

The estimated cost of hydro self-sufficiency: annual 7.5% rate hike for a decade

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Vancouver Sun

Wednesday, November 21, 2007

BC Hydro will have to boost electricity rates at least 7.5 per cent each year for the next decade in order to satisfy British Columbia's goals of electricity self-sufficiency and green power, according to a private sector study obtained by The Vancouver Sun.

For residential customers, that increase is on top of the 11 per cent increase ordered last week by the British Columbia Utilities Commission.

A typical residential Hydro customer who now pays \$715 a year for electricity will see that annual power bill jump to \$1,618 by 2016 when compounding is taken into account, according to calculations in a power-cost study produced recently for Hydro's large industrial customers.

The Joint Industry Electricity Steering Committee, which commissioned the study, is worried that the rate hikes necessary to meet B.C.'s target of energy self-sufficiency by 2016 could make it difficult, or impossible, for some members to continue to operate.

The committee represents 24 large Hydro customers, mainly in the forestry, mining and electrochemical sectors, who account for about one-third of the power consumed each year in B.C.

The B.C. Public Interest Advocacy Centre, which represents low-income earners and seniors, said the industry's calculations conform to its own expectation for a spike in rates.

Hydro wouldn't comment on the calculations, saying it is enmeshed in preparations for a rate design hearing that will begin early next year and won't disclose any information about rates in advance of the hearing

However, Hydro communications director Steve Vanagas agreed that the Crown corporation will require additional funding for capital projects and new power from independent producers.

In an interview, industry spokesman Dan Potts said on Tuesday that the group's calculations are believed to be at the low end of what's coming in the next few years. They do not include greenhouse gas emission costs for purchasing coal-generated power from Alberta, nor the possibility of lower than average rainfall into BC Hydro reservoirs, nor the expected high costs to generate electricity using biomass from beetle-killed pine in the B.C. Interior.

The study assumes a modest 2.5-per-cent inflation rate for construction costs to build new power generating facilities over the next decade, and assumes that half of all new power requirements in B.C. over the next decade will be met through

conservation efforts by Hydro customers.

Industry got a nominal reduction in its rates last week, a cut of 2.6 per cent over three years, even as residential rates were approved for the 11-per-cent increase.

However, that change is revenue neutral to Hydro and only reflects an instruction from the utilities commission that each B.C. rate group pay 100 per cent of the costs necessary to service it.

Potts said all rate groups, industrial, residential and commercial, will see the same increases as Hydro moves to cover new costs to add power to its system, and for upgrades to existing facilities and infrastructure.

The industry committee said costs could be reduced somewhat if Hydro were to commit to adding the proposed Site C dam on the Peace River in a shorter time frame. At present, that 900-megawatt project is proposed to be completed by 2018.

Potts said large-scale projects such as Site C would provide the province with comparatively low-cost, firm power.

Jim Quail, executive director of the B.C. Public Interest Advocacy Centre, said he has already heard rumours that Hydro will propose a 7.5-per-cent rate increase next year.

"We have been saying realistically, [a rate increase of] 35 to 40 per cent cumulatively over the next six years or so. That's the general range, which sounds quite similar to the conclusions industry has come to. They are in the right ballpark for sure," Quail said in an interview.

"I predict Site C is going to happen. We don't have any instruction as to whether our clients support or oppose it. But it's coming back onto the agenda. There is no doubt about that."

In a telephone interview from Sweden, B.C. Energy Minister Richard Neufeld said electricity rate increases are unavoidable because it will always cost more to add new sources of power.

"It has to do with new generation. The cost of new generation is high, and obviously rates are going to have to go up," Neufeld said.

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