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**RECEIVED**

**DEC 4 / 2014**

**VILLAGE OF LYTTON**

Via E-mail

December 2, 2014

Dear Mayor and Council Members

**Re: Referral of Proposed Site C Dam Project to BC Utilities Commission**

Now that the November 2014 local government elections are complete, I am pleased to forward you a copy of our letter dated November 18<sup>th</sup>, 2014 regarding the proposed Site C Dam Project.

Site C would add about \$8 billion dollars to the provincial debt leaving the province with much less ability to contribute to important local government infrastructure projects in areas such as transit, water, sewer, and housing. Finance Minister Mike De Jong is quoted in the attached article as saying, "It [Site C] will likely crowd out many other projects."

The District of Hudson's Hope and the Peace River Regional District are calling on the BC government to place a one year moratorium on deciding whether to proceed with Site C. This will allow time to refer Site C to the BC Utilities Commission (BCUC) for an inquiry and public hearing into its economic effects, including potentially less costly alternatives. Adoption of a less costly alternative would free up provincial borrowing capacity to support important local government infrastructure priorities.

We ask you to review our November 18<sup>th</sup>, 2014 letter and to consider resolving to support our request for a one year moratorium and BCUC consideration of less expensive alternatives to Site C.

Yours truly,

A handwritten signature in blue ink that reads "Gwen Johansson" with a stylized flourish at the end.

Mayor Gwen Johansson



# Vaughn Palmer: On power, fork in the road is a dam dilemma

Site C vs. independent power producers, debt vs. multi-year contractual obligations

BY VAUGHN PALMER, VANCOUVER SUN COLUMNIST NOVEMBER 28, 2014



Energy Minister Bill Bennett chats with First Nations representatives at the All Chiefs Summit held at the Hotel Vancouver a year ago. First Nations considerations are one of the many factors the B.C. Liberals consider as they ponder green-lighting Site C.

Photograph by: Kim Stallknecht, Vancouver Sun

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VICTORIA — As decision day approaches, the B.C. Liberals face two main choices to meet the province's future electricity needs, both controversial.

"I can tell you that we're down now to essentially two options, one of which is Site C and one of which is the independent power project option," Energy Minister Bill Bennett told reporters recently.

The first option would see BC Hydro construct a last-of-its-kind hydroelectric dam at Site C on the Peace River.

The second would entail Hydro contracting with private operators to build smaller-scale power projects — wind, run of river, perhaps biomass and geothermal — that would be scattered around the province.

In disclosing the final two options, Bennett tacitly confirmed that the Liberals have dropped

consideration of building either a new gas-fired generating plant or refurbishing the little-used thermal plant on Burrard Inlet.

Each of the two remaining options has its proponents and — no surprise, this being British Columbia — each also raises ferocious objections. Anything one might say on this file is debatable, including this statement.

The pluses for Site C, as the government sees them, are that hydro is the proven method of electrical generation in this province and it provides some of the cheapest rates on the continent. Once the construction cost has been paid out, hydro dams are reliable for the long-term and there's no need to estimate the future cost of fuel, as with a gas-fired plant.

For the Liberals, independent power projects have their good points too. "I don't think there's any issue around the reliability of the independent power industry," Bennett told reporters. "It's a good industry. We're actually very proud to have it. We get 25 per cent of our electricity today in the province from the IPP industry."

The industry, in a recent analysis (the one prepared, then withdrawn by KPMG), cited some other advantages of smaller-scale projects over the all-or-nothing aspect of Site C. IPPs could be phased in over time and spread around the province. Hydro could contract for range of power sources, including unproven-for-B.C. options such as geothermal.

Bennett, for his part, insists that the deciding factor between the two options should be the impact of each on future electricity rates. "We have to make a decision here that will have implications for many, many decades to the people who live in the province, to the businesses that operate here. We have to try to do everything we can to keep rates down, and that's the basis upon which we'll make this choice."

But having seen competing analyses on that score over the years, I doubt there's an indisputable answer to the question raised by Bennett. It all depends on the assumptions one makes going in and going forward.

Besides, other considerations have to be weighed, including the veto-in-all-but-name that First Nations exercise over resource development in this province.

One advantage for independent power involves the emerging role in such projects for First Nations as partners, developers and suppliers of services. By comparison, natives in the Peace River region have mounted a strong legal case that Site C would cause irreparable damage to aboriginal rights, title and interests.

Another factor is the impact on the provincial debt. IPPs don't entail a lot of provincial borrowing. They are underwritten in large measure by long-term contracts, which by verdict of the independent auditor general (applying generally accepted accounting principles) are listed in the public accounts as \$56 billion-and-counting worth of multi-year contractual obligations but not as debt.

Not so with BC Hydro. Because of the corporation's already hefty debt load, and the government's practice of raiding its accounts for dividends, the giant utility will have to borrow much of what it estimates to be the cost of Site C, namely \$8 billion.

The province is already constrained in how much more it can borrow, according to Finance Minister Mike de Jong. "I don't think we have a lot of room to move at this point," he told me during an interview Thursday on Voice of B.C. on Shaw TV.

"Those rating agencies that assess us increasingly look at other variables and other measures ... The distinction that has historically been made by these agencies between taxpayer-supported debt and the debt incurred by agencies like BC Hydro, which is self-supporting, is beginning to blur in the minds of some of these bodies. So I'm saying we have to be cautious."

Plus if Hydro is green-lighted to borrow billions for Site C, there will be that much less borrowing room for everything else. "It will likely crowd out many other projects," de Jong continued.

Not to say that debt-loading or First Nations will trump all other considerations. Only that when the Liberals say this is one of the toughest and most expensive decisions they've faced, they mean it.

As to timing, Premier Christy Clark told reporters Thursday that BC Hydro, as proponent for Site C, is pressing for a "yes" by the end of the year in order to take full advantage of the 2015 construction season.

But she also left open the possibility that the decision, being contentious, could spill over into next year.

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PLAYGROUND OF THE PEACE

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## Open Letter to BC Minister of Energy and Mines Bill Bennett

Via E-mail

November 18, 2014

The Honourable Bill Bennett  
Minister of Energy and Mines and  
Minister Responsible for Core Review  
Government of British Columbia  
PO Box 9041 Stn. Prov. Govt.  
Victoria, BC V8W 9E1

Dear Minister Bennett:

### Re: Referral of Proposed Site C Dam Project to BC Utilities Commission

I am writing in response to your letter dated October 31, 2014 received on November 12, 2014.

The District of Hudson's Hope, a community of 1,100 people in the heart of the Peace River Valley, will be more adversely impacted than any other municipality by the proposed Site C dam.

We have reviewed your letter and respectfully remain firmly of the view that the BC Utilities Commission should hold an inquiry and public hearing on the economic effects of the proposed Site C Dam Project ("Site C") prior to Executive Council making a final decision on Site C, especially in view of key recommendations #46 to #49 of the Joint Review Panel.

The Joint Review Panel noted in its report that it did not have the information and analysis to fully, properly and transparently assess the economic effects of Site C:

**The Panel cannot conclude on the likely accuracy of Project cost estimates because it does not have the information, time or resources. This affects all further calculations of unit costs, revenue requirements, and rates. [Page 280]**

**The Panel concludes that, basing a \$7.9 billion Project on a 20-year demand forecast without an explicit 20-year scenario of prices is not good practice. Electricity prices will strongly affect demand, including Liquefied Natural Gas facility demand. [Page 287]**

**The Panel concludes that demand management does not appear to command the same degree of analytic effort as does new supply. [Page 291]**

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The Panel concludes that **methodological problems in the weighing and comparison of alternatives** render unitized energy costs only generally reliable as a guide to investment...Uncosted attributes such as the ability to follow load, geographical diversity, or the ability to assist with the integration of intermittent sources need more analytic attention. [Page 298]

The Panel concludes that a **failure to pursue research over the last 30 years into B.C's geothermal resources** has left BC Hydro without information about a resource that BC Hydro thinks may offer up to 700 megawatts of firm, economic power with low environmental costs. [Page 299]

The Panel concludes that the Proponent has **not fully demonstrated the need for the Project on the timetable set forth**. [Page 306] *[emphasis added]*

As a result, Hudson's Hope, along with other participants in the Joint Review Panel public hearing, did not have an opportunity to review key information and analysis on Site C's economic effects.

The federal/provincial agreement governing the environmental assessment of Site C and the Panel's terms of reference highlight the importance of:

- (a) thorough review, and
- (b) meaningful participation of the public and interested groups through a public hearing,

to achieve a full, proper and transparent assessment of Site C.

Since the Joint Review Panel's release of its report on May 1<sup>st</sup>, 2014, interested parties including BC Hydro, the Ministry of Energy and Mines, other provincial government ministries and agencies, KPMG, the District of Hudson's Hope, and Clean Energy BC have prepared, or are preparing new information, analysis, reports, studies, forecasts and research ("New Material") in an effort to address the above concerns and recommendations of the Joint Review Panel. This New Material includes further examination of potentially less costly alternatives to Site C and the implications of Site C for the province's triple-A rating which has been given a negative outlook by Moody's.

However, unlike previous information and analysis on the environmental, economic, social, health and heritage effects of Site C, this New Material has been largely kept confidential. Most importantly, the New Material has not been the subject of independent and expert assessment and a public hearing as the terms of reference of the Joint Review Panel would have required. It is clear that further analysis of Site C is needed before Executive Council makes a final decision. As recently as November 13<sup>th</sup>, 2014, the Select Standing Committee on Finance and Government Services unanimously agreed that further fiscal and environmental review of Site C was needed. The issue is whether that additional analysis should include independent and expert review and a public hearing.

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We continue to believe that the BC Utilities Commission (“BCUC”) offers the best avenue for further independent, expert review and a public hearing regarding the economic effects of Site C. A review under section 5 of the *Utilities Commission Act* could be structured in a way that addresses all of your stated concerns with a BCUC review.

The Task Force conducting the independent review of the BC Utilities Commission highlighted the efficacy of the section 5 review approach<sup>1</sup> in their October 2014 interim report:

This [section 5] provides the **benefit of a public process and independent verification of projects and plans** but reserves the final decision on plans and projects that have broader public interest criteria to be decided by elected officials. [page 37] *[emphasis added]*

We are enclosing draft section 5 terms of reference to illustrate how a BCUC review could be structured. Please note:

- The final decision on Site C still rests with Executive Council,
- BCUC is given a deadline of November 30, 2015 to complete its work<sup>2</sup>,
- The BCUC review is focused on new information and analysis regarding the economic effects of Site C to minimize duplication of previous assessment work, and
- Funding could be set aside by BC Hydro<sup>3</sup> or the BC Government in 2015/2016 to ensure BCUC has the necessary resourcing to complete this work in a timely manner.

Site C is estimated to cost \$7.9 billion which would make it the largest provincial public expenditure of the next 20 years. It is essential to public confidence in Executive Council’s final decision on Site C, that a full, proper and transparent assessment of New Material on the economic effects of Site C is conducted. Further, that the assessment and analysis should come through an inquiry and public hearing, just as there was for previous information and analysis on Site C.

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<sup>1</sup> As the Task Force noted –

Section 5 requires the BCUC, on Cabinet’s request, to provide advice on any matter regardless of whether it is in the Commission’s jurisdiction. Section 5 also allows Cabinet to issue Terms of Reference for the inquiry. Government, rather than exempting projects and/or plans through direction and legislation, could direct these projects be subject to a section 5 review and recommendation to Cabinet. This provides the benefit of a public process and independent verification of projects and plans but reserves the final decision on plans and projects that have broader public interest criteria to be decided by elected officials.

Broader use of section 5 is similar to the approach taken by the Federal government in its recent amendments to the National Energy Board Act. These amendments redefined the role of the Board, which is now mandated not to decide on applications for pipeline certificates, but to instead make a recommendation to the Federal Cabinet.

<sup>2</sup> There is time for this additional work: “The Panel concludes that, under the Low Liquefied Natural Gas Case, available resources could provide adequate energy and capacity until at least 2028” [Page 304 Joint Review Panel Report]

<sup>3</sup> The funding required to support a BCUC inquiry and public hearing would be modest in comparison to the over \$300 million expended by BC Hydro to date on Site C.

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For a project of this size and importance, we agree with the independent Joint Review Panel – the proper course of action is to refer Site C to the BC Utilities Commission.

In closing, we formally request that Executive Council

1. Place a one year moratorium on deciding whether to proceed with Site C, and
2. Refer the economic effects of Site C to the BC Utilities Commission for an inquiry and public hearing.

I request an opportunity to meet with you to discuss this letter before Executive Council decides whether or not to proceed with Site C.

Yours truly,

A handwritten signature in black ink, appearing to read "Gwen Johansson", with a horizontal line underneath.

Gwen Johansson  
Mayor

Cc: BC Government Executive Council Members  
BC Opposition Party Leaders  
UBCM Membership

Encl.

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## **DRAFT TERMS OF REFERENCE**

### **IN THE MATTER OF the *Utilities Commission Act* (the *Act*)**

**and**

### **IN THE MATTER OF an Inquiry under Section 5 of the *Act* relating to the Site C Clean Energy Project**

#### **BACKGROUND**

1. British Columbia Hydro and Power Authority (the “Proponent”) proposes to develop and operate a third dam and hydroelectric generating station on the Peace River in northern British Columbia which would provide up to 1,100 MW of capacity and about 5,100 gigawatt (GWh) of energy each year (the “Project”).
2. The Project is estimated to cost \$7.9 billion which would make it the largest provincial public expenditure of the next 20 years.
3. In August 2013, the federal and provincial governments named a Joint Review Panel (the “Panel”) to conduct an independent and expert assessment of the environmental, economic, social, health, and heritage effects of the Project.
4. The federal/provincial agreement governing environmental assessment of the Project and the terms of reference for the Panel (the “Panel Terms of Reference”) required the Panel to hold a public hearing in order to provide opportunities for timely and meaningful participation of aboriginal groups, the public, governments, the Proponent and other interested groups (the “Participants”) in the assessment of the Project.
5. The Panel Terms of Reference provide that the objective of the public hearing is to provide the Panel with relevant information from Participants, in a fair manner, to enable the Panel to conduct a thorough and timely review of the Project.
6. A public hearing conducted in accordance with the principles of procedural fairness inherently contributes to a full, proper and transparent assessment of the Project.
7. The Panel Terms of Reference require the Panel to consider the economic effects of the Project including:
  - (a) the need for the Project,
  - (b) alternatives to the Project,
  - (c) the economic effects of the Project,
  - (d) the significance of the economic effects of the Project,
  - (e) the value of electricity generated by the Project,
  - (f) initial capital construction cost and operating cost estimates,
  - (g) impacts on government revenue, and

(h) impacts on gross domestic product.

(the “Economic Effects”)

8. The Panel Terms of Reference require the Panel to prepare and deliver a Joint Review Panel Report on the Project (the “Report”) to the federal and provincial government who in turn are required to publish the Report.
9. On May 1<sup>st</sup>, 2014, the Panel delivered its Report to the federal and provincial government and the Report was published.
10. The Panel did not have the information, analysis, reports, studies, forecasts, and research to fully, properly and transparently assess the Economic Effects of the Project. In its Report the Panel notes:

“The Panel cannot conclude on the likely accuracy of Project cost estimates because it does not have the information, time or resources. This affects all further calculations of unit costs, revenue requirements, and rates.” [Page 280]

“The Panel concludes that, basing a \$7.9 billion Project on a 20-year demand forecast without an explicit 20-year scenario of prices is not good practice. Electricity prices will strongly affect demand, including Liquefied Natural Gas facility demand.” [Page 287]

“The Panel concludes that demand management does not appear to command the same degree of analytic effort as does new supply.” [Page 291]

“The Panel concludes that methodological problems in the weighing and comparison of alternatives render unitized energy costs only generally reliable as a guide to investment...Uncosted attributes such as the ability to follow load, geographical diversity, or the ability to assist with the integration of intermittent sources need more analytic attention.” [Page 298]

“The Panel concludes that a failure to pursue research over the last 30 years into B.C.’s geothermal resources has left BC Hydro without information about a resource that BC Hydro thinks may offer up to 700 megawatts of firm, economic power with low environmental costs.” [Page 299]

“The Panel concludes that the Proponent has not fully demonstrated the need for the Project on the timetable set forth.” [Page 306]

11. As a result, Participants in the Joint Review Panel Public Hearing did not have an opportunity to review key information, analysis, reports, studies, forecasts, and research necessary to a full, proper and transparent assessment of the Economic Effects of the Project.
12. The Panel made several recommendations to address the lack of a full, proper and transparent assessment of the Economic Effects of the Project:

#### **RECOMMENDATION 46**

“If it is decided that the Project should proceed, a first step should be the referral of the Project costs and hence unit energy costs and revenue requirements to the BC Utilities Commission for detailed examination.”

#### **RECOMMENDATION 47**

“The Panel recommends that BC Hydro construct a reasonable long-term pricing scenario for electricity and its substitutes and update the associated load forecast, including Liquefied Natural Gas demand, and that this be exposed for public and Commission comment in a BC Utilities Commission hearing, before construction begins.”

#### **RECOMMENDATION 48**

“The Panel recommends, regardless of the decision taken on Site C, that BC Hydro establish and research and development budget for the resource and engineering characterization of geographically diverse renewable resources, conservation techniques, the optimal integration of intermittent and firm sources, and climate-induced changes to hydrology, and that an appropriate allowance in its revenue requirements be approved by the BC Utilities Commission.”

#### **RECOMMENDATION 49**

“The Panel recommends that, if Ministers are inclined to proceed, they may wish to consider referring the load forecast and demand side management plan details to the BC Utilities Commission.”

13. Since the Joint Review Panel Report was released on May 1, 2014, Participants including BC Hydro, the BC Ministry of Energy and Mines, other provincial government ministries and agencies, the District of Hudson’s Hope, and Clean Energy BC have prepared, are preparing, or could prepare new information, analysis, reports, studies, forecasts, and research on the Economic Effects of the Project (the “New Material”) in an effort to address the concerns and recommendations of the Joint Review Panel set out in paragraphs 10 and 12 above.
14. However, unlike previous information and analysis on the environmental, economic, social, health, and heritage effects of the Project, this New Material is largely confidential and has not been the subject of independent and expert assessment and a public hearing as the Panel Terms of Reference would have required.
15. On October 14, 2014, the Minister of Environment and the Minister of Forests, Lands and Natural Resource Operations issued an environmental assessment certificate to BC Hydro allowing the Project to proceed, subject to remaining authorizations including that of Executive Council, without addressing how to ensure a full, proper and transparent assessment of the Economic Effects of the project, and without addressing Panel recommendations #46 to #49.

16. Before Executive Council makes a final decision on whether or not to proceed with this \$7.9 billion Project, Executive Council wishes to ensure that New Material is the subject of an independent and expert assessment and a public hearing, and by doing so seeks to ensure that there is a full, proper and transparent assessment of the Economic Effects of the Project, including the matters referenced in Panel recommendations #46 to #49.
17. Section 5 of the *Act* provides that the Lieutenant Governor in Council may ask the BC Utilities Commission (the "Commission") for advice on any matter, and further that the Lieutenant Governor in Council may specify terms of reference requiring and empowering the Commission to inquire into the matter.

### **REQUEST FOR ADVICE ON THE PROJECT AND TERMS OF REFERENCE**

NOW THEREFORE the Lieutenant Governor in Council requests the advice of the Commission on the Economic Effects of the Project pursuant to subsection 5(1) of the *Act* and specifies the following Terms of Reference for the Commission's inquiry into the Project pursuant to subsection 5(2) of the *Act*:

1. The purpose of this inquiry is for the Commission to make an assessment of the Economic Effects of the Project, including the matters referenced in Panel recommendations #46 to #49.
2. The Commission must hold a public hearing in accordance with standard Commission policy and practice on the Economic Effects of the Project, including the matters referenced in Panel recommendations #46 to #49.
3. For the purpose of conducting this inquiry and public hearing, the Commission:
  - (a) must invite and consider submissions, evidence and presentations on the Economic Effects of the Project including the New Materias from any interested person, including without limitation, aboriginal groups, the public, governments, the Proponent, other utilities, power producers, ratepayer groups and other interested groups;
  - (b) must hold the public hearing in accordance with the Commission's Public Hearing Guidelines, except that the Commission will make recommendations to the Lieutenant Governor in Council rather than making determinations; and
  - (c) may use all of the powers provided to it under the *Act*.
4. The Commission must prepare a report and recommendations on its assessment of the Economic Effects of the Project, including the results of the public hearing and any implications of its assessment for the Project, BC Hydro ratepayers and BC taxpayers. The report must be provided to the Minister of Energy and Mines by November 30, 2015.
5. The Minister of Energy and Mines must publish the report within 10 days of receipt.

November 18, 2014