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LOOKOUT

a forum for & about writers:

CRY ME A RIVER

LAURA SAWCHUCK PHOTO

John Calvert Blows the Whistle on the Privatization of Power

WE'VE ALL READ THOSE HORROR stories about South American towns that have had their water supplies privatized, and thereafter poor people are ruthlessly gouged for their access to resources that were previously free. We think that sort of thing can't happen here.

But according to **John Calvert**, the privatization trend is underway big-time in B.C.'s backyard.

LAURA SAWCHUCK PHOTO

John Calvert

"The government has mandated that new electricity generation will be private, not public," says Calvert in *Liquid Gold: Energy Privatization in British Columbia* (Fernwood $24.95).

"BC Hydro now has to acquire virtually all its new energy through long-term contracts with private power developers at extremely high prices.

"At the same time, BC Hydro is effectively providing the collateral for developers to borrow the funds they need to build new power plants.

"Yet at the end of the lucrative contracts, BC Hydro will have no assets to show for all the ratepayers' money it has committed.

"Nor will this approach provide adequate protection from future energy price increases. And there is no guarantee that this privately owned energy will not be exported in the future."

SFU Health Sciences professor Calvert was interviewed by freelance environmental journalist **Martin Twigg**—46 years after Premier **W.A.C. Bennett** established BC Hydro to control the production, transmission and distribution of energy for the people of B.C. See interview on the next page.

RIVERS FOR SALE

"For as little as $5,000 you can buy private rights to generate power with a B.C. river."

John Calvert was a member of the 2005 BC Hydro Integrated Electricity Planning Committee, a stakeholder group that spent 18 months reviewing BC's electricity options. He holds a Doctorate from the London School of Economics.

LAURA SAWCHUCK PHOTO

John Calvert argues that BC Hydro has become a cash cow for private developers.

BC BOOKWORLD: Why are we suddenly changing a system that has supplied some of the most affordable, most reliable and least carbon-polluting energy in North America for decades?

JOHN CALVERT: The government is committed to privatization, as an ideology, not fully regarding the consequences. Howe Street, Bay Street and Wall Street are all enjoying huge capital gains as a result of the government's policies of giving away the best sites for small hydro and wind development, while forcing BC Hydro to buy the energy they develop at outrageous prices. These enormous windfall profits are being funded by future electricity rate hikes which will be paid for by BC ratepayers.

BCBW: According to free market principles, logic dictates that more competition should lead to lower prices. Won't a competitive energy market be good for consumers?

CALVERT: After more than 15 years of experimenting with electricity competition, the American states that did not introduce competition have had lower price increases than states that did. The integrated public utility model minimizes transaction costs and facilitates long term planning. Crown corporations are able to borrow much more cheaply than private firms, given the better credit ratings of governments.

It is very difficult to police competitive electricity markets effectively, given the numerous ways in which companies can 'game' the system at the expense of ratepayers. The Enron scandal is only the most obvious illustration of this problem.

BCBW: To what extent has BC Hydro already been privatized?

CALVERT: The government has privatized major parts of BC Hydro's internal operations through its contract with Accenture. BC Hydro transferred one-third of its workforce to this private company as part of this deal. In addition, it has carved out the management of the transmission grid to a new company, the BC Transmission Corporation, to provide access to the grid for private power developers and to ensure that decisions about the future of the grid will now take into account the interests of these developers.

BCBW: You have written, "By 2003, BC Hydro was already spending more to buy approximately 10 percent of its energy from private power developers than it spent to generate the other 90 percent from its own hydro facilities." Why is energy purchased by BC Hydro so expensive?

CALVERT: BC Hydro's reservoirs and transmission grid were built three or four decades ago. BC residents have enjoyed the benefits of these investments because BC Hydro charges its customers electricity rates based on the actual cost of producing the energy, which is very low—currently about six tenths of a cent per kilowatt hour. It is analogous to the benefits that a homeowner enjoys from having purchased a house 30 years ago and is now living in it mortgage free.

In contrast, private firms do not sell energy at cost: they want the prevailing market price, which is much higher than the cost-of-production approach of BC Hydro. Like a landlord with a house to rent, they do not charge the same rent as 30 years ago, but rather want the current market rate. In addition, their cost of capital is higher and many of the early private power projects were expensive to build in the first place—they only got built because under the Social Credit government in the 1988 to 1991 period, BC Hydro was directed to buy their energy, regardless of cost. It is also useful to remember that while Alcan's power plant was built in the 1950s—even earlier than BC Hydro's major dams—and its costs are comparable, if not lower than BC Hydro's, it still wants to sell its energy at the market price which is roughly ten times higher than what BC Hydro charges its customers.

BCBW: In 2003, the Liberal government passed legislation creating a "heritage contract," effectively guaranteeing certain large industries access to cheap energy, even if prices rise. What's the story there?

CALVERT: Residential customers are included in the heritage contract, but mainly this legislation was designed to appease the large industrial customers by providing them with the assurance that regardless of how much BC Hydro ended up paying private power developers for their new energy, the mines and pulp mills would still get access to BC Hydro's much cheaper public energy. It was the government's way of diffusing any possible opposition from the large industrial customers who otherwise might have opposed its plan to have BC Hydro buy its new energy from private power developers. Recently, the BC Utilities commission actually lowered the rate charged to industrial customers by slightly over 2 percent while it raised the rates to residential customers by 11 percent.

BCBW: According to a recent study commissioned by the BC Utilities Commission, approximately 270,000 homes in B.C. currently spend 10% or more of their family income on energy—a level generally accepted as signifying "unreasonable energy costs and energy poverty." How will the provincial government's energy policies impact low-income households?

CALVERT: Rates are going to go up dramatically over the coming decade. And this will cause considerable hardship, especially as BC does not have policies designed to assist lower income residents cope with higher electricity prices. Unlike other jurisdictions, such as Ontario, the electricity rate for residential customers in BC is the same regardless of how much is used. In Ontario, there is a cheaper rate for the first increments of energy. Then the rate increases once a monthly usage threshold is crossed. This is a way of assisting lower income and small users of electricity. But BC does not do this.

BCBW: With real numbers, explain what you mean when you say the sell-off of water-power resources is "a new gold rush."

CALVERT: A water license for a power plant that might generate $10 million in annual revenues is only $5,000. The most expensive water license for larger projects is only $10,000. This is incredible, given the value of the resource.

In addition, the royalty payment—called a water rental—and the standing charge for the power plant—called a capacity charge—when added together, at the most, come to about 3 percent of the value of the water resource for any facility generating less than 160,000 MWh of energy annually. That's all the public gets.

It is useful to compare the price BC Hydro pays for the energy from these projects with the royalty the public gets. In 2006, BC Hydro paid 8.7 cents per kilowatt hour for energy from private power projects. But the government's royalty and other fees will amount to about 0.3 cents. All the rest will go to the developers.

BC Hydro energy purchase contracts, which vary from 15 to 40 years in length and are inflation indexed, provide a guaranteed revenue stream for private developers—a cash stream which enables them to go to the bank and borrow the money to build their new power plants. So ratepayers are effectively providing the collateral for the loans.

But when the contracts are over, unlike when ratepayers backed BC Hydro's investments, they have no assets to show for all the money they have paid to developers.

It's like getting someone to co-sign a mortgage for you to buy a house and then getting him to rent it back from you until the mortgage is paid off at a monthly rental that not only meets the mortgage payments, but also gives you a healthy profit every year. And, at the end of the mortgage, you own the house and he owns nothing, even though his money has paid for everything.

This is exactly what ratepayers are now doing through the BC Hydro contracts with private power developers. This is why there is a gold rush.

BCBW: Increasingly, the provincial government has been eager to highlight the "green" aspects of its energy policies, whereas you argue that such claims are merely "smoke and mirrors." Why?

CALVERT: The first point is that we don't need much of this energy, as I said in response to an earlier question. Both the construction of power plants on rivers and the establishment of new wind farms impose damage on the environment. So building facilities that are not necessary is environmentally irresponsible.

Secondly, the government has consistently argued that there is very little environmental damage associated with these projects. I strongly disagree. Anyone who has actually seen some of the construction sites quickly realizes how extensive the damage can be to the sensitive ecology of BC's wilderness areas. The construction of new power plants requires major new roads, clearing land for the power plant and related facilities, creating new transmission lines to link the power plant to the grid and often boring huge tunnels through many kilometres of rock to create a penstock to divert the water. Many of the projects also have large tailponds or small reservoirs. Some have dams, one of which will be 76 metres high when the project is completed.

Some of the projects have transmission lines over 100 kilometres long. These have to be kept clear of brush, so they need access roads, which open up areas of the province that are otherwise untouched by humans. And when you consider that there may be several dozen power projects in a river valley, the cumulative damage can be very extensive. In short, it is misleading to argue that all these projects are 'green' and have no significant adverse impacts on the environment. For it is just not true.

Thirdly, once built, there is an ongoing issue about how much water will be diverted from the stream. The less that is left in the stream bed, the more impact on fish and aquatic life, especially if the low stream flow results in sharp changes in water temperature which can be deadly for fish stocks and for spawning beds. But water left in the stream bed is water not used for energy production. So the developer has a huge financial interest in maximizing the flow through the turbines, regardless of the impact on the stream.

And fourth, the government's argument that we need these projects to avoid importing energy created from coal-fired power plants in Alberta or the US is also misleading. The great advantage of BC Hydro's system is that it can store large amounts of energy in its reservoirs. Since its creation, BC Hydro has engaged in energy trade with the US and Alberta. Energy is constantly moving back and forth on an hourly basis, creating valuable synergies. BC Hydro often buys energy overnight when there is less demand—that is a surplus—in other jurisdictions. The reason there is a surplus is that thermal plants cannot ramp their energy production up and down on an hour by hour basis. They normally produce a relatively constant volume of energy 24 hours a day and regardless of hourly fluctuations in the price of energy in the market.

So BC Hydro buys energy from these facilities during periods when the price is low. It then sells it back during the day when the price is higher. This provides a profit for BC ratepayers and keeps our rates lower. But it also does something else. By having access to BC Hydro's stored energy during periods of peak demand, the electricity systems of Alberta and the adjacent US states do not need to build as many coal fired power plants as they would if they had no access to BC Hydro's system.

So our energy trade with these other jurisdictions actually reduces the number of coal fired plants that get built. If we were to stop importing energy from these jurisdictions when they have surpluses and reselling it when they have deficits—a practice which is difficult to imagine, given the way electricity systems interact—we would not be doing any favours to the environment.

BCBW: Why has such a major policy issue not garnered more attention?

CALVERT: The government made a major effort to promote its Energy Plan as 'green.' It also was assisted by aggressive campaigns by the beneficiaries of its policies—the private power developers—who promoted their projects as both urgently needed to meet the alleged energy crisis and environmentally beneficial.

A second factor is that the full costs of this policy agenda are not immediately apparent. Ratepayers' bills are only now beginning to see the impact. The reason is that it normally takes between five and ten years for power projects to be constructed. Thus the large block of extremely expensive energy purchased by BC Hydro in its 2006 tender call will not begin to be delivered until 2013 or later. By then, of course, most of the politicians responsible for the decisions will have long retired. And the public will be stuck with these incredibly expensive contracts stretching out, in some cases, to 2051.

The value of the water and wind resources that are being given away is largely hidden from the public. There was little public debate about the policy of giving away water licenses or wind farm tenures on virtually all the best sites in the province for virtually nothing. Very few people even knew this was happening.

Decisions regarding the handing out of water licenses and wind farm tenures were handled administratively with virtually no involvement from First Nations or local communities affected by these decisions. This was compounded by the fact that many of the sites are in remote locations.

If the government were giving away Stanley Park for a dollar, the entire Lower Mainland would be up in arms. But if we are giving away hugely valuable water resources in an undeveloped area of the province, few people are likely to have any idea of the value of the resource being given away.

Now, if a future government were to try to take back these developments, the investors would be clamouring for billions in compensation.

BCBW: What's your take on the financial implications of the Energy Plan?

CALVERT: According to the Ministry of Finance, as of last October, BC Hydro had signed contracts to purchase $28.4 billion worth of private electricity in the coming years. This is an enormous amount that is growing month by month. It may soon be larger than the entire accumulated provincial debt. Yet the media has been virtually silent about the huge financial obligations the government has forced on BC Hydro and its ratepayers.

BCBW: You predict that public opposition to the Energy Plan will grow once British Columbians understand its implications. What evidence do you have of this?

CALVERT: I think the cat is finally out of the bag. We are seeing the beginning of a groundswell of opposition, such as the successful campaign to derail the Pitt River project.

People can see the foolishness of destroying some of our most pristine rivers to generate power we don't need in order to fill the pockets of private power developers. I think this will become one of the two or three key issues in the coming election, as it should.

BC Hydro was not broken. I believe our government broke it.

Putting Humpty Dumpty together again will be a big challenge, but I think we have to do it to have any control over our electricity system in the future.

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For a map containing all independent power producer licenses and applications across B.C., visit www.ippwatch.com