



"Nation-building in the 21st Century: The Case for the Lower
Churchill Hydro Development"

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Nation-building is a term usually associated with our country's past. It evokes a sepia photo of men in stovepipe hats driving in the last spike of the transcontinental railway. We think back to the opening of the Saint Lawrence Seaway in the 1950s, the building of the TransCanada Highway, or the laying of the TransCanada Pipeline – the first to carry natural gas from western fields to eastern markets – that same decade. In the years following, Upper Churchill Falls, James Bay, the oil sands and Hibernia have put their own stamp on Canada's commercial history by helping fulfill the promise of our great natural resource wealth.

These transformational infrastructure projects have a number of common elements. They took years to build, and created massive employment and spinoff benefits during construction. They were financed with both public and private sector money, and over the years both sectors more than recouped their investment as the projects became profitable and stimulated the economies of entire regions. And each in its day was subject to intense scrutiny and

stoked public debate, as is the nature of developments that change the fortunes of a nation.

But the era of nation-building is far from over. Canada still has enormous untapped resource wealth, and planned megaprojects at both ends of the country hold out the promise of unlocking that potential and securing new markets for Canadian energy.

In the west, projects like the Keystone XL and Northern Gateway pipelines will strengthen and diversify our markets by connecting our vast western oil reserves with customers in the US Midwest and Gulf Coast, and with the energy-hungry economies of the Far East.

In the east, the development of the Lower Churchill Hydroelectric Project will unleash the remaining 35% of the generating capacity of the Churchill River. The first phase, Muskrat Falls, will produce 824 MW of clean, renewal energy and the second, Gull Island, will produce 2250 MW. Muskrat Falls alone represents a capital cost estimated at \$6.2 billion. The entire project will create over 10,000 person years of employment during construction.

Let me put this investment into perspective. Hibernia cost \$5.8 billion and the proposed Northern Gateway Pipeline will cost \$5.5 billion. In short, we are talking about one of the largest energy infrastructure projects ever in Canada.

The Lower Churchill project will put in place a critical link in Canada's electricity transmission grid.

Undersea cables will carry power, first from Labrador across the Strait of Belle Isle to Newfoundland, and then under the Cabot Strait to Lingan, Cape Breton Island. From there it can be delivered to markets in Nova Scotia, New Brunswick and New England.

When I was in politics, I had the privilege of serving as both Industry Minister and Environment Minister. These experiences left me with an affinity for the kind of development that generates widespread and long-term prosperity and is environmentally sustainable.

Lower Churchill is all of this, and more. It is a transformational project for Atlantic Canada that will take the region and the country to a new level of industrial development. It is, in effect, part of the unfolding of a vision that I share with many Canadians – to see this country become a clean energy superpower.

We are certainly an energy superpower today, by dint of our resource base alone:

- Canada is the world's third largest producer of hydroelectricity, with the largest number of projects on the drawing board.
- We produce about 2.8 million barrels of crude oil per day, and by 2020 that will climb to just under 4 million barrels – with close to 3 million coming from the oil sands.
- We are the world's third largest producer of natural gas.
- And we are the world's second largest producer of uranium.

But a strong resource base is not enough for us to claim the status of clean energy superpower.

To be sure we have the financial strength, an open-for-business environment, fair and predictable regulations and market-based business principles.

But have we, together with the United States, charted a clean energy future?

Played out in this larger context, the development of the Lower Churchill River is a major milestone in Canada's

efforts to wean itself from power generation that burns coal or oil, and to produce clean energy for export. Across Canada, it is estimated that a further 25,000 MW of Canadian hydroelectricity could be developed in the next 25 years, which would significantly green North America's electricity system.

When Muskrat Falls is completed around 2017, Newfoundland and Labrador will have an electricity system that is 98 percent carbon-free. The additional 824 MW will replace 500 MW produced today by burning heavy fuel oil at the Holyrood Thermal Generation Station. It will provide sufficient power for Newfoundland's needs, with excess capacity available for sale to Nova Scotia and other jurisdictions.

Subsequently, when Phase 2 – Gull Island – is completed, the amount of power available for export will increase dramatically. The combined 3,074 MW from Phases 1 and 2 will displace more than 16 megatonnes of CO₂ annually – the equivalent of taking 3.2 million cars off the road.

Let me put these environmental benefits into context.

A significant amount of electricity generation in North America still comes from coal-burning power plants. These plants are the single largest contributor to greenhouse gas in North America. In Canada, they are responsible for 13 percent of total GHG emissions. In the US, the figure is more than double – 27 percent. And so reducing the emissions of these plants is a top priority for both countries.

The federal government, the provinces and the industry are engaged in the final phase of a plan to shift Canada away from coal over the next few decades – a plan based upon “capital stock turnover” which the industry requested when I was the Environment minister.

With 59% of our electricity now coming from hydro, the goal of making Canada the world's cleanest electricity producer is eminently achievable. Lower Churchill will move us further and faster towards this goal.

I mentioned earlier that nation-building projects throughout history have all had their share of controversy – and Lower Churchill is no exception.

At the end of August, the Joint Review Panel of the Canadian Environmental Assessment Agency issued its finding that there was inadequate analysis of whether Muskrat Falls is the best and least-cost way to meet domestic demand requirements. The Panel called for an independent review of the economic, energy and environmental impacts of alternative sources, including wind power.

In the interests of full disclosure, it should be noted that I appointed this panel when I was Environment Minister.

Allow me to make a few observations about the Joint Review Panel finding.

First of all, it disputes the decision of both the Federal government and the Government of Newfoundland and Labrador that this is a project in the public interest. Indeed, the Federal government campaigned on their commitment to this project in the last federal election, and the issue is now being debated during Newfoundland's provincial election campaign.

Certainly, I respect the independence and integrity of our country's review process for mega-projects like this. But in trying economic times, these must be decisions that ultimately reside with the people we elect.

In my opinion, the federal government has done the right thing in supporting the development of the remaining

hydropower of the Churchill River. And in the days ahead, voters in Newfoundland and Labrador will have the opportunity to voice their opinion as well.

In response to the Panel's call for further study, Nalcor Energy commissioned the internationally respected consulting firm Navigant to conduct an exhaustive review of Nalcor's plans for Muskrat Falls. On September 15th, Navigant issued a report concluding that Nalcor's analysis of the project's benefits versus alternative means of generating electricity was robust, and that Muskrat Falls did indeed represent the best choice for Newfoundland.

There have also been some questions with respect to the federal government's loan guarantee for Muskrat Falls. Some argue that if the project cannot be supported entirely through private investment, then it is not in the public interest.

Sometimes people forget that most of Canada's megaprojects began with some measure of government support. Government support for game-changing projects like Lower Churchill...that will create substantial employment during years of construction, generate long-term economic and environmental benefits and boost an entire region's industrial capacity... is precisely what Canadian governments have and should continue to support. There is no better illustration of this than the oil sands. This loan guarantee will ensure that the project can be delivered at lower cost and at lower risk, and those benefits accrue to all stakeholders.

Massive hydro development is always very expensive in the short run, and the benefits play out over decades. Lower Churchill will be no different. Muskrat Falls' 824 MW will replace current GHG-intensive electrons with emissions-free electrons, and add to Newfoundland's warehouse of green energy for export. But it is fair to say that, with the market for electricity growing in Eastern Canada in the range of one

percent per year, we're going to have to find new customers for the 2250 MW from Phase 2 Gull Island.

It is imperative that Canada and the United States work together to ensure that we realize the full potential for growth of the American market for clean Canadian hydro. At present, New England still produces 55% of its electricity from burning fossil fuels and a mere 13% from hydro and renewables. Their electricity grid is also in need of significant upgrade.

With the ability to transmit new Canadian hydro from Newfoundland, and indeed from Quebec, into both an expanded Canadian market and an expanded US market, we will be able to realize the full potential of Canadian hydro electricity.

This is essential for the 2nd phase of Lower Churchill, the Gull Lake project which represents another 2250 megawatts.

It is now time for Ontario, Quebec and Newfoundland to sit down and work out a long-term plan to bring clean, renewable, affordable power into markets with high demand. Aside from the economic benefits, an unfettered electricity market throughout the region would contribute mightily to efforts to combat climate change. To my mind, everybody would emerge a winner under this scenario.

We are a small country with capital-intensive industries and opportunities that are unique amongst G8 countries – or in the world, for that matter. No other nation is leading energy projects at our pace and scale.

This is a remarkable country and we are still building it.

And in an economic climate, where the world debates how much public money to borrow to create stimulus jobs,

Canada stands alone in terms of its potential to chart a different course.

Frankly, the Lower Churchill Project is only one in a series of significant infrastructure opportunities which set Canada apart.

Consider the energy infrastructure projects now on the drawing board: Lower Churchill in Newfoundland and Labrador....the Romaine project and in planning, the Petit-Mécatina complex in Quebec, the Conawapa hydro project in Manitoba... the Site C project on the Peace River in BC... the Northern Gateway pipeline in Alberta and BC... the Mackenzie Valley pipeline in the North... the Northwest Upgrader in Alberta... LNG projects for the west coast.

It is a truly impressive list.

CIBC released an economic report today entitled "Energizing Infrastructure". Our conclusion is that capital investment in the electricity market needs to rise very quickly to accommodate both replacement needs and the aggressive expansion plans I've mentioned right across the country. Nearly \$50 billion worth of hydro projects are slated by the end of the decade, with an estimated increase in generation capacity of 11,200 MW.

But that's just the beginning for the electricity sector. Various provinces have significant plans to boost generating capacity. New electrical generating capacity will reach nearly 40,000 MW from all sources over the next 20 years. That means close to \$200 billion in investment over the period.

Now add roughly \$100 billion for transmission and distribution, and the sum is close to \$295 billion. For every \$1 billion investment in the electricity sector, CIBC economists estimate close to 1,100 jobs created, for a grand

total of more than 320,000 jobs building electricity infrastructure over the next two decades.

Think about this for a moment. 320,000 jobs over 20 years from the electricity sector alone. And if you include oil sands-related infrastructure projects, we are talking over one million new jobs over 20 years.

Let me say this again.

The major energy infrastructure projects, according to CIBC's economics team will generate over one million jobs over the next 20 years.

We are in uncertain economic times.

After a short climb out of the last recession, the global economy is again on shaky ground as many of the world's leading economies grapple with excessive debt loads and nervous financial markets. Already there are calls for a moratorium on efforts to curb public debt and for a return to short-term stimulus spending by government.

But I ask you this. Why should we borrow money from our grandchildren to create temporary jobs when we can harness private sector capital – without adding to deficit spending or public debt – to create permanent jobs and long-term prosperity? When government utilities are involved in these projects, the investments generate revenues that will offset future interest costs.

These projects will create over one million jobs when they are most needed, green up the North American electricity system, build a network of pipelines and ports that will diversify our oil and gas markets beyond the United States, and improve our ability to add value to our energy exports.

These opportunities are literally staring us in the face.

In this environment, what is the appropriate role for governments?

First, Governments should be supportive of these projects with innovative public policy tools. The federal Government's loan guarantee is a wise instrument of industrial policy to reduce the cost of the project without significant effect on current deficits.

Second, governments must continue to work on the diplomatic front to advance our energy relationships with the U.S. and with China, which has become a profoundly important secondary marketplace, and

Third, governments must continue to expedite, streamline and accelerate the regulatory and environmental approval processes for mega-projects.

As a Bank we are supportive of the continued build out of Canada as a clean energy superpower. We support and intend to participate in the financing of hydro projects like the Lower Churchill and energy projects which provide west coast access for our hydrocarbons.

The economic potential of these projects, the job creating power of these projects, led for the most part by the private sector, is immense. No other industrial democracy in the world has such opportunity. If we are smart about this, we can build out our country, create jobs and still maintain one of the lowest debt to GDP ratios in the world. We don't need to rely on short term_stimulus spending, we need support for economic infrastructure that creates wealth.

Permit me to return to the concept of nation-building. Projects like Lower Churchill are much more than an opportunity to create jobs. They present an opportunity to consider what is in the broader, longer-term interest as we

develop our domestic energy resources. They are about building infrastructure to ensure Canada's future prosperity.

Nation-building is always a bet on the future. It requires courage, commitment and vision, tempered by a clear-eyed assessment of how the future will unfold.

The authors of the great infrastructure projects of the past have always had these attributes.

They stood on the banks of great waterways and saw ships and barges plying their way across them.

They looked out over endless wilderness and saw farms, towns and cities, with an iron rail to bind them.

In the roar of great rapids and waterfalls, they heard the power to light streets and homes, and drive the engines of growing industries.

Now we are about to begin our next great nation-building project. It hasn't escaped me that the expected completion date of Muskrat Falls -- 2017 -- is also the 150th anniversary of both Canada and the Canadian Imperial Bank of Commerce.

As we celebrate the nation-builders of our past, we must remind ourselves that our young country is still a work in progress, and that the work of nation-building never ends.

Thank you very much.