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REPORT OF PROCEEDINGS
(HANSARD)

SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Vancouver

Wednesday, November 3, 2004

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KEN STEWART, MLA, CHAIR

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**SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS**

Vancouver
Wednesday, November 3, 2004

- Chair:* * Ken Stewart (Maple Ridge-Pitt Meadows L)
- Deputy Chair:* * Harry Bloy (Burquitlam L)
- Members:*
- * Daniel Jarvis (North Vancouver-Seymour L)
 - Harold Long (Powell River-Sunshine Coast L)
 - Dennis MacKay (Bulkley Valley-Stikine L)
 - * Karn Manhas (Port Coquitlam-Burke Mountain L)
 - Ted Nebbeling (West Vancouver-Garibaldi L)
 - * Barry Penner (Chilliwack-Kent L)
 - * Gillian Trumper (Alberni-Qualicum L)
 - Rod Visser (North Island L)
 - * Dr. John Wilson (Cariboo North L)
 - Joy K. MacPhail (Vancouver-Hastings NDP)
 - * Paul Nettleton (Prince George-Omineca Ind L)

** denotes member present*

Clerk: Craig James

Committee Staff: Jonathan Fershau (Acting Committee Research Analyst)

Witnesses: Alister Cowan (B.C. Hydro)
Bob Elton (President and CEO, B.C. Hydro)
Birgit Reinders (B.C. Hydro)

CONTENTS

Select Standing Committee on Crown Corporations

Wednesday, November 3, 2004

	Page
B.C. Hydro	407
B. Elton	
A. Cowan	

MINUTES

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS



Wednesday, November 3, 2004
10 a.m.
Strategy Room 320
Morris J. Wosk Centre for Dialogue
580 W. Hastings Street
Vancouver, British Columbia

Present: Ken Stewart, MLA (Chair); Harry Bloy, MLA (Deputy Chair); Daniel Jarvis, MLA; Karn Manhas, MLA; Barry Penner, MLA; Gillian Trumper, MLA; Dr. John Wilson, MLA; Paul Nettleton, MLA

Unavoidably Absent: Harold Long, MLA; Dennis MacKay, MLA; Ted Nebbeling, MLA; Rod Visser, MLA; Joy K. MacPhail, MLA

Others Present: Jonathan Fershau, Acting Committee Research Analyst

1. Pursuant to its terms of reference the Committee reviewed BC Hydro.

Witnesses

- Bob Elton, President and Chief Executive Officer
- Alister Cowan, Chief Financial Officer
- Birgit Reinders, Executive Assistant

2. The Committee met *in camera* to consider its review of BC Hydro.
3. The Committee met in public session.
4. The Committee adjourned at 12:42 p.m. to the call of the Chair.

Ken Stewart, MLA
Chair

Craig James
Clerk Assistant and
Clerk of Committees

WEDNESDAY, NOVEMBER 3, 2004

The committee met at 10:07 a.m.

[K. Stewart in the chair.]

K. Stewart (Chair): Good morning, everyone. I think we might as well get this underway. My name is Ken Stewart. I'm the Chair of the Select Standing Committee on Crown Corporations, and before us today we have B.C. Hydro.

Before we get started, we do introductions around the table. We'll do the introductions in a minute, but I'd like to go over the format that we'll be using today. The first hour will be for you to use as a presentation to us. What we try and do with regard to questions — unless there's a question about process, which doesn't usually come up that often because you guys have been through this before — is hold the questions for the second hour. So members will note their questions and then come back.

Then after the presentation, we have up to an hour for questions. At that time if there are any questions that we don't get to — if the members have more questions once the hour is up — they'll have an opportunity, through the Clerk, to send you the questions, and you can give them a written response. But we usually have got through all the questions, other than information that couldn't be answered at the time and they asked for additional information. That's the second part of that process. If there's a question or information being sought that you don't have available to you, feel free to tell us that. Through the Clerks, you can submit that information at a later date, and it will be just sent out to all the members.

This process is recorded by Hansard, so you'll have an opportunity, usually within just a few days, to look at it on the webpage. If there are any corrections or something in there that didn't come across quite right, you can also send that in through the Clerk for clarification. We're giving lots of opportunities to ensure that there's a full process out there so that we get all the accurate information and that no one's really put on a spot if you don't have a full answer to the question. We think it's better to do it that way.

Also, the fact that it is on *Hansard*.... It's open to the public. We try and ensure that these meetings are as open as possible when we do it, so that the information is out there.

That's pretty much it. The other point is that we usually are on a first-name basis here, so feel free to do that. And we do go through the Chair, so any questions or answers are through the Chair, just to keep some semblance of order to the discussion. When the members ask questions, we give them one question each and just keep continually moving around the room until we're finished.

Now I guess we can start with doing introductions. Craig James, who just got up, was the first one who was introduced, so we'll start with Jonathan. We'll just

go around the table, and members can say where they're from and what constituency they represent.

[1010]

J. Fershau: Jonathan Fershau, committee research analyst.

P. Nettleton: Paul Nettleton, Prince George-Omineca.

B. Penner: Barry Penner, MLA for Chilliwack-Kent.

K. Manhas: Karn Manhas, MLA for Port Coquitlam-Burke Mountain.

A. Cowan: Alister Cowan, CFO for B.C. Hydro.

B. Elton: Bob Elton, president and CEO of B.C. Hydro.

B. Reinders: Birgit Reinders from B.C. Hydro, executive assistant to the CFO.

D. Jarvis: Daniel Jarvis, North Vancouver-Seymour.

J. Wilson: John Wilson, Cariboo North.

G. Trumper: Gillian Trumper, Alberni-Qualicum.

C. James: Craig James, Clerk Assistant and Clerk of Committees in the Legislative Assembly of British Columbia.

K. Stewart (Chair): All right. Bob, you can just take over. You've got an hour to tell us all about yourselves and try and give us an overview of where you're at and where you're going.

B.C. Hydro

B. Elton: Thank you very much for the opportunity to talk to you today. What I'm going to do, with Alister, is just address a few things. First, we'll talk in general terms about our context, both the outside environment we deal with and also the purpose we have as a company — what the key things are that we're trying to do. Then we'll give you a brief summary of where we think we're at in fiscal 2005 compared to what we said we would do in the service plan.

Then we'll specifically focus, I think, on the key tenets of the energy plan and explain how we feel we've carried out our activities in accordance with the energy plan. Finally, we'll talk for a few minutes about our long-term goals, things that will be in the next service plan. That's what I'd like to do to start with.

Before I start.... A couple of things have happened in the last few days that were not in the original information we gave you. First is that this morning we made an announcement relating to the Vancouver Island call for tender — the results of that. I will be deal-

ing with that later on. That was announced this morning in Nanaimo.

Second, of course, is that last Friday we got the result on our revenue requirements application from the BCUC, which is really a milestone event for B.C. Hydro. I'll spend a bit of time talking about that as well. Of course, I'm sure there will be questions about both of those two things.

Let me talk for a few minutes about our purpose as a company — reliable power at low cost for generations — and just explain what I think the parameters of that are. Reliable power is really a function of two things. It's having enough energy there when you need it and getting the energy to our customers on the wires. In terms of having enough energy there when we need it, that's really a function of long-term planning. As we'll discuss later on, the kinds of projects that we're looking at today are projects that are needed, in some cases, for more than ten years into the future.

As I'll also explain today, we're at one of those points in our history as a company where the next two or three years will be very important in terms of those decisions. We're very much in a supply-and-demand balance at the moment with B.C. Hydro and in this province. The decisions that we're all making, with a lot of public input, will be very important in the next couple of years. They will affect our future for a long time to come.

Over all, in terms of supply and demand, as you know, we had a large surplus built up in this province over a period of time many years ago through the construction of hydroelectric dams made, frankly, by people who had vision and didn't necessarily have all the analytical details to support the decisions they made. Those decisions have stood us all in good stead.

Since then, what we've seen at B.C. Hydro is that the surplus has gradually eroded as demand has increased. We're pretty well at the point now where we have to decide: should we be doing things to make sure that we're at least self-sufficient in the province? Or should we be allowing that trend to continue so that ten, 20 or 30 years from now, we'll have a very substantial reliance on imports? I'll talk in a few minutes about what our view on that is.

The second issue is around getting the electricity to you on the wires. That is of much less public interest. People don't talk as much about maintenance and capital replacement on the wire side as they do talk about generation and sources of supply, but it's equally important.

In terms of our overall view of our reliability, we are like every other utility in North America. We have assets that are aging, so we have decisions to make there about what the investments are that we're going to make, how we're going to manage maintenance and how we're going to manage capital.

If you look at the reliability that we experience in this province compared with other places, it's a bit of a mixed picture. Over all, compared with every utility in North America, we're in the third quartile in terms of

reliability. We've made that clear in our annual report and our service plan. That's not a great result.

[1015]

On the other hand, we are comparing ourselves with utilities that have different kinds of terrain and different kinds of weather, and where the physical distance between our generation and our customers is often quite small. Obviously, in British Columbia it's the exact opposite. Our sense is that our customers over all, in the province as a whole, are generally satisfied with our reliability. In other words, depending on where they live, they recognize the physical challenges. I think that when we talk to them, the sense we get is that they're saying: "Reliability today is okay. We're just concerned that you're not going to look after it well enough and that 20 years from now it's going to get worse."

This is the challenge we face, and this is something we're very focused on — making sure that we keep our reliability as it is today. We don't think our customers want to see us drastically increasing expenditures in order to give them higher levels of reliability. We think what they want us to do is to keep investing in the system so that reliability is approximately where it is today. That is a general statement. I'd be happy to discuss that with you.

In terms of the low-cost part of our mandate and our purpose, we have just about the lowest costs in North America, and we'll be giving you some details of that later on. Our view of that is: (a) that's something the energy plan clearly requires us to continue, and (b) that's an important competitive advantage for the province. When we look at our future, when we look at what we're trying to do and what we're trying to build, we think it's vital that our goal is to keep that competitive advantage so that, again, 20 years from now when we're sitting here, or somebody's sitting here, in a room with a similar committee, we're still just about the lowest-cost provider in North America. That's our objective. Again, we'll talk about that later on.

As a context for that, we're a bit different, I think, from a lot of public sector entities. Only 20 percent of our costs are labour, and 40 percent of what you pay in rates relates to capital — interest, appreciation and those kinds of things. In other words, the decisions that were made ten or 20 years ago have a huge impact on the rates you pay today. Again, when we're looking at keeping our low-cost advantage in this province, it's important that we're prudent in the way that we spend capital. In terms of these kinds of discussions, it's important that we can explain what our approach is to capital spending because it will have a very large impact on the future.

The last point is this: for generations. To us, that means that what we do must be sustainable. For example, it would be relatively easy to keep costs low and to keep reliability high in a way that neglected our assets and that basically took wealth, if you like, from the future so that we could consume more today. We don't want to do that. It would be relatively easy, I think, to achieve good reliability at low cost and neglect the en-

vironment. We don't want to do that. We want to make sure, as we'll discuss later on.... Particularly as we sense there's more and more public pressure to see very, very good environmental records on the part of utilities, we think it's very important that we keep the leadership position that we believe we have today. Compared with other utilities in North America, we believe that the evidence is that we have a very strong environmental record. We intend to keep that. So all of our work and all of our planning are designed to make sure that what you have one year from now and 20 years from now is reliable power at low cost for generations.

Those are sort of my general overall comments. Now I'll move to some more specifics and start by talking about demand-and-supply balance. These charts are obviously fairly small, so they're hard to read at a distance, but I think what they give is a fairly simple picture. The top one is about energy. That means that during the year you have enough energy. The bottom one is capacity, which means when you most need it — in the case of British Columbians in the winter, on the coldest day of the winter — we can supply you with enough energy on that day or on that hour. That's what we plan for.

What these graphs show.... The black line that's gradually going up from left to right is demand. It shows, as you'd expect, a gradual increase in demand, reflecting economic growth, population growth and so on. Then the blue and green bars are what we currently have as definite sources of energy and capacity. You'll see that those start to intersect, and we start to have a gap around about the year 2013. Again, going back to what I said earlier, that may seem like a long time from now, but it isn't. So we need to make sure that we, in a routine way, keep planning for more generation in the province. For example, we recently announced calls for 1,000 gigawatt hours that will take place next year from independent power producers in the province with an expectation of a further call the year after. In addition, of course, we announced the Vancouver Island result this morning, which I'll come to later on, is about another 2,000 gigawatt hours.

[1020]

We will keep making those calls for energy. What we will do is look at competitive, open processes in terms of buying energy from the private sector, from independent power producers. We also, within the terms of the energy plan, will look at projects that might be applicable to our own assets, and we'll make sure that those options are considered — again, in a competitive way. Then the BCUC will consider whether we did that right. They'll look at our processes; they'll look at the results. They'll look at the comparisons we made with our own projects.

The last point I'll make on demand and supply is that we make our assumptions about economic growth. Of course, we're very interested in sharing those and in getting input from government on those. If economic growth takes off in this province or there is substantially more economic growth, that's when you could

get the risk of not having enough. We have to plan for that possibility as well.

One of the reasons why we like to have a fairly steady series of calls year after year rather than large lumps is because it gives us the ability to plan more flexibly. What we see is a mixture of large projects and small projects. We think that's the right way to do it.

I'll talk briefly about prices. When you look at all the commodities that there are in the world, electricity is just about the most volatile for various reasons. One of the reasons is that it's actually hard to move it around, so if you get short of electricity in a particular location, it could take a few years before you can remedy that problem because you can't always physically move it as much as you can, for example, with oil or gas.

What we've seen in the last few years are gradual increases in market prices. We think those will continue. Most of the things that lead to electricity prices being high.... For example, the price of natural gas — we expect that to continue to be high. For example, construction materials — assuming there is still economic growth in places like China and India, that's going to mean that construction materials worldwide are going to be more expensive. And interest rates — like all utilities, we have a fair amount of debt, and we don't think interest rates will be going down. There are all kinds of reasons why we have upward cost pressures.

B. Penner: You maybe should clarify, when you're talking about increasing electricity prices, that this graph that you're showing, the visuals, are from the mid-Columbia price.

B. Elton: Yes. I'm sorry; I should. That's right. Thank you very much.

These aren't our prices. This is the market price of electricity in the mid-Columbia market, which is the market that we are the most linked to because it is the closest liquid market.

Thank you for that.

Interest rates. I think that's a fairly familiar story for all of us. A reminder that if we get a \$25 million increase in interest expense, which is 1 percent on interest rates, that's a 1 percent increase in our rates to customers. That's a fairly significant issue for us. We do manage it by making sure that we have the right mix of short-term and long-term interest rates.

Interestingly, the commission reviewed the way we do that in our recent application and concluded that they agreed with the way we mixed short-term and long-term interest rates and U.S. and Canadian debt. Clearly, it's an upward cost pressure.

Environmental issues. I think it's two things, really. It's a mixture of regulatory requirements and also public pressure. This slide talks about Kyoto, for example. I'm not sure that Kyoto is really the issue. It's more that whatever the requirements are, we can't really predict them. We think there will continue to be more of them. We think that as more and more people live closer to

our facilities, wherever our facilities are, or closer to IPP facilities, that will mean the public will be more and more concerned about environmental issues and also that there will tend to be tighter regulations as time goes on. What that means is that it will get harder to build anything and it will take longer, and we build that into our plan.

I'll talk briefly about the proposed acquisition by B.C. Hydro of interests in power projects owned by the Columbia Basin Trust and by Columbia Power Corporation. Again, I'd be happy to answer questions on this later. The main point I want to make is that it's something that we were approached to look at — approached by government and by CBT. We're interested in it because I think it's a case where if you look at those rivers — if you fly over them in particular — what you see is a patchwork of assets owned by different people. It's one of those rare occasions in the world when a merger could actually create synergies, real synergies, in terms of the way we operate.

We think it's an interesting proposition. We're looking at these projects with CBT. We recognize that there's a long way to go in terms of CBT being comfortable from their board's point of view, so all we're doing at the moment is looking at the proposed acquisition; examining the assets; looking at the financial, environmental and reliability issues; and we'll see in the end whether this transaction takes place. But it's something that we're supportive of, that our board is supportive of.

[1025]

Now what I wanted to do is turn this over to Alister. He's going to go through what we call our 2005 report card and basically explain how we have or have not met the challenges that we've set ourselves in the service plan last year.

A. Cowan: Thank you, Bob.

If you look at our service plan, we have several key performance metrics that we measure ourselves against, which we consider important to how we operate our business. On a year-to-day basis for the six months to the end of September, we're above or on target for most of those key performance metrics. We're below target on one, and I will discuss that in a moment.

We continue, however, to be challenged by the low water levels this year and also the higher load demand, which is driven by higher economic activity than expected in the province, particularly from the industrial customers. Adding the two of those together has resulted in significantly higher purchases of energy from the market than we'd anticipated. Just to give you some numbers, for the six-month period we're looking at to the end of September, we imported 4,650 gigawatt hours of energy from the market compared to 2,600 gigawatt hours in the same period from the previous year. So you can see the impact of the low water levels this year and the higher demand.

It's also important to realize that the average cost of those purchases is significantly higher than the cost of

generating from our hydro facilities. We're importing energy at an average cost of \$52 per megawatt hour versus a Hydro cost of generating, if we had the water, of about \$5.70 per megawatt hour. So there's a huge difference that's having a significant impact on our results.

I'd also point out that the increase in load from our industrial customer base.... With our current rate design, industrial customers pay approximately \$36 per megawatt hour for their power, and we're importing to meet that increased load at \$52. So there's a significant difference between that.

If you look at our net income, which is after deferral accounts, the important thing to realize is that deferral accounts, as were approved by the BCUC in their decision last week, were designed to eliminate the impact of events over which we have little or no control. I talked about the water levels. We also have the impact of the cost of gas, which is market-driven, on our thermal plants; trade income, which Powerex, our trading subsidiary, owns; and any unexpected major maintenance events.

If you remove the impact of these sort of uncontrollable events from our results, we have actually performed well in the six months to the end of September. We have a net income which is ahead of plan. Specifically, we've controlled our operating costs. We're approximately \$30 million below our plan and \$28 million below last year. Our finance charges are lower. The interest rates have been slightly lower than we anticipated. We've had strict controls over our capital expenditure, which has resulted in lower depreciation.

Looking at the water levels, just a comment on that. We have two major catchment areas — the Williston and Kinbasket areas — and they have been significantly lower this year than last year. Our reservoir levels, however, at the end of September are at their average level. We are maintaining the reservoir levels because, obviously, we're moving into the winter peaks. So it's been important for us to ensure that the levels of water in our dams are sufficient to allow us to meet the winter peak season. Therefore, what that has resulted in is that the first six months have seen a significantly higher level of market purchases than in prior years.

B. Penner: Do you mean the first six months of the fiscal year, starting April 1?

A. Cowan: Yes, starting April 1.

But it's important to know that as of the end of September our reservoir levels are at their average level. So we've maintained them for going forward into the winter season.

B. Penner: That's due to the purchases that you referred to?

A. Cowan: Exactly.

If we look at one of the key issues that we operate to, it's reliability for our customers. We have two key measures of reliability. One is the availability of our

system, and then the average duration of a customer outage. Both of those are important. We've seen significant improvements year over year in both measures, so we're beginning to see the benefits of increased maintenance expenditures and sustaining expenditures on our system for the wires part. We're doing well at managing to keep the interruptions that we do have to a minimum level.

[1030]

One thing I would point out on our wires' reliability, as Bob pointed out, is that we are really affected by trees and the vegetation. Approximately 20 percent or a fifth of the outages in the province that we experience are caused by trees either falling on the line or some other things.

Part of the improvement from last year is, obviously, that we didn't have any major fire damages here, which had a big impact last year. Over all, if we eliminate for that, we have seen an improvement, and with a focus on reliability going forward, we expect to see further improvement in that.

We have other service plan performance indicators — and I don't propose to go through these in detail — but we are either on target or ahead of plan, particularly when we look at our environmental and conservation gigawatt hours. We are on target for our injury frequency, but we do have to report or acknowledge that we did have a fatality at one of our facilities in September, and we take that very seriously. Safety is a very high priority at B.C. Hydro, and we are fully investigating why this occurred. We will implement the recommendations of that review so that we can improve the safety of our employees.

I'd like to turn to Bob now. He's going to discuss most BCUC decision in a bit more detail.

B. Elton: As I said, this is a milestone event for us. We hadn't been regulated for a very long time, and I think it was a very difficult process for everybody. We produced about 12,000 pages of evidence, which everybody had to go through — the members of the public and other people — and understand. The decision we got last week, I think, we regard as a very positive decision, for two or three different reasons.

The first is that when you get a regulatory decision after all this time, the thing that you're most worried about is that you'll be forced to change your operations in a way that will affect reliability or customer satisfaction. When we go through the decision, it's very clear that the commission accepts the general reliability targets, accepts the general way we serve customers and has not proposed anything that would make that more difficult. In other words, I think it generally endorses the approach that we're taking, and frankly, I think that's an important message for our customers.

Second, on what they said.... I mean, in very general terms, I think what we said to them was that we've had the energy plan and have had to make a lot of changes very quickly in our company. We recognize that we have to tighten everything, be more productive, control our costs well. Frankly though, after this

long absence without regulation and with all of the various structural changes we'll be making, we need the commission to say, you know: "We're confident in what B.C. Hydro is doing, and we're going to give them a bit of time to do it and work together."

That's how we interpret their decision. What they said was they found us credible. They particularly commented that they felt we were carrying out the energy plan the way we were supposed to. I'm paraphrasing. We made it clear that we intend to manage our costs going forward in the context of inflation. That's going to be our objective.

Basically, what they said was — and I'm obviously paraphrasing 220 pages — that it sounds like a very good approach. "Go ahead, and here are some areas where we want you to report more. We want to know more about what you're doing." But over all, it was a very, very positive result for us, we felt. Our sense was that the process is working.

The last comment I'll make is that when you're sitting on the stand — as I was for three days, and we were, collectively, for three weeks — you learn a lot about your business when people are asking you questions. We got a lot out of that. We got a lot of good ideas out of that. We think it's a great thing for our company to have gone through that process, and we're looking forward to making the improvements that have been suggested.

K. Stewart (Chair): We'll try not to keep you on for three days here.

B. Elton: Thank you. Good.

In terms of the actual numbers, we applied for an 8.9 percent increase, but remember: we had originally applied for an interim increase of 7.23 percent. When you look at the result, we think.... The commission has said they think the final result will be something around 7.23 percent. We think it might be a bit less than that, so we think there'll be a small refund. Over all, our sense is that our customers have been paying for the last few months the rates that they'll now be paying for the next 16 months. I think that's an important message for them too.

A. Cowan: Thank you, Bob.

Even with that increase in our rates, as approved by the BCUC, compared across North America, we are amongst the lowest in all three of our rate classes — residential, commercial and industrial. It's interesting that the other two we vie with for the lowest position are also hydro-based systems in Manitoba and Quebec. As we said, our long-term goal is to maintain that comparative advantage in our rates for B.C.

[1035]

If we turn now to energy intensity, as we talked about, we're in a sort of supply-demand balance. Our historic excess supply position has been utilized, so we're very focused on ways to ensure we've got sufficient supply going forward. New generation can fill the additional requirements, but it does have an environ-

mental impact, and as Bob said, it can take several years to accomplish.

If you look at the energy consumption of B.C. compared to the rest of the world, we are significantly higher. Indeed, we made the comment that consumption in the lower mainland is higher than in other parts of the province. So we are looking at both sides of the supply-demand equation. We're obviously focused on the supply side, ensuring adequate supply going forward, but we are looking at the demand side of the equation as well. Our Power Smart programs are designed to encourage energy conservation in both the domestic and the industrial sectors, and we look to those to reduce demand and lower costs in the construction of new facilities. It also gives us an environmental benefit from that as well.

The Power Smart programs were addressed in the commission's decision on Friday. In general, they're supportive, and we've got some more reporting and stuff to go forward on.

B. Penner: Just on this line, if I may, Mr. Chair.

K. Stewart (Chair): Is it a clarification or a question?

B. Penner: Clarification.

K. Stewart (Chair): Okay.

B. Penner: I don't see us compared to the rest of Canada, in terms of our electricity consumption. How would we fare?

B. Elton: It's similar. Very similar.

A. Cowan: The committee may remember that last year we talked about our aging assets — the fact that a lot of our facilities are heading towards the latter part of their life and requiring additional maintenance to maintain their reliability. We have spent the last year looking at how we plan to address that additional maintenance. We've implemented a strategic asset management process for our assets. That has identified those assets where maintenance and modernization are priorities. That's allowed us to focus our capital and maintenance dollars on those assets to ensure that we have reliability going forward.

What we are projecting as a significant increase over the next few years in the maintenance spent on those assets.... We're going to increase from \$170 million a year in capital maintenance to approximately \$250 million a year on our generation and distribution assets. The committee will be aware that our transmission assets are now managed and operated by BCTC, and they will be coming forward with their maintenance plans on those.

If you look to one other issue that's affecting us, the California issue.... Obviously, we had the Ninth Circuit Court of Appeals decision, which ruled that the Federal Energy Regulatory Commission didn't properly regu-

late the energy industry during the energy crisis and ordered FERC to reconsider the decisions made in respect to the California refunds.

At this point it's not clear what the implications are going to be for the energy industry or Powerex specifically, as far as we're concerned. There have been appeals filed, but I think it's important to note and to put on record that Powerex has been involved in a number of intensive regulatory investigations by FERC and others and has been cleared in all cases of all allegations of wrongdoing. As I said, at this point we don't.... The financial implications for Powerex and therefore B.C. Hydro are not yet clear, but it doesn't change the fact that we believe that they — and Powerex has been found to — have operated within the rules of the markets in which they do business.

A brief comment on the Accenture outsourcing business arrangement. This was obviously a very complex arrangement. Just in summary, after its first transition year, we have completed our year 1 milestones: our customer satisfaction does continue to be high; the metrics that we set up with Accenture to measure performance under this contract have been met; and the financial performance, which is a key part of the outsourcing, has been met as well. It's important to note that the commission has been very supportive of the outsourcing in its decision.

[1040]

One of the things we've obviously been looking at is the quality of our reporting. I think this committee is interested in that. While we recently had the results of the auditor general's evaluation compared to *Building Better Reports*, and while they are slightly different from this committee's assessments, I think they do provide a good starting point.

I think we performed well. We have obviously taken on board where the auditor general has given us some specific comments, and we will make improvements to both our service plan and our new report going forward. We intend to do that in a significant way for this year.

At this point, I'd like to turn it back to Bob.

B. Elton: Sure. What I'd like to do for a few minutes is just talk about how we felt that we've met what we were required to do in the energy plan.

The first slide talks about that part of the energy plan that dealt with low rates. I think you'll see that the tick marks mean we think we've done it. The key issues to talk about there, I think, are No. 5, the regulation, which we've just talked about. I'm going to come to No. 13 under a different category.

No. 21, the one that's still underway — that's a question of rate design. In other words, we'll be going to our customers. It will actually not be March. It will probably be May or June in 2005 — probably June — where we'll talk, given the revenue requirement we have, about what the rates should be for each class of customers and what kind of different rate design there could be. That will be, as typically, a very public process that will start after June 2005. The reason for the slight

delay there is simply that the regulatory timetable has been very challenging for all of us — for us, for the interveners, for the commission. It just seems to make more sense to delay it by a few months.

In terms of secure, reliable supply, I'm going to talk about Vancouver Island now. I'll do that in just a couple of minutes.

All the other items there are ticked. Again: "New supply acquired on a least-cost basis." The method we've chosen to do that is through competitive calls for tenders. Competitive, transparent, publicly known call for tenders — we think that's the right way. I'll be happy to answer your questions about that.

In terms of the private sector developing new supply, remember that that's a key tenet of the energy plan. What you'll see here is a summary of our purchases from IPP, year 2003-04-05. By the way, the 2005, of course, is a split year. It's half a year. That's why the number of 3,000 gigawatt hours is smaller in 2005.

We have entered into 40 supply contracts to date. Maybe 3,000 gigawatt hours is an abstraction; \$1.5 billion in investments is maybe not an abstraction. I think that one of the things we recognize is necessary in accordance with the energy plan is to make sure that there is built up in the province a strong independent power producer industry that has diversity of supply and geographic diversity. We want that because that's essential for reliable power for our customers. We think the progress we've made so far represents solid, steady progress towards that goal.

I'll make a parenthetical comment. I know that from the IPP industry point of view, they'd like there to be more. Of course they would. We recognize that. Our job, though, is to supply reliable power to our customers, and we think it makes sense to do it in steps, as we have. We think that as each year goes by and we keep adding to this list, that will be how this industry will best be built up.

The second point that I think is important is to look at that lower part of this chart: "Purchase from the market for domestic use." You'll see that the prices there are lower, generally. Generally, they're \$10 lower in 2004-05 than the long-term IPP contracts. That reflects the fact.... It's true of most things you can buy that if you buy things in the spot market, you can often buy them lower. They're sometimes higher.

Go back to what I said earlier about energy self-sufficiency. Long term, we believe that we should be looking to be self-sufficient in the province so that if we are buying from the market, we can buy it from domestic sources as well as from California or anywhere else. But over all, we think the strategy we've followed so far, which is a mix of long-term fixed-price contracts with buying from the market at different times of the day, is a strategy that's worked for us financially.

Vancouver Island call for tender. We announced this morning the results of that. That was that a project called Duke Point Power LP limited partnership is the winning bid. It is a project that would build a 252-megawatt gas-fired, combined-cycle power plant at the Duke Point site, which was going to be the site for our

VIGP project. The dates, as you'll see there, are: "Commercial operation expected, May 2007."

[1045]

We had a very lengthy hearing on this. What we said at the time of the hearing was.... We went to the hearing and said: "We propose to build VIGP at Duke Point. We need energy on the Island by a certain date. But we think that because of the various questions that have been raised about the project, we should carry out a competitive process for tender."

There were concerns expressed about whether we would be neutral in doing that. We decided that having an independent reviewer of the process would be very important. Through a competitive process, we selected PricewaterhouseCoopers to be the independent reviewer. The process is complete. PricewaterhouseCoopers have said that, basically, we took an open and transparent approach to the CFT and that that has resulted in a competitive and fair process.

As a result of that process, this is the winning bid. The next step is to file this outcome with the B.C. Utilities Commission. The B.C. Utilities Commission will decide the process from now on. I think it will not be surprising to hear that to the extent there were communities where a bid was not successful, those communities may well have already announced their intention to have intervenor status. I think that's already happened, but I wasn't there this morning at the announcement. Actually, I think that Gillian Trumper was.

We welcome that. In other words, I think it's very important. This thing has been going on for years. It's very important that there be a BCUC process that gives everybody the satisfaction of one more chance to say what happened, how did it happen, was this fair, was this open, was this done properly. We believe it was, and we're very comfortable with whatever process the BCUC proposes to examine now.

The next slide shows our progress in meeting the 50 percent clean energy target that the province set. Again, you'll see that the line going up is the line we must meet. You'll see that the blue bars are the clean energy we've got to date. Of course, there's a gap at the end there, because we're still buying energy. We're very confident that we'll meet that target, and in fact, we believe that we'll exceed that target. We're very intrigued and pleased to see that the bidding we've had for clean projects so far has shown that clean, renewable green projects in this province can be very competitive from a cost point of view — generally small projects, which we like, because as I said, we'd like a mixture of small and large projects.

I'll just make a parenthetical comment again that while the gas plant certainly wouldn't qualify as a clean project, having something like a significant-sized gas plant will mean that we can actually buy more clean energy in the future. Otherwise, we see ourselves basically with a mixture of large and small, with projects that have solid capacity versus projects that don't. We think that we'll be able to continue meeting and exceeding that target.

Now what I want to do is just spend the last few minutes talking about our long-term goals, which will be reflected in our next service plan, and give you a sense of where we're trying to go as a company.

Reliability in terms of the customer. What we're looking at there is making sure that everybody understands their reliability. So if you live in a particular town — if you live in Prince George, for example — how does your reliability compare with other towns in the north and how does northern reliability compare with towns in the rest of the province? It's an important point so that you as a customer can take us to task more in terms of what kind of reliability you're seeing. We see ourselves investing in different places, maybe more or less, to make sure that people get the reliability that they should get, given where they are, given how remote it is, and so on.

In terms of supply, we believe that self-sufficiency is the answer in terms of energy and capacity. We're saying that publicly, and we'll certainly be making that point to the commission. Customer satisfaction, I think, is really a result of the other things we do. If we do good things, if we give people reliable supply, and frankly, if, when they get anxious and they pick up the phone, they get sensible answers, then our satisfaction will stay high.

Remote electrification is one that we haven't talked about a lot yet. We think there are people in the province that are being served by us. There are people that are not. The reasons why are not always clear, so we intend to make sure that the parameters are as clear as they possibly could be. There'll be some government involvement in this in terms of what the policy should be. I don't, by the way, mean serving them as in on the grid. The question of whether things are on the grid is an economic question, but how large does a community have to be to qualify for some form of service? This applies particularly to first nations communities, but it applies to other communities as well. There will be more on that, and as I said, we will work closely with the government on that.

In terms of the goals for our employees — not a surprise. We want to be one of the best employers in Canada. We're not going to do that by paying people vast amounts of money. That's not the world we live in. We think the keys are that we have a very exciting company with a very exciting thing to do for the province, which people get excited about. We think that some of our environmental and other goals are going to get people very keen to work here.

[1050]

In terms of safety, we've always compared ourselves with utilities. That's okay, but we want to start comparing ourselves with industrial plants — in other words, making sure that if you have a job working for us, you're as safe as you would be in an industrial plant. That's a function partly of attitude. You'll see the one there that's very tricky. None of our employees will experience a serious safety injury. It's very hard to put that as a goal when we just had somebody die, one of our employees killed. But technology improves all

the time. We've got to make sure that people who work in our company don't have serious injuries. I can't say that we have magic answers, but it's partly a question of the attitude we all have to have as people in the way we do our work.

The teamwork one is important. In a minute I'll come to working collaboratively with people outside the company. Large companies sometimes have gaps between the field and the head office or between union and non-union people. It's important that we don't. We'll work on that.

In terms of the next slide, the stakeholder engagement one is very important. We want to be the most respected company in B.C. We want to get better at listening. We have very smart people in our company. We always have. We've always been very good at explaining things in a lot of detail. We have not always been very good at listening. We recognize that. For example, when we go out this year, as we will, to talk to people about resource options, one of the basic things we're doing is making sure that it won't just be very intelligent people doing that consultation who already think they know the answer. There'll be people there that are just good at listening. It's something that we have to be very good at as a company, and we recognize that.

First nations. The 20-year goal is, I think, to do more than just make sure that we've resolved all past grievances. That's something we intend to do. It also means, for example, in terms of employment and in terms of contractors, that we have the right relationship. I'll give you just one example. There are parts of the province where it's very difficult for us to get people to work. In a lot of those parts of the province, most of the people living there are first nations people, and at the moment there aren't enough first nations people with the right kind of educational or technical training. What can we do about closing that gap so that 20 years from now we have a workforce that looks different from the one we have today?

In terms of the environment, we made a public announcement two weeks ago — and Minister Neufeld was very much a part of that — that we intend to find out what our environmental impact is that we have as a company and commit that we will not increase it. That's a very bold goal for a utility, because our facilities have very large impacts around the province. As far as we know, no other utility has actually made that promise. The reason why we feel we can make it is because we have a great environmental record today. We have very low emissions, for example, because most of our generation is hydro, so we think we can do great things with this and be world leaders in this.

Alister already referred to the conservation culture that we need. That means that people in British Columbia... If they can consume less, we can not only improve our environment, but we can also reduce our costs.

Our financial goal. I already mentioned that: stay at the bottom in terms of unit costs, and at the same time,

deliver what we need to deliver to the shareholder in terms of our return.

In terms of western opportunities, as we call it, that's really talking a lot about Powerex's business. Our goal there is to increase Powerex's business within the risk tolerances that we have. We believe we can do that.

Research and development. To achieve some of these goals, to achieve more energy conservation, to achieve more in terms of renewable energy, to keep our assets growing longer, research and development is very important, and we intend to keep working on that. We'll be putting those goals in our service plan and developing performance targets that we'll be accountable for going further.

Again, I want to really round it off by reminding us of what our purpose is: reliable power at low cost for generations. What we think we've done in the last two years is implement the structural changes required by the energy plan, achieve good results in terms of the short-term measures that we had and lay a long-term structure in place that will help our company going forward.

What I look forward to is receiving your questions about these or any other points.

K. Stewart (Chair): Thanks a lot, Bob. Before we continue with questions, there are just a couple of clarifications I'd like to make from your presentation. I guess it was a request from the committee that I'll ask for now. On graph 16 there is an energy intensity diagram, and I thought I heard a request that if you could update that to include the information from additional provinces.... We always like to compare ourselves with the rest of Canada so we can have justification for saying why we're the greatest place in Canada, let alone the world, to live. If we could have that, that would be helpful.

The second thing I thought I heard you say was with regard to the rate increases — that the customer has already seen the rate increases for the past months, so based on the outcome of the B.C. Utilities Commission the other day, they will not see any further increase to what they have, and it might even be a minor decrease.

B. Elton: Yes.

K. Stewart (Chair): So those increases — the rates have already been in place for a period of how long?

B. Elton: Since April 1.

[1055]

K. Stewart (Chair): Okay. That's pretty much it.

We'll start with the questions. What we do there is start at our left with Paul, and he'll have a question. Then we'll just move around until we....

Just try and keep it to one question, Paul, and a supplementary, if you need it. Okay. Thanks. We'll get back to you. Don't worry. Do you have a question?

P. Nettleton: Oh, you want me to start right now.

K. Stewart (Chair): Yeah.

P. Nettleton: I thought we were getting a break. I'm quite happy to ask a question.

Thank you for the opportunity to listen to that presentation and ask a couple of questions. My first question is with respect to page 19 of your presentation, intitled "California Issues." You indicate on your second bullet that rulings are not based on findings of market manipulation but on findings that FERC under-regulated the industry. This is with respect, of course, to a recent ruling by the United States Court of Appeals that gives California some life with respect to their pursuit of I think roughly some \$5 billion in refunds from electricity suppliers and traders, which of course includes Powerex.

The U.S. Ninth Circuit Court, as part of their ruling, made the comment that in fact FERC had acted improperly when it decided to let about 60 power-trading companies, of which Powerex was one of those companies, off the hook despite allegations that they broke the rules established to prevent price gouging — the implication being that Powerex was involved in price gouging.

My first question with respect to that ruling is: what is the potential liability with respect to Powerex and, in turn, B.C. Hydro with respect to that recent ruling?

B. Elton: Sure. There is a complicated series of cases here. I'm going to answer in as much detail as I can.

The liability that we've talked about publicly, which applies really to the whole spectrum of things around California, is something in the \$1 billion (U.S.) kind of range. That potential exposure, if you like, has always been there. I think these various decisions that come along from time to time lead you to have either more or less confidence about what the actual outcome will be. We don't think that decision either increases or decreases the exposure. It's just a comment on whether it's more or less likely that the exposure will come to roost. Did I answer your question?

P. Nettleton: So what you've suggested in fact is that nothing has changed with respect to potential liability. It just makes it more likely, then, that in fact Powerex will be on the hook for somewhere in the range of a billion dollars. Is that right?

B. Elton: I think I agree with the first part. Yes, nothing has changed. My own view is that we've got I don't know how many of these hurdles to go through and that every time we get a hurdle in our favour, I don't necessarily conclude that it's more or less likely. I just conclude: okay, that was a good decision. Then we get a bad decision. This was a bad decision. It wasn't one that we were actually involved with, which makes it harder, because we weren't there to plead our case.

My overall view of the likelihood of the exposure is this: as long as it's possible to have an evidentiary hear-

ing in the United States, as long as it's possible to put the facts or have other people look at the facts, we believe we will win. We believe we've proved that several times in several evidentiary hearings already. If it's possible for there to be a series of circuitous legal events where we never get to show what we actually did, then that would be a far more difficult process to predict from our politicized process.

[1100]

That particular decision makes that more likely. Our best advice is still that we expect that there will be evidentiary hearings. The Ninth Circuit decision.... What it did, really, was overturn a FERC decision where FERC had basically said, without all these evidentiary hearings: "We think that this is the answer." The Ninth Circuit said: "No, you shouldn't have said that."

Our view is that if FERC just comes back and says, "Well, then we'll have evidentiary hearings," we're fine. If FERC doesn't say that, then we'll appeal. If appeals aren't successful, we'll look at NAFTA. In other words, this is going to take a very, very long time, but our belief remains rock solid that the factual evidence will support us. I guess, deep down, we've got to assume that in the United States you would be able to find, somewhere, a court where you could go to present the evidence. That's our belief.

K. Stewart (Chair): Thanks, Bob. Barry, do you have a question?

B. Penner: Yes, I do.

Thanks for your presentation. It's good to see you here today. I just have a question about something I'm referring to in the service plan for fiscal 2004-05 — something that caught my eye. I'm just wondering if you could explain something on page 27. I'll just read it to you. You're probably quite familiar with it — projecting the costs per megawatt hour, including electricity purchases, from 2003-04 going forward to 2006-07.

What that document appears to indicate is a declining average cost per megawatt hour generated going forward, dropping from \$22.33, on average, per megawatt hour in 2003-04 to \$20.43 per megawatt hour by 2006-07. That seems counterintuitive when we know that B.C. Hydro needs to invest additional dollars in maintenance and upgrading to aging facilities as well as the additional new generation that's required, whether from the private sector or the public sector, to meet our growing needs. Any new generation is going to cost more, no matter who builds it. I'm curious if you can explain how it is that that average cost figure could be declining.

B. Elton: Sure. Thanks for the question.

First of all, it doesn't reflect the question of purchases from outside. In other words, it purely relates to the generation line of business. For example, if we have low water, then that low cost figure would not be achieved. This assumes average water.

What it says is that at average water, there are really two ways in which we see ourselves improving

our performance. The first is simply by being more productive, by efficiency gains, reducing G and A — those kinds of things. We're already working on that and have made some strides on that this year. The second is by maximizing trade revenues. In other words, we do see Powerex growing — not in a spectacular way. We don't want to do that. We see Powerex's contribution gradually increasing. Those trade revenues are offset from those costs.

B. Penner: Just to be clear, on page 27, on that chart, it does say, "...including electricity purchases" — if you're looking at the same page that I am.

B. Elton: Yes. It includes electricity purchases.

I should back up. If we have to make electricity purchases because of low water, then those are included in this chart. If we make electricity purchases — more long-term purchases — because of the supply-demand balance, then that's made through distribution, and it's a different statistic. I'm sorry that wasn't clear in the report.

That one does not include, for example, the Vancouver Island.... The Vancouver Island purchases we're going to be making would not be included on that chart.

B. Penner: Again, your explanation for why that figure is declining over the years is that you're banking on Powerex profits to underwrite or help cross-subsidize the cost of power production.

B. Elton: And we're looking at being more productive in the way that we run our generation assets. Recognizing that there are, as you say, some upward pressures.... We're like everybody else. We've got to run our business so that we find ways of being more productive all the time and doing more with less, and so on. It's a combination.

K. Manhas: Thanks for your presentation. I was wondering if you could expound on the corporation's perspective on the future of Burrard Thermal.

B. Elton: Sure. I think there are two perspectives on the future of Burrard Thermal. Well, there are probably more than two. There certainly is a government one, and I'm not going to expound on that. That's properly asked of the government.

[1105]

In terms of B.C. Hydro, Burrard Thermal is an old plant that has been going for a long time. In its time, it's contributed in different ways. At the moment, the way in which it most contributes is in terms of capacity. By that I mean that if there's a time in the year when you know you need a lot of energy, you need to know that you can turn on certain units and get electricity. Burrard does that.

For much of the year we wouldn't operate Burrard, because it's too expensive. Because it's an old plant, it's not as competitive as — for example, again — this new

Vancouver Island plant would be once it was built, or any other new gas plant or the kind of IPP plants we've got. It doesn't run very much, but like somebody said today, it's like having an old car outside. You bought it a long time ago. It's a bit beaten up. It guzzles gas. You wouldn't run it every day, but it's kind of nice to have it if your other car breaks down. At a certain point it's going to give out, and you wouldn't replace it. You don't need another car, so at a certain point in the future you'd make a different decision.

That's a roundabout way of saying that from our point of view right now, we run it, and it has this kind of use, but it doesn't have a long-term future as it is. At some point, you know, the car gives out. You're going to have to either buy a new car or do something else.

That's a general view. We're going through a lot of analysis at the moment. You know, we see ourselves sharing that analysis with government, because government wants to make policy decisions at some point. I don't know what those decisions will be. I will say that the case for or against Burrard is not a simple one. There's a lot of complicated analysis that we're doing. We haven't formed a firm conclusion.

K. Manhas: Do you have any estimates on how much it is run during the year?

B. Elton: I will get you specifics on that. It's for a few days a year.

D. Jarvis: I wish I had you here all day. There are so many questions to ask you.

First of all, I want to know.... Page 16, your description there of the consumption in British Columbia.... I really find that tough to accept. Maybe you've got a good, logical answer for it. When you consider that probably one of the biggest industrial complexes in the world is the United States and then you look at aspects of domestic use in California and Nevada, where they're using power 24 hours a day, nothing to curtail it.... How could we suddenly be, per capita, so much higher than what they are?

B. Elton: I know. It is counterintuitive. Certainly I can relate to the European one. I grew up in England. I know that I consume more electricity than I did when I was there, because I used to just put on an extra sweater.

D. Jarvis: You weren't born in England, though, were you?

B. Elton: I was born in England. Sure. Yeah. There you go.

A Voice: You've lost all expression.

K. Stewart (Chair): Next question, Dan.

B. Elton: I'm not sure — is he attacking my roots now?

We've just started to focus on this more. We used to focus on Power Smart and say we saved so much, and we thought that was great. Now we've started asking ourselves: "Look, if we're saving so much with Power Smart, but we're still consuming more than anybody else is, what's going on?" We're learning more about it.

For example — this is not the question you asked — I made the assumption when I first saw those stats that it was because of the weather — that we're colder. Then we found out that the average person in the lower mainland consumes more than the average person in the north, despite the fact that they consume a lot more on heating. We have bigger houses, and we have more stuff. I just don't think we have a conservation culture.

Now, there's more analysis that we have to do to understand that number. I think we will certainly get back to you some information about B.C. versus the U.S. It's surprising to us too.

B. Penner: Part of it has to do with price, I think.

B. Elton: It may well, yeah.

D. Jarvis: Adding on to that, I wanted to know if you could explain something to me about the heritage contract that we have existing in.... How do we assess it? You're probably going to receive a figure somewhere just below what you went in high on. I hope that you got in close to it. I got that figure from the BCUC.

[1110]

That's good for 16 months, theoretically. Are we going to be able to hold our heritage values here if 16 months from now...? The fact that we are so high in consumption.... Is that going to be increased again? Where does it stop in relationship to...? The original idea of our heritage power was to keep prices down to a bare minimum in B.C. At least, that's my understanding.

B. Elton: I think the answer is in two parts. The heritage assets, the generation assets in particular — we believe that we'll continue to keep those costs pegged. That partly goes back to a question that Barry was asking a few minutes ago. To the extent we have to buy energy from outside, wherever we buy it from — by the way, whether we did it ourselves or whether we bought it from outside — it will cost more. That will tend to make our costs go up.

Again, at the moment our heritage assets are between 42,000 and 49,000 gigawatt hours of generation. Our total load is around about the 55 kind of range. Yes, we're getting increases in that marginal amount, but still, the vast majority of our costs are staying relatively fixed.

We don't see ourselves with large cost increases, and that's really the debate we have with the commission. Everybody showed up and said: "We don't like your rate increase, but also we're worried about the future. Are you going to keep having big rate increases?" We said: "No, we don't think we are."

For example, capital. Our capital programs are \$700 million to \$800 million a year. If we can find 10 percent — if we can spend 10 percent less by being better at it — that makes a huge difference to our rates. You know, we've got to do those things.

D. Jarvis: What percentage of your rate increase pertains to maintenance?

B. Elton: It's a difficult question to answer, because the rate increase was the result of ten years of not having rate increases. We did increase our maintenance expenditures over the year before by about \$20 million.

Again, we think that with maintenance.... It's a big number. We think that what we're doing there is getting a lot more sophisticated about how you link maintenance with reliability. You're making a thousand small decisions. Are you making the decisions that will actually improve reliability, or are you just trying to gold-plate everything? We see our need for maintenance going up, but we don't necessarily see our expenditure going up to the same extent.

J. Wilson: One of the things that has my curiosity is the independent power production and the marketing and transmission of it. What is happening today if you're an independent power producer and you wish to market your electricity somewhere? Do you have to sell it to B.C. Hydro and go through them as a broker? Is there competition between the IPP and the parent company of Hydro?

We'll say, for instance, that I'm putting out a certain amount of electricity. I would go to, perhaps, a pulp mill to say that I can supply this for this number of years at this cost. Does it then become a bid process to supply that market? Are all these things...? I know that in the past they were there, but are we still operating that way? As an independent power producer, what is my future in this province if I'm not tied to the parent company?

B. Elton: No, it is different. If you're an independent power producer and you want to export your power, then you will go to the B.C. Transmission Corporation, which is completely independent from B.C. Hydro. I could go on at length about that, but there are very strict rules that determine the open access they must give — and do give — to power producers, whether they're B.C. Hydro or anybody else. You would go to BCTC and say: "I need access to the transmission lines to do this, this and this." You'd be in an open process, which I can't describe in detail, but they certainly could.

K. Stewart (Chair): Bob, if I may, we're going to have B.C. Transmission here in the next month, so we'll have that opportunity. If there's something you can add to that, that would be great, but it's their purview.

[1115]

B. Elton: No. I'd rather they dealt with those questions, because it's their mandate.

The one thing I will say is that you have a choice as an independent power producer. If you want the security of a long-term contract with B.C. Hydro, then that's one thing. We have limited amounts we're going to buy, and we have certain processes. If, on the other hand, you want to bill for merchant purposes, you can do that. If you want a mixture, you can do that.

I think the future will be that the independent power producers will evolve. More and more of them will say: "I want to maybe have a ten-year contract with B.C. Hydro, and I want to take more risk with 20 percent of my...." It takes time, but I think the system allows for that. That's where the future will be.

B. Penner: But so far no one has.

B. Elton: No. I think, again, there are a lot of new companies. They don't necessarily have great balance sheets, but the ones that have started and that now have a contract with us, once their projects get going, then have something that they can start to build on, and I think they will.

J. Wilson: Can an IPP market internally? If they can't, then there's really no competition provincially or no opportunity provincially for them. If they can't market within the province, they have to export their electricity. If they can market within the province, then are they competing with B.C. Hydro for that market?

K. Stewart (Chair): If I could maybe clarify what I hear John saying. If there's a mill down the road and an IPP has a project in the vicinity, can they sell in competition with B.C. Hydro to that mill that is independent of both B.C. Hydro and the IPP?

Would that be it, John?

Interjection.

B. Elton: Yeah. As I'm listening to this discussion, I think those questions are best put to BCTC, because they're setting the rules for all of that.

K. Stewart (Chair): I guess, just to clarify, B.C. Hydro doesn't have any mandate to say that a particular user of hydro in British Columbia has to exclusively go to them.

B. Elton: That's right.

K. Stewart (Chair): Does that answer your question, John?

J. Wilson: Yeah.

G. Trumper: Thank you very much for your presentation this morning. My first questions are going to be on the announcement that was made this morning, and I certainly appreciate the fact that Vancouver Island's power supply is reaching a crunch and has met a crunch with some of the cold weather that we've had in

the past year. I will give you the statement that the mayor of Gold River, David Lewis, put out this morning. It's pretty strong — their views on the announcement that was made this morning. He contends that the announcement that was made this morning is not a green project and it's not clean. Maybe you could elaborate on that issue.

B. Elton: It is true that the project we announced this morning is not a clean project. It's a gas fire project. When we set up the call-for-tender process, we struck a balance between reliability and cost and environmental issues, and we concluded, based on the commission's decision from the VIGP hearing, that reliability must come first, that we had to get something on the Island by a certain date or we were in serious, serious danger of not being able to meet our obligation to serve. We certainly did not require a green or clean project, and that's what we decided to do. I agree with what he says.

G. Trumper: I'll just read what he said in this so that you are aware of what will be taking place, and you can read the rest of it. "The village of Gold River will be applying for intervenor status at the BCUC hearings, where they will seek to demonstrate how B.C. Hydro manipulated and distorted the CFT process to arrive at this predetermined result." He issued this this morning.

I believe they feel that their project was.... They were of the understanding up until two days ago that they were probably getting the project, so that's why there are some issues out there. I did attend the meeting this morning, and he gave me this as to what he was going to say, so I will let you have it so that you do know what's been said.

[1120]

B. Elton: I appreciate that. If I could comment on that for the moment, I obviously reject the suggestion that we manipulated or distorted the project; however, I really welcome his desire to register as intervenor at the process. I think that's the right way to have this debate. In other words, the BCUC is set up for these kinds of situations. We recognize that we're a monopoly. We're a large company. We have to be scrutinized. That's what the BCUC and these kinds of groups are for. In this particular case, it's the perfect place. Obviously, we'll just give everybody all the information we have.

The only comment I'll make is.... Well, two things. I can't comment on a particular bid that wasn't accepted. I can't name them; I can't talk about them. The one thing I will say is that if people realized how many hundreds of hours we've spent within our company talking about this issue and agonizing over it, I think they may have a different view, but I totally understand where he's coming from and look forward to the process.

K. Stewart (Chair): So there is a process that's in place for that.

B. Elton: The BCUC will decide what this is; we won't. I don't know what that process will be.

K. Stewart (Chair): I have an opportunity to ask a question or two here. The question I have is on the future utilization of power in British Columbia. A lot of your plan relies on the Power Smart program as far as keeping the increase of consumption down. How reliable are your goals — what's your history of it? — given that you've got a fairly large dependency on ensuring that that program's successful? Maybe you can talk a little bit about your confidence in being able to reach those goals, what kind of tests you have out there to ensure that you're meeting them and what experiences other, similar types of organizations have had, if any, trying to do the same thing.

B. Elton: The experience we've had.... We recently, two or three years ago, increased the Power Smart program after a period of it being much smaller. It may be too early to tell what all the results will be. We have a high level of confidence in the results of the program. It's a mixture. It's a mixture of programs that involve actual metering. When we're dealing with large customers — where, for example, we're giving incentives for Power Smart projects — we have metering to actually prove they get the energy savings. Then there are other programs which are much more subjective.

Other jurisdictions have had very mixed results with Power Smart programs. I think people around the continent are skeptical about them, which is why we focused a lot on measurement and audit and evaluation. It's built into our processes.

It's interesting. During the BCUC hearings there was a great deal of attention paid to these programs and to the issues that you're raising. One of the conclusions of the BCUC is to say: "We accept the expenditures that you've made to date, and we accept your plans for the next year that you've put forward, but we want to see more review." What the commission's decision will require us to do is put forward our programs in more detail, so there will be more public scrutiny, more opportunity for intervenors to comment. That will help to give everybody more confidence, because frankly, if the BCUC doesn't accept the credibility or validity of the programs, they'll stop us spending before we spend the money.

P. Nettleton: You had indicated earlier in response to my question with respect to the long-running legal battle with California dating back to that state's energy crisis that, in fact, in the wake of the U.S. Ninth Circuit Court of Appeal ruling, you hope there will be further evidentiary hearings with respect to that dispute. You may or may not have this information at your fingertips, but do you know what the costs are associated with this long-running legal battle with California, from your perspective?

B. Elton: Costs to date, Paul?

P. Nettleton: Costs to date. You've indicated that you don't have any sense as to how long this may run. I'm just wondering about the costs to date, yes.

B. Elton: I think it's certainly in the order of something like \$15 million, but we will commit to giving you a written answer on that general area.

[1125]

B. Penner: Like Mr. Jarvis, I feel like I could go on for some time asking questions. I'm sure you feel that way too — that I could. I'll try to restrain myself, but just an observation.

Dr. Wilson was asking a question about IPPs selling directly to industrial customers. I believe that is explicitly allowed under the energy plan. To date I'm not aware of anyone actually stepping up and doing that.

It's certainly been my observation that most of the IPPs are small operations, and many of them based in B.C. tend to prefer a fixed 20-year contract with B.C. Hydro, simply to help them arrange their financing. It is the simplest form for them. Although many do harbour ambitions to sell into the export market or into the commercial industrial market here in B.C., it's my hunch that that's still some time off. As you pointed out, many of these operations need to get a cash flow started and get some strength into their balance sheet.

In terms of Vancouver Island I have to confess some disappointment at the conclusion of the process. However, I certainly anticipated that this would be the conclusion after I saw what the shortlist was and how things were going. I guess my only comment about that is I'd like to see the day when we can advance tidal power research to harness some of the ocean energy that's obviously abundant in and around Vancouver Island.

I know that ocean energy is still in its infancy as a technology around the world. There are various countries making some strides — Portugal, Spain, England. I know that Powertech Labs, which is a wholly owned subsidiary of B.C. Hydro, does have a number of people working in that field. I'd just like to encourage you to continue making that a priority. I see that as one way of limiting our upside risk, in terms of costs, into the future for electricity. I think that one way to justify investment now is to help minimize price risk in the future in terms of the shortages of electricity, especially in remote areas like islands and coastal communities.

K. Stewart (Chair): And the question is...?

B. Penner: My question is that I'd like to confirm a few figures with you in terms of B.C.'s import status and the price of those imports. I know that the IPP Association, last week at their conference in Vancouver, had some discussion around this.

Some of the figures they've generated and, I think, have submitted to the Finance Committee of the Legislature go something like this. In fiscal 2001-02, B.C. Hydro was a net importer of about 5,200 gigawatt hours at an average cost of \$119 per megawatt hour; in

2002-03 it was 896 gigawatt hours at an average cost of \$60.30 per megawatt hour; in 2003-04 net imports were 5,349 gigawatt hours at an average cost of \$50.50 per megawatt hour; and in the current fiscal year the trend is towards 6,153 gigawatt hours net at an average cost of \$55.70 per megawatt hour. All of this is put forward by the IPPs to argue that generating electricity through B.C.-based IPPs is in fact cheaper overall than relying on imports.

These numbers may differ from the figures you showed in your presentation on one of the slides. I think that's the slide there now that you have up.

B. Elton: Yeah, you're close.

B. Penner: I wonder if you could comment on those numbers. Obviously, the trend toward importing started some time ago, and it takes awhile to turn that trend around.

I note with some favour your recent commitment to making B.C. Hydro self-sufficient again in terms of generation. That's certainly to be saluted. It took a long time for us to lose our status of being self-sufficient, and that happened during the 1990s. It'll take some time to get us back to having an abundant supply.

I'd like you to comment on those figures that have been bandied about.

K. Stewart (Chair): Before you comment, Bob, I'm sure you have some answers, but if you want to get into some further analysis of his numbers, feel free to send that as an addition. I'm not wanting to stop your commentary now.

Go ahead.

B. Elton: In terms of the extent that the numbers are different, I would like to reply in writing to you — to comment on the IPP numbers and put them in perspective — but I can still answer the question in general terms. First of all, what you said is absolutely right, Barry. It takes time, so we have said that we were making a commitment to self-sufficiency, which does imply and will imply less reliance on imports.

[1130]

We don't think we should do that overnight. We don't think it would be appropriate. We don't think it makes financial sense. These particular numbers reflect a comparison between 20-year contracts with IPPs versus what you could buy on the market on a particular day or a particular hour or a particular time. If we had a couple of years of above-average water, these figures would look very different. Three of the last four years have been below average.

I think that when we go to the commission, there is going to be a bunch of people on the other side saying: "We don't want you to be self-sufficient. We want you to rely on imports more, because we think it's cheaper." We'll make that argument. I think the answer is that we will work towards self-sufficiency. We'll get there. It will take time. As we do that, I think the criticisms you just outlined will, frankly, go away.

If I could just briefly comment on the comments about tidal and so on, I think that's helpful too. Two things. We agree, actually, that there should be more research and development. There should be more progress made toward renewable energy. When it comes to buying energy, actual calls, we think that we should be using competitive processes and that whatever is there, is there. We don't think we should be picking winners and losers — for example, wind or tidal or whatever — unless the government policy changes and says we should. For the moment this is what we're doing in accordance with what we believe is government policy, but we totally agree that the world needs more renewable energy. It's a very important challenge for the world, the country and the province.

B. Penner: A short supplementary. I know that B.C. Hydro has, and it's indicated in your report, a program called Resource Smart. I wonder, Mr. Elton, if you could tell us how that's been working over the last few years, what the net incremental increase in B.C. Hydro's own generation capacity has been over the last few years in terms of the Resource Smart program and what you anticipate, going forward.

B. Elton: Sure. Alister, maybe I could turn it over to you.

A. Cowan: From inception to date, until the end of March '04, Power Smart has generated 1,204 gigawatt hours of additional energy over and above what we had.

B. Penner: That would be enough for 120,000 homes on an annual basis.

A. Cowan: Yeah. I'm going forward, projecting on our current plans another 242 gigawatt hours on top of that.

B. Penner: Over how many years would that extra 242...?

A. Cowan: That's another four years.

K. Manhas: I had a couple of follow-up questions — some issues you've already dealt with. First of all, I wanted to clarify: is B.C. Hydro still involved in any transmission activities, or has it completely devolved to the B.C. Transmission Corporation?

Second of all, you've mentioned clean and renewable energies a fair degree. I'd like to know: is there anything that you're specifically doing or considering to encourage clean energy power generation, such as incentives like green energy rates or any other specific incentives or ideas?

B. Elton: The first question is about transmission. We still own the transmission grid assets, so we are "involved" to the extent that as owners we obviously

have to understand what is happening to those assets. BCTC manages those assets.

I think the broad answer to the question is no, we are not involved in transmission, although obviously, we have to work very closely together with BCTC because, you know, the electrons move from generation assets that we own and manage, to transmission assets that we own but they manage, to distribution assets that we own and manage. Clearly, we are joined at the hip, and we will not be able to achieve reliability for our customers without that. We have a very clear separation in our minds, and in the way that it works.

With respect to clean, renewable energy I think two things. The first is that when we buy energy, you could say that we either pay a premium for energy that is clean or we pay less for energy that is not. We believe that the difference should be used to offset the environmental impacts of the energy that's being bought. We also believe that those offsets should be spent in British Columbia so that the people living wherever the project is can see the effects of the offsets — okay, we've got a project which has got some jobs and some environmental issues, but here are the offset projects that are dealing with that. That's one thing.

[1135]

In terms of things like incentives in rates and stuff, for our commercial and industrial customers there is the ability to buy green credits. For example, the GVRD is entering into a program to do that. Interestingly, we don't yet have enough green energy to be able to sell. You know, there is more of a demand for those credits than there is green energy to sell, but I think that will come more and more in the future.

We don't yet have a program like that for residential customers, probably because the whole issue of rate design for residential customers is a big one that we're going to deal with in the middle of next year, as I said earlier.

K. Manhas: Just to follow up on that, I guess my question is focused on hearing you mention that there is a higher demand than supply. Are there any specific incentives that you're putting in place that allow for it to be more financially viable for companies to come forward and say: "It's not financially viable for us to produce clean and renewable energy at the general rate that B.C. Hydro buys independent power for, but if it was set at this rate, we actually have a viable financial equation to build this"?

Is that something you're considering? Is that something that the corporation is focusing on?

B. Elton: It's something that we're considering, and I think it would be very.... It's a very interesting question, this, because the energy plan talks about environmental values but it also talks about low rates. One of the challenges is that, if we come up with that kind of program, are we within the energy plan, or are we outside it? It would be important for us to get signals from government on that particular issue to see

whether it was something that government was interested in seeing us do.

We'll consider ideas, but to the extent that ideas appear to us to be fuzzy in terms of the energy plan, we'll go to government and say: "This is what we're thinking of doing. Is this with or without the energy plan?"

K. Manhas: Except if you sell it to investor companies at a premium for those credits.

B. Elton: I hear what you're saying. I'm just saying that we are interested in pursuing those ideas, but we'll do so very carefully to make sure we know that we're in the spirit of the energy plan.

D. Jarvis: I'd like to ask a question that has A, B and C contingents.

K. Stewart (Chair): Okay. Instead of one question, I'll put my clock on you.

D. Jarvis: On Vancouver Island — the situation there — how many gigawatt hours do you now have on there? How much do you expect to see in the near future? What is your projected increase of energy requirements over there? You say that Duke Point is going to give you 2,000 megawatts.

B. Elton: Gigawatts.

D. Jarvis: Is that going to satisfy all of the problems with Vancouver Island? Why wouldn't we want to, say, use the Gold River one as well?

My B part was: did not BCUC turn you down once before on Duke Point, and therefore, what's the difference now — that you would expect them to approve it?

B. Elton: The first part, in terms of supply and demand, I'd rather get back to you in writing, but I think I can answer the question without having the numbers at my fingertips. I won't give you the numbers today, but we'll get you those in writing.

Will it satisfy our needs and for how long? Also, we've already asked BCTC to accelerate their work on the 230-kV transmission line across to the Island that would further strengthen supply there. In other words, we don't see this as meeting the needs for many, many years to come, but we think that it meets the needs right now and, with the transmission line built as well, that would then give Vancouver Island a long-term prospect of reliable supply that we think is very important.

The question of whether we could take another project. We had a competitive process. Again, I can't comment on a particular project bid, and I won't comment on that. We had a particular process that follows certain rules, and under the rules of that process, we picked the one we picked. We couldn't pick another one. Rather than going into that in detail now, I'll just say that we'll have to explain that in this BCUC process.

[1140]

One of the things that we did as we went through this was to get legal advice. Given the rules of the tender and given the independent review, what were we allowed to do? We got legal advice on what we're allowed to do, and we did what we're allowed to do.

Now, the question of whether another project should be built on Vancouver Island. That would then be a new competitive process. I certainly wouldn't rule that out.

D. Jarvis: Is Gold River ready to go now?

B. Elton: Again, I don't know. The way we did this.... We had a group within our company that ran this process. They didn't talk to me, for example. Deliberately, I didn't want to know until very late in the day what the results or the implications were, so I haven't inquired in a lot of detail about some other projects.

K. Stewart (Chair): You've got 32 seconds left on the clock.

D. Jarvis: Do you believe that the program on CTV, *H2O*, is going to be true?

K. Stewart (Chair): I think that might be a little too speculative for this. Actually, they're not in that business.

Go ahead, John.

J. Wilson: I'm still a little bit curious about the division of the company here. Initially, we were going to have a generation component, a transmission component and a service component for the utilization. Did that happen, or is it still...? Is it two companies now? Is it three?

And if it's two, you've devolved yourself of the transmission, but what percentage of the power generated and transmitted actually comes from B.C. Hydro? Out in that grid, is it 99.9 percent? If it is, then it really isn't a separation, because a producer of that magnitude controls pretty well everything in the marketplace.

B. Elton: There are two companies — B.C. Hydro and BCTC. That's the separation that was done. On an average year we have about 45,000 gigawatt hours compared with 55,000. So about 80 percent, roughly, is B.C. Hydro generation.

I think that the market in B.C. for some time to come is going to be dominated by whoever has the Williston reservoir, which is B.C. Hydro. In other words, you could try to set up a market.... I think the conclusion of the government from the energy plan was that there just isn't one there.

Because of that storage ability you have at Williston, it just gives you the ability, if there were a market, to dominate it. So I think the conclusion was that there is a regional market and that is a real market, a liquid market, and that people should have access to that. And they do, as we've discussed.

I think the idea of having access to market has been done. I think, as we've discussed, that it will take time for the independent power producers to figure out ways of doing it. It'll take time for industrial customers here to figure out ways of being buyers. That will happen. We don't do much about that. That's BCTC's mandate, but we're certainly not opposed to it.

J. Wilson: I'm curious about this, because we have a real crisis developing in the northern interior with the problem pine beetle wood. There are opportunities for cogeneration facilities there. If the market is favourable, then we can utilize a whole lot of that fibre and produce some electricity. It's got to be something that's able to be developed in the market and in a way that's going to be good for everyone. At this point, nothing has happened, and everyone's kind of waiting and watching and hoping that something will start to take place.

B. Elton: I think there are no mechanisms that stop it from happening. This is a tough business, the independent power producer business. You know there are a lot of them around in North America. It's a very tough business, a very volatile commodity. There's a very long lead time, and governments all over North America have ways of regulating or not regulating or deregulating or changing the rules. I think that for anybody with capital, it's a very tough business to get into, so I don't think it's surprising that people are being very cautious, to be honest.

[1145]

K. Stewart (Chair): Would it be fair to say, though, Bob, that it's not your call?

B. Elton: No, it's not.

K. Stewart (Chair): Yeah. It's, you know.... If someone can compete, they can compete.

B. Elton: Yeah. I mean, it's interesting. We have this philosophical discussion a lot with our board and so on. It's not our call, but at the same time, if you are in this kind of big monopoly position, you've got to be sensitive to the fact that the government policy is clear. I think it's just important that we.... Yeah — if they can compete, they can compete. Our job is to make sure we don't make that difficult in any way. That's what we try and do, but like I said, whatever we do, it is a very difficult industry to enter — very difficult.

G. Trumper: I listened very carefully to what you were talking about — power on Vancouver Island — but I'm still not sure whether I heard an answer to the fact that we all know that 2007 is a crunch time for the Island with the new project that has been announced today. You talk about BCUC, asking them to speed up — did you say? — a decision.

B. Elton: No, I didn't.

G. Trumper: Did I mishear you?

B. Elton: I'm sorry. No, I didn't. And by the way, I didn't answer the last part of your question, which was: why do I think that BCUC will approve it now when they didn't before? So I should come back to that. But no, I didn't say that they would speed it up. I just said there would be a process.

G. Trumper: Okay.

B. Elton: I'm sorry. What I said was BCTC.... We have asked BCTC to speed up the cables. That's what I said — B.C. Transmission Corporation.

G. Trumper: So are we still going to be...? If that doesn't happen, are we still in a crunch on Vancouver Island with power, even with this new project that's taking place? I mean, we're still growing at a phenomenal rate, with people coming in. We can't actually put cannons up to stop them. They're going to keep coming. It's a huge issue, and I'm not sure that I've got the answer that you think you've got it under control.

B. Elton: Thank you. I think that the 230-kV cable option would give us several years' worth of supply and also improve the flexibility of the system. We think it's the right thing to do, and we think that BCTC does as well. If that wasn't built, yes, you're right: there would have to be more generation on the Island. If the gas plant is built, I think that would give us more ability to look again for projects that supply energy — maybe smaller, kind of renewable-type projects. That's something that we definitely want to look at. There are lots of options. And again, for the cables to be built, we'll need a regulatory process where all these things will be discussed.

Now, I didn't answer Dr. Wilson's question about.... VIGP rejected it before. What we actually said the last time was: there's a need on Vancouver Island for generation on the Island by a certain date. We don't have time to put the cables in. We think we should build VIGP, but we will have a competitive process to find out what the best answer is.

What the commission said is, "We agree about the need. We agree about the timing. We agree you don't have time for the cables. If you're going to have a competitive process, have a competitive process. We won't give you a permit to build Vancouver Island," which was a very sensible answer. I can't predict what the outcome of the regulatory process will be, but they've already said that they think the need is there.

And since they established that, what happened last January, when we had very cold weather in the province, was that the load was much higher than we expected. This was true all over the region, actually, that all utilities found.... You know, there hadn't been this cold weather for some years, and people were consuming a lot more than we thought they would at those temperatures. That's caused all utilities to increase their assumptions.

K. Stewart (Chair): Harry? You might want to introduce yourself.

H. Bloy (Deputy Chair): I'm Harry Bloy. I'm the MLA for Burquitlam, and I apologize for being late this morning.

Interjection.

H. Bloy (Deputy Chair): Nice haircut? I raised over \$5,000 for cancer research by cutting my hair this past weekend.

A Voice: Congratulations. That's great.

B. Penner: But we all liked your ponytail so much.

H. Bloy (Deputy Chair): My wife liked it too, but now she thinks I'm younger. Younger men are in, she says.

A Voice: Can we get on with the question? [Laughter.]

H. Bloy (Deputy Chair): Sure. I'm still collecting money, also, for cancer research.

Anyway, about Accenture. You're doing business outside of the province with them, and there's a new company that's being formed. Is there? Or is Accenture doing the business outside of the province?

B. Elton: Correct. No, we're not doing business outside the province with them. Under the terms of our arrangement with them, we may benefit to some extent from business they do outside the province.

H. Bloy (Deputy Chair): Do you own a share of what they do outside of the province?

[1150]

B. Elton: We don't own a share, but there are some.... They're called founding partner benefits, where there is some financial reward from some work they do outside the province.

H. Bloy (Deputy Chair): So you're collecting a royalty or a...?

B. Elton: That kind of thing, yeah. The terms of it are confidential, but it's....

H. Bloy (Deputy Chair): So you have a relationship outside of the province of British Columbia.

B. Elton: We gain some financial benefit from work that they do outside of the province of British Columbia, yes.

H. Bloy (Deputy Chair): Okay.

K. Stewart (Chair): On page 4 of your presentation, you touched on a few of these — B.C. Hydro, the IPP calls, etc. I didn't hear much on Site C, and I have a few questions about that. I guess it comes under "Decisions on new supplies required," so maybe you can give us a bit of an update on that.

In talking about that, one of the things with our future usage is that obviously we have our historical importers of power that we've been utilizing. How many of those would be people that have private power suppliers or similar Crown corporations from other organizations? We've heard about the efficiency of B.C. Hydro being able to flip off the switch at night, buying cheaper power.... I think it's really a wonderful advantage that we have, with the type of power we have. That sort of helps indicate to me how important dams are and have been in our history.

When we're looking at the future, there are really two questions here. Site C — how does it fit into your potential plans? And are dams considered green? You know, that's a question, I guess. Is a dam green?

The other part of that question was with regards to the.... If we don't do that and we bring in those imports, historically the importation.... Have they been from private companies or Crown corporations such as something similar to B.C. Hydro, which may...? I understand that Alberta is mostly private, and I don't suspect we bring in power as far as Manitoba or some of the other larger government agencies that provide power for their provinces. It's those two questions, but I guess the big one is Site C.

B. Elton: All right. On Site C, it's an option that we're considering. Because it's one that we would develop rather than one that we'd buy through a competitive process, we have to do a certain amount of work on it. We're starting to do that work.

The energy plan says that Site C would have to be approved by cabinet. What we said to the Utilities Commission is: "We're going to do a bit of work on Site C — not a lot — for this year." We're then going to take it to cabinet and say that this is what we've done so far. Either it is an option, or it is not an option. Then we'll go to the commission, and we'll say: "Okay, here's our plan for the next year or two years, where we're going to do some more serious work." Then we'll take it back to cabinet again and say: "Well, this is the work we've done now." So it's an iterative process. We have to find out: are our financial assumptions still valid?

Environmental issues are obviously very important, and we don't know what kind of level of public support or opposition there would be for a large hydro project in the year 2004. We don't know.

We think that it's an option that, on the face of it, would fit very well and would again be one of those projects that can combine with a bunch of small projects elsewhere to make it a good package. We'll keep pushing it, but pushing it in the sense that it's an option.

K. Stewart (Chair): Is it considered green? Are hydroelectric dams considered...? You know, we talk

about Kyoto and green credits and carbon credits, etc. Is it considered green?

B. Elton: Places that have a lot of hydro regard them generally as clean or green. Places that don't, don't. So in the United States, for example, no, it is not considered clean or green. Environmentalists around the world often have strong opposition to those projects. So you would not typically get a green credit for a project like Site C.

Interjection.

B. Elton: Sorry?

D. Jarvis: I just said downstream damage is what they're concerned with.

B. Elton: Right — yeah.

In terms of imports, we don't necessarily know where our imports come from. For example, there was one day last week.... We imported from Alberta at one point; in the night, we exported. So we imported at \$30 and exported at \$120. We imported some from.... I think it was the southwest, and we imported some from the northwest at different prices. We didn't know where it came from.

What we have not done is enter into any long-term contracts to buy energy from outside the province, because we don't think that's consistent with the energy plan.

[1155]

K. Stewart (Chair): I guess my understanding would be that probably a majority of them would be private providers. Therefore, by buying from an IPP in British Columbia, it certainly would be no different, other than the fact that the power is generated at home and that the people employed, etc., in that and the moneys generated as taxes, as one of the members mentioned, would be from B.C. There certainly isn't any disadvantage by using an IPP inside B.C. as compared to going outside and buying the spot, other than the fact that it's spot power.

B. Elton: Correct.

K. Stewart (Chair): Okay, thanks.

Given the time, what I would like now is that if the members have questions they'd like to ask, I'd like to get those questions out. If there's a really short answer — a yes-no type of answer — fine. If not, we'll hear the question. They'll be recorded, and you'll have an opportunity to do that. I'd like to give everyone one more shot at it.

Take your biggest-priority question to ask first. Just put that out, and if you have another question that you'd like to ask that we won't get a chance to hit it too.... I'd like to keep everyone to just a minute or two in this process so that we can get those questions out. If there's a short, concise answer, we'd certainly love to hear it.

P. Nettleton: I will commit to writing a number of questions. One is with respect to Accenture, following up on issues raised by Harry Bloy and some other issues in and around page 20 of your presentation; on page 25, a series of questions with respect to IPPs again; and on page 31, dealing with first nations. I will provide you with a series of questions in writing with respect to your commitment to first nations and your involvement with first nations as it relates to B.C. Hydro.

A quick question, if I may, with respect to page 6 of your presentation, which deals with interest rates. Could you identify for us, please, the current debt of B.C. Hydro and your plans to retire that debt?

A. Cowan: The current debt of B.C. Hydro is \$7 billion. As it matures over the next few years, we basically will be replacing it with equivalent debt. We don't see a substantial reduction in the debt levels in the next few years, based on the capital expenditures going forward.

P. Nettleton: So there are no plans to retire the debt.

A. Cowan: Our cash flow is such that our capital expenditures in the next few years are required, along with the dividend we pay to the province. They take up our cash flow.

P. Nettleton: Thank you.

K. Stewart (Chair): With regards to these questions, Paul, if you could submit them through the Clerk's office. Then we'll make sure.... We just try and keep that process — the independence through the Clerk's office.

B. Penner: I'll just rattle off a few. Feel free to comment if you want or to get back to me later in writing.

(1) Follow up on Harry Bloy's question about Accenture. We were told that they were going to be growing this business in partnership with B.C. Hydro in Vancouver. It would be interesting to receive an update on how they're doing in terms of growing the business, the number of employees and how successful they've been in bidding on work outside the province in other utilities. We were told that was part of the business plan. I understand there's been some success, but it's been a very well-kept secret as far as the public is concerned in terms of what those successes are. I think there might be a good-news story there to get out.

(2) Just maybe asking for a comment from you. Last week at the IPP conference the head of the B.C. Sustainable Energy Association, which is a fairly new group, was speaking. He was lamenting B.C.'s low prices, low costs for electricity, and saying that they were a disincentive to conservation and that not being willing to pay a higher price for electricity is making it more difficult to bring on line new forms of electricity

that are more environmentally sustainable — tidal power, wind, solar, etc. Just a comment.

(3) Site C. I'm wondering how many gigawatt hours would be projected from that facility on an annual basis. I note that on page 4 of your PowerPoint presentation, entitled "Demand-Supply Balance," there's a fairly dramatic dropdown in firm energy for the integrated system, starting at 2015. I'm wondering if Site C would, in your view, fill that gap and what the cause is for that dropdown. I'm suspecting it might be the retirement of Burrard Thermal, but that's just a guess.

[1200]

(4) Aging of the workforce. I think it's a concern for many industries that we're starting to experience skilled labour shortages. I wonder if B.C. Hydro is thinking of any initiatives to encourage employees who might otherwise be reaching an age where they could retire with a full pension but yet are still relatively young to remain with B.C. Hydro in the workforce.

Over the last two summers I've spent some time visiting B.C. Hydro facilities, and I've been struck by two things. One, while the people to me look relatively young, they then tell me they're about to retire. They may be in their fifties, very early fifties, and yet have reached the stage where they can now collect their full pension from B.C. Hydro.

These people have tremendous skills and experience that I think we're going to need to maintain and improve our existing facilities. I would be very disappointed to lose that skill set so soon, when someone is still very physically fit, very capable and in their very early fifties. It would be nice to see if we could retain that know-how in-house a bit longer.

(5) This is about your comment earlier about connecting smaller communities and looking at the cost-benefit analysis, I guess, of whether it makes sense to do it from your fiscal perspective. Let me just put in a plug for some first nations communities that are not, strictly speaking, my constituency but that I work with.

At Port Douglas and Tipella at the north end of Harrison Lake, there's a 360-kV line that goes right over their communities through their reserve. It was built by B.C. Electric, the predecessor to B.C. Hydro, in the late 1950s. The first nations leaders there tell me they were promised interconnection as a trade-off for having these transmission lines built overtop of their homes and their community.

To date, no interconnection exists, and as a result, they have to truck in diesel fuel at considerable expense to operate generators that are notoriously unreliable and tend to break down from time to time. They're noisy and smelly, not green or clean by any standard, I don't think. So just a plug for those folks. I know that if there were an interconnection facilitated, it would help move some run-of-river projects forward in that area. That's just a plug for those people.

Finally, a comment on your debt. You've said it is \$7 billion. Has that changed substantially over the last ten years, or has that been pretty well stable? That's it for my few questions.

B. Elton: Do you want us to come and revisit today?

K. Stewart (Chair): Not unless it's going to be... Okay, Karn.

K. Manhas: Actually, my questions are pretty much answered. I just would like you to, when you do respond on the Burrard Thermal issue, if you could, ensure that you let us know the average cost of running it. Also, I understand that Burrard was used quite extensively in September, and you were mentioning that it's only used a few days a year. So if you could respond on why it was used so much in September. What was the cost to B.C. Hydro of running it that much, and what precipitates these kinds of things happening?

D. Jarvis: With respect to page 8, the Columbia Power Corporation and your proposal to acquire the interests of it... I think I mentioned to you verbally once before about Alcan and the KPC being cancelled. The 135 megawatts that was sold was given to Alcan and then by the B.C. government, through you, I assume.... Accordingly, it was sold to Enron — that 135 megawatts of power or something like that. Half of that was sold by Enron to Columbia, and they in turn turned around and sold it to you — or half of it to you. I'm still lost as to... I understand there was a court case over that. Has all that been brought into your acquiring the interest in it? Where do we stand with all of that?

B. Elton: Definitely a written answer to that one.

D. Jarvis: Secondly, with respect to green power, as the member for Chilliwack-Kent was mentioning about tidal power and all the rest of it, I sort of gathered from your comments that you felt that it wasn't the responsibility of Hydro to invest into exploration of green power and all the rest of it — that tidal power and all those are pretty well proven. Isn't that part of your objectives in performances in your report here down into the future?

[1205]

B. Elton: That's what I'm saying. If it's commercially proven, it should be in the bidding process, and we shouldn't pick winners. If it's not commercially proven but it's important, we should definitely, as I think we do, take part in encouraging it, try and do some research and development, try and get the commission to agree with that, try to encourage the government to support that.

D. Jarvis: Thirdly, Site C. From what I understand and have been informed, the costs and all the requirements and plans, etc., were all ostensibly designed some 20-odd years ago — 30 years ago maybe. They estimated at that time that the cost of it was around, I think, three to five cents. Do you have any idea what it's going to cost today? Are we revising those plans all over again? Or are you just going to...? They should be

on file in B.C. Hydro somewhere. You just pull them out of the box, would you not?

B. Elton: Bit of inflation since then.

D. Jarvis: Yes, I appreciate that.

B. Elton: We're definitely updating the work, but I'll give you our current view of what we think they might be — very big picture.

K. Stewart (Chair): Okay. Great.

J. Wilson: I've just got one question that's very short. You've split the long-term need for power down the road with actual short-term demands so that the short-term demands are purchased by B.C. Hydro should they run short for whatever reason. It's not a long-term project or goal for sustainability.

What portion of those short-term power needs do we purchase internally, and what portion comes from out of province?

B. Elton: We'll get back to you on that.

K. Stewart (Chair): Gillian, we're doing written questions now. If you have any questions that you haven't had answered yet that you'd like to put on the table now.... You can still submit some later.

G. Trumper: It's not necessarily a written question, but it may be. It may have been asked while I was out of the room. I apologize for that.

You talk about the high usage of power in British Columbia compared to everyone else — particularly on the mainland, but generally in British Columbia. I've always thought it's probably cost actually. It's cheap compared to where I was brought up, where you turned every light off in the house.

How are you going address that? There's Power Smart and all those sorts of things, but are there really any views on how we can reduce consumption or how you get people to be more aware?

B. Elton: I think giving them more information, education — getting to the point where school kids are telling us about electricity in the way they tell us about recycling — that kind of thing. It's not easy though.

G. Trumper: No. So that's why I wondered about the fact that we have cheap power.

K. Stewart (Chair): Harry, do you have a question?

H. Bloy (Deputy Chair): Yeah, I do. I have a couple of old-timers who live in my riding, and they are always talking to me about the Site C dam. They had worked it, and they say that you could finish the next three chutes, and it would provide enough power. On the other hand, I hear that whatever work you do on the Site C dam, the transmission lines can't support any

more power. So if you're doing work on Site C, are you going to build new transmission lines to move the power?

B. Elton: We take into account the transmission upgrades that would be needed, not necessarily new lines. That would be something where we'd go to BCTC and say: "We think we want to build this generation thing." They'd say, "Okay. Here's a transmission solution," and then we'd compare it with all the other solutions.

K. Stewart (Chair): Two items. One that I have is with regard to the low water levels. You indicated that we've got low water levels. When the excess power was sold into California at that time, my understanding is that the reservoirs were pulled down below where it was recommended to pull them down and that we really haven't recovered from that yet. Part of our current deficit is a result of not being able to recover from those pulldowns. I don't need an answer today, but if you've got a quick one....

B. Elton: We'll check the details. My understanding is that we actually had spills a couple of years ago, so I think that's not true.

K. Stewart (Chair): Okay. So it did fill up in just the last three years. Okay.

The second thing is — speaking of deficits — you indicated that you're overcoming a maintenance deficit that occurred in the past. Do you know when that deficit occurred — over what years? What are we cleaning up for now? Like with our budgetary surpluses that we're seeing now, the costs.... We're covering up from deficits of the years gone by. When did that occur, and what impact has it had on what you're doing today?

[1210]

B. Elton: It's a hard question to answer. I think it happened in a lot of places in North America in utilities, where they kept the momentum of spending about the same, but the assets were getting older. So it should have been increasing, but it wasn't.

K. Stewart (Chair): If you've got some data on that, I'd appreciate it.

That's my last question. I believe that's the last question we have.

Interjection.

K. Stewart (Chair): Speaking of wind power, we have one more question, from Barry here.

B. Penner: It's not so much a question as just a comment that I wanted to put on the record, if you don't mind, Mr. Chair.

K. Stewart (Chair): Go ahead.

B. Penner: During some of my impromptu visits to a number of B.C. Hydro facilities, the staff has always been very accommodating. I want to thank you and your staff for that — putting up with my questions, just as our Chair and this committee does.

One thing that has concerned me, though, is some of the comments I've heard around the improvements — some of the new work that's been done, particularly at Seven Mile, the new turbine that was installed. It seems they've run into a number of difficulties even though it's a brand-new unit. Some of the comments I've heard — and it's not just from one person; it's from a range of different people in different places — are that by going with the lowest bid, we may have ended up with an inferior product in terms of that large unit. I think it's a GE unit, and I always thought GE had extensive experience and history in building hydroelectric turbines, generators.

Certainly, you see old turbines. If you go down to large facilities in the United States, you see 100-year-old generators by GE. The explanation I've been given is that GE lost their expertise because of a dearth of new orders in the seventies and eighties when people weren't doing large hydro projects anymore. While they still have the designs on the shelf, they don't have the expertise to put them together. This has led to some of the ongoing frustration, I think, that B.C. Hydro has experienced getting the new unit on line at the Seven Mile Dam. I'll just offer comment in relation to future consideration in Revelstoke and Mica expansion projects that I think are being contemplated. We want to be very careful about what kind of units we end up buying. Saving a few percentage points on the purchase price may easily be lost if the unit doesn't operate as advertised.

B. Elton: It's a good topic. We'll reply to that one as well. It's not our philosophy of life-cycle costs, but it's a very important question, and we'll reply to that.

K. Stewart (Chair): Just in closing, I do want to comment on Barry. He's very knowledgeable on this. He's been a big asset to caucus and the House in general with regard to his knowledge on that, and I think he's also been very well schooled on this, because when he heard that the guys are retiring at 50, he liked that. So you never know what a secondary career for Barry might be. But he certainly is an asset for us, and I do thank him for that.

Again, we certainly thank you for your presentation today. It was very thorough. With regard to further process, we will be, over the next few weeks, drafting up a report, but as we report to the House, the report for the next three organizations that are coming before us probably will not be presented until we sit in February — just to give you some idea that probably mid-February you'll see our report. But you will have an opportunity, within days, of seeing it on *Hansard*, and I encourage you to go over that.

At this time I'd like to say that we'll have a short recess. Then we have to go into our next session, which

has to be void of participants other than the committee. We thank you again for your presence. We'll just go into recess.

The committee recessed from 12:14 p.m. to 12:32 p.m.

[K. Stewart in the chair.]

K. Stewart (Chair): I'd like to call the meeting to order.

H. Bloy (Deputy Chair): I would like to make a motion that we move in camera.

Motion approved.

The committee continued in camera from 12:32 p.m. to 12:39 p.m.

[K. Stewart in the chair.]

K. Stewart (Chair): We're now out of in camera.

The committee will meet again on December 1 in Victoria, and the time will be ten to 12.

One consideration we might have with regard to that is maybe trying to extend it a little bit for questions with ICBC, if that's the will of the group. Would you like to see the questions extended? I heard that comment earlier. We can look to maybe extend question period for at least half an hour — at least provide the time for that.

Can I have a motion to adjourn?

[1240]

J. Wilson: I have a question.

K. Stewart (Chair): Okay — question.

J. Wilson: Do we have a new CEO at ICBC now?

B. Penner: Paul Taylor.

H. Bloy (Deputy Chair): Former deputy minister in the Ministry of Finance.

B. Penner: I just make the comment that the length of our questioning kind of depends on the length of the presentation. The presentations eat up a lot of our time that's been booked, and we have correspondingly less time to ask questions.

K. Stewart (Chair): What we did is that.... Initially, we thought this one hour, one hour, one hour, putting it into a nice three-hour block of the time that we'd need.... Generally speaking, that's worked out all right for us. I think that taking the comment that you had, Barry, and that Paul had, is that someone like B.C. Hydro and some of the larger ones like BCBC and ICBC may take some more time. I think we should be a little aware of that and maybe look to book them some more

time. We're asking Jonathan to do that for us now. Okay?

J. Wilson: Are we about finished?

K. Stewart (Chair): If you call adjournment, we're finished.

J. Wilson: We were scheduled to go to 2 o'clock. It's quarter to one. We could have questioned them for another hour, today even, if we wanted to.

K. Stewart (Chair): Just a bit of background. We had some difficulty scheduling this meeting — partly

our fault, being able to get people together at our end. Also, they had other commitments, so we told them they would be out of here by noon. That was the rationale for that.

I believe that we've got pretty good responses on the written questions that we've done in the past, so my anticipation is that we will get full and complete answers. We can always, again, go back to the Clerk and ask for more information or clarification, even on those written questions, if we wish.

Okay. See you on December 1.

The committee adjourned at 12:42 p.m.