

# BC Hydro in secret Alcan pact

Crown corporation will pay premium rates for electricity from a 50-year-old generator

Scott Simpson, Vancouver Sun, Wednesday, November 22, 2006

A confidential "sweetheart" deal between Alcan and BC Hydro commits Hydro customers to pay premium rates for electricity from a 50-year-old Alcan installation that produces the cheapest power in the province, according to documents filed with the B.C. Utilities Commission.

Hydro and Alcan sought to keep terms of the deal secret on the premise that Alcan's "commercial interests" should be protected -- although the documents show that Alcan was exempt from a recent Hydro bidding process for new private-sector electricity developments.

Instead, Hydro and Alcan worked out a deal whereby Alcan will be paid the same rate as new power projects -- at least \$71 per megawatt hour -- despite Hydro's written acknowledgement that the deal "did not result from a competitive bidding process."

In an interview, Hydro media relations manager Elisha Moreno said the Crown corporation regards the deal as a good one because Alcan is a proven and reliable source of power that will allow B.C. to cut back on more costly imported electricity, or avoid using the expensive and outdated Burrard thermal generating plant in Port Moody.

The deal goes to 2025, and Hydro expects the annual value of the electricity sales to range from \$66 million to \$97 million.

Alcan will also receive a \$45-million payment pending approval of the deal by the B.C. Utilities Commission, and \$66 million in 2011 -- providing it has commenced construction on a modernized smelter prior to that date.

Alcan will be selling about 120 megawatts of surplus power from its 890-megawatt Kemano hydroelectricity generating facility on the Nechako River, a major tributary of the Fraser River.

Kemano is the largest independently owned generating facility in the province.

Independent power producers have complained that they could have tendered bids significantly lower than the \$70 range if Hydro had not insisted on insurance and other costly guarantees against the risk that they won't deliver the power they're promising.

Details of the Alcan contract indicate Hydro is not extracting the same costly guarantees from Alcan -- which means the aluminum producer is assured a larger margin of profit on its sales to Hydro.

Moreno said that the price paid to Alcan is "below the mid-point price range for bids" accepted in Hydro's 2006 call for tenders for new independent power, adding that "the Alcan product is superior to most independent power producers' energy because it is reservoir-backed" and because Hydro can "schedule" its availability.

That means Hydro can call on Alcan to meet demand surges within B.C., or opportunities to sell into high-priced U.S. electricity spot markets.

The proposed deal, which has been promised an expedited decision by the utilities commission, comes on the heels of an August announcement by Premier Gordon Campbell that Alcan will undertake a \$2-billion upgrade of its Kitimat aluminum smelter.

The announcement came after Alcan took up an option to renegotiate its long-term power agreement with the province.

The deal would provide power in addition to the 1,559 megawatt hours offered by a host of independent producers who responded to BC Hydro's 2006 open call for new sources of electricity.

Documents also show that the B.C. Utilities Commission has committed to expedite its decision on the deal -- despite a pending B.C. Supreme Court decision on Alcan's right to sell power back to the province, and despite severe criticism of the deal from the city of Kitimat and the B.C. Public Interest Advocacy Centre.

Alcan's Kitimat workforce will shrink by 500 jobs when the smelter is rebuilt, and city officials are unhappy that the province chose to allow Alcan to sell a portion of its Nechako power to Hydro rather than build a larger smelter employing more people.

A utilities commission hearing is scheduled to run from December 6-21, with a final decision promised by December 31.

James Quail, counsel for the B.C. Public Interest Advocacy Centre, said Hydro should have had Alcan over a barrel in negotiations because the plant is situated at a remote location on the B.C. coast where Hydro is the only possible customer for its surplus electricity.

"The government seems to have been pursuing a policy of encouraging Alcan to make some capital investments in its plant, and sweetening the deal at the expense of Hydro rates," Quail said in an interview on Tuesday.

"Basically they are using our electricity rates as a kind of tax aimed at an economic development strategy of government, and we don't think that's the proper way to deal with BC Hydro rates.

"It's like turning water into gold for Alcan.

"We think Hydro should have been in there driving a hard bargain and instead it appears that the premier's office has been acting as the midwife of all of this, and had its own strategy that really didn't have the interests of the ratepayers in mind at all."

Hydro's Elisha Moreno rejected that suggestion, saying Alcan will be paid according to a deal negotiated between Hydro and the aluminum company, and approved by Hydro's board of directors.

Kitimat Mayor Richard Wozney, a strong critic of B.C.'s deal with Alcan, noted that financial details of the deal became available only after his city pressed the utilities commission for details.

"If the BCUC is supposed to look after all these proposals and look out for the public's interests, why does it have to be rushed through by the end of the year?"

"This is not new green power coming onstream. This is old power that was created in the early 1950s and Alcan is getting a pretty juicy return on this. If BC Hydro has agreed to pay Alcan a premium to get that old power then where is this BC Hydro energy policy going?"

ssimpson@png.canwest.com

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