BC Hydro rate policy could hinder LNG growth prospects

Huge costs for new customers may be keeping large industries out of province

BY SCOTT SIMPSON, VANCOUVER SUN APRIL 12, 2013

ABC Hydro policy that slaps extra costs onto major new industrial customers could prompt natural gas producers to "abandon their plans" to support an international LNG export industry, according to documents obtained by The Vancouver Sun.

"Care should be taken to ensure that industrial customers are treated equally, regardless of the type of industry and whether they are new or existing customers," states a nine-page commentary submitted by the Canadian Association for Petroleum Producers (CAPP) last month to the provincial government's industrial electricity policy review.

The submission is one of several that has yet to be posted on the policy review's website. Others have come from large current and potential Hydro customers, including Catalyst Paper, West Fraser Timber, Pacific Northwest LNG, lobby organizations for Hydro's industrial and commercial customers, and Clean Energy B.C., which represents independent power producers.

They show that divisions have emerged between existing and prospective customers over whether or not new large industries should pay extra fees to cover Hydro's cost of adding them to the grid.

Since 1990, BC Hydro has maintained a policy that prospective industrial customers requiring more than 150 megawatts of electricity - enough to light up about 65,000 homes - must pay special tariffs in order to gain access.

Rationale parallels closely municipal DCC charges for new development. However, those DCC charges are one-time - and this is what Hydro should be doing.

The tariff, which is intended to protect existing customers from a sudden spike in electricity rates if a major industrial customer were to join the grid, stands as an apparent barrier to large-scale industrial growth in the province - no large customer over that 150MW threshold has joined the B.C. grid since the policy came into effect.

According to documents filed to the industrial review, a surge in natural gas processing and development of a liquefied natural gas (LNG) export industry could bump B.C.'s industrial power consumption 25 per cent in a relatively short period of time.

That could compel Hydro to respond by quickly adding new power supply at an estimated cost of around $20 billion.

Processors and LNG exporters could stay off the grid by powering themselves through direct drive systems that burn gas - but CAPP says those systems are "more costly, less efficient, noisy and increase greenhouse gas emissions."

Neither CAPP nor Pacific Northwest LNG dismiss the possibility of powering their operations by gas-fired steam-driven electricity generating plants that would be owned either by BC Hydro or independent power producers.

Those plants could complement a package of new renewable projects - such as wind or hydro power - that could mitigate the greenhouse gas emissions growth associated with natural gas combustion.

The gas industry's willingness to consider gas-fired steam generators - 77 per cent of LNG processors globally use the dirtier direct-drive systems - suggests there's an opportunity to remove what is considered the largest domestic obstacle to a development of a multi-billion-dollar LNG industry in B.C.

However, as CAPP warns, the province still needs to make a decision about whether grid newcomers should effectively pay a higher industrial power rate than existing customers.

"CAPP members simply seek fair and equitable treatment with all other industrial users," the association says in its submission.

Forest-sector company Catalyst Paper Corp. - Hydro's single largest customer - notes that it emerged from creditor protection only last September and that electricity already accounts for 15-20 per cent of its production costs.

Richard Stout, who represents Hydro's industrial customers through the Association of Major Power Customers of B.C., suggested in an interview that his clients are "not asking anybody to pay for the moon."

Stout noted that neighbouring Alberta has a policy that big new power customers pay 20 per cent of the cost of adding them to the grid, while the remainder is absorbed by existing customers.

"If you do the math, that's enough to keep the rates stable - provided BC Hydro's expansion plans are reasonably cost-effective, which at the moment they're not," Stout said.

He said the entry of new customers is less of a problem than the marginal cost of new electricity supply. For example, the addition over the last decade of private renewable power projects contracted to Hydro has already pushed up the Crown corporation's overall cost of electricity.

"If new supply is (going to be) natural gas and you're building combined-cycle natural gas (steam) plants, the cost of that is not a lot higher than the cost of our heritage generation, so you can take care of that problem," Stout said.

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