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Special Report by Patrick Brown

Vancouver Island power: *la plus ça change...*

On September 8, the BC Utilities Commission (BCUC) rejected BC Hydro's Vancouver Island Generation Plan (VIGP) for Duke Point at Nanaimo, using natural gas imported from the US via its proposed Georgia Strait Crossing (GSX) pipeline (Plan A). On BCUC's suggestion, BC Hydro put out a Call for Tenders (CFT), advertising for expressions of interest from organizations who could supply power to Vancouver Island (Plan B). Hydro had advertised for reliable supply of between 100 and 300 mw on Vancouver Island.

Hydro has received twenty-two expressions of interest, including twelve who appear interested in purchasing the assets Hydro bought in anticipation that the VIGP would be approved, and in producing electricity from a plant very similar to the VIGP proposal at Duke Point. The proposals also include wind, run-of-river hydro, coal, co-generation, and gas fired generating plants.

Unfortunately, Hydro is no longer an integrated power company, with the ability to plan an energy strategy for Vancouver Island that would include generation, transmission, marketing and rate-setting. Plan B, like Plan A, only deals with additional generation.

An optimum strategy for the Island should probably also include two proposals not included in Hydro's call for expressions of interest. These are the replacement of the HVDC line from the mainland to the Island with a new 230Kv transmission line, and the implementation of differential rates at the customer level, both to encourage conservation and to encourage load-shifting to off-peak times.

The replacement of the transmission line, which now falls under the authority of the BC Transmission Co, would make it possible to implement a strategy that would see electricity saved or generated on the Island effectively stored behind dams on the mainland.

But any new line may now require the authority of the grid manager, a US regional transmission organization (RTO). And the implementation of differential rates would require action by Accenture Ltd., now contracted to carry out all the retail functions of BC Hydro.

'Plan B' Now Looks A Lot Like 'Plan A'

The BCUC said that the VIGP/GSX proposal was not necessarily the most economical way of providing additional electricity for Vancouver Island, forcing BC Hydro to put out

the Call for Tenders (CFT) for alternatives.

This CFT was subsequently amended by Hydro to include tenders which would utilize the work already done (and expenses already incurred) by BC Hydro in preparing the rejected Duke Point/GSX proposal. Nearly half of the proposals received by BC Hydro appear to utilize Hydro's VIGP groundwork, site, and purchased equipment. Hydro has set the purchase price for this at \$50 million, despite claiming before the BCUC that their 'sunk costs' (the money already spent) were \$100 million.

BCUC had rejected Hydro's argument that, because of the 'sunk costs', it would be cheaper to continue with the Duke Point plan than with any alternative. Nevertheless, bidders utilizing Hydro's studies and equipment purchases may well enjoy a financial advantage in the tendering process. Critics say this amounts to a privatized version of the same argument; the 'sunk costs' merely appear in a different form.

GSX Approvals Grind On

Meanwhile, is reported that Hydro is continuing to negotiate with landowners for pipeline right-of-way in the Cobble Hill area, indicating that the GSX proposal has not been abandoned. And federal Natural Resources Minister Herb Dhaliwal recently confirmed that the federal government has accepted the Joint Review Panel's conclusion that the Canadian portion of the Georgia Strait Crossing (GSX) pipeline project is unlikely to cause significant environmental effects, provided specific actions are taken to protect areas that could be affected. The project will now proceed to the next stage of approvals to be carried out by various federal departments and the NEB.

The Panel has recommended that a Certificate of Public Convenience and Necessity should be issued, subject to BCUC approval of the VIGP. (It is not clear whether a privatized VIGP would meet this requirement.) The Certificate will be subject to approval by the Governor in Council.

There is, of course, competition to the proposed GSX from Terasen Gas, who have proposed that any additional gas supply needed for Vancouver Island could be supplied by increasing the capacity of its existing pipeline, more economically than GSX (the NEB panel refused to consider this). As insurance (and possibly with an eye to future LNG imports) Terasen is also exploring the establishment of large LNG storage facilities

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either at Duke Point or in the Cowichan Valley.

Hydro Could Assume Natural Gas Price Risk

After asking for expressions of interest, BC Hydro held a bidders' conference to provide further background on how bids would be considered. It was made clear that the power generated must be continuously available, all year round, 24 hours per day (a 'base load' situation). This would, of course, make it difficult for some 'green power' proposals.

Hydro also said that, in contracting for natural gas-powered generation from private sector Independent Power Producers (IPPs), it might be prepared to assume the price risk and delivery risk of natural gas used for power generation.

Since the very real risk of volatile but increasing natural gas prices, and long term supply shortages, was clearly a factor in BCUC's rejection of Hydro's Duke Point/GSX proposal, this would minimize the risk to any IPP of continuing the development of Hydro's original plan. Critics note that, as in many privatizations, the public sector takes the risk and the private sector's profit is assured.

Proposals will be considered either on this basis, or with the bidder assuming the price and delivery risk of natural gas (as for any other fuel). Such bidders must also propose which alternative source of gas they would use: the GSX or Terasen's (augmented) pipeline.

Is BCUC Losing Jurisdiction?

In an attempt to assure potential bidders, BCUC said in its report: 'It is the panel's impression that bidders into the call for tenders can anticipate a fair and transparent process, especially given Hydro's willingness to engage an independent reviewer and the Commission's eventual review of a certificate application.'

However, BCUC may not get that chance. Order M-22-0205, signed by Energy Minister Neufeld and dated June 6th, 2002 (but which only recently came to light), appears to exempt IPP's who sell power to BC Hydro or Powerex from the necessity to obtain approval from BCUC for either their contract or their generation facility.

BCUC is the only body at the moment at which the public can be represented.

Bailing out Duke Point

And, of course, the cabinet could always declare a generating facility 'provincially significant' and use the provisions of the recently introduced *Streamlining Act* (Bill 75) to override any regulatory obstacles, provincial or municipal.

With these developments, critics of the proposed gas-powered generation plan feel that BC Hydro has manipulated the CFT process to favour proposals that would see IPPs taking over and continuing with the VIGP/GSX plan. In the final analysis, Hydro can always call on the provincial cabinet to bail them out.

Choosing a Generation Combination

At the bidders' conference, Hydro outlined the method that would be used to choose which proposal, or combination of proposals, would be successful. Each proposal, and combination of proposals, would be evaluated on the basis of the Net Present Value (NPV) of its total costs over the long term, (Using NPV means that immediate costs are valued at 100%, and future costs are discounted depending on how far in the future they are, and what interest rate is assumed. Such models are very sensitive to interest rate and other assumptions.)

The costs to be considered include both the bidders' and BC Hydro's capital and operating costs. Interestingly, bidders were told that the costs of a future 230Kv line would also be considered, though it was not clear how and whether this represented an alternative or an accessory to the proposals.

More Power for the Western US

A consortium of the Alberta Electric System Operator, the Bonneville Power Administration, and the BC Transmission Corp. is reported to be working on a plan to increase power exports to the US. Without such a plan, US power consumers are being threatened with blackouts such as occurred recently in the northeastern US and Ontario.

The Duke Point plan and the equipment purchased is designed to produce 265Mw year round as a 'base load', but the Vancouver Island power shortfall in 2007 was estimated by BCUC as not more than 150Mw. So clearly, BC Hydro are not concerned about having too much power, because any excess power produced on Vancouver Island can, by substitution, be sold to the US. 0

Vancouver Island Power: Comprehensive Approach Needed *Commentary by Patrick Brown*

Rather than a fragmented, incremental approach to dealing with a perceived imminent power shortage on Vancouver Island, a proper, long-range strategy taking into account demand management, supply options, storage, costs, risks and their management, and environmental sustainability is required.

A complete strategic approach to ensuring an adequate future supply of electricity to Vancouver Island would involve the following:

- First, a public discussion of the relative value to British Columbia, to Hydro/Powerex, and to Vancouver Island power users of the export of power to the United States and the maintenance of economical power for BC users. Such a discussion should not hinge on whether or not to accept 'market pricing', but on what BC power users should pay for electricity. They are, after all, captive customers, electricity is a necessity, and therefore the price of electricity is a form of tax. On

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the other hand, profits from exported electricity can be used to reduce the price of electricity to BC users or to reduce other provincial taxes.

This discussion is fundamental to determining whether the strategy for Vancouver Island (or for that matter, the rest of the province) has as its objective the provision of economical power to users or maximizing profits for BC Hydro and independent power producers. This, together with its environmental implications, is a fundamental tradeoff which has not been publicly discussed, and on which the policy of the provincial government has never been clear.

- A detailed estimate of the probable range of Vancouver Island's future power needs and supply, year by year, month by month, peak time-of-day and off peak time-of-day, industrial, commercial, and residential. Such an estimate would take into account how these power needs might be affected by differential pricing and by conservation methods (such as PowerSmart), and result in an assessment of the timing, extent, and probability of worst case power shortages.

- An assessment of the potential and cost of alternative methods of generating and transmitting the required power, including the cost of generating it on the mainland and transmitting it to Vancouver Island, by a new 230Kv transmission line if required. This is the point in the process where a suitable mix of generating facilities (including mainland hydro-electric), evaluated by capacity, reliability, cost, and

environmental impact, can be balanced with demand.

- An assessment of the probable cost and potential profit from exporting excess Vancouver Island generated power, again by a new transmission line if required.

Disintegrated Strategy Decisions

Clearly, a total study of strategy for the future of Vancouver Island power should include all of these factors. At the moment, however, Hydro appears to be considering only the Vancouver Island power supply situation, and to be ignoring demand management. It has been suggested that the BC Transmission Corp. may now be exploring the replacement of the existing HVDC line across Galiano and Salt Spring Islands with a new 230Kv line; this might require new clearing of the existing right-of-way and higher towers.

But the real obstacle to a systematic consideration of the alternatives is that BC Hydro is no longer an integrated power generation, transmission, and distribution company. At least four entities now have to be involved in any strategic decision: BC Hydro itself in its present stripped-down form, the administration run by the international consulting firm Accenture, the BC Transmission Corp., and whatever IPPs are involved.

Decision making is impeded by a host of contractual obligations and competing objectives, not to mention the desire of each of these entities to make a profit at the expense of the others—this is a good argument for re-integration. ☞

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