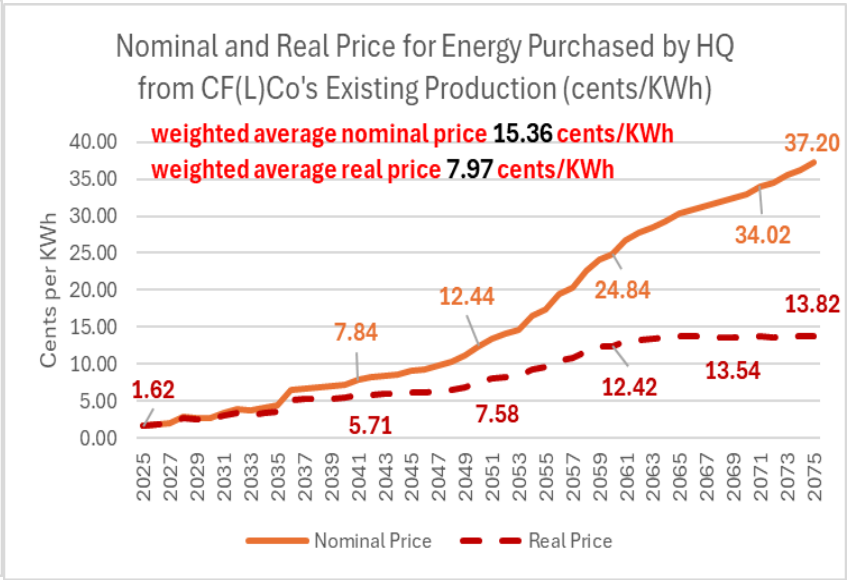
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D



There is $2.5 B annual average payments to CF(L)Co from the existing Power produced at Churchill Falls which could accrue to the Government of NL given it equity share in CF(L)Co for the next 50 years

A portion of which could be used to reign in debt

Some General Observations About NL

- Since joining Canada in 1949, there have only been 10 fiscal surpluses (6 due to oil and 4 were due to federal government transfers of some kind – e.g. payments under the 2019 Accord)
- The most recent budget indicates that NL has a net debt of $19.4 B and a deficit of $372 M.
- NL has gone from the youngest median age to the oldest
- NL has the highest proportion of the population over 65 years of age
- By 2049, NL (as shown in the M6 forecast for Stats Canada) is expected to have 32.4% of its population over 65 years of age, while Canada expects to have 23.6% over 65 years of age.

- NL is a fiscal enigma in that it has the highest per capita revenue, the highest per capita expenditure, the highest per capita debt, and the highest per capita debt servicing costs in any province.

- Given our current rates, we have limited flexibility in raising income taxes. With an aging population, we are expected to have a reduced ability to increase revenue by applying the same rates to an aging population.

- Per capita, healthcare costs are the highest and will continue to grow with an aging population.

- None of this seems to be a significant political concern for the electorate or the politicians

- The contractual revenue from the MOU provides an opportunity to get our debt house in order.

The Three Main Takeaways From The Presentation.

1. Historically and into the present, there has generally been a lack of success in achieving fiscal stability.

2. The GNL is a fiscal enigma.

3. Using the existing power from CF, but with the proposed new rate structure for that power, there is an opportunity to get the provincial government debt per capita down to the Canadian average.

Thank You