New Churchill Falls agreement: Key terms for Newfoundland and Labrador, Québec and Canadian power markets

September 28, 2026

On Sept. 17, 2026, Newfoundland and Labrador's House of Assembly, sitting in a special session, voted to move forward with a definitive cooperation and implementation agreement dated Aug. 17, 2026 (the DCIA)[1] between Newfoundland and Labrador Hydro (NLH), Hydro-Québec (HQ), and Churchill Falls (Labrador) Corporation Limited (CF(L)Co).

The Government of Newfoundland and Labrador, Hydro-Québec and the Federal Government first announced the agreement on Aug. 17, 2026. The agreement provides the framework to replace the 1969 Churchill Falls Power Contract and pair the redevelopment of Churchill Falls with the Gull Island project, new transmission pathways through Québec, a rebate for Newfoundlanders and Labradorians, and significant federal financing and permitting support. The package would expand Newfoundland and Labrador's retained power, provide certain supply-related assurances to Hydro-Québec, establish defined export channels into U.S. markets, and support a federally backed wind component and transmission build in Labrador West.

The DCIA faces political uncertainty in Québec. The next provincial election is scheduled for Oct. 5, 2026. While the current provincial government supports the agreement, the Parti Québécois has indicated that it would conduct a due diligence review if it forms government.

Notwithstanding the political risks at play and the fact that the DCIA remains subject to the negotiation and execution of long-form definitive agreements (collectively, the Definitive Agreements), the agreement represents a potentially significant reset of the commercial, operational, and intergovernmental framework governing the Churchill River hydroelectric assets. Below are some of the key aspects of the DCIA as it stands today.

New Churchill Falls agreement: Key takeaways on power pricing, generation, exports, federal financing and ratepayer rebates

- The existing Churchill Falls pricing arrangement would be repriced before the current contract expires, increasing the price from approximately $0.002/kWh to approximately $0.018/kWh in 2027, with annual payments subject to a CPI-based adjustment mechanism.
- The Churchill Falls power generating facility (CF) is expected to see a 23.5 per cent increase to its installed capacity through an upgrade of all turbine-generator units at CF. NLH would receive access to up to 2,350 MW, increasing to 2,750 MW if the Wind Project (as described below) proceeds. HQ would receive access to up to 6,915 MW, increasing to 8,515 MW if the Wind Project proceeds. The potential expansion of CF will also be studied.
- The development, construction, and operation of a new hydroelectric power generating facility on the Churchill River, which would be located downstream from CF and ~100KM southwest of the Town of Happy Valley-Goose Bay (the Gull Island Project or the GI Project) that is expected to provide an installed capacity between approximately 2,250 MW and 2,700 MW, depending on the final configuration.
- The HQ-NLH purchase and sale framework provides NLH with defined export/offtake options, including up to 280 MW at a blended export benchmark price combining pricing from nodes in New England (1/3), New York (1/3), and Ontario (1/3); up to 240 MW priced using a pricing framework that is equivalent to HQ's Champlain Hudson Power Express (CHPE) contract; and up to 200 MW priced using a pricing framework that is equivalent to HQ's New England Clean Energy Connect (NECEC) contract.
- Federal participation includes $10 billion in financing, with the broader package characterized as nearly $70 billion in clean energy investment supporting approximately 14,000 MW of power and 23,000 construction jobs.
- Upon finalization of the Definitive Agreements, Newfoundland and Labrador ratepayers would receive a 15 per cent rebate on the first 2,000 kWh/month, estimated to save the average customer $351 per year.

Material terms

Schedule B of the DCIA outlines the comprehensive material terms that will serve as the basis for the drafting of the Definitive Agreements. Some of the most significant terms relate to the HQ-NLH Purchase and Sale Agreement and the Gull Island Project.

Under the existing (1969) agreement, HQ purchases power for $0.002/kWh. Annex D sets out the annual payments that would apply under the new power purchase agreements (PPA) with CF(L) Co (the New CF PPAs). Under those agreements, the effective price increases from $0.002/kWh to approximately $0.018/kWh in 2027, with target payments subject to a CPI-based adjustment mechanism.

CF is expected to see a 23.5 per cent increase (approximately 1,275 MW) to its installed capacity through an upgrade of all turbine-generator units at CF (the CF Upgrades). NLH would receive access to up to 2,350 MW, increasing to 2,750 MW if the Wind Project (as defined below) is completed; HQ would receive access to up to 6,915 MW, increasing to 8,515 MW with the Wind Project.

The parties have also agreed to study the potential expansion of CF as relating to a new powerhouse and related interconnection facilities adjacent to the existing facility.

HQ-NLH Purchase and Sale Agreement

Schedule B of the DCIA sets out five pricing mechanisms for the HQ-NLH Purchase and Sale Agreement under which NLH may elect to sell power to HQ and HQ must purchase that power:

1. **Synthetic Export Price**: up to 280 MW, priced as a blended “synthetic” export benchmark, which will be comprised of: 1/3 New England + 1/3 New York (Astoria delivery point) + 1/3 Ontario (PQAT interface), and winter capacity pricing (as outlined in Annex H of the DCIA), net of transmission charges that would otherwise be payable.
2. **CHPE Equivalent Pricing**: up to 240 MW at an agreed upon capacity factor, priced on a net basis equivalent to HQ’s CHPE contract, but not back-to-back (and excluding CHPE penalties/deductions); NLH’s delivery obligation is limited to the Newfoundland & Labrador and Québec interface (LAB-HQT).
3. **NECEC Equivalent Pricing**: up to 200 MW at an agreed upon capacity factor, priced on a net basis equivalent to HQ’s NECEC contract, likewise not back-to-back (and excluding NECEC penalties/deductions); delivery is limited to LAB-HQT.
4. **Discounted PPA Price**: any volumes priced at 95 per cent of the applicable PPA pricing (*i.e.*, the New CF PPA for NLH’s CF entitlements; the relevant CF Upgrades PPA; and the relevant GI PPA), available when NLH has unplanned unused energy after serving domestic load.
5. **Premium PPA Price** (CF only): any volumes of NLH’s CF entitlements only, priced at 1.5x the New CF PPA price, based on the payment schedule set out in Annex D of the DCIA and subject to the CPI-based adjustment mechanism.

However, the pricing mechanisms listed above do come with certain conditions. At least three years’ prior notice is required for sales at the Synthetic Export, CHPE Equivalent, NECEC Equivalent or Premium PPA Prices and for reallocations among those regimes; absent such notice, sales occur at the Discounted PPA Price. NLH may recapture previously sold volumes on at least three years’ prior notice solely to serve domestic load, with continued payment under the prevailing pricing regime during the notice period. NLH may not engage in short-term arbitrage among the pricing regimes. Any changes must comply with the three-year notice requirement and the applicable MW limits.

NLH retains its 265 MW Labrador to New York transmission reservation through Québec’s open-access transmission system, of which NLH may offer any portion to HQ for a minimum one-year term. If HQ accepts, HQ is responsible for paying the associated transmission charges. HQ’s obligation is subject to one-year prior written notices to reclaim or relinquish. Where HQ accepts all or a portion of the 265 MW, the parties will collaborate to renew such transmission rights (including by exercising rollover rights).

Gull Island

The Gull Island Project includes the development, construction and operation of a new hydroelectric power generating facility on the Churchill River; the Gull Island Project will be owned and operated by a new joint venture entity, 60 per cent of which will be owned by NLH and 40 per cent of which will be owned by HQ and is expected to provide an installed capacity of approximately 2,250 MW or 2,700 MW (depending on the final configuration).

HQ and Société d'énergie de la Baie James (a HQ subsidiary) shall lead the development and construction of the Gull Island generating facility; the 735 kV line from Gull Island to Churchill Falls (including the associated substation); and the 735 kV line from Gull Island to Romaine 4.

The terms of the DCIA provide NLH with significant incentive payments related to Gull Island, namely:

1. $500 million NPV upon execution of the Definitive Agreements;
2. $500 million NPV one year after execution of the Definitive Agreements;
3. $300 million NPV two years after execution of the Definitive Agreements; and
4. $2.2 billion NPV in installments to satisfy the equity requirements of the GI Project (NLH never to be out of the money; meaning that incentive payments shall be paid by HQ concurrently with any capital call funding deadline).

The $3.5 billion NPV package is intended to fund NLH's equity contribution to the Gull Island Project and prevent NLH from being out of pocket for those contributions. NLH may use all or a portion of the $3.5 billion NPV to meet its equity contribution for the NL Transmission Assets, provided that it remains responsible for its equity contribution to the Gull Island Project. If NLH's aggregate equity requirements for the Gull Island Project and/or the NL Transmission Assets are less than the $3.5 billion NPV, HQ must pay the difference to NLH six months after the Gull Island Project is fully commissioned.

Federal participation

The Federal Government announced $10 billion in federal financing to upgrade/expand Churchill Falls, develop Gull Island, support co-investment with the Innu of Labrador in a new Labrador onshore wind project, and build associated transmission. For Newfoundland and Labrador, additional federal supports total $3.5 billion (2026 NPV), including up to a 40 per cent equity stake in a Labrador wind project (estimated $1 billion NPV), $1 billion (NPV) for a Labrador West transmission line, a federal loan guarantee for Gull Island construction costs, and $1.5 billion (NPV) in support for Gull Island, Churchill Falls, and transmission.

The Federal Government describes the package as nearly $70 billion in clean energy investment and the largest clean energy investment in North American history, delivering approximately 14,000 MW of power, supporting 23,000 jobs during construction, and contributing $31 billion to GDP through the early 2040s.

New wind project

The parties to the DCIA also agreed to study the potential development, construction and operation of a new 2,000 MW wind farm project that would be located in Newfoundland and Labrador (the Wind Project). If it goes ahead, the Wind Project would be owned by a new special purpose entity.

Newfoundland and Labrador electricity rebate, local employment and labour commitments

Upon finalization of Definitive Agreements, Newfoundland and Labrador will implement a 15 per cent “Churchill River Electricity Rebate” on the first 2,000 kWh/month for all provincial ratepayers, estimated to save an average of $351 per year.

The agreement includes labour and benefits commitments. For the Gull Island Project, the greater of (i) 85 per cent of total construction person-hours, and (ii) 20 million person hours must be worked in Newfoundland and Labrador. The parties will also establish a hiring protocol that is consistent with the Canadian Charter of Rights and Freedoms and implements existing commitments made with the Innu Nation of Labrador followed by first consideration for employment in the following order: qualified Labradorians, qualified Newfoundlanders, qualified residents of Québec, and qualified residents from the rest of Canada. Peak construction employment is expected to reach approximately 5,000 workers.

Water management principles

The parties also intend to enter into an amended and restated water management agreement with respect to the Churchill River. Annex G of the DCIA sets out certain water management principles, including that the water management agreement’s core objective is to optimize short-term and long-term production on the Churchill River, with indemnification for production facilities adversely impacted by optimization; terms that allow suppliers to contract for access to greater generating or transmission capability than their own to facilitate debanking; and minimum annual and monthly CF production shall be enabled based on annual inflows and upstream plant availability to reliably meet downstream commitments and environmental rules.

This amended and restated water management agreement is noteworthy as the DCIA indicates that the New CF PPAs, the CF Upgrades PPAs, and the GI PPAs will include provisions consistent with the principles noted above (*i.e.*, in Annex G of the DCIA) and the terms and conditions of the amended and restated water management agreement.

Definitive agreements, March 2027 deadline and Major Projects Office referral

The parties will work to negotiate the Definitive Agreements during the term of the DCIA, which ends on March 31, 2027, unless mutually extended, terminated earlier, or if the Definitive Agreements are executed earlier. Once the Definitive Agreements are executed, the projects are expected to be referred to Canada’s Major Projects Office.

BLG’s Energy group has deep expertise advising provincial and territorial governments, project proponents and utilities on transmission projects and interties. Please connect with any of the key contacts below for further guidance on how the DCIA may impact your organization.

Footnote

[1] Note: All capitalized terms not otherwise defined in this bulletin have the meaning given to them in the DCIA.

By

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