

Ontario's power trip: Big Becky goes bust

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The province's efforts to drill a tunnel from the Niagara River to a power plant are way over budget. Who will pay?

By Parker Gallant

Sometime this month, Ontario Power Generation, the \$6-billion-revenue province-owned electricity-generating corporation, will issue its annual report. There is much to look forward to in terms of costs, operating results, debt and performance. But one of the most interesting items will be to see how OPG management explains the 10-kilometer \$1.6-billion Niagara water diversion tunnel fiasco.

First some history. In June 2004, OPG announced the government-endorsed decision to proceed with a new water diversion tunnel for the Sir Adam Beck generating stations near Niagara Falls, Ontario. When it released its 3rd quarter financial results on November 11, 2005, OPG filed an MDA (management discussion and analysis) regulatory report, which confirmed that OPG had awarded a “design-build” contract to Strabag AG of Austria for \$600-million for the tunnel portion. The MDA went on to state that the cabinet of Ontario Premier Dalton McGuinty’s government had approved the contract along with the project financing. The project cost was estimated at \$985-million and the Ontario Electricity Financial Corporation (OEFCC) would provide a line of credit. The completion date was forecast as late 2009.

Premier McGuinty inserted himself into the tunnel project. The tunnel’s drilling equipment, the largest in the world — larger, even, than the Chunnel drills — was nicknamed “Big Becky,” after Sir Adam Beck, the founder of public electric power in Ontario. In 2006, Mr. McGuinty issued video statements on the might and power of Big Becky as a symbol of Ontario’s boldness and achievement. He recited Robert Browning: “A man’s reach should exceed his grasp, or what’s a heaven for?”

He might have added, more accurately: “Or what are ratepayers for?”

Now we fast forward to Feb. 13, 2009 for a look at an MDA report filed by OPG as part of its 2008 annual report. Turns out there are problems with the contractor and a dispute process was initiated in 2008 to sort out “whether the actual subsurface conditions encountered are materially different from those that were anticipated as part of the design-build contract.” This MDA goes on to say that revisions, when they happen “are expected to have a significant impact on the project completion schedule and the cost estimate” (my emphasis).

In May of 2009, OPG reported a miserable first quarter, a \$9-million loss on \$1.4-billion in revenues. The results were mainly attributed to a big decline in the value of the Nuclear Investment Fund. But also included in the press release was news that the

Niagara tunnel project costs had jumped by 62% to \$1.6-billion and the expected completion date was now 2013, four years later than originally planned. Who would pay this \$615-million cost overrun? Would ratepayers pick up the tab? An OPG spokesman said he couldn't say how it would impact ratepayers, since a "dispute review board" would have to determine whether the costs "should be shared between the two parties," OPG and Strabag. He promised an announcement as soon as they had the final timelines and a revised contract.

No such announcement can be found on OPG's web site. Instead, in its August quarterly financial statement, OPG said that "in June 2009 OPG and the contractor signed an amended design-build contract" — apparently at the new price and a completion date in late 2013. There was no mention of who was responsible for the botched initial contract.

Then, in November last year, OPG management confirmed the new costs and the revised completion date and announced that OPG was "in the process of pursuing an amendment to the Niagara Tunnel project credit facility with the OEFC, based on the revised cost estimate of \$1.6-billion." No information on the status of this revision to the credit facility can be found on OEFC's website.

For readers unfamiliar with Ontario's spider web of government-controlled electricity players, OEFC was the entity created to hold the "stranded debt" of the now-deceased power monopoly, Ontario Hydro. The CEO of OEFC is Gadi Mayman. Mr. Mayman is the officer within the Finance Ministry responsible for the province's medium and long term borrowing strategy and policies related to debt management. Mr. Mayman co-chairs the "Joint Nuclear Funds Investment Committee." This committee sets the investment policy of the funds put aside to handle the decommissioning of the nuclear power stations owned by OPG including the privately run Bruce Power stations.

OPG, and others involved in the Niagara tunnel fiasco, owe Ontarians some answers.

Who was responsible for the letting of the tunnel contract and why was there a massive omission in the original design-build proposal? Why are ratepayers responsible for the \$615-million shortfall? If one assumes the original cost for the "design-build" contract with Strabag was \$600-million and the increased costs are \$615-million, then one must conclude the revised contract with Strabag is for \$ 1.2-billion, or a 100% plus increase. How did the "dispute review board" rule and why was this hidden from the public? Where was Energy Minister George Smitherman when all this was going on? Why is OEFC financing this capital project when OPG supposedly has the ability to raise funds from private sources and the "stranded debt" was placed in OFEC to ensure that OPG would be self-financing in the future? Why is the "debt retirement" money being paid by ratepayers into OEFC now being used to provide new financing to OPG? The historical rate of repayment of the old "stranded debt" indicates it will take another 49 years to retire! Why hasn't the Auditor General raised some alarms on this? Why doesn't OEFC publish quarterly reports so the public can properly follow its activities?

Lastly, how is it possible for this project to be still financially viable with all these new costs added in — indeed, was it viable in the first place?

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Parker Gallant is a retired Canadian banker who developed an interest in his Ontario electricity bill and didn't like what he was finding.