



MiningWatch Canada

Mines Alerte

Suite 508, 250 City Centre Avenue, Ottawa, Ontario, Canada K1R 6K7
tel. (613) 569-3439 — fax: (613) 569-5138 — info@miningwatch.ca — www.miningwatch.ca

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New Prosperity Review Panel Written Submission Response to Taseko's undertaking re. presentation by Joan Kuyek

This submission was prepared by MiningWatch and Dr. Marvin Shaffer in response to comments by the proponent in their written undertaking posted to the registry on August 6, 2013, number 869. This submission responds to comments made under point 42 of the undertaking which attempts to rebut Dr. Shaffer's analysis of the economic costs that the proposed new Prosperity mine's electricity requirements will impose on British Columbians. It also briefly addresses comments made in points 22 to 35 regarding estimated tax payments to governments.

In summary our main point is that nothing in Taseko's rebuttal provides a valid basis for disputing the key conclusions in Dr. Shaffer's report and presentation, namely, that (1) BC Hydro would incur large financial losses to acquire the supply needed to meet the mine's electricity requirements and (2) there is no valid evidence supporting Taseko's submission that there would be large offsetting tax benefits.

Our specific comments in response to Taseko's statements are as follows...

1. Taseko refers to Dr. Shaffer as "Adjunct professor and NDP advisor on energy policy". It suggested that his arguments were "highly politicized" and influenced by "where the voters live".

Dr. Shaffer is an adjunct professor in the public policy program at Simon Fraser University and a consulting economist. He is not a member of nor formal advisor to any political party. He has provided advice to the energy critic of the NDP particularly on electricity-related matters, as have many others, including the executive director of the Association of Major Power Customers of British Columbia, an association of which the major mining companies in British Columbia are members.

Dr. Shaffer is highly regarded for his independent, professional analysis of economic issues, as is clear from the broad range of clients for which he has worked (see attached list of clients). His report and presentation to the panel was not in any way motivated or influenced by political considerations. It was a technical analysis of the benefit and cost consequences of the proposed mine.

2. Taseko states that Dr. Shaffer argues new industrial customers would be subsidized by residential customers. Taseko states that "it is the residential class [that] are in fact the recipients of a large cross-subsidy from the commercial (general class service)".

The cross-subsidy issues raised by Taseko concern the allocation of BC Hydro's revenue requirements (its average costs of service) among different classes of customers. Dr. Shaffer's report did not address that issue as it is irrelevant to the point he raised about the cost and financial implications to BC Hydro of major new demands for electrical service. As any economist would agree, the cost implication of a new demand for service depends on the marginal or incremental costs the utility will incur to meet the additional requirements. The financial implications will depend on how those incremental costs compare to the incremental revenues the utility receives from the new customer. So long as the costs to provide power are not met by the revenue, a loss occurs to BC Hydro regardless of how the costs are distributed between different classes of users.

3. Taseko argues that Dr. Shaffer erred because of rate design principles that treat all new customers equally and postage stamp rates that pool all costs within classes of customers.

Again, the issue of rate design and pooling of costs was not addressed in Dr. Shaffer's report. Dr. Shaffer did not argue how rates should be set or what principles should apply. Rather, he analyzed the economic implications of the mine's electricity requirements given how rates are in fact set and what the industrial rate consequently would be. Again, the issue is simply this: if the incremental costs to meet new electricity requirements exceed the regulated rate paid by the new customer, the supplier (in this case BC Hydro) will incur a financial loss.

While that is true for all new customers, large or small, the magnitude of the loss depends on the amount of the new requirements. It becomes much more significant the larger the new load. New Prosperity, like other metal mines, would constitute a very large new load, equivalent to some 15% of the entire output of the proposed Site C hydroelectric station. Dr. Shaffer's report addressed the magnitude of the cost and financial impact that large new load would have.

4. Taseko asserts that the cost of new supply from a combined cycle gas turbine (CCGT) is around \$55/MWh and market prices less than \$40/MWh. It is suggesting that the incremental cost of supply for BC Hydro is not that much different from the price Taseko would pay for its power.

Taseko did not present any evidence in its EIS or panel presentations on the incremental costs of new electricity supply, nor as Dr. Shaffer stated in his report (and Taseko did not contest) did Taseko provide the panel with an analysis of the benefits and costs of the project in accordance with standard, widely accepted principles of benefit-cost analysis. It specifically did not provide an analysis of the net costs (financial losses) the New Prosperity mine's electricity requirements would impose on BC Hydro.

As for Taseko's assertions in its rebuttal about the cost of new electricity supply, they are not consistent with the purchases of power BC Hydro has made in the recent past (at prices averaging \$125/MWh), the price it is charging for the energy losses due to withdrawals of water from the Williston reservoir for gas production purposes

(\$124/MWh)¹, the avoided marginal costs that Taseko itself stated BC Hydro uses in assessing the economics of DSM measures (\$124/MWh), or the estimated cost of the Site C project that BC Hydro proposes to build to meet growing demand (\$110/MWh)². Nor is it consistent with BC Hydro's most recent estimate of the cost of electricity from new CCGTs or cogeneration facilities (\$75 to \$166/MWh)³.

With respect to forecast market prices (in the U.S. wholesale market), they are forecast to be much lower than the cost of new supply in B.C., but they are not a source that BC Hydro can access under provincial government legislation to meet growing provincial electricity requirements, nor in any event are they a long term source of supply as a new mine would require.

It is correct to state that there is some uncertainty about the incremental cost of new electricity supply, as Dr. Shaffer would readily agree. However, there is little doubt that the incremental costs would be much greater than the amount Taseko would pay for the electricity it consumes. Consequently there is little doubt that the mine would impose a significant loss on BC Hydro – a loss that has to be considered when assessing the overall benefits and costs of the proposed new mine for British Columbians.

Taseko's rebuttal on this matter gives no reason to conclude otherwise.

5. We also note that Taseko's undertaking addressed another concern raised by Dr. Shaffer – the proponent's estimate of taxes that would be paid to federal and provincial governments. Notwithstanding Taseko's numerous commentaries on Dr. Kuyek's submission the fact remains that Taseko did not provide any analysis or information to support and substantiate its tax. As indicated by Dr. Kuyek and by our earlier submission there are good reasons to believe that the taxes paid will be considerably less than estimated.

We also take issue with Taseko's characterization of the source of the -9% marginal effective tax rate cited by Dr. Kuyek, a source which we have consulted and included in our submission as well. The source of this figure is University of Calgary economists Duanjie Chen and Jack Mintz and (Shen and Mintz 2013). Taseko calling their report "highly politicized" is inappropriate and without basis.

¹ See BC Hydro, F2012 to F2014 Revenue Requirements Application, Exhibit B-16, Interrogatory Response 1.50.2

² BC Hydro, *Site C Clean Energy Project: Environmental Impact Statement, Executive Summary*, p.8.

³ BC Hydro, *Site C Clean Energy Project: Environmental Impact Statement, Volume 1, Table 5.38*, p.5-60.

Marvin Shaffer & Associates Ltd. List of Clients

Governments

Federal

Auditor General
Employment and Immigration Canada
Energy, Mines & Resources Canada
External Affairs
Finance
Fisheries & Oceans Canada
Health & Welfare Canada
Indian and Northern Affairs
Public Works Canada
Science Council of Canada
Transport Canada

Provincial

Province of British Columbia
 Crown Corporations Secretariat
 Environment & Land Use Secretariat
 Marine Resources Branch
 Ministry of Agriculture
 Ministry of Economic Development
 Ministry of Employment and Investment
 Ministry of Energy, Mines & Petroleum
 Resources
 Ministry of Environment
 Ministry of Forests
 Ministry of Lands, Parks & Housing
 Ministry of Social Services & Housing
Government of the Northwest Territories
Manitoba Energy Authority
Yukon Territorial Government

Other

City of Kitimat
City of Surrey
Greater Vancouver Regional District (MetroVancouver)
GVTA (Translink)

Public Sector / Crown Corporations

B.C. Ferries
B.C. Hydro
B.C. Resources Investment Corp.
B.C. Transportation Financing Authority
Columbia Power Corporation
Manitoba Hydro
New Brunswick Electric Power Commission
Ontario Waste Management Corporation
Partnerships B.C.
Powerex
Saskatchewan Crown Investments Corporation
Saskatchewan Power Corporation
Vancouver Public Library

Indian Organizations

Ft. Nelson Indian Band
Gitksan Tribal Council
Lake Babine Band
Lax Kw'alaams Indian Band
Musqueam Indian Band
Nisga'a Tribal Council
Katzie First Nation
Tahltan Tribal Council

Public Task Forces and Inquiries

B.C.-Environment Assessment Office
 Salmon Aquaculture Review
B.C.-Gasoline Pricing Inquiry
B.C.-Port Hardy Ferrochromium Review Panel
B.C.-States Oil Spills Task Force
B.C. Utilities Commission
Ontario Energy Board
West Coast Oil Ports Inquiry
Western Grid Study Agreement

Private Sector Firms and Associations

Alcan Ltd.
Amoco Canada Ltd.
Arlon Tussing & Associates
Berger & Nelson, Barristers & Solicitors
BC Gas
Cassels, Brock & Blackwell, Barristers & Solicitors
Golder & Associates
Gulf Canada Ltd.
Industrial Gas Users Association
Inland Pacific Energy Services (B.C. Gas)
Mobil Oil Inc.
Monenco Consultants Ltd.
Montenay Inc
Natural Gas Pipeline Company of America
Niagara Mohawk Power Corporation
Petro-Canada Inc.
Progas Limited
RBC Dominion Securities
Reid Crowther & Partners Inc.
Sandwell, Swan Wooster
Shell Canada Ltd.
SNC Lavalin
Westcoast Transmission Ltd.
Western Gas Marketing Limited

Non-Profit Organizations

BC Public Interest Advocacy Centre
Canada West Foundation
Canadian Wildlife Service
Canadian Energy Research Institute
Friends of Nemaiah Valley
Mining Watch
YWCA