

UTILITIES COMMISSION APPROVES B.C. HYDRO'S \$1.3 BILLION DAM ACQUISITION

On 18 July 2018 the B.C. Utilities Commission (BCUC) approved B.C. Hydro's request to purchase Teck's 66% interest in the Waneta Dam near Trail.¹ Under the agreement Teck commits to paying B.C. Hydro for 20 years (with a 10-year optional renewal) for 2/3rds of the electricity to power the smelter at Trail.

In effect, the deal is a sale/lease back arrangement at a cost to B.C. Hydro of \$1.2 billion for the remaining 2/3rds interest in the dam, plus approximately \$70 million in transaction and transmission costs.

After an extensive review, the BCUC determined that the agreement was in the interests of the ratepayers.

Background

On 1 August 2017 B.C. Hydro announced it was exercising its option to purchase Teck's share of the Waneta Dam.² The dam was built in 1954 and has a total capacity of 490 Megawatts and generates approximately 2,670 Gigawatt hours annually.

B.C. Hydro submitted the approval request to the Utilities Commission on 30 October 2017 and provided additional material in January 2018. The BCUC review included seven interveners and included oral hearings conducted in April.

Findings

The BCUC agreed with B.C. Hydro's assertion that the dam has a useful life of 40 years, and that there is a positive business case for both the 20-year lease and the last 20 years of the useful life of the dam.³

The BCUC stated that this was a unique opportunity "to leverage the Province's low cost of borrowing to acquire assets that will be used to provide utility service to ratepayers upon expiration of the lease within the next 20 to 30 years and beyond.

¹ http://www.bcuc.com/Documents/Proceedings/2018/DOC_52049_2018-07-18-BCH-Waneta2017Transaction-Decision_WEB.pdf

² In 2010, B.C. Hydro purchased one third of the dam for \$825 million;

<https://vancouver.sun.com/opinion/columnists/vaughn-palmer-clark-leaves-hydro-hot-potatoes-for-horgan-to-juggle>

³ The unit energy cost was estimated at \$48.25/MWh and the unit energy revenue at \$56.75/MWh, see Appendix in http://www.bcuc.com/Documents/Proceedings/2018/DOC_52049_2018-07-18-BCH-Waneta2017Transaction-Decision_WEB.pdf

Further, because the Province has decoupled rate base return from the quantum of assets in rate base, there is no incremental cost to ratepayers for return on deemed equity. This serves to reduce the economic risk faced by ratepayers.”⁴

The BCUC is referring to the 2014 detailed cabinet order (Direction 7) that, among other measures, fixed B.C. Hydro’s annual net income target at \$712 million without reference to the actual equity.⁵ It is this prescriptive directive that prompted Auditor General Carol Bellringer to qualify the province’s 2016/17 public accounts, stating that the regulatory accounting at B.C. Hydro does not conform to public sector accounting standards.⁶

The sale/lease back arrangement will increase B.C. Hydro’s large industrial sales by some 1,770 GWh for the next 20 years. Over the last decade electricity sales in this category declined by approximately 18%, which was a major reason why total electricity sales were relatively flat during this period.

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The writer is a retired senior BC government public servant whose paper describing the BC government’s manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission’s recent reviews of both ICBC’s and BC Hydro’s rate requests

⁴ Ibid., p 72.

⁵ Ibid., p 5.

⁶

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_44_26_october_2017/pdf/occasional_paper_no_44_26_october_2017.pdf and <https://vancouver.sun.com/opinion/columnists/vaughn-palmer-bellringer-anxious-to-plug-into-b-c-hydros-accounts>

APPENDIX

SUMMARY OF THE AGREEMENT BETWEEN TECK AND B.C. HYDRO⁷

The terms of the ROFO Sale Notice to BC Hydro included the following:

- Sale of the two-thirds interest for a purchase price of approximately \$1.2 billion;
- Leaseback of the two-thirds interest to Teck for 20 years at a price of \$40/MWh, escalating at 2 percent per year with Teck's option to further extend the lease for an additional 10 years at a price of \$53/MWh, escalating at 2 percent per year (Lease);
- During the term of this lease:
 - o Teck will receive the full entitlement energy and capacity from the facility; and
 - o Teck will be responsible for all operating costs (including water rentals) and most capital costs (some major capital costs may be the responsibility of BC Hydro or shared);
- Following the 20–30 year period the Lease is in effect (Lease Term), BC Hydro will have unencumbered ownership of the two-thirds interest; and
- While transmission has been excluded from the ROFO, BC Hydro has assumed it will purchase Line 71 and other local transmission assets at the end of the Lease Term for \$20 million (in 2018 dollars).

⁷ Copied from http://www.bcuc.com/Documents/Proceedings/2018/DOC_52049_2018-07-18-BCH-Waneta2017Transaction-Decision_WEB.pdf p. 10.