

RESOURCES

Opposition to power deal could kill Kitimat smelter, Alcan says

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VANCOUVER -- The District of Kitimat has again thrown down the gauntlet with aluminum giant **Alcan Inc.**, and a company spokesperson says the dispute jeopardizes a proposed \$2-billion aluminum smelter upgrade in the northwestern B.C. community.

The opponents have been sparring for years over Alcan's desire to sell electric power from its operation in the region and Kitimat's fear that those sales will overshadow the company's aluminum production and plans for an upgrade to the smelter.

Kitimat recently filed a brief with the British Columbia Utilities Commission opposing a proposed electric power sales agreement between Alcan and B.C. Hydro. The agreement would allow Alcan to sell surplus electric power from its Kemano hydroelectric facility to B.C. Hydro.

The power agreement, cited as one of three essential ingredients for board approval of the smelter upgrade, is the second negotiated by B.C. Hydro and Alcan.

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BCUC rejected the first proposal nearly a year ago, concluding that B.C. Hydro was paying too much for the power and it was therefore not in the public interest. The new agreement will go before BCUC at a public hearing that starts Nov. 19.

Alcan is warning that a second rejection of a proposed power sales agreement would likely kill the upgrade.

"We certainly won't have our three conditions met," Alcan spokesperson Colleen Nyce said.

"It jeopardizes the project big time. Does Alcan have the appetite to go back for another power agreement and a third time at the BCUC? I don't think so."

In conjunction with its opposition to the new power sales agreement, Kitimat has also filed an appeal of a Supreme Court of B.C. decision that essentially ruled that Alcan has an unfettered right to use or sell its electric power however it sees fit.

Kitimat took Alcan to court more than a year ago, arguing that the original 1950s agreement granting Alcan the right to generate power from the Kemano hydroelectric dam stipulated that the power must be used to make aluminum. The court ruled otherwise, and the B.C. Court of Appeal will hear Kitimat's appeal of that ruling in late January, 2008.

Kitimat questions the Montreal-based company's commitment, or lack thereof, to maximize aluminum production from the aging smelter at Kitimat. Its work force is now 1,500 people, down from nearly 2,000 at one point.

The proposed upgrade would further reduce employment to about 1,000, but would create an economically viable, state-of-the-art smelter that would use about 700 megawatts of power. Kitimat argues that Alcan can make much more money selling power and that unless it is required to make an ironclad commitment, the company will never upgrade the smelter.

The company and Kitimat held several negotiating sessions over the summer to try and reach an agreement, but the talks broke down at the end of August. Trafford Hall, Kitimat's city manager, said in an interview that he didn't think the two sides were that far apart.

"They were asking us to abandon the appeal, which is an irrevocable move, and they were asking us not to oppose the power contract at the BCUC," Mr. Hall said. "They wanted us to do that before they would commit on the smelter deal. We asked them to dedicate the 700 megawatts [from Kemano to the smelter]. They refused."

Ms. Nyce said after two weeks of discussions the talks were going nowhere. "We kept coming back to the insistence that Alcan sign documents that restricted its management rights and tied our hands in how we run our business."

Ms. Nyce said with the talks going nowhere, and with Kitimat refusing to forgo its legal options, Alcan decided to force the issue by seeking a motion to dismiss Kitimat's pending appeal. Kitimat filed its appeal, heading off the Alcan motion.

A brief filed before BCUC on Kitimat's behalf by energy consultant Dr. Marvin Shaffer indicates there are still serious flaws in the agreement, and it still requires B.C. Hydro to pay a higher price for the power than it should.

"It is critically important to recognize that Alcan is an existing source of supply," Dr. Shaffer's brief states. "Unlike new sources of supply, which need prices sufficient to recover the costs of the development risk and new investment involved, Alcan needs only a price that is attractive relative to its opportunity costs."

While Kitimat appears determined to stop the deal, it's sister city to the north, Terrace, is dismayed that the war is on again. Terrace has filed a brief recommending approval of the power agreement.

"If you really want to see that modernization, stop holding up the process and get it done," said Sam Harling, head of the Terrace Economic Development Authority. Terrace is pinning its hopes of developing secondary aluminum manufacturing - such as auto parts - on the smelter upgrade and the opening of the new container port at Prince Rupert.

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