

OpEd – Pique Newsletter

**Re: IPPs cost BC Hydro almost \$1 billion annually by 2014
32 percent rate increase will help BC Hydro pay for rising energy costs (March 31, 2011)**

The headlines on your recent article on energy costs imply that purchases from independent power producers are a primary cause of BC Hydro's current application for a 32% rate increase when, in fact, the increase is all about renewing and expanding Hydro's existing public facilities.

Table 1-2 of BC Hydro's rate application to the BC Utilities Commission (www.bcuc.com) tells the story. It shows a cost increase from \$3.30 billion in fiscal 2011 to \$4.45 billion in fiscal 2014, with 92% of that related to upgrading the BC Hydro system.

Of the \$1.15 billion increase, almost half, \$522 million will pay for charges related to the *capital costs* of new BC Hydro assets coming into service. These include interest payments, amortization charges and payments to BC taxpayers. The second largest component is the \$242 million increase proposed for *operating costs*. The biggest single component is staffing costs as BC Hydro's work force has increased from about 4,000 to over 6,000 in recent years.

The third largest component is \$148 million allocated for the *cost of energy*. Of that, \$94 million is for purchases from IPPs – only 8% of the total \$1.15 billion requested for the three year period. Which means that only 2.6% of the total 32% rate increase could be attributed to IPP costs.

As associated argument from those opposed to IPPs is that their prices are hugely inflated by comparison with BC Hydro's production and that Hydro can buy cheaper power on the 'spot' market (primarily GHG-producing, coal-fired power). The figure cited is \$124 per megawatt hour (MWh) which is the average price BC Hydro is paying for *Firm Energy*. But *Non-Firm Energy* is much cheaper and IPP power also is further discounted when delivered in the low demand period of May-July. And, BC Hydro also can earn Renewable Energy Credits from those purchases. When all these factors are considered, the price is likely to be more in the range of \$55 to \$75, and these prices are 'locked in' under IPP contracts that run for 30 to 40 years!

It must be emphasized that while BC Hydro is spending billions renewing its generation, transmission and distribution assets, none of these will produce significant new amounts of energy or sales revenues. If these capital costs are to be covered by existing energy sales, then these costs must be borne by BC Hydro ratepayers and rates must go up.

It also is hard to understand those who criticize BC's mandatory requirement to be self sufficient in electricity. There is nothing new about "self-sufficiency" which is a planning standard that BC Hydro and its predecessors have used for decades and which now is established in law. BC is almost 100% reliant on renewable hydro generation and we must have enough electricity from domestic sources to make it through the inevitable droughts.

It obviously is prudent to have BC control its electricity destiny rather than depend on the 'spot' market. Consider the impact on California in 2001 when power blackouts increased the wholesale price of electricity by 800%. Consider Japan today as it faces shortages resulting from the recent earthquake. Consider the impact on BC in the event of severe water shortages in the Peace and Columbia reservoir watersheds – as has occurred in the past.

1:00pm

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