# BC COMMENTARY

a review of provincial social and economic trends

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INSIDE:



# Private Power Developers and the BC Government's Water Licence Giveaway

## By John Calvert

*BC Hydro estimates that we will require significant additions to our energy supplies over the next 20 years. The provincial government's 2002 decision to turn BC Hydro into only a purchaser of energy, rather than a supplier of new energy (i.e. BC Hydro is not allowed to build new generating capacity), means that any new energy supplies for the province must come from what are known as independent power producers.*

Because BC is rich in water resources, small run-of-the-river hydro projects that generate electricity using a renewable, non-polluting energy source are a very attractive means of bridging some of the energy gap. However, the provincial government has taken the view that BC's streams and rivers are not valuable public assets. Rather, they are essentially a 'free good' to be given away at minimal charge to the first company to stake a claim on them for the purpose of building a power project.

The number of prime sites for small hydro is limited due to geography, energy capacity, transmission access, First Nations land claims, environmental suitability and potential alternative community and public uses. Thus the prime sites that are developed for power production will have value for generations, if not centuries, into the future. The government is encouraging private energy interests to 'lock in' effective ownership of the most promising hydro power sites across the province for a minimal water licence fee, extremely low waterpower application costs and minimal water rental charges.

The best sites are well known and their energy potential is well documented. Various publicly-funded studies, going back more than twenty years, have documented, in detail, the potential annual energy output from hundreds of small hydro sites across the province. All of this information has been freely shared with private interests that want to acquire promising sites on which to build run-of-the-river power plants.

While the current government has spent significant amounts of public money to provide private interests with the information needed to 'stake their claims', it has not published estimates of the net present value (based on future energy revenues) of these sites. For example, a small hydro site, for which a proponent has paid the $10,000 water licence fee, may generate $10–$15 million in annual revenue at current energy prices — and much more if prices rise, as they likely will, over the coming decades.

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The government is effectively concealing the value of the public assets being transferred to private interests. It is disposing of these sites as if they have virtually no economic value — at least until an entrepreneur builds a power plant on them. But if a future government were to try to buy back the water licences, it would quickly find that what was given away for virtually nothing is now valued by its owners as a gold-plated investment of enormous value to shareholders.

In addition, the government has put in place a royalty structure that effectively denies the public virtually all the economic benefits arising from BC's water resources. The province receives several types of payments from small hydro generators, the most significant of which are annual water licence fees and volume-based water rental charges. But unlike oil and gas royalties, which are based on the market price of the resource, if the market price of energy doubles or triples in the future, the province will not receive any additional water rental revenue. When all of the various licence fees and charges are added together, the total the province will receive for its public water resource is, optimistically, only 4% to 5% of the gross revenue from small hydro projects.

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Moreover, the ability of a future government to obtain a greater share of the revenue from these sites is likely to be constrained by the highly favourable terms of the contractual, licensing and land tenure agreements that the present government is awarding to the proponents. Water licenses have no sunset clause: they are given in perpetuity, as are the land occupancy tenures which allow private interests to acquire full ownership of the sites on which their power projects are located.

Private power interests incur other significant costs in getting site approvals, including environmental studies to determine the effects on fish, wildlife and the ecology of the river system. And, they may have to spend money on community and First Nations consultations. But all these costs, in total, represent a tiny fraction of the future revenue stream, and most of them can be written off against future profits.

More disturbing, all of this is being financed by public money, through BC Hydro's energy purchase agreements. These agreements provide the cash flow proponents need to construct their power facilities, roads and transmission lines. Almost invariably, the decision about whether a private energy project is viable economically, or not, is determined by whether the proponent can get a long-term purchase agreement with BC Hydro.

In awarding such an agreement, BC Hydro provides a guaranteed revenue stream for between 15 and 40 years — which the banks see as a government-backed security for the proponent's loan request. This allows the private developer to access interest rates much lower than would be the case without the guarantee of a public contract. Yet the public gets no assets, no long-term security of supply, and no protection from future price increases.

The government also "sweetened" the package for private energy investors by including a provision in the most recent energy call for BC Hydro to reimburse power producers for the property taxes they pay on their power plants. And the price it pays private developers for their energy is now partially indexed to inflation.

In sum, the BC government is virtually giving away the water rights to what is perhaps the most valuable of BC's renewable resources. The size of this give-away literally boggles the imagination. Future revenue streams involving billions — perhaps tens of billions — of dollars over the coming decades are being sold for a few tens of thousands to those who are first in line to acquire them. And this entire "give away" is being paid for by the public. It is truly a modern "gold rush."

*John Calvert is a Research Associate with the BC office of the CCPA and a Board member of BC Citizens for Public Power.*

# BC's Coastal Forest Communities Need a New Deal

## By Ben Parfitt

*The downside of corporate concentration in BC's forest sector is writ large in the Vancouver Island community of Port Alberni, where recent protests by community members and the intervention of people like BC Federation of Labour president Jim Sinclair, appear to have finally got the provincial government's attention.*

The issue of immediate concern — one shared by countless other communities — is log exports, which last year hit an astonishing 4.7 million cubic metres. Private timberlands around Port Alberni are so quickly being denuded of trees that community water supplies are threatened. Adding insult to injury, virtually all the trees leave BC without ever running through a mill. And there are prospects for increased exports ahead, with Vancouver Island's biggest private landowners — TimberWest and Island Timberlands — both pushing for more, perhaps an additional 1 million cubic metres per year.

Under the circumstances, Forests Minister Rich Coleman's belated commitment to appoint a committee to review exports is better than nothing, but just barely.

These days, coastal sawmills are as rare a sight as the elusive spotted owl. And today's concentration of an increasingly small number of mills in few corporate hands is certain to make them a rarer sight still.

Twenty years ago, forestry in Coastal BC was synonymous with two letters — MB, short for MacMillan Bloedel. In places like Port Alberni, MB was king, running sawmills, a plywood mill, and pulp and paper facilities. But even with the company's pre-eminent position in town, there was still wider competition. Bill Routley, president of United Steelworkers Union Local 1-80 in Duncan, recalls negotiations with four major companies back then — Doman, Fletcher Challenge, MB and Pacific Forest Industries. Today, there's one. It goes by the initials WFP, or Western Forest Products.

Ironically, HR MacMillan himself — the M in MB — once famously warned before a Royal Commission in 1956 that British Columbians would rue the day when "the forest industry here consists chiefly of a very few companies holding most of the good timber."

Thanks to back-to-back corporate acquisitions in the waning weeks of 2005, WFP controls nearly one in every two trees logged on public forestlands on the Coast and virtually all public forestlands on Vancouver Island. Under Minister Coleman's watch, thanks to Liberal forestry reforms, neither WFP's purchase of Cascadia nor its acquisition of Canfor's last coastal forest tenure, were subject to public review or comment.

Upon acquiring Cascadia last November, WFP boasted of 10 sawmills in its portfolio. But one of the mills in Ladysmith remains idle following its shutdown last October. And while WFP has announced that it will upgrade its Cowichan sawmill, there is widespread fear that another two WFP mills are vulnerable to closure, with perhaps as many as another 700 jobs on the line.

What WFP has not commented on — and Coleman is long overdue in insisting that it do so — is what, exactly, its intentions are. Right now, WFP can log up to 7.7 million cubic metres of timber per year on public forestlands. Its sawmills, however, only churn through about 4.6 million cubic metres of logs. That significant gap means there's plenty of room to agitate for more log exports, which is precisely what WFP, other forest companies and local First Nations succeeded in doing as recently as March, when Coleman's ministry approved further exports on the Mid Coast.

In a way, the approval makes sense for isolated coastal First Nation communities that at present

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# Picking the Pockets of the Poor: The Price of BC's Welfare Cuts

## By Seth Klein and Andrea Smith

*In January 2002, in the wake of tax cuts that induced the largest deficit in the history of British Columbia, the provincial government announced that the operating budget of the Ministry of Human Resources (responsible for social assistance) was to be reduced by $581 million, or 30%, over the course of three years.*

*During the two fiscal years after the benefit cuts and clawbacks were announced, the government "saved" at least $92 million on the backs of welfare recipients.*

The government's own statistics, obtained through Freedom of Information requests submitted by the CCPA, reveal that millions of dollars have been clawed back from the monthly incomes of single parents (almost 90% of whom are mothers), the children of single parents, and older people.

### Earned Income Clawed Back

In the past, anyone on welfare in BC could work and keep a small portion of their earned income — $100 per month for single adults and $200 for families (income earned above these amounts was clawed back at a rate of 75%). This policy, known as an "earnings exemption," was cancelled in 2002 for all "employable" welfare recipients (people with disabilities or having "persistent multiple barriers" to employment were spared, and have seen an increase in earnings exemptions).

Earnings exemptions cost governments relatively little, and are widely viewed as an important way for people on social assistance to keep or get a foot in the door of the paid labour market. But most importantly, they represent a vital income top-up, given that it is virtually impossible to live on basic welfare rates. BC is now the only province with no form of earnings exemption for "employable" welfare recipients.

Based on the FOI data, we estimate that with this new policy, the government clawed back over $35.8 million directly from working welfare recipients over the first two years. The loss of earnings exemptions has been felt most by single parents.

### Shelter Allowances

In August 2002, monthly shelter allowances for families of three or more were cut by between $55 and $75. Shelter allowances provided by welfare were already unrealistically low. Parents on welfare have long had to supplement their shelter allowance with their support allowance (money for food and everything else). This cut affected an average of 10,369 families per month in the first year and 8,026 families per month in the second year. Conservatively, this cut amounts to $9.9 million over the course of two years (assuming all affected families saw their shelter allowance reduced by $55 per month, the lower amount).

### Single Parents' Benefits

Under the new regulations, each single parent with one child lost $43 in monthly welfare benefits — a reduction in their monthly rate from $1,004 to $961. Single parents with two children lost $90 per month — their benefit rate fell from $1,201 to $1,111. Province-wide, benefit rate reductions for single parents affected an average of 21,099 families each month between April 2002 and March 2004. Conservatively (assuming all these single parent households had only one child), the government cut a minimum of $21.8 million in support from single parent families in the two years following the budget cuts.

The government also cancelled spousal support exemptions for single parents. The exemption had enabled single parents to keep $100 of their child maintenance payments from a former spouse (the rest was clawed back by the government). This policy change affected an average of 6,104 families each month. In total, over the two years, the government clawed back more than $14.6 million in spousal support from single parents.

Thus, under the budget cuts at MHR, the government "saved" more than $36.4 million on the backs of single parents and their children. Single parents also lost the earned income exemption, and single parents with two or more children additionally faced the shelter allowance reduction. In total, between rate cuts and income claw-backs, a single parent family with one child on welfare

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# Bucking the National Trend: Poverty Among Lone Mothers

## By Jane Pulkingham

*BC's newspapers are full of banner headlines about record housing starts, construction booms and decades-low unemployment. "The numbers don't lie" proclaim the boosters of the province's policy record. Well, they can lie by omission. There is a dark side to BC's economic recovery. The persistence of poverty among plenty is striking.*

Even though the overall poverty rate in BC dipped slightly in 2004 (the last year for which Statistics Canada has produced data), it remains the highest in Canada, and higher than the national average for almost every demographic group. In fact, the United Nations Committee on Economic, Social and Cultural Rights recently singled out BC, expressing particular concern about increased poverty among single mother-led households.

The gap between Canada and BC is most evident in the alarmingly high poverty rates for lone mothers, something that tells us a lot about changes to provincial social policy priorities. Until 2001, the poverty rate in BC had dropped faster and further than the national rate. Unfortunately, things shifted in 2001 when the poverty rate for BC's lone mothers began to climb back -up. With one-half (49%) of lone mothers in poverty in 2004, BC's poverty rate is higher than the national average (36%) by a wide margin. In BC, poverty among lone mothers rose an astounding 15.8 percentage points between 2000 and 2004; in Vancouver, it rose a staggering 24 percentage points.

So why did lone mothers' poverty rates in BC rise? The simple reason is that their incomes dropped due to a combination of unstable market incomes and declining government transfers. In 2000, median market incomes in BC were well below their national comparator. But matters got worse because nationally, lone mothers' median market incomes rose every year except one (2001), while in BC no such trend is apparent.

But market income is only part of the story. The other — more important — part of the story has to do with the impact of government policies. Here too, we have a "made in BC" story. During the 2001-2004 period, average government transfers to lone mothers declined by a whopping $2,300 per year, compared to a national drop of only $200. The bulk of the transfer cuts in BC occurred in two years — 2002 and 2003 — when the government introduced sweeping changes to an array of social programs, including welfare. The

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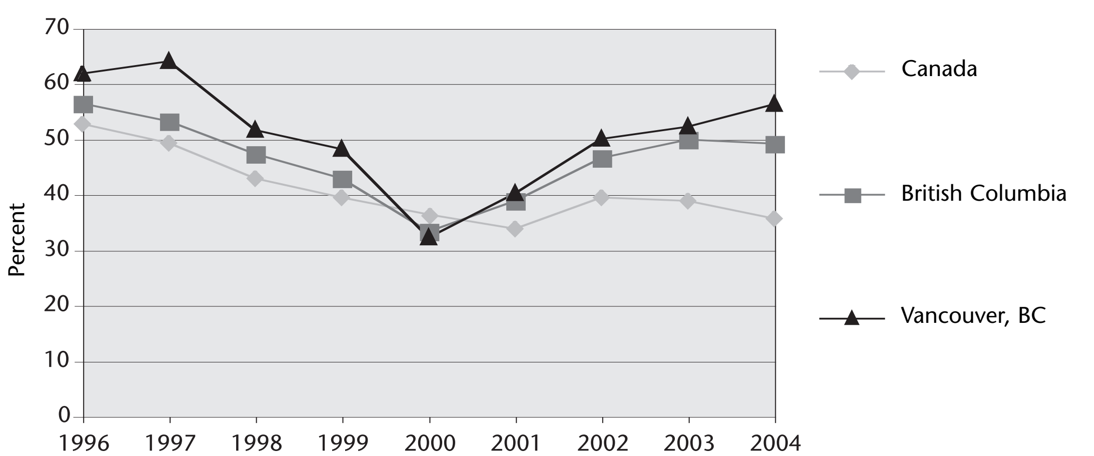
**Percentage of female lone parent families below Statistics Canada's low income cut-off (after tax)**



# Time to End the Government's Love Affair with P3s

## By Stuart Murray

*Public Private Partnerships, or P3s, have become the model of choice for the BC government when it comes to new infrastructure development. There have been several efforts to complete P3s in BC, including the new Abbotsford Hospital, the Canada (or RAV) Line rapid transit project and the Sea-to-Sky Highway expansion. Other proposed P3s have been rejected, including the Maple Ridge downtown development project, the Seymour water filtration plant and the Whistler sewage treatment plant.*

*Supporters say that P3s save money, but they can actually cost the public millions more than traditional procurement.*

P3s have thus proven to be controversial. While new infrastructure, from hospitals to highways to public transit, is much needed in BC, the P3 option is a form of privatization that will cost us more over the long run.

P3s are very different from traditional procurement, where a government typically hires a private company to design and build a facility such as a bridge or a hospital. The government finances the project, and after the facility is built, operates it. With a typical P3, however, most elements — design, building, financing and operations — are bundled into one contract covering a period of several decades. The private contractor usually consists of four or more large firms that come together to create a stand-alone company whose sole business is to bid on a project.

Supporters say that P3s save money, but they can actually cost the public millions more than traditional procurement. First, when a private company borrows money to finance a project, it must pay interest rates that are much higher than the government would normally pay. Second, because private investors require a profit, the profit becomes an added cost. And third, P3s have a more lengthy and complicated bidding process, which increases the total cost of implementing a project.

Supporters also say that P3s "transfer risk" from government to the private sector. However, companies don't take on risk just as a goodwill gesture — they do it at a cost, and that cost gets built into P3 contracts. It's also doubtful, based on experience to date in BC and internationally, how much of the "risk transfer" is real. After all, if a project goes bad, the contractor can simply declare bankruptcy (this happened with two P3 hospitals in Australia). Once the construction phase is complete, a multi-decade operating agreement provides the contractor with a guaranteed client who will never default on payments — hardly risky business.

In BC, the main advocate for P3s is a government agency called Partnerships BC. It has two roles: the first is to provide "objective" advice on whether P3s are a good idea; the second is to promote P3 projects. This contradictory role puts Partnerships BC in a conflict of interest that should disqualify it from providing advice to the public.

Moreover, Partnerships BC has been engaged in writing "Value for Money" reports to justify P3 projects. The so-called "Value For Money" process is overly subjective, susceptible to manipulation by vested interests, and excessively complicated. This work should be done by independent auditors, or the Auditor General of BC, in order to provide a more objective, comprehensive and transparent approach to determine if a P3 project really offers any benefit over traditional public procurement.

A high-profile example is the new Abbotsford Hospital, a 300-bed facility scheduled to open in 2008. This facility is needed, but the case for doing it as a P3 is deeply flawed. The project relied heavily on a tentative report recommending the use of a P3, and the project planners did not reconsider their decision to use a P3 at points in the project where reconsideration was appropriate. Only after the contract was finalized and construction had begun did the government arrange for a comprehensive Value For Money analysis.

The Auditor General was involved in the project but only in the form of a "review," which did not require verification of the underlying data and assumptions in the Value for Money report. The Auditor General was only asked if the numbers were "plausible." Then the AG's credibility was openly used as a stamp of approval that the project's cost-effectiveness had been confirmed.

The Abbotsford Hospital also shows how much more administratively costly P3s can be. Even according to the Value For Money report written by Partnerships BC, the "procurement cost" of a conventional public sector project would be approximately $8 million, compared to $24.5 million for the P3, a difference of $16.5 million.

In addition, the P3 procurement process also delayed the project by several years. The delays moved the construction phase into the currently hot construction market with its associated higher costs. According to the report, the total inflation costs associated with the delay between 2001 and 2004 adds up to $63 million. These delays are attributable to the P3.

Ideally, governments would stop using P3s as a way to finance and operate public facilities. If they apply a healthy skepticism to the promises and reports provided by vested interests, they will find that P3s lack a strong rationale. As a society, we want public services delivered cost effectively, at the maximum value to the public. P3s instead extract value from the public purse while generating profits for private shareholders.

*Stuart Murray is the CCPA-BC's Public Interest Researcher. This article summarizes the study,* Value for Money: Cautionary Lessons about P3s from British Columbia*, released in June 2006 and available at www.policyalternatives.ca.*

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net result was to reduce its financial commitment to lone mothers in significant ways.

Lower transfer income is the key to understanding lone mothers' declining after-tax income and rising poverty rates in BC. For lone mothers with welfare income and no earnings, cuts to welfare rates caused part of the decline in transfers. These cuts meant that they were (and are) poorer than they used to be — the poverty "gap" (the difference between average incomes and the poverty line) among these lone mothers has grown. These changes, however, do not affect their overall poverty rate because their incomes already fell below the poverty line.

The poverty rate for lone mothers has risen because prior to 2002 many single mothers could combine income assistance, paid employment and child support payments in such a way that, in the course of a year, their incomes could reach just above the poverty line. As of 2002, however, welfare benefit cuts and rule changes (such as the elimination of the earnings exemption) mean they can no longer do so.

Together, these changes explain why lone mothers' after-tax incomes plummeted and why they were catapulted into poverty in staggering numbers. As far as the market goes, the current economic numbers may be as good as it gets. But the market is failing lone mothers, and so is our government because of its failure to provide adequate income supports.

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*As far as the market goes, the current economic numbers may be as good as it gets, but the market is failing lone mothers, and so is our government because of its failure to provide adequate income supports.*

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lack any meaningful local prospects to turn logs into lumber. But it is a slippery slope.

As more mills close — and for the sake of Port Alberni let's hope that WFP's Alberni Pacific Division mill with its 400 employees is not one of them — local residents could find themselves facing increased log exports from public lands on grounds that there are no local mills to take the logs.

During its first term, the current government scrapped clauses linking logging rights to the maintenance of specific mills. In essence it said that social contract provisions were an undue drag on corporate profits. Following that logic, we could ultimately have no mills in any communities.

Surely it is time to revisit the issue. Surely it is time to insist that companies make some reasonable investments in processing facilities in exchange for the billions of dollars in timber our government has turned over to them. Surely it is time government dealt the public in, not out of the equation. Otherwise, we may soon associate the letters WFP with something else entirely: What Forest Products?

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had its monthly income fall by up to $395 (or more if they had more than one child).

### Cuts to Benefits for Older Adults

Older unemployed British Columbians have also paid for budget cuts. Single adults and couples aged 55 to 64 used to receive slightly higher benefits than their younger counterparts to reflect that they face age-related challenges in both finding work and living on a low income. Under the new regulations these benefits were abolished.

Single adults aged 55 to 59 lost $47 monthly, while couples in this age group lost $94. Single adults aged 60 to 64 lost $98, while couples lost $145. They must now live on the standard monthly rate of $510 for a single person or $827 for a couple. Abolishing age-related benefits for welfare recipients on the cusp of senior citizenship "saved" the government "saved" about $9.6 million between April 2002 and March 2004.

Cumulatively, during the two fiscal years after the benefit cuts and clawbacks were announced (April 2002 to March 2004), the government "saved" at least $92 million on the backs of welfare recipients. These savings account for about 11.5% of the Ministry's overall budget cut during this time.

Welfare cuts have taken millions of dollars out of the pockets of individuals and families completely unable to cope with such income losses. Today's large provincial budget surpluses clearly show that the cuts were unnecessary. Furthermore, while the Ministry may "save" money from these cuts, it is very likely that government and society pays for them in a multitude of other ways. Surely we can afford to take better care of each other.

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