Response to
Zapped allegation of overspending billions on IPPs

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On February 14, 2019 the Minister of Energy, Mines and Petroleum Resources issued a report that the Ministry had commissioned entitled, Zapped: A Review of BC Hydro’s Purchase of Power from Independent Power Producers by Ken Davidson.

*Zapped* was a political document designed to make news headlines by alleging an over spending of $16 billion dollars over 20 years; however it was based on inaccurate information.

The Clean Energy Association of BC (CEBC) has prepared a thirty page report that debunks *Zapped*’s allegations mainly by using statements and statistics from BC Hydro. The report counters the misrepresentations embedded in the calculation that *Zapped* used to make its $16 billion overspending claim.

The CEBC report debunks *Zapped*’s three overall allegations that, starting in 2007:

- *BC Hydro bought too much energy,*
- *BC Hydro paid too much for the energy it bought*
- *Undertook these actions at the direction of the Government.*

**Energy Surplus**

The surplus energy that does exist today is not large, it was not intentionally created by the previous government, and was not forced upon BC Hydro. The amount of energy BC Hydro purchased from Independent Power Producers (IPPs) a decade ago was based on its own forecasts made before the utility and other forecasters recognized the economic impact of the global financial crisis of 2008-09.

Beginning in 2008 and based on rising load forecasts, BC Hydro issued Calls for Power that were to be supplied by the IPP projects that submitted the lowest priced bids. The volume of power that was purchased was based on BC Hydro’s forecasts that rising BC power demand would continue to grow at the same strong pace as it had for the previous several years.

Between January 2009 and August 2010, BC Hydro had signed Electricity Purchase Agreements (EPA) with the lowest cost IPPs that bid into the main Calls for Power. Almost no economic forecasters foresaw the depth or duration of the impacts of the 2008/09 global financial crisis on electrical loads. By the time the impacts to the BC resource sector and the drop in power consumption was fully understood by BC Hydro, construction had started on the IPPs that had received EPAs from those Calls for Power.

BC electricity demand increased slowly after the crisis, only returning to the previous 2008 levels in 2017. During those 10 years, BC was a net exporter for 4 years. While *Zapped* claims that BC exported 95,000 GWh, BC Hydro records show 15,500 GWh - one-sixth the amount.
For the next 10 years, from 2019 to 2028, Zapped estimates that the surplus of IPP energy will be 95,000 GWh. But BC Hydro’s most recent 10-year forecast shows that, after deducting Site C energy, the total net surplus of IPP energy will be 8,000 GWh - one-twelfth the amount estimated by Zapped.

For the 20 years upon which Zapped bases its $16 billion overspend allegation, the surplus energy from IPPs is 23,500 GWh, or only one-eighth of the 190,000 GWh estimated by Zapped.

**Price of Energy Purchased**

Zapped’s misinformed assertion that the “value of all energy is Mid-C” (the spot market price of importing energy from the USA) is not used by energy experts procuring new electricity supply. Since 1989, BC Hydro has bought energy through long term contracts that contain price certainty for ratepayers. In 2006, BC Hydro executives stated that purchasing from the spot market was accepting too much volatility. Recently, the government approved BC Hydro constructing its Site C Dam project rather than having it purchase more power from Mid-C.

While the price of renewable energy has dropped in the last 10 years, at the time the EPAs were awarded to IPPs, BC Hydro’s own reports stated that the price of energy was cost-effective.

Wind turbine costs have dropped over 60% and their performance has improved. Solar is seeing similar declines in cost and advancements in technology. Also, in the years since the 2008/09 financial crisis, the interest rates charged to finance wind, solar and hydro projects have dropped substantially. These renewable energy projects in select BC regions are now the lowest cost supply option.
Direction of the Government

The BC Liberals’ 2007 Energy Plan was not created with “the intent to create the appearance of an energy shortfall.” In 2007, after several years of high net imports and strong domestic load growth, the Energy Plan set a goal of self-sufficiency by 2016. This was supported by BC Hydro executives stating to the BCUC, in 2006, that the net imports were too high as they had reached 18%, and recommending replacing imported energy with long-term contracts with IPPs in B.C.

The 2007 Energy Plan’s policy direction to use the Burrard Thermal Generating Station less and to close it by 2016 was to save money and reduce GHG emissions. It consumed 25% more fuel than average gas-powered plant thereby increasing fuel costs, carbon taxes and GHG emissions by that same amount.

The previous government did not force BC Hydro to sign IPP contracts after the decrease in energy demand from the financial crisis was known. In 2010, BC Hydro (and other utilities) were still forecasting significant demand growth. By August 2010, BC Hydro had already signed the IPP contracts that resulted from the Calls for Power.

First Nations Benefits from IPPs Ignored

The Zapped report also ignores the benefits IPP projects have provided to First Nation communities. Thirty First Nations are involved in 78 operating IPP projects all over British Columbia. Almost all the IPP projects that were developed as a result of the BC Hydro EPAs have benefit agreements with local First Nations.

Through those benefit agreements, IPPs are delivering significant annual royalty payments and, in many cases, equity ownership in operating facilities. Those projects employed hundreds of Indigenous construction workers and currently employ many First Nations in permanent operating jobs, providing a legacy in remote communities where few other opportunities exist.

IPPs are not costing BC ratepayers an extra $16 billion

In conclusion, BC Hydro’s data does not support Zapped’s allegation of a $16 billion overspend. Zapped’s estimate of the over-purchased volume is eight times more than BC Hydro’s historical record and forecasts of net exports from surplus IPP energy. Zapped’s theory of Mid-C overcharging is irrelevant to the pricing of new projects energy and is not used by BC Hydro or any other utilities in regulated markets.

At no time during the writing of his report did Zapped’s author contact CEBC or any of its members to determine if his report was factually correct.

It is important to have a fair and factual debate when discussing important issues that impact affordability for all British Columbians. It is in that vein that CEBC has prepared the Zapped response report. It contains over 60 references, including over a dozen from BC Hydro testimonies and reports to the BCUC.

For more information contact CEBC office at 604-568-4778 or email media@cleanenergybc.org