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Follow the money: some ins & outs of IPP power

Following Premier Campbell's November 2 directive to put IPP power back on BC Hydro's want list, in mid-November BC Hydro announced that they would immediately start discussions with an initial group of 13 projects, and a further 34 before the end of November. The Bute Inlet/Upper Toba Valley projects are in the second group.

Where It All Began & How It Works

Back in 2006, BC Hydro planned an increase in generation capacity at existing dams and in 2008 went on to invite bids for further capacity from independent power producers (IPPs). In response, BC Hydro received proposals for some 7,000MW, 17,000GWh annually. This included the 1,200MW Plutonic/GE bid to construct some 21 generation plants in Bute Inlet and the upper Toba Valley.

Little information is available on BC Hydro's 35-year 'take or pay' contracts with such IPP corporations, but it has been suggested that rates range from 12¢ per KWh for firm power down to 4¢ per KWh for non-firm. (A graph published in the BC Hydro F09/F10 Revenue Requirements Application indicates that the weighted average price from the earlier F2006 Call was forecast to reach 9¢/KWh in the fall of this year.)

BC Hydro's cost of 'heritage' generation is less than 1¢ per KWh; power is sold to residential customers in BC at 5.9¢ to 8.2¢ per KWh.

The essence of run-of-river power is that it extracts the energy from the water as it falls from mountain heights to nearer sea level; it is this potential energy that is the resource being exploited. The [potential] energy, in fact, belongs to the Crown, which holds it in trust for the citizens of the province.

It is interesting that the charge for provincial water licenses which the provincial government makes to large run-of-river power producers is only .5-.6¢ per KWh; note that the charge is for the amount of energy captured, not for the amount of water used. Smaller producers may be charged as little as .11¢/KWh. These prices are indexed annually to increases in BC Hydro's power rates. (It seems probable that the prices paid to IPPs under Hydro long-term contracts are similarly indexed.)

The effect of all this is to make run-of-river power, under long term BC Hydro contracts, an excellent long-term investment for private producers; with a guaranteed revenue stream, no matter what the North American electricity markets do.

How profitable was indicated last July when the BC Utilities Commission ruled that additional IPP power was not needed and the ruling echoed loudly in a tumble of IPP share prices. Since the government's specific directive and the new round of negotiations IPP share prices have rebounded. ☞

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