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BCUC will consider latest BC 'privatization'

Patrick Brown

In order to revive the Duke Point gas-fired generation project, BC Hydro is entering into a cost plus contract with the Duke Point Power Limited Partnership (DPP)—the improbable partnership of an investment fund run by an Australian bank and an Alberta wind power company. They were the winners in BC Hydro's Call for Tenders which was ordered by the BC Utilities Commission (BCUC).

On November 29, the BCUC had initial meetings to arrange the review of the Electricity Purchase contract between BC Hydro and the DPP. BC Hydro CEO Bob Elton is pressing for rapid approval so construction can start in January 2005 and operation by May 2007.

This review is the only planned approval proceeding.

Industrial Users Express Misgivings

According to the Joint Industry Electricity Steering Committee (JIESC), which represents industrial power users on the Island, DPP will purchase Hydro's existing investment (including the turbine generator) for $50 million, will be paid a guaranteed return on its capital investment (including the $50 million), and will also be paid a fixed unit price to generate electricity.

Hydro, however, will pay for the natural gas required to fuel the generator. This is the major cost, and the price of natural gas has risen rapidly over the past few years. So it's essentially a cost plus contract. The plant is a risk-free investment for DPP; Hydro takes all the risk.

The JIESC points out that this is a very unusual type of contract for the purchase of electricity. They anticipate that the cost of power generated at Duke Point may exceed even the cost of power imported from the US. The cost depends on whether the plant is operated continuously or intermittently. BC Hydro has not yet indicated how the plant would be used.

Environmentalists are also gearing up to intervene at the BCUC hearings. But Hydro's Bev Van Ruyven promises 'no net environmental impacts from our operation.' She elaborates further, 'what that means is that we will commit to offset the environmental impacts of the project.'

Now that Russia has adopted the Kyoto protocol, Hydro will presumably find it easy to purchase greenhouse gas offset credits. But how will they offset the pollution?

Hydro Sells Assets Cheap to DPP

Hydro's original estimated cost for the Vancouver Island Generation Project (VIGP) was $370 million, plus the Georgia Strait Crossing (GS–X) pipeline project at $340 million. The BCUC, in hearings last year, decided that Hydro's proposed generation station at Duke Point was not the most economical way to produce power for Vancouver Island. DPP now estimates a capital cost of $280 million plus the purchase of Hydro's assets in the project for $50 million. No allowance appears to have been made for interest during construction.

Hydro wrote off, against income, development costs of $120 million for this project in April. They will now get $50 million back, which will no doubt be booked as income.

However, since they will be paying a guaranteed return to DPP on the money, it's really just a long-term loan. In addition to this, Hydro has effectively subsidized the DPP project by another $70 million. (BC Hydro plans to charge all the costs of this project to their customers. If BCUC won't approve this, they'll come out of profits that normally would have gone to the provincial government.)

Georgia Strait Crossing Pipeline Update

No decision has been made as to whether the GS–X pipeline will actually be built. Hydro's partner in this venture, Williams Pipelines, is still encountering regulatory resistance in Whatcom and San Juan Counties in Washington State, and much of the required land on both sides of the border has not been secured. Hydro apparently continues to pay Williams' costs. Recently, Energy Minister Richard Neufeldt mused out loud that the GS–X might not be needed if Terasen Gas' plans were approved by the BCUC.

DPP: No Gas Turbine Plant Experience

Neither Australia's Macquarie Essential Assets Partnership nor Alberta's Pristine Power Ltd have a record of successfully building or operating a gas turbine generating station.

Macquarie's investments so far have been in power transmission assets, while Pristine operates wind power turbines. Pristine's website states, 'Pristine Power is committed to renewable technologies that produce clean energy without depleting natural resources.' (A gas turbine generator would not qualify under these criteria.)

The Macquarie Partnership is essentially an investment fund, whose participants are mainly Canadian pension plans; the Macquarie Bank itself has $30 million invested. The fund is

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capped at $460 million, and was closed to further investment in May 2004. According to its website, 'Further investment opportunities are expected from the continuing restructuring of the electricity and gas industries in the United States and Canada.'

BC Crown Corporation Among Investors

One of the prominent investors in the Macquarie fund is the British Columbia Investment Management Corporation, a provincial crown corporation whose main purpose is to manage pooled investments for BC's biggest public service pension funds. It has combined assets of over $35 billion, of which some 75% are the assets of the College, Public Service, Municipal, and Teachers' Pension Plans, and another 15% are the investments of various public agencies. It has seven directors, who are specifically barred from involvement in investment decisions. Three of these directors are appointed by the provincial Minister of Finance. They are Chris Trumpy, Deputy Minister of the Ministry of Sustainable Resource Management; Sid Fattedad, Chief Financial Officer of the Workers' Compensation Board, and Bob Elton, CEO of BC Hydro.

Interesting, yes; ironic—possibly. ✐

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