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New Brunswick frustrates Ottawa's plan to sell AECL; In major setback for struggling Crown corporation, province drops proposal to build reactor in favour of French competitor

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New Brunswick has cast a pall over Ottawa's effort to sell off Atomic Energy > of Canada Ltd., announcing that it has dropped AECL's proposal to build a new reactor and is turning instead to the Crown corporation's arch-rival, France's Areva Group.

The New Brunswick decision, made public on Thursday, is the second major setback for AECL in the past year. Last summer, the Ontario government postponed indefinitely the purchase of the corporation's next-generation Candu reactor, which is still in development.

The Harper government is trying to sell AECL, and the bidding process, managed by New York merchant bank N.M. Rothschild & Sons closed on June 30. Industry insiders say there were multiple bidders, including Montreal-based engineering giant SNC-Lavalin Group Inc. and Westinghouse Electric Co. LLC, a unit of Toshiba Corp.

Areva had indicated during the Ontario competition that it would consider seeking a stake in Canada's flagship nuclear company, but its interest has cooled, and sources said on Thursday that the French multinational has dropped out.

It remains uncertain whether the would-be buyers are willing to pay a price that Ottawa would find acceptable, including the assumption of AECL's liabilities. And the announcement from New Brunswick undermines confidencein the company, although AECL's call for private financing of new reactors had made it a long shot.

"I get the impression there's not a heck of a lot of interest" in buying control of AECL, said Bryne Purchase, a former deputy minister of energy in Ontario and now a professor of energy policy at Queen's University.

He added that any buyer would be unlikely to assume AECL's liabilities, and might demand additional guarantees from Ottawa to support the company in the international marketplace. In fact, the market is dominated by companies that are seen as "national champions" at home and are well supported by their governments, he said.

Mr. Purchase said the New Brunswick agreement fuels the perception that AECL is unable to sell reactors, has little government support in Canada, and is essentially being sold as a company that is in the business of refurbishing its existing reactors.

New Brunswick has signed a memorandum of understanding with Areva, which is owned by the French government, to explore the development of an "energy park" anchored by a nuclear reactor but including wind, biomass and natural gas power generation for export to the United States.

In an interview, New Brunswick Energy Minister Jack Keir said the government turned to Areva after AECL failed to make progress on a plan to build a privately financed reactor and sell the power to New England.

AECL is also behind schedule and over budget in refurbishing the province's Point Lepreau reactor. Mr. Keir said the company will have a tough time selling new reactors until it can demonstrate that it can better manage retooling projects.

And he said investors will be wary given the track record of overruns at Point Lepreau and another refurbishment project at Bruce Power in Ontario, the cancellation of the Maple research reactors, and problems at AECL's facility in Chalk River, Ont.

"The way this is playing out isn't good for AECL," Mr. Keir said.

"Certainly, in the international market when you are looking for investors, they're looking for stability and reliability. And with the issues they had at Chalk River and with the Maples and at Point Lepreau, it is a tough sell for AECL."

Mr. Keir has demanded that Ottawa compensate New Brunswick for the additional costs it has incurred from the overruns, saying AECL now admits that the Point Lepreau project was far more risky than it had acknowledged when the contract was signed.

The minister said the Areva project is still in its early stages, but added that the French company has insisted it will not seek subsidies, loan guarantees or other support from the provincial or federal government.

Areva's North American chief executive, Jacques Besnainou, said the letter of intent is "the first step in a very long process" and, if things go well, that reactor construction would not begin until 2015. But first, the partners must determine that there is a profitable business that can be financed privately.

"We believe it makes sense, but it was very important for us to have a partnership with the operator, New Brunswick Power, and also with the government," Mr. Besnainou said in a telephone interview from Saint John.

Greenpeace researcher Shawn-Patrick Stensil said the Areva agreement is unlikely to get off the ground because the French vendor will have to line up private financing, which has proven nearly impossible in industrialized economies, and compete with low-cost hydro from Quebec in New England markets.

He said Areva has had its own costly overruns in projects in France and elsewhere in Europe. But it is better able to survive than AECL, given the eagerness of the Conservative government to end the Canadian Crown corporation's subsidies.

"AECL is a dead man walking," Mr. Stensil said. "The Harper government is right to sell it and stop the drain on the public purse."