

IPP Speech for Mike Geoghegan, President BCCA, October 23, 2003

Ladies and Gentlemen:

I would first like to thank Steve Davis of the Independent Power Producers Association for his kind invitation to participate in this morning's panel discussion. It's certainly not every day that I find myself in such August company and I am honoured to be here.

I will give you a quick bit of background on me and why I am here. First of all since being hired just five months ago, I have served as President and CEO of the BC Construction Association.

With 1,700 corporate members we are by far the largest construction organization in BC, in fact we are the largest in Canada. Since coming on board in May, my role has been to restore the profile and influence of our organization and we are well on our way to achieving that goal.

As such I can assure you the BCCA can and will play a key role in helping to shape future public policy discussion around all aspects of construction here in BC and that includes Independent Power Production.

That is not to say that we intend in any way to usurp the role of the Independent Power Producers Association. My approach as President has been to form positive and co-operative working relationships with other construction organization such as the Road Builders and Home Builders and of course the IPPA.

Many BCCA members are active in the independent power production industry – some in the dual role of developer/proponent as well as undertaking the construction. Some of the construction companies active in the independent power industry include:

- Peter Kiewit Sons Co
- Chant Construction
- Ledcor
- Walter Construction
- Jim Dent Construction
- CEN Construction
- Western Versatile Construction

So let's talk shop.

Through its BC Energy policy the government has laid out a plan whereby Independent Power Producers (IPP's) will be able to sell power to BC Hydro and any other available markets. Most IPP's will use run-of-river technology, with others expected to use wind power, geothermal, and cogeneration (eg natural gas, wood waste and the like).

A present focus for run-of-river (ROR) development is in the Sea-to-Sky corridor – with potential for half a billion dollars construction in that region over the next few years. Although the Sea-to-Sky corridor has some sensitivities that are unique, ROR projects are being proposed throughout the province.

Initially the Campbell government was counting on ROR construction to assemble the skilled local workforce that will soon be needed for Olympic construction in the region. But instead delays, particularly at the local government level instead threaten to create a traffic jam, where Olympic Venue Builders and IPP builders are competing for the same limited pool of skilled trades people.

Inevitably this will drive up labour costs and therefore costs to both taxpayers and private developers.

I believe there is a large disconnect between the government's energy policy and the on the ground experience of those attempting to construct Independent Power facilities.

These companies have to weave their way through a complex labyrinth of federal, provincial and local government processes while all too often having to deal with anti-development stakeholders and numerous interest groups.

The Campbell government is clearly very enthusiastic about encouraging privately-developed electricity to feed the BC Hydro grid, but all too often at the local or regional government level IPP developers are encountering what has been variously described as a “banana republic” maze of regulatory barriers that generates a hostile business climate.

Some IPP proponents are so frustrated that they have said they will not invest in future IPP's and are taking their investment dollars outside of BC. Others have commented that if they had known how onerous the approval process was going to be, they never would have initiated their current project.

No IPP proponent expects government to turn its back on the public's expectation for needed regulatory due diligence. Nor however did they expect the wishes of the Premier to be so openly thwarted.

However, there are some encouraging signs. The provincial government has already made important progress in integrating some of the administrative processes required for provincial land and water licenses.

However like a bad hangover, the corporate culture within many government agencies has been slow to move away from the policies and procedures that did so much to discourage investment during the previous Glen Clark administration.

There is also a prevailing “silo mentality” within the provincial bureaucracy that discourages development of government-wide accountability to improve the business climate in the province. In spite of some much-appreciated and needed improvements, the job is far from finished.

The current business climate is not created by one particularly horrific barrier, one set of regulations or one agency – but rather by the cumulative effect of barrier after barrier after barrier layered on top of each other. Examples over the

past few years include:

BC Hydro setting up contracts that impose onerous financial terms and contract complexities on IPP proponents. The BC Hydro energy purchase agreement also places an undue burden of risk on the small developers. One developer I spoke to earlier this year complained that his lawyers wanted \$20,000 just to review the template contract.

In some cases local government – acting under authority delegated to it by the government of British Columbia – is using its zoning powers to extort financial tribute from IPP developers.

Developers draw a distinction between the use of zoning powers to resolve land-use issues (i.e.: noisy turbines are too close to a nearby bed and breakfast) and using zoning powers to extract what amounts to a local-government royalty on the use of Crown-land resources (i.e. The zoning for turbines will be approved if the proponent funds a community centre 10 km distant from the IPP operation).

The local government issue is further complicated by the fact that there appears to be no standard guidelines that the proponent can review before making the decision whether to invest in the project. Some proponents have even said they would not object to building in a “local benefits fund” if (a) they knew in advance the cost, (b) the cost was reasonable, (c) if it was equitable for all proponents and (d) if Hydro was willing to pay a rate that recognized this as a cost factor.

Under current circumstances none of these conditions have been met, and many developers will privately characterize it as extortion – and always a “crapshoot”.

There is also taxation discrepancy between municipal and regional district forms of local government that further complicates the situation. Municipalities receive tax revenue on these projects. Regional Districts receive little to no tax revenue.

Other non-government stakeholders, sensing that the proponents might have deep pockets, are now emulating the local governments and offering to “sign off” only on the condition an additional local benefit agreement is in place. Again, no standard guidelines, no recognition by BC Hydro of the costs, and no recognition by anyone official that this is beginning to mimic business conditions in third world countries.

IPP investors have also had to contend with the fact that First Nations have aboriginal rights and interests that must be resolved before proceeding with a project; again the lack of a standard agreement for government participation in revenue-sharing, equity-sharing or other arrangements makes it very difficult to anticipate the costs in dollars and delays before making an investment decision.

IPP developers also understand that First Nations do not have the capacity for negotiating signoff and are stretched thin – and this affects timelines, and increases the risk of financial penalties by missing contracted deadlines with Hydro.

IPP developers recognize the need to deal First Nations (in fact many of the long term lenders on these types of projects require First Nation’s agreements) are very uncomfortable with the uncertainty, the difficulty, the inconsistency in

dealing with aboriginal people's issues.

And it gets worse. Kayakers from the Lower Mainland are using the federal navigable waters act to try and stop development of run of the river independent power projects. Following the lead of local government the kayakers seek to extort the developer. For example the Miller Creek Project proponents had to spend \$100,000 on a kayaker course.

Kayaking is a recreational not a transportation issue and Victoria needs to send a clear signal to Ottawa on this matter. When it comes to Victoria what is with front-loading all the costs at the beginning of a project when the proponents are still years away from making a dime.

An application for a water license is now \$5,000 and the provinces now charges you \$3,800 for a wind test! In fact to 60 to 70% of the cost of a developing a new IPP goes to taxes and levies and worst of all BC Hydro has made it clear that the IPP can't flow through these costs to them.

Now heightening this uncertainty even more is the Premier's Community Charter Initiative. Don't get me wrong, I think the Charter has some interesting points but with increased power should come increased accountability and the Charter does nothing to address the issue.

As a result not only the BC Construction Association, but the BC Chamber of Commerce and the BC Business Council warning the Premier that this lack of accountability will create even more of a third world investment climate here in BC where investors have to buy off local government officials in order to get anywhere.

But I guess there is some good news and that is the announcement by BC Hydro just under a month ago that it was providing approval to 16 IPP proponents that had met Hydro's evaluation criteria.

That suggests to me that the IPPA should look at holding one of these conferences every year in order to keep those approvals coming!

Last but not least I would also caution BC Hydro about using its monopoly as a buyer to crowd out competitors by effectively buying from themselves through PowerSmart. PowerSmart has already outlined plans to meet 40% of the provinces new power needs. Recently the Columbia Power Corporation, a crown corporation that is owned by the Province of British Columbia, has been bidding on IPP RFPs. Both of these public sector initiatives potentially serve to crowd out private sector investment.

The reason we as the BC Construction Association are so interested in what happens in the IPP sector is that it is this sector that is proving to be the litmus test of whether or not BC's Investment climate truly has changed.

It behooves us as business to speak out and ensure that Premier's Campbell's vision of a prosperous BC comes to pass. That means working within the provincial government to identify and work against an agency or group that seeks to work against the full economic recovery of BC.

I thank you for your time.