



October 4, 2011

Alanna Gillis
Acting Commission Secretary
BC Utilities Commission
Sixth Floor, 900 Howe Street
Vancouver, B.C.
V6Z 2N3

Dear Ms Gillis:

**RE: British Columbia Hydro & Power Authority (“BC Hydro”)
Project No. 3698640
CPCN for Dawson Creek/Chetwynd Area Transmission Project**

**Clean Energy BC’s Response to Commercial Energy Customer’s Request for Advance
Participant Assistance Cost Award**

The Clean Energy Association of B.C. (“CEA”) apologizes for the delay in making this submission and respectfully requests that the B.C. Utilities Commission (“BCUC”) consider it none the less.

The CEA strongly supports the concept of intervenors being able to hire consultants to do detailed analysis of BC Hydro’s various applications to the BCUC and as necessary providing detailed alternatives. It also strongly supports advance Participant Assistance Cost Awards being made for this purpose.

However, the proposal by the Commercial Energy Customers (“CEC”) as supported or co-sponsored by the British Columbia Old Age Pensioner Organization (“BCOAPO”) set in the CEC’s letter of September 14, 2011 and in particular the details contained in Schedule “A” do not provide a sufficient basis to approve the hiring of any consultant. At a minimum, the following matters must first be fully addressed before the BCUC even considers the proposal:

1. Name and background of the proposed consultant.
2. Draft terms of reference including terms of payment.
3. If the CEC and BCOAPO are jointly hiring and managing the consultant, then the particulars of how the joint management structure will operate.

4. Natural gas price forecast and whether the development of LNG facilities in Canada and the U.S. is reflected in this price forecast. See media report set out below that indicates that the EIA natural gas price forecast currently does not include the impact of the development of these LNG facilities.
5. Expected GHG emissions and impact on Provincial GHG reduction targets.
6. GHG price forecast.
7. Identity of the party will take GHG and natural gas price risk.
8. Impact on Provincial natural gas royalties when natural gas is used to produce natural gas.

The CEA notes that there are some significant errors in some of the figures in Schedule A. There is no basis whatsoever for inflating the “all in” 2008 Clean Power Call price and concluding it is representative of prices that would be bid into a similar BC Hydro call if it were held today. For example, the cost of wind generation has dropped significantly since 2008 because of advances in technology and the addition of turbine manufacturing capability worldwide. Estimated prices at the plant gate for high quality wind sites are about \$85/MWh. The current average long term private power price payable by BC Hydro for all types of private power is about \$65/MWh.

There is also no basis for including a cost of 10 to 20% for a capacity and shaping charge for generating projects in the 2008 Clean Power Call. The electricity purchase agreements between BC Hydro and private power producers contain restrictions on deliveries during the spring freshet and a seasonal price structure. A specimen contract can be found on the BC Hydro’s website.

Unlike many other prices such as spot electricity prices and Site C that are being erroneously compared to the 2008 Clean Power Call price, this call price is an “all in” fixed price. Even though it is not relevant, shaping and storage may already be included in this price. Because BC Hydro does not publish its complete call analysis which includes a portfolio review of certain “bid in” projects, it is not entirely clear how the \$124/MWh call price is calculated especially with respect to individual projects.

If as suggested, a municipality or regional district owns the electricity generation, and it is not clear why either would do this because they don’t have any expertise in this area, then the income tax and property tax implications would have to be considered in the consultant’s report. Neither form of government pays income or property taxes whereas private power producers do.



In general the CEA does not want to find itself in the position of having to refute numerous erroneous facts and conclusions contained in an ill thought out and poorly managed consultant's report. If it does, then the cost of this effort must be included in any final Participant Assistance Cost Award it receives.

The CEA would expect that if the CEC/BCAOP engage a consultant, then there would be an oral hearing.

Yours truly,

Original signed by David Austin

David Austin on behalf of the CEA

Natural gas prices set to jump with exports

By Lou Kilzer
PITTSBURGH TRIBUNE-REVIEW
Sunday, June 12, 2011

Some companies that control America's natural gas are pushing for government approval to export gas overseas for higher profits on the international market, a move that will significantly drive up prices in the United States because this nation still imports more than 10 percent of its domestic needs.

Among the biggest expected customers for American gas exports: energy-thirsty China, other Asian nations and Europe.

Legendary Texas oilman, corporate raider and natural gas advocate T. Boone Pickens told the Tribune-Review that exporting large amounts of natural gas overseas is a mistake — and a national security issue.

Clean Energy | Association of British Columbia

354 - 409 Granville Street | Vancouver, BC V6C 1T2, Canada | Office: 604.568.4778 | Fax: 604.568.4724 | www.cleanenergybc.org



If we do it, Pickens said, "we're truly going to go down as the dumbest generation."

"It's bad public policy to export natural gas — a cleaner, cheaper domestic resource — and import more expensive, dirtier OPEC oil," he said.

The United States produced 61.83 billion cubic feet a day of natural gas last year, according to government figures, and that production continues to grow. Politicians and some companies have trumpeted that production as the key to the nation's energy independence.

On May 20, the Department of Energy quietly gave approval for Cheniere Energy Inc. to export 2.2 billion cubic feet of natural gas per day from its Sabine Pass, La., port terminal — the first time the government granted permission to export American-produced gas overseas from the lower 48 states. The action allows exports to all countries except those to which the United States bans trade, such as North Korea.

No one knows for sure how much exporting will increase domestic prices for natural gas, which will also affect costs to heat American homes, fuel electric power, run manufacturing plants and even food. The amount of supply and exports affects that.

However, citing a consultant's report submitted with Cheniere's permit application, the DOE stated that natural gas prices in the United States will increase up to 11.6 percent when the Sabine terminal begins exports in 2015.

Republican Congressman Tim Murphy, who represents the Marcellus-rich 18th Congressional District in Western Pennsylvania and co-chairs the Congressional Natural Gas Caucus, questions the DOE decision.

"Sending natural gas overseas is the medical equivalent of bleeding a patient in order to cure him," said Murphy of Upper St. Clair. "I fear what this would do to prices."

LINING UP

Cheniere told the DOE in its application that declining prices of U.S.-produced natural gas slowed drilling in American fields. Access to international markets, where prices for natural gas are as much as triple those in the United States, would induce more drilling and boost U.S. employment, the company said.



Early last week, U.S. gas futures were worth \$4.80 per million British thermal units, compared to nearly \$14 on the Asian spot market for liquefied natural gas (LNG).

Two other concerns have requests pending before the DOE to export American gas. Freeport LNG Expansion LP, together with Liquefaction LLC, applied on Dec. 17 to export 1.4 billion cubic feet of natural gas per day from a terminal port near Freeport, Texas. Lake Charles Exports LLC, a subsidiary of British-based BG Group and Houston-based Southern Union Company, applied to DOE on May 6 to export 2.0 billion cubic feet a day from its Lake Charles, La., facility.

If the DOE approves those requests, combined with the Sabine permit, the total 5.2 billion cubic feet a day proposed for export would represent 8.4 percent of U.S. production, a Tribune-Review analysis determined.

It might not end there. At least two other companies have publicly indicated they are mulling applications to export American natural gas.

On Tuesday, San Diego-based Sempra Energy, with terminals in Louisiana and Mexico, announced it might ask to export natural gas. Earlier this year, Dominion Resources, a Virginia-based energy company with transmission operations in Pennsylvania, told the Trib it is consulting with customers about applying to turn its Cove Point importing terminal in Maryland into an LNG exporting facility to send gas from the Marcellus shale formation overseas.

Dominion spokesman Dan Donovan said the company expects that by the middle of this decade its Cove Point, Md., terminal port will transform from an import facility to export operation. On May 27, Dominion asked the government to force its natural gas customers such as Shell and BP to import LNG through Cove Port to keep it operational. The company hasn't received an import since February because of a seasonal lack of demand and said it foresees no voluntary shipments.

If the DOE agreed to allow Sempra and Dominion Resources to export the average of the amount of natural gas requested by Sabine and the two pending applicants, 13.9 percent of America's annual natural gas production could be exported based on 2010 figures, a Tribune analysis determined.

Further, the Barclays Capital investment firm predicts that even more ports could open in the western United States and British Columbia, Canada.



Paul Cicio, president of the Industrial Energy Consumers of America, which represents American manufacturers with annual sales of \$800 billion and 750,000 employees, said the DOE did not address the potential "cumulative effect" on U.S. supply and prices from allowing four or more exporting facilities.

Cicio called that impact "absolutely frightening" to American manufacturing.

"This is bad policy," agreed David Schryver, executive vice president of the American Public Gas Association, which represents 700 public gas companies in 36 states.

He said the association is aware of proposed exporters-in-waiting and intends to oppose their DOE applications.

EXPORTS NOT FORECAST

The DOE approval of Cheniere Energy's request occurs at a time when the United States must import natural gas, mostly from Canada. Despite vast resources being discovered around the nation and in Pennsylvania in deep underground shale deposits, the United States had to import 2.64 trillion cubic feet or more than 10 percent of its natural gas usage in 2009, according to the U.S. Energy Information Administration, an independent arm of the Energy Department.

The EIA forecasts the United States will continue to import about 10 percent of its natural gas needs by 2015 — the year Sabine is expected to begin American gas exports — and will remain a net importer through 2035.

However, there's one problem with the EIA forecasts: They haven't taken into account the possibility that the United States might export a substantial portion of its natural gas.

Phyllis Martin, who works on the LNG portion of EIA annual forecasts, told the Trib: "We do not at present include the possibility of LNG exports, other than from the long-existing Kenai facility in Alaska, in our model."

Cheniere's consultants based some of its prediction of "moderate price increases" for the U.S. market on these incomplete EIA forecasts.

The EIA will begin to factor exports into annual reports "if the budget allows," Martin said.



Foreign companies certainly recognize the opportunity that American shale formations offer. As the Trib reported on April 10, Chinese, Dutch, Norwegian, South Korean, Japanese, British and Indian companies are buying into American shale plays. Many of those companies are multinationals that sell LNG around the world.

The Federal Energy Regulatory Commission reports that as of February, companies planned to expand or extend nearly 3,800 miles of pipelines to handle 32.47 billion cubic feet of natural gas a day — another indication that exporting gas for higher prices is part of operators' business plans.

Jeremy Carl, a Stanford expert on Chinese and Indian energy matters, said there's little doubt that China — which has surpassed the United States as the world's top energy consumer — would be a destination for any country exporting natural gas. Chinese imports of liquefied natural gas "have grown tremendously in recent years, up about 70 percent last year alone," he said.

Carl said he's not certain the DOE has set off an irreversible chain reaction by approving Cheniere's request, because of potential variability in international market prices and the high cost of building export facilities. Equipment needed to convert natural gas to a liquefied form suitable to put into special tankers can cost billions of dollars, he said.

"It's right to be concerned," he said, "but not apocalyptically concerned."

Still, Carl said, "the Pittsburgh story is particularly compelling. ... First, Pittsburgh lost its steel industry to China. Now it's going to export its natural gas there."

Staff Writer Timothy Puko contributed to this report.

Lou Kilzer can be reached at lkilzer@tribweb.com.