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## Special Report on BC Hydro by Arthur Caldicott: From Showcase to Basket Case

Before Gordon Campbell became premier in 2001, British Columbians were concerned that he would privatize BCHydro. The BCLiberals' New Era platform was small consolation with its promise to 'protect BCHydro and all of its core assets ... under public ownership.' Voters could 'be confident that [a Liberal] government will protect [their] interests' and would not 'play politics with BCHydro.' Sure thing.

### The First Energy Plan

Campbell wasted no time carving up BCHydro, without quite breaking the New Era commitment. His first energy plan, Energy for Our Future, issued in 2002, was laid out as 26 'Actions', many of which changed BC's wild rivers, BC's energy landscape, and BCHydro forever. If he didn't completely privatize BCHydro, the effect of his policies were to destroy it as a viable economic entity.

Some Actions in the energy plan were expensive flops: plenty of money was thrown at coalbed methane and off-shore drilling. A few actions deserved praise: energy conservation and efficiencies, emission standards for coal-fired generation, and reduced greenhouse gases. At least one was a flat-out lie: 'Strengthen. . . the BC Utilities Commission (BCUC)—a promise which heralded a decade of directives and legislative changes that reduced BCUC's regulatory scope and discretion with respect to BCHydro.

Action #4: Whole departments and 1,600 employees were outsourced to Accenture in a \$1.27 billion, ten-year deal that was to save BCHydro \$250 million. At the end, Accenture had been paid \$1.8 billion, a half-billion dollar overrun. This is one of many costly overruns that BCHydro has incurred under BCLiberal energy policies.

Action #15: Transmission was carved out of BCHydro to become the new BC Transmission Corp. Eight years later and \$65 million lost in transmission, this unnecessary action was undone, and BCTC was reintegrated into BCHydro.

A single transmission project—the Northwest Transmission Line—cost at least \$716 million, compared to the \$395 million

original budget. Add in three other transmission projects, and the overrun totals \$516 million.

It was in Action #13 that Campbell sabotaged BCHydro from within and cheated British Columbians: 'The private sector will develop new electricity generation, with BCHydro restricted to improvements at existing plants.' Although BCHydro had been contracting for power with independent power producers (IPPs) since the 1980s, Action #13 would transform the role of private power so that it would dominate BCHydro's electricity costs and cripple it with debt.

By 2015, BCHydro had 105 operating projects on contract, nominally capable of 18,902 gigawatt hours (GWh) of energy, with 3,098 GWh to come from 23 IPP projects still in development. In 2015 it purchased 13,377 GWh of energy at a cost of \$1,064 million. That is 24% of BCHydro's domestic supply at 76% of its cost of power; \$79.54 per megawatt hour (MWh), compared to \$8.11 per MWh for power from BCHydro's dams. This describes the cash which is now flowing out of ratepayers' pockets through BCHydro to IPPs. The contractual commitments add up to \$54 billion over 56 years.

### Revenues Don't Match Costs

These costs must be paid for in energy sales. From 2002 to 2016, the government has continued to interfere with rates, keeping them low enough not to antagonize voters, fettering the BCUC's discretion to approve or impose rate increases sufficient to cover BCHydro's ever-mounting costs and obligations.

BCHydro's trading subsidiary, Powerex, is active in the western provinces and the western states, especially California. During the winter of 2000-2001, deregulation in California's wholesale electricity markets exposed California to price and supply manipulation on a massive scale—as much as \$45 billion. Enron Corporation was the greatest offender, but Powerex was also implicated in price gouging, and California sued Powerex for \$3.2 billion. Howls of outrage and protestations of innocence from British Columbia couldn't make the lawsuit go away, and

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in 2013 the BC government agreed to a \$750 million out-of-court settlement. It was yet another unbudgeted BCHydro overrun, and a very expensive way to avoid having to demonstrate innocence.

California continues to be a reliable customer, but it shows little interest in buying more power from BC, at any price and most definitely not as eligible power under the state's renewable portfolio standard (RPS). None of BC's 'clean energy' projects qualify under the RPS and the state is buying no more BC power than in previous years.

### **Electricity Exports Not Viable**

BC's electricity exports trade mainly through the 'Mid-Columbia' (Mid-C) price hub. The Mid-C average price through 2015 was \$26.06 per MWh, and for the first six weeks in 2016 it was \$22.73. It's not a winning business proposition when the power which BCHydro is selling costs it \$79.54 per MWh.

At times in recent years, spot prices have dropped below zero, into 'negative pricing', in which a seller of energy will deliver power to the customer, and pay him to take it. This situation will occur when demand (and prices) are low, and a seller of power cannot or will not curtail generation. It will also occur when a seller of power, BCHydro in this instance, has 'take or pay' agreements with IPPs, which require it to pay the IPP the agreed-upon rate for electricity whether or not it takes delivery of the power. BCHydro finds itself with more energy than it has demand for.

In 2011, 80 instances of negative pricing were recorded in the Mid-C market. In 2012, BCHydro curtailed production at its own heritage generation facilities, spilling water instead of using it for generation, while taking all the unneeded high-priced power IPPs could churn out.

The entire BC government energy scheme rested on the flawed premise that revenues from electricity sales could match the cost of purchases. Yet government would not let domestic rates rise enough to pay for the costs incurred, and export markets have not materialized.

### **The Critics**

From the beginning, there were critics of the BCLiberal energy plans. Some had jobs to preserve, others were concerned about public ownership and destruction of streams and habitat. Many could see the economic danger inherent in the energy plans.

Gordon Campbell maintained tight control over his caucus, and during his entire term as premier only one person broke ranks. Paul Nettleton, a former BCLiberal MLA for Prince George-Omineca, claimed in 2002 that the government had secret plans to privatize BCHydro. He was quickly removed from the government caucus.

Industrial customers of BCHydro are represented by the Association of Major Power Consumers of BC, which in 2007 was the Joint Industry Electricity Steering Committee (JIESC),

and before that the Council of Forest Industries. The biggest industrial users are the pulp, paper and wood products sectors, followed by mining. With the release in 2007 of the BC Energy Plan: A Vision for Clean Energy Leadership, industry feared that, 'the British Columbia government's pursuit of green energy and self-sufficiency is causing the price of electricity to accelerate to a degree that could drive industry out of the province.' Dan Potts, Executive Director of JIESC, said, 'It looks ... very depressing for some of our electric power intensive businesses. If you double their power costs ... they are no longer competitive. They are out of business. We have three of those [pulp] mills in BC [and] a similar ... situation with ... newsprint. The only question is who is going to shut down next?'

### **There's No Getting Around The Debt**

The BCLiberal government set BCHydro on more than a decade of spending beyond its means, entering electricity purchase agreements it couldn't pay for, and being unable to obtain the revenues it needed to meet its spending obligations. It was only following orders. A private company would have been bankrupt, and have liquidated its assets. Crown corporations have taxpayers to keep them afloat.

Government created a mechanism to delay the inevitable—deferral accounts, or regulatory accounts by which BCHydro could shift costs out of its current operating books, to be cleared at some point in the future when electricity rates would be increased. Two Orders in Council were made effective April 1, 2004, in which the BCUC was directed to allow BCHydro and BC Transmission Corp to create the first of the deferral accounts.

The financial damage to BCHydro and to the BC economy is laid out with painful clarity in BCHydro's 2015 Annual Report. Deferral accounts total \$5.433 billion; longterm debt \$16.896 billion; longterm energy purchase commitments \$53.817 billion. That adds up to \$76 billion.

We won't even get into the \$8.335 billion Site C hydroelectric dam in this article except to note that it has its own deferral account with \$441 million in it already.

BCHydro needs a series of significant rate increases to repair this economic disaster. But fearing the electoral consequences, and ignoring the economic consequences, Premier Christy Clark has put a lid on rate increases until well after the 2017 election, allowing 9% in fiscal 2015, then dropping to 6%, with subsequent caps of 4, 3.5, and 3%.

In the meantime, as continuous as the stream flows that produce it, expensive IPP electricity flows into BCHydro, and unrecovered cash flows out.

*This article was first published in Watershed Sentinel, bimonthly environmental news magazine. See it and more at: <http://www.watershedsentinel.ca/content/how-bc-hydro-wound-76-billion-debt#sthash.OIcMLLHk.dpuf>.*