

FACT SHEET: THE COST OF PRIVATE POWER

The cost at which BC Hydro acquires energy from private power producers is frequently misunderstood and misinterpreted. In particular, the average adjusted *firm* energy* price from the 2009/10 Clean Power Call has been compared to the *non-firm* spot market price for energy imported from the U.S. The allegation continues that the BC government's policy of energy self-sufficiency will produce large surpluses of expensive power that will have to be sold into a much lower priced spot market.

The crux of the allegation is that private energy will cost \$124 to \$140 per megawatt hour (MWh) while spot market energy is available for \$40/MWh. In fact, the cost of private power:

- Likely will be \$70/MWh or less when the much lower price of the *non-firm* portion of the power from private producers and the Renewable Energy Credits received by BC Hydro are taken into account
- Will be guaranteed under long term contracts
- Will not be subject to huge swings in market prices as has occurred in times of short-term surpluses in the U.S., spikes in natural gas prices, low water levels in BC and the 2001 energy crisis in California when the price escalated to \$800/MWh.
- Will not be subject to an additional charge of \$27-\$55/MWh which BC Hydro estimates as the potential charge against U.S. power for greenhouse gas emissions.

Actual private power cost

- For planning purposes it is prudent that BCH rely on energy that is either statistically or contractually firm. However, a significant amount of the energy from private producers is non firm and delivered for the non-firm price of \$48 /MWh. This brings down the weighted average cost of the total energy to just \$101/MWh.
- There may be under-deliveries during some periods every year, and BC Hydro can replace this shortfall at the market price – and at a time of its choosing due to its storage capabilities. BC Hydro also can charge the project \$5/MWh as liquidated damages. This would bring the weighted average cost down to \$96/MWh.
- BC Hydro also is able to sell Renewable Energy Credits for any wind energy it procures, and likely will be able in future to earn RECs for small-hydro energy. These payments will reduce the effective cost for renewable energy from private producers by another \$30-\$40/MWh - to \$70 or less.
- Also note that a number of adjustments apply to the firm energy price that may or may not represent real costs to BC Hydro. They include a charge for *assumed*

transmission losses; charges and securities against actual and *potential* interconnection costs; a charge for a share in the *possible* cost of future increases in transmission capacity.

And benefits

- Domestic sources also provide clean and renewable energy with no greenhouse gas emissions. The cheapest imported spot market energy often is generated with fossil fuels.
- Purchases from domestic sources also contribute as much as \$50/MWh to government revenues and local economies. Importing spot market electricity eliminates these revenue contributions and exports clean energy jobs to other jurisdictions.

* Firm energy, or 'non-interruptible' energy, is electricity guaranteed to be available at a given time. Non-firm, or 'interruptible' electricity, is not required to be delivered or to be taken under the terms of a power purchase agreement.

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