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REPORT OF PROCEEDINGS
(HANSARD)

SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria

Tuesday, December 5, 2006

Issue No. 6

IAIN BLACK, MLA, CHAIR

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SELECT STANDING COMMITTEE ON
CROWN CORPORATIONS

Victoria
Tuesday, December 5, 2006

- Chair:* * Iain Black (Port Moody–Westwood L)
- Deputy Chair:* * Guy Gentner (Delta North NDP)
- Members:*
- Ron Cantelon (Nanaimo-Parksville L)
 - * Blair Lekstrom (Peace River South L)
 - * Joan McIntyre (West Vancouver–Garibaldi L)
 - * Dennis MacKay (Bulkley Valley–Stikine L)
 - * John Rustad (Prince George–Omineca L)
 - * Corky Evans (Nelson-Creston NDP)
 - * John Horgan (Malahat–Juan de Fuca NDP)
 - Chuck Puchmayr (New Westminster NDP)
- *denotes member present*
- Clerk:* Kate Ryan-Lloyd
- Committee Staff:* Jonathan Fershau (Committee Research Analyst)
-

- Witnesses:*
- Alister Cowan (B.C. Hydro and Power Authority)
 - Bob Elton (President and CEO, B.C. Hydro and Power Authority)
 - John McLernon (Chair, B.C. Lottery Corporation)
 - Kathy Nguyen (B.C. Hydro and Power Authority)
 - Doug Penrose (B.C. Lottery Corporation)
 - Vic Poleschuk (President and CEO, B.C. Lottery Corporation)
 - Terry Towns (B.C. Lottery Corporation)

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MINUTES

SELECT STANDING COMMITTEE ON CROWN CORPORATIONS



Tuesday, December 5, 2006
9:00 a.m.
Douglas Fir Committee Room
Parliament Buildings, Victoria

Present: Iain Black, MLA (Chair); Guy Gentner, MLA (Deputy Chair); Corky Evans, MLA; John Horgan, MLA; Blair Lekstrom, MLA; Dennis MacKay, MLA; Joan McIntyre, MLA; John Rustad, MLA

Unavoidably Absent: Ron Cantelon, MLA; Chuck Puchmayr, MLA

Others Present: Jonathan Fershau, Committee Research Analyst

1. The Chair called the Committee to order at 9:08 a.m.
2. The following witnesses appeared before the Committee and answered questions:

British Columbia Lottery Corporation
 - John McLernon
 - Vic Poleschuk
 - Doug Penrose
 - Terry Towns
3. **Resolved**, that the Committee met in-camera to discuss preparations for its draft report to the House (John Rustad, MLA)
4. **Resolved**, that the Committee resume its meeting in public session (Blair Lekstrom, MLA)
5. The Committee recessed from 12:21 p.m. to 1:05 p.m.
6. The following witnesses appeared before the Committee and answered questions:

British Columbia Hydro and Power Authority
 - Bob Elton
 - Alister Cowan
 - Kathy Nguyen
7. The Committee recessed from 3:06 p.m. to 3:21 p.m.
8. **Resolved**, that the Committee meet in-camera to discuss preparations for its draft report to the House (John Rustad, MLA)
9. **Resolved**, that the Committee resume its meeting in public session (John Rustad, MLA)
10. The Committee adjourned to the call of the Chair at 3:38 p.m.

Iain Black, MLA
Chair

Kate Ryan-Lloyd
Clerk Assistant and
Committee Clerk

TUESDAY, DECEMBER 5, 2006

The committee met at 9:08 a.m.

[I. Black in the chair.]

I. Black (Chair): Good morning, ladies and gentlemen. I'd like to start by welcoming our guests from the B.C. Lottery Corp. today. My name is Iain Black. I serve as the Chair of the Select Standing Committee on Crown Corporations.

We would like to identify just a couple of things for you as we get started here this morning. This committee is an opportunity for British Columbians to have one point of transparency and accountability for the activities of their Crown corporations relative to the direction they've been given by government. I'm very proud to be chairing the committee, and I welcome you here on its behalf.

I'd like to start with some introductions, if I may, and I'll ask that you introduce yourselves. For the record, our proceedings here are recorded, as you can see from the little red light up behind me. If you wouldn't mind taking the floor and introducing yourselves, then we'll introduce ourselves as a committee, and then I'll outline for you how we're going to proceed from here.

J. McLernon: I'm John McLernon. I'm chairman of the board of the B.C. Lottery Corp.

V. Poleschuk: I'm Vic Poleschuk, president and CEO of the corporation.

D. Penrose: I'm Doug Penrose. I'm vice-president of finance and corporate services of the British Columbia Lottery Corp.

T. Towns: I'm Terry Towns, director of corporate security for the B.C. Lottery Corp.

I. Black (Chair): I'll start with my colleagues, if I may. I'll start on my right.

D. MacKay: Good morning. I'm Dennis MacKay, the MLA for Bulkley Valley–Stikine, and my hometown is Smithers.

J. Rustad: Good morning. MLA for Prince George–Omineca, and my name's John Rustad.

J. McIntyre: Good morning. I'm Joan McIntyre. I'm the MLA for West Vancouver–Garibaldi and new to the committee, so this is my first meeting.

J. Horgan: I'm John Horgan, MLA for Malahat–Juan de Fuca. I live in the bustling district of Langford, and I'm happy to see you guys.

[0910]

I. Black (Chair): Just for our guests, we do have some members of this committee who are waylaid with Helijet due to fog, I understand, this morning. They'll

be joining us shortly, so please accept our apologies as people kind of trickle in over the next hour or so.

The purpose of this meeting and the purpose of this committee is really to ask for questions. I start most meetings this way just to make sure it's all framed — in all of our heads, frankly — in terms of the purpose and focus of our gathering today.

The four questions that we ask of Crown corporations when they come before us... We ask them: what is your mandate? The second question we ask them is: how do you know that that is your mandate? In other words, show us some linkage between the service plan and direction you've been given by the government to your organization and the focus that you have as an organization. The third question we try to have answered is: how are you performing relative to the expectations that have been set for you by the various ministries? The fourth question is one of process and mechanics, which is: how do you know? So we get to probe a little bit in terms of how you're doing things.

Hopefully — through the course of the materials that we have on you, such as annual reports and service plans; in the course of your presentation this morning; and then through the question-and-answer period which follows your presentation — we will get the opportunity to form answers on those questions, which in turn get submitted in the report that gets submitted to the Legislative Assembly.

That is actually the third part of our meeting, which will follow this morning and which is when we go in camera, as we do for most legislative deliberations. We discuss the information we've heard from you, and we start giving direction to our researchers and our writers to prepare that report.

I would also like to introduce Jonathan Fershau, to my left, our committee research analyst, and to my immediate left, Kate Ryan-Lloyd, who is serving as our Clerk Assistant and our Committee Clerk. Behind us we have our ever-capable staff from Hansard. Through the smoky glass you can't see them, but trust me; they can see you.

I've touched on it briefly already, but our agenda this morning is that you will present to us. I'd ask that you keep it to about an hour, if you can, following which we'll spend a second hour, until around 11 o'clock or so, in a question-and-answer session. Thereafter we'll go to our in-camera, at which point you are free to leave — just prior to that point.

Any questions before we begin? The floor is yours. Welcome.

B.C. Lottery Corporation

J. McLernon: Maybe I'll start. Thank you for having us here today. I really appreciate chairmen who get meetings started right on the dot, so that's great. It's what I like to do too.

As you know, my name is John McLernon. I was appointed to the role of the chairman a year ago — December 9, 2005. You've had the introductions of Vic, Terry and Doug here already, so there's not much sense going further into that at this point.

Today's presentation will provide you with information on the B.C. Lottery Corp. — our mission, our vision and values as a Crown corporation.

The mission of the British Columbia Lottery Corp. is to offer responsible gaming entertainment generating income for the public good. Our board takes our mission statement seriously, and we believe in the same principles of strong governance, accountability and transparency that are foundational for this legislative committee.

We also believe the corporation must exude integrity in all that it does because of the very nature of its business. Without fairness, strict accountability and transparency, we would not be able to earn and maintain the confidence of those adults who choose to play our products or of the public in general. As such, we are pleased to be here today to present and discuss the corporation's fiscal 2005-2006 annual report and our current service plan, as well as to have answers to any questions that you may have.

As we all know, gaming is a high-profile and sometimes controversial issue, and governments all around the world have recognized that while there are significant benefits from government-controlled and -regulated gaming, there are also potential negative social consequences which must be addressed.

Gaming in Canada is now a \$15 billion-a-year industry. In B.C. we remain relatively conservative in gaming policy and rank amongst the lowest in per-capita spending on gaming in Canada. Indeed, B.C.'s per capita spent on gaming is still about a hundred dollars less than the Canadian average, and we continue to have the lowest per-capita distribution of electronic gaming machines in Canada.

[0915]

Gaming in B.C. is a matter of balance. BCLC contributes to the province's economic well-being by providing regulated, high-quality gaming entertainment to adults while remaining ever mindful that the benefits derived from gaming must be balanced with the social impacts on individuals and communities.

Gaming generates significant funds for economic development and social benefits for British Columbia. The net income that BCLC generates for government flows back to communities through programs for public good, including health and education, general revenue, grants to charities, revenue-sharing, disbursements to host local governments where casinos are located, and problem gambling education and treatment.

Gross BCLC revenues for fiscal 2005-2006 from lottery, casino and bingo games were \$2.26 billion. This resulted in net income of just over \$922 million, of which \$914 million was distributed to the government of British Columbia and just over \$8 million was paid to the federal government.

In addition to generating income for vital public charitable and community causes, the gaming industry in British Columbia generates significant other economic benefits, including over 10,000 direct employees and another 5,000 indirect jobs. Over a billion dollars in capital investments has been made, and total annual expenditures in goods and service exceed \$200 million.

I'd like to take a few minutes and review our board governance structure with you. Firstly, the corporation's mandate is to conduct and manage gaming within the policy framework established by the government. Our role is not to establish gaming policy. It is, however, to operate the gaming business in the best and most responsible manner within the policy framework set out by the government.

The board's mandate is to be the stewards of the corporation and to foster both the short- and long-term success of the corporation in accordance with the policy direction set out by government. Our board, like any other board, has three primary roles: to provide business and management oversight, to set strategy with management and to ensure a proper succession of key personnel.

We exercise our board responsibilities through four key board committees: governance and social responsibility committee, audit committee, marketing and sponsorship committee, and human resources and compensation committee. Our committees meet regularly, and their work feeds up to approximately six to eight board meetings that we have each year, including our annual two-day strategy session with management.

Our board is currently made up of eight members. As board chair I report to the Minister of Public Safety and Solicitor General, the Hon. John Les. All of our board members have extensive business backgrounds and experience, with many having served as either independent directors of national or international companies or having senior executive positions with regional, national, private sector and public sector companies.

As I have stated, the corporation is a significant generator of income for the government, but unlike most other Crowns, our ability to generate that income is based on the consumer choosing to spend their discretionary entertainment dollars on our products rather than other competing entertainment products. Thus, while we may seem to have a monopoly on legal gaming in British Columbia, we do not have a monopoly over the consumer's decision as to whether they buy our products.

As such, British Columbia Lottery Corp. must be able to compete for the consumer entertainment dollars by offering competitive, high-quality gaming entertainment products that are fair in application and that fit within the overall framework of government gaming policy and social responsibility.

As you'll see later in our presentation, some of our existing products are mature in the marketplace, and we must constantly find new or different products for our customers. In short, we are in the gaming entertainment business and the consumer products business, and our consumers vote every day as to whether they will spend some of their discretionary entertainment dollars on our products.

Over the next fiscal year the corporation will continue to operate within the gaming policy framework established by government and will meet fiscal expectations by further developing its current lines of business, broadening its customer base and increasing the entertainment value of its products. The corporation

has applied and will continue to apply rigour and discipline to its business initiatives and will remain poised to take on new challenges and opportunities, all within the government gaming policy.

[0920]

The corporation upholds the highest standards in its responsibilities to conduct and manage gaming in British Columbia, and it balances social considerations through active participation in responsible gambling education, awareness and research programs and by supporting problem gambling treatment programs and services. By sharing responsibility among BCLC, its service providers, government, community agencies and those adults who choose to participate in gaming activities, we will continue to ensure a healthy, balanced gaming industry in B.C.

Thank you for the opportunity to provide my opening comments. I would now like to ask Vic Poleschuk, our president and CEO, to continue with our presentation.

V. Poleschuk: Thank you, John.

Just for assistance of the members, what you'll see up on screen is the same presentation that we handed out in the coloured deck in front of you, so whichever is easiest.

I'd just like to touch briefly on the areas of our presentation. As you'll see, we'll spend a little bit of time providing a brief overview and introduction. We will cover off our vision, mission and goals. We'll move to a section to outline our governance, planning and reporting framework. We'll touch on the key strategic priorities of the corporation, review our performance measures and results, talk about our risks and mitigation strategies, and then end with our accomplishments and a look ahead. We'll try and move that forward within the next 45 minutes or so.

As John has said, our mission is to offer responsible gaming entertainment, generating income for the public good. I'd like to highlight three parts of that mission statement, the first being: to offer responsible gaming. You'll see as we move forward that we'll talk a great deal about what that means to our organization. The second part of our mission statement is: to offer gaming entertainment. We do see ourselves as in the entertainment business and competing for our share of the consumer's discretionary entertainment wallet. The third component of our mission statement is: to generate income for the public good.

We are responsible for conducting and managing gaming. We have three main gaming businesses: the lottery business, which has been part of the provincial landscape since 1974; casinos, which became part of the corporation's mandate in 1998; and commercial bingo, which became part of our mandate in 2002. Reinforcing John's comments, our consumers make choices every day as to whether they will choose to play our lottery games or visit a casino or bingo facility to participate in our gaming.

On enabling legislation, in Canada gaming is illegal except as provided for under the federal Criminal Code. The federal code requires that all commercial

gaming be conducted by a Crown agent, and BCLC has been designated as such by the province. This includes all commercial lottery, casino and bingo gaming, including all gaming on or through a computer.

The corporation, by law, is not a regulator. We are responsible for the conduct, management and operation of all commercial gaming. Pursuant to the Criminal Code, we can outsource certain operational services to private sector companies, to have them assist our company in our operational responsibilities. As such, there are no such things as casino or bingo licences available to be given out — only contracts with the corporation for operational services for casino and bingo facilities established by BCLC. BCLC is regulated by the gaming policy and enforcement branch, or GPEB, in accordance with the Gaming Control Act, which is our provincial gaming legislation.

As John has said, gaming in Canada is a \$15 billion industry. You'll see here that we have the comparisons of the per-capita gaming spend across Canada. In comparison to other Canadian provinces, B.C. continues to have a more moderate level of gaming, ranking in eighth place based upon per-capita net gaming expenditures, with an annual per-capita expenditure of \$427, which is about \$90 less than the Canadian average of \$516. B.C. and Ontario are the two provinces in Canada who do not permit VLTs in bars and pubs.

[0925]

Also, from a Canadian gaming comparison, B.C. continues to have the lowest number of electronic gaming machines, both slots and VLTs, of all provinces in Canada. Another very key element of our gaming strategy in British Columbia is that we have relatively few locations where electronic gaming machines are available to play, and our players have to make a conscious decision to attend one of our casinos or community gaming centres to play slot machines.

Our service delivery structure. As I've said, we are responsible for the conduct, management and operation of commercial gaming, so the corporation is the operator of gaming, as compared to the gaming policy enforcement branch, which is the regulator of gaming. GPEB has responsibility for gaming policy, legislation, standards, regulation, licensing, audit and compliance, enforcement, the responsible gambling strategy and distribution of government gaming proceeds.

Our business model. The majority of our service delivery is contracted out to the private sector. In fact, over 85 percent of BCLC expenditures are paid to the private sector. We have a decentralized, provincewide network of employees. We have around 600 employees within the company. We have two major offices — our head office in Kamloops and our sales and marketing office in Richmond — and we have employees spread throughout the province in sales, security and field technical support where we have gaming facilities.

We run three major distribution channels. Our lottery channel is sold through 3,100 retail outlets. We have 1,300 bars and pubs as part of our lottery business, and we also now have a direct-to-consumer channel through our Play Now e-channel for select lottery products.

In casinos, we have 16 casinos and one racetrack casino. This is down from 21 casinos in fiscal year 2001-2002. We have approximately 7,200 slot machines and 450 gaming tables. In bingo, we have 29 commercial bingo halls or community gaming centres. This is down from 37 locations in 2001-2002. We offer to our players paper bingo and electronic bingo, and we have approximately 350 slot machines in five community gaming centres.

Financial overview. As John touched on, in fiscal '05-06 the total gross sales revenues for the corporation were \$2.26 billion. Those are broken down. Roughly \$967 million came from our lottery business, and \$1.85 billion came from our casino business. That's net of prizes. About \$208 million came from our bingo business. We paid \$641 million in prizes to British Columbians in lottery and bingo, including 13 new lottery millionaires last year.

We paid almost \$484 million to our lottery retailers and to our casino and bingo service providers to assist us in selling our products. This goes to pay for the over 10,000 employees who are directly employed in the gaming industry as well as for casinos and bingo to pay for the capital of new facilities.

Total operating cost for the corporation was \$212.8 million or 9.3 percent in total, with about half of that cost being amortization of equipment and federal taxes. Our annual operating costs continue to run under 5 percent. In fact, last year we achieved 4.5 percent. Net income to government totalled \$922.7 million dollars. The \$922.7 million came from profit of \$273.2 million in the lottery, \$621 million from casinos and almost \$28 million in our bingo product.

You'll see that we have listed the distribution of gaming revenues. I do wish to point out that it is government who is responsible for the distribution of gaming revenues, but it is important to see that of our \$922 million, \$556 million went to the consolidated revenue fund; \$147 million went to the health special account; \$137.7 million went to charitable and community organizations; \$65 million went to host local governments that hosted casino or community gaming centre facilities; \$4.6 million went to horse-racing purse enhancements from slot machines that were at horse racetracks; and \$3.4 million went to development assistance compensation, which are payments made as part of the destination casino revenue model for projects associated with the casino.

[0930]

The total is \$914 million, with an additional \$8 million having been paid to the federal government as part of a 1979 agreement between the ten provinces and the federal government.

To look at one category of government distribution, the \$137.7 million which went to charitable and community organizations, we've provided a chart outlining where those dollars were granted. You'll see it ranges from arts, culture and sports to environment, human and social services, major capital projects, PACs and district PACs, and public safety — adding up to over 6,000 grants to charitable and community organizations, paid by GPEB and totalling \$137 million.

As John has said, we take our social responsibility as very important. It's part of our strategic imperative and part of our mission. In fact, it is one of our core values of the corporation. Gambling is an accepted adult social entertainment activity, and the vast majority — about 96 percent — can gamble for fun and entertainment and know when to stop.

About 4 percent of the adult population have varying degrees of problems with gambling. In fiscal '05-06 about \$4.5 million of gaming funds were expended by GPEB to support responsible gambling education and prevention programs and problem gambling treatment programs. I will be speaking about these programs in more detail shortly.

Moving to our vision, mission and goals. We set our vision, mission and goals in cooperation and conjunction with our board. Our vision is to be a player-focused, publicly respected, performance-driven corporation.

I talked about the mission statement. We have three primary goals that link to our mission. The first is to generate income for the public good. The second is to be a respected organization that has a broad base of public support. The third is to have a workforce passionately driving the success of our business. I will talk more specifically to our performance against those goals in our performance section.

I would now like to take some time to review our governance planning and reporting framework. As I said earlier, gaming is organized under the responsibility of the Minister of Public Safety and Solicitor General, and there are two major streams. One is the operational responsibility stream, which is that of the corporation. The second is the regulatory stream of responsibilities, which is under the gaming policy and enforcement branch.

Under the corporation's responsibility, we're responsible for all aspects of operating lotteries, casino and bingo gaming. GPEB is responsible for a variety of regulatory and policy functions, including policy legislation and standards; regulation; licensing and registration — and that's licensing of both charitable gaming and horse racing; audit and compliance; enforcement; responsible gambling strategy; and the distribution of government gaming proceeds.

The next area I'd like to touch on is that when we were before this committee in 2002, there were a number of recommendations that were made. I would just like to touch and report on the progress against those recommendations. BCLC has taken action on all of the recommendations and made changes accordingly.

The first recommendation dealt with a number of suggestions for improving our reporting. These reporting changes have been implemented to address each of the individual points. I won't go through each of the points individually other than to say that we have made the changes.

Recommendation 2 was to provide a program status report on the achievement of our sales targets, community sponsorships and Internet gaming. Our brief status report is included. In respect to sales targets, the corporation has achieved its sales targets in four of the last five years. In respect to community

sponsorships, BCLC utilizes community sponsorships as part of our marketing programs to promote and create awareness either of our corporate brand or of our product brands.

[0935]

Internet gambling. Unregulated Internet gambling continues to grow. It is estimated to be a \$10 billion to \$12 billion business worldwide, which is projected to grow to \$24 billion by 2011. Various countries are taking different approaches, from prohibition in the United States to open regulation and licensing in Great Britain. In Canada, gambling via the Internet is legal provided that it is conducted and managed by the Crown agent. As such, BCLC has moved to offer our lottery players the convenience of buying their lottery products on line through Play Now, which is our Internet lottery service.

Recommendation 3 was for the corporation to re-evaluate our performance measures in a number of employee and customer areas. We have done that. These measures are reviewed and approved by our board on an annual basis.

We have also included in our presentation the ten requirements outlined in our shareholder's letter of expectation between government and the corporation. I will not go through the detail of all ten, other than to note that the requirements set out are being complied with and either are completed or, in the cases of ongoing responsibilities, continue to be ongoing in the corporation's mandate. I'd be pleased, if there are any questions at the end on any of the ten specific requirements, to cover them at that time.

Also from a reporting standpoint, we have a number of external audits and reviews. Our external audits have resulted in unqualified financial statements having been received. Our auditors are KPMG. The Auditor General does an annual review of the external audit working papers and conducts special audit reviews on the corporation, the last being on casino gaming controls, *Keeping the Decks Clean*, which had a very strong and positive report from the Auditor General.

We also work under regulation of the gaming policy enforcement branch and are subject to technical reviews, audits and certifications of gaming systems and equipment; and, also, registration of all of our gaming suppliers, gaming workers and employees.

Moving on to our key strategic priorities for the corporation. We have seven key strategic priorities. These are set in conjunction with our board. I'd just like to touch on each here for a minute.

Our first strategic priority is to transform and reinvent our lottery business. Our lottery business is a more mature business. It requires a different and new level of products and services to attract new customers and to also be able to retain some of our existing customers.

Our second strategic priority is to build player participation and loyalty by providing a fun and entertaining gaming experience. As both John and I have said, we believe that gaming is about entertainment and providing value for our players so that they choose, as part of their entertainment decisions, to spend some

of their discretionary entertainment dollars on our products.

Our third strategic initiative is to develop a viable community gaming centre model. This is really about transforming and reinventing the bingo business. Bingo is a declining part of the gaming industry. As you'll see in a little bit, we're looking to be able to refresh and renew products, facilities, services and amenities for our players.

Our fourth strategic initiative is to develop an e-lottery business. That is to provide the convenience of the Internet channel for our customers to be able to more conveniently access our lottery products.

[0940]

Our fifth initiative is to improve our business through innovative new product development, which cuts across all lines of our business as we look for new products and services that our players will have interest in.

Our sixth initiative is to build public and stakeholder trust and support, including communication of beneficiaries of gaming revenues and responsible gaming programs. This speaks to making sure that we have healthy and informed players who play our games for fun and entertainment and who play responsibly and that we have a public who is confident that the corporation is exercising its social responsibility and, also, providing fair and integral products.

Our seventh initiative is to instil a high-performance culture through strong leadership, innovation and employee development and engagement. This is ensuring that our organization is able to have the right people with the right skills and the right competencies to be able to compete for our share of the entertainment dollars of our players.

Sometimes a picture is worth a thousand words. To illustrate the strategic shift that we have been going through, you'll see, in the top left corner, some of the older casino properties that were in the marketplace four or five years ago and, in the bottom right-hand corner, some of the newer facilities. We have worked over the past five years to significantly improve our casino facilities and to expand the entertainment offering to our players.

We've moved from having many low-quality casino gaming-only facilities to fewer higher-quality casinos that have a variety of entertainment options, including top-notch food and beverage, top-notch show theatres and lounges hosting top-name entertainment such as Bill Cosby, the Beach Boys, James Brown and many, many more.

Similarly, on the bingo part of our business, we are working to transform the bingo business as well. You'll see here some of the old bingo-only facilities, on the left-hand side of this page, as compared to the new facilities or community gaming centres under a Chances brand, which are currently being brought to market with our service providers. You'll see the significant difference between our old traditional bingo halls and the new community gaming centres.

A big part of our strategic priorities and initiatives is keeping our products fresh in order to be able to attract a wider group of players. We introduced new

products and, in some cases, new distribution channels as part of our strategic priorities.

One of those, as I mentioned, is our Play Now at *bcl.com* channel. It's an opportunity for our players to purchase lottery products directly. It's a convenience for our players, and it's well controlled. We have weekly spend limits, age control restrictions, jurisdictional controls. While today it's still a small part of our business, we do see that it will be a growing part of our business into the future.

On the lottery business, we've also moved to introduce a new family of products called SportsFunder which, from government policy, have profits dedicated to amateur sport in our province. Our target is to generate \$20 million for amateur sport by 2012, and this product is being well received by the sports communities and the public in the market.

For casinos and bingo, we are continuing to offer new products in each of those channels with a view of being able to expand on the number of players and customers who will choose to be able to play our products.

[0945]

I'd like to spend a little bit more time on the strategic priority and really highlight our responsible gambling strategy. This strategy has been jointly prepared by the corporation and GPEB, and through that, we've engaged municipalities, the gaming industry, and health and social agencies on three primary goals. One is to reduce the incidence of problem gambling. The second is to reduce the harmful impacts of excessive gambling, and the third is to ensure the delivery of gambling in a manner that encourages responsible gambling and healthy choices.

The first goal really speaks to improving public awareness, education and prevention. The second goal speaks to treatment services for problem gamblers, and the third goal speaks to improvements in policy research, industry training and information management.

I've included the information in respect to problem gambling prevalence in British Columbia. We've done two major studies, and there is a third study that is scheduled for next year — we being the gaming policy enforcement branch, supported by the corporation.

In 1993 the study that was completed here in British Columbia and used a methodology called the South Oaks gaming screen — or SOGS — resulted in a total problem gambling prevalence of 3.8 percent, broken down into severe problem gambler at 1.2 percent and moderate at 2.6 percent. Ten years later the same study was replicated with the same methodology, and the numbers virtually remained the same, with 1.1 percent for severe and 2.8 percent for moderate, or 3.9 percent.

We also at the time, in 2003, undertook the study with a new methodology, the Canadian problem gambling index, which was developed by Canadian researchers. It's now the standard in Canada and is being used worldwide. That resulted in 4.6 percent of the population being identified as problem gamblers, with 4.2 percent being moderate and 0.4 percent being severe.

These numbers would seem to be reasonably consistent with results in other jurisdictions across Canada, the United States and Europe. While a lot of good

work has been accomplished over the past few years, there is more to do specifically around education, awareness and prevention as well as for treatment.

To highlight some of the work that is being done both by the corporation and GPEB — through our partnership for responsible gambling, specifically for British Columbia Lottery — we have engaged in community consultations on gaming in various communities. We promote responsible play practices in all of our facilities. It's at our lottery retailers. It's located in all of our tickets. It's in our advertising. It's located in all of our casino and bingo gaming facilities.

We participate in the British Columbia partnership for responsible gambling. We distribute all of the problem gambling information. We offer a self-exclusion program for those players who wish to voluntarily self-exclude from our casinos and bingo.

We deliver appropriate response training to gaming-industry employees, having trained nearly 5,000 gaming workers over the last few years on responsible play and appropriate response. We adhere to strict advertising and market standards including those set by the gaming policy enforcement branch and, also, the World Lottery Association's code of conduct.

From a responsible and problem gambling program, which is more on the GPEB side of the equation, \$4.5 million of gaming funds were expended by government on responsible and problem gambling, managed by gaming policy enforcement. This includes responsible play awareness and prevention programs and research; problem gambling treatment programs, which include a 24-hour toll-free problem gambling hotline; and professional counsellors made available to any player who wishes to seek counselling. We also moved last year to establish responsible gaming kiosks, which are piloted at two of our larger casinos in the lower mainland.

[0950]

From GPEB they were the lead in forming the B.C. partnership for responsible gambling, which involves municipal partners as well as industry partners. As I have said, collectively, while much has been achieved, this will continue to be an area which will be of key strategic priority and of key focus for our organization over the next few years.

I'd like to move into the section on performance measures and results. This is for information-based in our 2005-2006 annual report and in our '06-07 to '08-09 service plan. I'll report by the three goals that we have established.

The first goal: to generate net income for the public good. We have set three objectives under that goal. The first is to responsibly generate revenue and net income, then to increase our player participation and to increase our player satisfaction. Over the past four years the corporation has achieved both revenue and net income growth that has averaged 10 percent and 13 percent respectively, primarily the result of improving the quality and capacity of our casinos.

As we look ahead for our service plan, we are forecasting revenue and net income growth to be, on aver-

age, 5 percent over the next three years. This change is reflective of the fact that we have now captured a higher percentage of market demand and built out the market, primarily with our new casino properties.

Some of our accomplishments last year. In terms of bringing two new casino properties to market, we opened four new community gaming centres. We enhanced our Play Now offering to our players with additional lottery games. As I have mentioned, we have introduced SportsFunder, our new lottery game benefiting amateur sport.

In moving forward, our key strategies will be to continue to transform and reinvent the lottery business and to continue to develop our e-lottery as a viable business. We see building our casino and community gaming facilities to meet domestic demand and to be able to build long-term tourism markets and build player participation and loyalty by providing a fun and entertaining gaming experience. We believe it's about providing value to our players for their entertainment experience.

Specifically on net income, we were slightly behind in 2004-2005 on our income target, but we achieved slightly better on our income target in '05-06. Some of this year-over-year variance is the result of timing changes in plans in bringing new casino and community gaming centres to market. For '06-07 we are on target to achieve this year's results.

Similarly with revenue, the trend is the same. On lottery we have grown from \$938 million in fiscal '04-05 to a target of \$1 billion this year. For casino we have grown from \$893 million in '04-05 to \$1.14 billion this year. For bingo we have grown from \$196.4 million to \$225 million, and the bingo number does include slot machine gaming from the five community gaming centres.

Our operating costs. As I mentioned earlier, we have, over the last five years, reduced our operating cost ratios from 5.8 percent in 2001 and 2002 down to our target of 4.7 percent. In fact, last year our actual was slightly lower at 4.5 percent. In moving forward, we see staying in the 4.5-to-4.7-percent range of our total sales revenues.

Capital costs. Our capital costs have averaged approximately \$70 million to \$80 million annually over the last three years, and that is primarily for gaming equipment and for the technology support for our business.

[0955]

Player participation. We have maintained our targets on player participation. We have had a slight dip in '05-06 from our target of 63 percent. In '06-07 we are targeting to bounce back up to 65 percent, based on new products and higher-quality facilities which have been brought to market.

I. Black (Chair): Could you clarify that point for me, please, if you don't mind? What does the number of 65 percent mean? Is that repeat business, existing participants trying new products? Could you just explain what that number means, please?

V. Poleschuk: Yes. The player participation is the broad number of past-month participation in any of

our lottery, casino or bingo games. So that would represent the percentage of the total population who have participated in any of our games in the past month.

I. Black (Chair): So 61 percent of the province's citizens have participated in some fashion.

V. Poleschuk: Yes — of adults have participated in some product that we offer.

Similarly, we also track player satisfaction as part of our performance measures, and in '04-05 we achieved 83-percent player satisfaction. We had targeted to try and increase that to 88 percent. We only moved to 84 percent. Again, part of that was that some new product and new facilities we had planned to bring to market were a little later than expected in coming to market. For '06-07 our plan is to hold our player satisfaction at 84 percent.

That is measured, actually, through direct, independent research of our players. They are asked a variety of questions in respect to the products and services that we provide, from ourselves and our service providers in gaming.

Our second goal is to be a respected organization that has a broad base of public support. We have four objectives under that goal. The first is to improve public support of the corporation. The second is to improve public support for gaming. The third is to improve the public's understanding and awareness of the corporation's social responsibility. The fourth is to improve the public's understanding and awareness of the beneficiaries of gaming.

Some of the achievements or accomplishments over the past year are: we've piloted a public beneficiary awareness program; we have incorporated much beneficiary information into our overall publications in marketing collateral; we've implemented two new responsible gambling information centres. That was jointly between the corporation and GPEB.

We hosted the inaugural B.C. partnership for responsible gambling forums jointly with GPEB, with a number of municipalities and key stakeholders participating. We've participated in regional, provincial and municipal conferences, and we've trained over 4,400 front-line casino and bingo workers on responsible gambling and appropriate response training, including appropriate intervention practices.

I will point out that we take an approach to have zero tolerance for any criminal activity in our gaming facilities, and last year we banned over 180 people from our casinos and bingos for either suspected criminal activity or, in fact, breach of policies and procedures.

Our key strategies in moving forward are to increase the public's awareness of the beneficiaries of gaming, to execute best practices responsible gambling programs and to maintain and improve the integrity of our games, services and business operations. We measure that through independent public research.

Our support for British Columbia. We achieved, in '04-05, support at 66 percent. We had planned to increase that to 73 percent, based on a number of awareness programs. We only did achieve 67 percent, and we

were too aggressive in our goals to achieve that large an increase in a short period of time.

[1000]

Our support for the corporation is driven by the public's understanding and awareness of who we are, what we do and how we do it — the integrity and fairness of our games, our transparency in dealing with our players and public, our commitment to responsible gambling, and our transparency and accountability overall. It's about our entire corporate reputation in the eyes of our players.

We also measure support for gaming amongst the public through independent research. In '04-05 you'll see that 56 percent was achieved. We had planned to increase that to 60 percent. We did not do that. We fell back to 51 percent. We've set our target for '06-07 at 52 percent.

We have experienced some erosion of the public support for gaming. The two main issues for the public are: they want to know more about the beneficiaries of gaming, and they want to know that more is being done to address problem gambling, specifically around education and prevention. What we have found is that while much work is being done in these areas, the general public is not aware of much of the work that is being done.

On recognition of social responsibility, we achieved 56 percent in '04-05. We planned to increase that to 60 percent. We held level at 56 percent actual, and we have set our target for '06-07 at 56 percent. We're holding steady on the recognition of social responsibility. We believe that we need to continue to improve our corporate social responsibility. But we need more people to understand what is being done today, specifically around responsible gambling and responsible play programs.

I. Black (Chair): If I may interrupt just for a minute, Vic. As you know, we've got the question-and-answer period that follows this, but if members — such as me, when I spoke up a moment ago.... If there's a point of clarification on a given slide, we do allow questions during that. I should have mentioned that at the beginning. I'm sorry.

Did you have a point-of-clarification question?

Interjections.

C. Evans: Can you go back to the last slide?

V. Poleschuk: Sure.

C. Evans: My clarification was simply: am I right that this would be something like 10 percent fewer people support gambling than participate in it?

I. Black (Chair): I caught that as well.

C. Evans: If I am right, what is that about?

I. Black (Chair): Okay, the "What's that about?" piece. We can wait for that, but in terms of the technical definition, just to make sure that....

A Voice: I noticed that last week.

I. Black (Chair): Yeah. You can comment on that if you like, because there is a point of clarity. The "What's it about?" piece — we'll wait on that till our Q-and-A session.

V. Poleschuk: People will play.

C. Evans: I am right.

V. Poleschuk: Yes, people will play, but they don't necessarily support. I would suggest that there's a difference between the games that we play, specifically the lottery — which is seen to be more mainstream — versus their opinions towards some of our other products, specifically around casinos and slot machines.

I. Black (Chair): Joan, similarly, was yours a point of clarification, or is it a "What's it about?" question?

J. McIntyre: I'm not exactly sure. You can decide.

I. Black (Chair): I'll tell you once you ask it. How about that?

J. McIntyre: Coming from the public opinion business myself, I was obviously very curious. Could you describe the samples and the sample sizes — I mean, just how you get these percents? You said "an outside source," but could you be more specific?

I. Black (Chair): That one we'll wait on.

J. McIntyre: The other thing, which may also apply, is that it appears that the targets are not for improvement. I mean, it's so....

I. Black (Chair): That's also a "What's it about?" question.

Back to you, Vic.

V. Poleschuk: Okay, thank you. I did touch on recognition of social responsibility, and the last measure that we track is the public's awareness of where the money goes or the beneficiaries of gaming. You'll see in '04-05 that 28 percent of the public were aware of where gaming revenues go. We had planned to attempt to increase that to 45 percent through better communications programs. We were able to achieve 36 percent.

[1005]

To your point on '06-07. That goal at 32 percent was set before our '05-06 results came in, so it is lower than our actual. That goal will be reset in this year's service plan, which will be tabled here shortly. At 28 percent or 36 percent there are still relatively few people in British Columbia who are aware of who the beneficiaries of gaming revenues are in the province.

Our third goal is to have a workforce passionately driving the success of our business. This is really our organizational and employee goal. Our objectives are to improve our employee engagement, to have a high-

performance culture and to ensure that we have a workforce capable of meeting both our current and future business needs.

Our accomplishments. We've done a lot of work in improving our leadership development programs for management and employees. We've implemented enhanced performance management systems. We've implemented formal employee recognition and career development programs. We've implemented an enhanced employee communication program, including face-to-face regular meetings with the executive, and we've established a more formal mechanism to drive sustainable innovation, initially focused on our lottery business, into our business.

Our key strategies are to continue to build leadership and management talent within our organization; identify and improve key workplace people, practices and work processes; ensure talent, management and succession planning meet our current and future needs; and embed innovation into the culture of our organization.

We measure our employee engagement, which is a broad composite of a variety of factors. It is done through Hewitt Associates and is part of a broad Canadian and North American study. In '04-05, our actual employee engagement was 56 percent. We set a very aggressive goal to increase to 75 percent for '05-06. We did not increase to 75 percent. In fact, we maintained at 56 percent for '05-06.

We are planning to increase next year to 70 percent, but what we have found is that in terms of employee engagement and changing culture, it is a longer-term objective for us, which takes a lot of hard work, dedication and focus.

I'd like to move into key risks and mitigation. I will touch on a few of the key risks. One of the risks we've identified is the risk of increased competition. We've talked about that. We compete for the consumer's discretionary entertainment expenditures, but we also compete for their time and attention.

In today's world there is no shortage of new entertainment options for our players, be that in gaming products that are offered — and in some cases offered directly into their home via the Internet — or through cross-border gaming facilities or just a variety of other entertainment options.

As a mitigation strategy, we believe that we need to provide more entertaining gaming products that are attractive to a wider segment of the population. We need to provide more value to our players, and we need to provide our games where and when our players want to play.

We've included some more specific key risks on our lottery, bingo and casino areas of business that we can touch on if there are questions on that.

I just want to touch on the second key risk of host local government approval. Under the Gaming Control Act a municipality has the right to say yes or no to hosting gaming facilities. As we plan to either improve or relocate gaming facilities, one of the risks is that a municipal government may choose not to host that facility. We do extensive consultation with municipali-

ties and provide all of the information to them that is needed for their councils and their constituents to make informed decisions.

We've identified public acceptance of gaming as a key risk. Without the acceptance and support, we believe that our business and revenue objectives may be at risk.

[1010]

Our mitigation strategies focus on adopting industry best practices that promote responsible play, better informing the public on the beneficiaries of gaming and ensuring the highest level of integrity for our games, processes and people. We've identified a key technology capacity risk, which we have our mitigation strategies for.

On our accomplishments. We've identified five key accomplishments. One is the transformation of the casino business. Again, as you saw from the pictures, it was moving from very many low-quality facilities to having fewer higher-quality facilities that provide better games, services, facilities and an array of entertainment options. Similarly, we've done that with our transformation of our bingo business, and we've initiated the transformation of that business again from many low-quality facilities to fewer higher-quality facilities.

The transformation of our lottery business. We've initiated that in terms of providing our players with a wider array of more entertaining, interactive-style games presented in new distribution channels and the implementation of key responsible gambling programs. With GPEB, we've initiated a number of programs over the course of the last years, including the establishment of the responsible gambling partnership, establishing our responsible gambling information centres in our major casinos, training over 4,400 front-line casino and bingo management and staff employees, developing industry-standard self-exclusion programs and implementing both responsible gambling and problem gambling public awareness programs.

Our fifth accomplishment is building a stronger, more innovative player-focused organization. We compete for the consumer's discretionary spending, and we've strengthened our organization by encouraging a high-performance culture focused on improving our products and services for our players through improved innovation, leadership and accountability.

As we look ahead, which is the last slide, we see four key areas which the corporation continues to need to provide strong focus on. The first is to continue to ensure that our products and services meet the entertainment needs of our players; that we continue to improve responsible gambling programs to ensure that our players are making healthy and informed decisions on gambling; that we continue to build a stronger, high-performance organization delivering innovative products and services to our players; and that we continue to generate gaming revenues for the benefit of the province in a socially responsible manner.

That concludes the presentation, and we'd be more than open to questions.

I. Black (Chair): Thank you, Vic, and before him, John, for the presentation you just gave us — an hour

to the minute, actually. That was very well done. I think you're the first Crown we've had that actually came in right within the 60-minute mark.

There is obviously going to be a series of questions. I'm going to exercise the prerogative of the Chair by asking the first one, because I suspect it's going to be a theme here.

Let me just briefly preface this by saying that you guys are in a tricky business. We spent 30 years in this country building up a reliance on gaming revenues across the country, and no matter how noble the cause that receives the proceeds — whether that's health care or charities or whatever — your business is inherent with challenges of a variety of sorts.

I'd like you to expand on two comments that you made, Vic. You're focused on the fact that you feel you've got more to do on the education, awareness and treatment side. You mentioned that you've got a pilot going right now with some kiosks. I wouldn't mind a couple of comments on how that's going, but comment and expand on that in the face of the fact that you've got measurements that are based on player participation and the fact that you've got a specific goal of building player participation and loyalty.

Those obviously work against each other a little bit. That's a tricky one to reconcile, and I suspect that will be a key focus for questions that follow mine. Could you start with us on that one and we'll take it from there?

V. Poleschuk: Sure. I'd like to start on the players' side first, because I think that's the important side. While we are looking to expand our player participation, we think that's actually part of our responsible gaming strategy, in the sense that we're not looking to go deeper into our current players' pockets. It's about expanding the player base, and we're doing that by offering a greater array of entertainment options for our players so that it's not just about our players going to a casino and spending time only in the casino.

[1015]

They can go for a great evening out and take in world-class food and beverages, show lounges and show theatres — to be able to position and offer it as an entertainment evening for our players. In that sense, that is why we are trying to expand player participation to a wider group of players.

In respect to education and awareness.... As I had mentioned, it really is a primary responsibility of the gaming policy enforcement branch for the responsible gambling strategy, but we all play a part in bringing that strategy to life and to market. We believe that the more our players are aware of how our games work and what the odds of our games are.... They are able to make healthy and informed choices about how to spend their share of their discretionary entertainment wallet on gaming. To us, the important part is that we make sure that our players are in control and that they're making entertainment decisions on their spend.

The other part on the education-prevention business.... There's more work to be done around educating youth in our province so that they are aware of

what gaming is and what gaming is not. We believe that's an area in which, working cooperatively with GPEB, we'll be able to introduce some very good youth education-prevention programs to the province, not specifically because of our products but more specifically because of access to things like Internet poker — youth playing all kinds of different poker games on Friday or Saturday nights or whatever it might be.

We believe there's a real need to be able to make sure that gaming is positioned properly with our youth so that they understand what it is and what it isn't, and that can only be done through good education programs.

I. Black (Chair): Thank you. I do have a speaker list.

Corky, you've asked your question. Now did you have it answered sufficiently when you talked about the difference between those two stats? I didn't want to just.... Now, don't take me off on another question. I'm just asking if you had that one answered.

C. Evans: I think I answered it for myself. Like, it's basically the same as liquor and cigarettes, eh? There are more people that drink than approve of drinking.

J. McIntyre: I'll go back to the question I raised at the point when you were talking about your performance measures, which were detailed on pages 40 through 43 and then again on page 45 of your presentation. While those are key objectives.... I understand and respect the objectives that you set out. I guess my first question focuses on the actual methodology. If you could explain a little to us about how you measured that — who you measured it amongst and how, sample sizes, etc.

Then, most importantly, I would like some explanation or some thought about your plans to improve. My very quick, superficial analysis on all four or five dimensions you measured.... When you actually look at the numbers you've now targeted for '06-07, in most cases they're not any higher than where they were in '04-05. I'd like to know what plans you have to actually drive this.

V. Poleschuk: The methodology. I will do as best as I can on that, but I can send you a very nice one-pager that explains it all.

Principally, we do what is called a gaming-watch study. We are out with independent research every week.

J. McIntyre: Every week?

V. Poleschuk: It's every week with a small sample. The sample builds to a monthly sample, and then builds to an annual sample.

J. McIntyre: Oh, a rolling sample.

V. Poleschuk: It's a rolling sample.

J. McIntyre: So what would the monthly...?

[1020]

V. Poleschuk: My recollection is that it is approximately a hundred surveys per week, which will roll up to 400 a month and a sample size across the year of about 5,000 along the way. I can get those details for you.

J. McIntyre: With a cross-section of the general population...?

V. Poleschuk: A cross-section of the population. That is correct.

J. McIntyre: Of the adult population. So you'd establish what percent play. Then, would you measure the support for the corporation and for gaming and things like that amongst, again, the whole general public? So these are percentages?

V. Poleschuk: That is correct. They're general population surveys, and they're a combination of both telephone and Internet surveys. The research company is a nationally recognized research company. They do provide the information across all of our player and organization support numbers.

J. McIntyre: Okay. So then I guess the second part of my question....

I. Black (Chair): Joan, if I may interrupt.

If you are going to send anything to our committee, then could you send it to the Clerk of Committees, please? That way it can be distributed to all members at the same time through a kind of centralized, non-partisan source. Thanks.

J. McIntyre: Then, I guess the second part....

V. Poleschuk: I think on the second part, in terms of our '06-07 plan numbers, in each of these areas we would dearly love to say that there's a quick fix to these, but we have seen that there isn't. It's going to take a lot of hard work and consistent work over a period of, we believe, probably the next three to five years to be able to better inform the public about what is currently done both in terms of who the beneficiaries of gaming are and, also, the responsible play programs that are in place today.

As well, we're going to need to improve both communications and the actual programs, specifically around enhancing responsible play programs and problem gambling programs.

J. McIntyre: Is that all right, Chair? May I just pursue it, or is that...?

I. Black (Chair): You've had your first and your supplemental. I'll put you on the list for round two.

Just for the benefit of our guests, should members ask you for any materials or follow-up that you don't have with you, there are two steps to the process. One is that we kind of capture what it is that's being re-

quested, and then it goes, in this case, to Kate. There's another element as well. If the information requested is something that would normally be solicited outside the mandate of this committee, then that would typically not be distributed to members, just so you know, and we make that assessment after each meeting.

J. Horgan: Thank you, Vic and John, for your presentation.

It's always troubling for me. The subject matter irritates my United Church roots, but over the past number of years I've become acquainted with a number of participants, service providers — as you know, Vic — and I've established, I believe, strong friendships with them. So I am as conflicted, I think, as the general population on the subject matter and perhaps a little bit more so as a result of having met and become friends with many people in the industry.

It's a \$2 billion industry providing almost a billion dollars in revenue for social programs and other positive outcomes in British Columbia, so I have to take a little bit of water in my wine when it comes to your sector.

I'd like to start with a question that I've asked all CEOs and senior executives. It is as a result of a desire of the public, certainly in my constituency and I believe across the province, to have a better understanding about executive compensation.

We have tried, through this committee and through other sources, to get a handle on what the compensation criteria are for senior managers in public sector positions. I'm not able to find.... At least, perhaps you can direct me to a location where I could identify the compensation packages for your senior executive, as well as the bonus structure — what contractual requirements would be triggered to achieve those bonuses — and an elaboration on the travel plans in previous fiscal years and in looking forward.

J. McLernon: Maybe I'll start on that. Thank you for your first comment on this being a \$2 billion business. I think one of the misunderstandings in the community is the size and complexity of a company that has \$2.2 billion in revenue and a billion dollars in profit. This is a very significant company.

[1025]

It's also a very complex company, because it has a variety of different businesses which are not necessarily the same. Running casinos or bingo or lotteries — they're basically all different. You're running a multi-faceted corporation, a very large one.

Getting down to compensation, you have to.... First, there's what you do from process, where you have independent human resource companies make you aware of what competitive factors are in the marketplace. Second, we have government regulation, which you have to go through, and PSEC for senior people. Then there's the board and the compensation committee, and there's a lot of discussion. Where, specifically, it's in the public vein, I'd have to ask Vic.

There must be some places where the public can see it. It's nothing that's particularly secretive. Vic's salary

is \$275,000. It has been the same since 2005-2006, 2004-2005. I don't know what billion-dollar or two-billion-dollar company you would find that has a base salary of that level.

Bonusing. Roughly \$64,000 to '04-05; \$87,000, '05-06. So you're bringing it up into mid \$300,000 to \$350,000. Bonusing is set out with specific criteria based on hitting certain targets. I think the president can earn a target bonus of 30 percent. So based on what he has, the maximum he can earn is 30 percent, to a maximum of 45 percent against performance and achievement results.

We spent quite a bit of time on this. We have concerns in the business, also, that the level.... We have to look at what outside people would pay somebody like our CEO. Basically, our hands are tied by government. There are top levels, and there's the marketplace. I think it's very, very fair.

Expenses. You can go into that: \$64,000 in 2005-2006; \$67,000 in '04-05. Again we're talking about a very senior executive in a very big company. A large part of it is travel. Some is the travel from head office to Vancouver. Once in a while there's travel to find out what's happening in the industry. Really, from a chairman's point of view, I find it very, very adequate. I just put that forward to you.

J. Horgan: Could you then, John, provide the scale that you were reading from to the committee, and also what you talked about — bonus triggers. You didn't specify what those were. Is that...?

J. McLernon: We have no problem. I can go back. There are three or four key bonus triggers.

J. Horgan: And you can provide that to the...?

J. McLernon: Absolutely.

J. Horgan: Thank you.

I. Black (Chair): That's actually a good example. One of the jobs that I have as Chair is to keep our questions within the context of the mandate of this committee. That was a good example of one that's very much within the context, because we focus on your operations and your connection to your service plan, etc.

J. McLernon: We have no problem with it. More transparency — we're comfortable with it.

I. Black (Chair): My comments are more for your understanding. If I don't allow some questions, and I allow others.... This is a good example of one that we do allow. It's very much within the mandate, and indeed, the follow-up materials that were requested are also consistent with that, and the mandate of our committee as well. So thanks, John.

J. Horgan: Do I get a second question?

I. Black (Chair): No. Only if it's very much related.

J. Horgan: I'm going back.

I. Black (Chair): Okay. You'll come back for more in just a minute in round 2.

D. MacKay: Thank you, Vic and John, for the presentation. Statistics are kind of interesting. When you look at the player participation at 61 percent, I guess I would fall into that category. But when you look at the actual player satisfaction at 84 percent — 84 percent of the players are satisfied — that means 16 percent aren't, and I think I would fall into that category that aren't satisfied, because I haven't won the big lottery yet.

Let me just take you back to your key strategic priorities, on page 24. One issue that I thought perhaps should be included that's not there.... I just ask for your thoughts on this. With the \$2 billion industry, I would suggest that it's going to attract the undesirables, the criminal element, because of the dollar value attached to this lottery for the province.

[1030]

I just noticed that what's missing on page 24, under "Key Strategic Priorities," is security of the games that we play, the integrity of the casinos. Why is security missing from the key strategic priority list, when we look at the dollar value and the attraction for undesirable elements within our society to an industry such as yours? Could you comment on that please.

V. Poleschuk: Yes, I may. I would note that while it is missing in our strategic priorities, it actually exists above that. We have three core values in the organization. We've not presented them here. Our first core value is integrity. That speaks to the integrity of our products and the integrity of how we run our business, including the security of everything that we do. So from a core value standpoint, the core value of integrity actually runs right through each of these strategic priorities, and it runs through everything that we do within the company.

B. Lekstrom: This may go back to Corky's question and the clarification you had on slides 40 and 41 where support for the B.C. Lottery Corp. is 67 percent and then support for gaming goes down to 51 percent. When you're doing your polling on this, or your research, what kind of questions would be...? I mean, I can't reconcile those two. I don't know how people would support B.C. Lottery Corp. but be opposed to gaming. Those numbers reflect a 16-point difference. Can you enlighten me on that?

That's just a clarification issue I'm looking for, Mr. Chair, because I do have a follow-up question.

V. Poleschuk: I think, in the eyes of the public, they do make a distinction between the entity offering the product or the service and the actual service and product itself. So from the public's perspective, they do draw a distinction between their personal views on gambling versus how they see the delivery of those products and services to them or to the marketplace.

B. Lekstrom: Okay. I guess I find that somewhat hypocritical in the sense of those numbers, from my view. But the question I had was on slide 38, on player satisfaction, where you talked about '05-06, and I'll speak to that, as at 84-percent satisfaction. Out of the remaining 16 percent, what were the issues raised by the people who were dissatisfied? Short of what Dennis said, of not winning the big one, were there issues that came forward?

V. Poleschuk: Actually, the one referred to is one at the top of the list. People feel they don't win enough, that there are fewer prizes. In some cases they may have had not a great customer experience, either at retail or in one of our casino or bingo properties. In some cases the facilities offering our products have not yet been upgraded so that they are in a facility where they would say: "Well, this meets my expectation of the type of quality of facility, the type of food and beverage and the type of service or ancillary entertainment that's provided."

C. Evans: I'd like to ask a question about the distribution of grant funding from the part of your business that distributes community grants. I guess there are several parts, and I'm not sure how much I'm allowed to package into two questions. I'll first ask the Chair. Is that true? I only get two questions at a time?

I. Black (Chair): The issue of the question itself. Let me point out that it's actually not B.C. Lottery that distributes the money. It's the ministry. The question is actually pointed at the wrong group, so we can let you reload if you like, and I'll let you keep the floor.

[1035]

However, the question and the follow-up have to be linked. It's really just one question with a follow-up, which is normally based on the answer you received to the first part of your question. Then we put you back on a list for the second round. So you still have the floor if you'd like to start again.

C. Evans: Yeah, I would like to start again.

Part of your presentation was the breakdown of funding to community groups that comes from the corporation, decided by somebody else — right?

A Voice: Possibly.

C. Evans: People in the village of Nakusp have expressly asked me to ask whether there is a statistical tracking by the corporation that builds any correlation between income from lotteries and distribution back to the community of source.

I. Black (Chair): Correct me if I'm wrong, gentlemen, but I believe that's actually completely run by the ministry, the Solicitor General's office, and the direct access grants, if that's what you're referring to. Unless

there's something that I'm missing, I don't believe that any of that gets decided by B.C. Lotteries.

C. Evans: I would never suggest that you're wrong, Chair, but half of it would have to be tracked by the Lottery Corp. You're correct that the.... If I'm asking a question about if there's a relationship between income and outgo, then you couldn't ask either part for the whole answer.

I. Black (Chair): It's a great question. I'm just not sure they can answer it, but I'll defer to them to correct me if I'm wrong.

V. Poleschuk: We certainly have the capability, on a regional basis, of being able to identify the amount of spend from players in various regions of the province. I don't believe that information can then be compared against any flow of gaming grants to regions. As the Chair has explained, the actual granting of the gaming grants is not our responsibility. It's actually through the gaming policy enforcement branch.

J. McLernon: You notice in the statistics that there's a very low knowledge provincially of where the money goes.

C. Evans: That's right, which leads to my follow-up question. I think that the low knowledge is related to the low, the 51-percent, support for gaming. I think that support for the activity would go up if people better understood what was happening.

I think there is a problem in rural British Columbia, and I would like to ask you to raise it with the ministry, fix it and then communicate to your clients, your customers, the benefits of gaming to them.

This is the problem. The ministry, not yourselves, set some rules on the distribution of money which I think are urban-advantaged or rural-disadvantaged, in that they ask the question of agencies asking for money: does most of your funding come from government?

In large cities there are agencies that work for government, and there are non-profits who do recreation or arts or something. In rural communities there's only one community services agency in every town. Suppose they do home support and then also want to build a poolhall for kids or ask for money for basketball, but most of their money comes from government. Ergo, they don't get money. Ergo, the community disses not the government but the Lottery Corp.

I. Black (Chair): Corky, I'm trying to give you some leash here. Do you have a question for these guys?

C. Evans: You're giving me great.... I really appreciate the leash, man. I'm out there. It's tight, and I get it.

I. Black (Chair): I'm about to yank it.

C. Evans: I get it.

Here's the question: do you understand what I've just said? If you do, will you raise it with the ministry? Because I think it affects the displeasure that people might feel with the Lottery Corp.

[1040]

V. Poleschuk: Yeah, certainly we can raise it. Again, I think it just needs to be clear that it really is the ministry's responsibility in how it administers the grants, but we will certainly raise it.

C. Evans: Thanks.

J. Rustad: In a couple of the slides, particularly on page 33, you talked about developing a viable e-lottery business. It would be great if I could find some numbers someday — because there's been expanded revenue in terms of gaming in B.C. and with the casinos coming on — about how many people are no longer going to Vegas. In other words, how much of that revenue is now staying in B.C. for the entertainment dollar that is being spent as opposed to being spent in other jurisdictions outside B.C.? That would be great to know those numbers.

The question I have is right along the same lines as that, with regards to e-lottery. I'm wondering if you know how much, if any, entertainment revenue that would otherwise be spent on other products in B.C. is currently going to e-lottery business outside of B.C.

Given the fact that the World Wide Web is worldwide and anyone from anywhere can access it, how can that be managed in terms of...? Is it simply that if you have a better product, you hope to be able to attract people, or are there any other sort of tools could be used in there?

V. Poleschuk: It's a very difficult issue, and it's not an issue that is only unique to British Columbia. It's an issue that the Canadian gaming industry is struggling with.

As I said earlier in the presentation, some countries have taken a... They range from a prohibitionist approach — which is what the United States has taken with its recent introduction of the illegal gambling act that makes it illegal for any transactions to be taken by the financial services company or ISPs in relation to Internet gambling — to England, where they actually have passed an act which is permissive, which is intended to set out a regulated Internet gambling industry in Britain to offer its products worldwide to countries who will allow Internet gambling.

From the Canadian perspective, we're looking at both sides of how that will be. Right now in your home if you google casinos, you will have more than a thousand different websites where you can go to play some type of gaming. All of them are unregulated. You can trust that they are reputable, and it's a growing business. As I said earlier, it's \$10 billion, estimated currently to grow to \$20 billion by 2011.

We're working at the national level to try and come up with a standardized or common approach on how

this can be dealt with across the country. It will deal with various issues around, obviously, enforcement of the current laws as well as look at what possibility there may be to be able to at least offer some type of competitive products that our players may have interest in.

We've chosen to offer our lottery products. We offer it for the convenience of our players, and what we're finding is that our players are going there truly as a convenience as opposed to anything else. It works well for a certain segment of our players who wish to have this as a way of buying their lottery products.

J. McLernon: You've got a change of culture. Where the traditional lottery player went as part of a social event — went to his local place, talked to the local person, bought the ticket, etc. — the younger people today don't want to wait in line, don't want to go through the hassle. They want to buy the ticket fast on line. It's really a generational issue.

From the board's point of view, we want to really walk before we run. We think we have to protect the government, to at least have a position in Internet and then see how it evolves. But we're not as a board putting any pressure on the corporation to drive into new areas. We just get our position, understand what's going on and, right now, protect what we have.

We're aware of all the illegal people that are around and everything else, but we're just quietly there.

[1045]

J. Horgan: I got the extended cable package so I could watch more sports. I turned on that channel, and I got fat guys wrestling and skinny guys playing poker. I don't think there's much concern. My teenager tells me of poker games breaking out at lunch at his high school, so you've got a captured market there, gentlemen. I don't think you should worry too much about that, sadly.

In one of your key risks, Vic, you talk about bingo sales declining, and I'd like to hear your views. You and I have had this discussion off line in the past. It's my view that the charity bingo sector, which was the foundation of gaming in British Columbia and Canada two or three generations ago, has been cannibalized largely because of new products coming on stream.

Although you identify it as a risk and you talk about introducing slot machines, you're really not protecting bingo. You're protecting that sector, right? I know there is electronic bingo, as well, but when I talk to service providers in the charitable sector, they say they can't compete with the new technologies and new glitz of the River Rocks, the Edgewater and so on. They're destined to stay in their legion halls or commercial malls across the Lougheed Highway.

I know that it's the objective of the corporation to get these service providers into newer facilities, but in the process of doing that, I believe that there's a distortion. It's not about bingo anymore; it's community gaming centres which are, in my view, casino-lite. Can

you explain to the committee how it is that you're going to protect and promote that charitable sector when, in fact, all you're doing is creating a smaller version of a casino in smaller communities?

V. Poleschuk: Yes. First off, I guess we look at it that the charitable sectors are protected by policy based on revenue distribution. So the charities that are included in bingo, and were in bingo in 2001 and 2002, are protected in terms of the revenue distribution at a flat level of earnings. From a revenue standpoint, the charities are protected.

From a marketplace standpoint, bingo in every market in North America and the world is declining, with a few exceptions. For the most part, as players have other forms of options both for entertainment and for gaming, the players are choosing to spend their money in other forms of either gaming entertainment or general entertainment. From a player perspective, the value proposition for the game of bingo is being displaced by other products. When you combine that with poor facilities, poor service and not that great an offering, the players are choosing to spend their dollars elsewhere.

What we're trying to do is be able to stem that tide by continuing to have bingo as a core component of a new facility called a community gaming facility but also to bring in other forms of gaming into that facility to bring new customers in. Therefore, to be able to afford new facilities, new food and beverage amenities, new entertainment amenities to create a broader gaming portfolio and almost a one-stop shop in communities where people can go either for their bingo or, in some cases, for offtrack betting or, in other cases, slot machine gaming, we're trying to move that into a more viable business model.

J. Horgan: A follow-up, and it's still on the historic gaming. Horse tracks. I know that Great Canadian has three investments in three tracks. One is working; two are not. What would the impact of those failures at Hastings and at Sandown have on your vision or your plan for racetracks?

[1050]

V. Poleschuk: Again, the corporation is not responsible for horse racing. Where we intersect is with the horse-racing operator who is licensed by the gaming policy and enforcement branch.

In the case of Fraser Downs, we have a combined horse racetrack operated by the horse track operator and a racetrack casino located in the same facility. That's where the corporation intersects with the horse-racing industry, but we don't have direct responsibility for it. We do know that from the slot machine gaming that is offered at horse racetracks that, by government policy, it has provided a portion of the revenues to enhance the purses, thereby enhancing the racing that takes place.

J. Horgan: The failure at Hastings and Sandown: how does that impact the corporation — to not have the same scenario that you have at Fraser Downs?

V. Poleschuk: By not having the ability to have slot machines as part of the gaming mix at those facilities obviously has negative-revenue impacts on the corporation. But I think, just as critically, it doesn't generate the spinoff flow of revenue to go to the horse-racing industry to support their business.

D. MacKay: Again, I just want to follow up on the security side of the agency. IIGET, Integrated Illegal Gaming Enforcement Team, is made up of members of the branch investigation division and the RCMP. I wonder if somebody could tell me what the different roles are of the two investigation units and what sort of criminal activity.... I understand there has been about 14 Criminal Code investigations or charges resulting from investigations by this combined unit.

What role do they play? What are the outcomes of these court cases that are out in the public now?

V. Poleschuk: As far as the IIGET team goes, the corporation is a funder of that team. We sit on the board, as it relates to funding decisions, but we do not have a direct role or a direct mandate with the IIGET team.

D. MacKay: So the investigations that are brought to the attention of IIGET are investigated by the RCMP commercial crime, I'm assuming?

V. Poleschuk: The IIGET team has a dedicated group of RCMP officers.

D. MacKay: Retired or...?

T. Towns: No, they're serving officers, and their IIGET team is actually spread throughout the province. They have officers in Victoria, Kelowna, Prince George and in the lower mainland.

D. MacKay: I still would like to know what happened to the, I think, 14 charges that were laid by the IIGET or the RCMP. Have they gone through the court system? Are they pending? Where are we in that process?

V. Poleschuk: Again, we're not directly involved with the mechanics of the IIGET team. They're under the responsibility of GPEB.

B. Lekstrom: Just before I get to my question, maybe a quick follow-up then. You may or may not have the answer to this one either. Out of the investigations — I think there were over 600 investigations; you look into things — does that include such things, and would you be the ones that would direct the issue...?

I'll give you an example. In my area raffle tickets are being sold. They're permitted to do so. They get that. Then they are disciplined at the end or threatened with discipline because, you know, the draw was supposed to be at X spot — heck, I don't care if it was 40

below — and they go: "Hey. We're moving it into the mall. We're going to draw there."

It goes in. The same person wins or however that works, and they catch some flack for that. Is that included in the list of investigations? Would that be something that...?

V. Poleschuk: That's not within our mandate.

B. Lekstrom: Okay, so that would be through the Sol. Gen.

V. Poleschuk: Yup.

B. Lekstrom: Okay.

Just a question. When I look at your performance measures and results, one of your goals and objectives is "to have a workforce passionately driving the success of our business." I think that's fundamental for any business.

The concern I have is when I look at the 56 percent actual for '05-06. I see you are going for 70, which is a substantial increase, but the number jumps out at me as a huge concern. I mean, 44 percent of the.... Is this the employees working for the corporation who don't like it?

I guess I'm curious. I've always been a believer that if you don't like what you're doing, go find something that you can like. What are the issues they're raising with the corporation? Hopefully, it isn't as simple as: "Pay me more money, and I'll be happier." I think we could all say that. There must be some issues there that, through your work, you've highlighted and are working towards. Can you briefly touch on that?

[1055]

V. Poleschuk: Sure. The issue around employee engagement is a much broader measure. It's not just about: "Are you satisfied in working?" It's really: "Do you have a passionate connection and commitment to the business and to the company?" It's a more holistic measure that measures much deeper than just satisfaction. It actually goes to: "Have we really won the hearts of our employees?"

As we have, over the years, evolved from being just a lottery company to a full-scale commercial gaming company, that's been a significant change not just in the marketplace but a significant change for our employees as well. So as they read about, similarly, all of the reports of responsible gaming issues or lack of understanding of where the money goes.... All those things raise an issue in terms of: "Jeez, I really wonder. Are we always doing the right things for the organization?"

We're spending a lot more time communicating with our employees in terms of growth. We're spending a lot more time in terms of managing individuals' careers. As a company of only 600 people and only of provincial basis, we have not a lot of upward mobility within our organization. So it's managing how people develop, being able to give them the skills and competencies to be able to grow laterally and not just up in an organization and recognizing more clearly our employees for the great job that they do.

B. Lekstrom: I'll finish on this, and it's a comment. Any contact I've had with the B.C. Lottery Corp. employees or whatever has been incredible. It's great. That's why that number jumps out at me. The people I've dealt with over the last number of years have been professional and certainly came across as loving their job and the work they do.

J. McLernon: Just an aside. If you read the papers, I guess in the last month the corporation was recognized as one of the top hundred companies to work for in Canada. So again, you've got the results from a group of people where there's a lot of cultural change going on, a lot of changeover from the traditional lottery business into a multifaceted business. The last thing is that the senior executives had a very high level of employee satisfaction. From a board's point of view, we know that this is going to move the next group up, because there's such a high level of satisfaction at the top level, and they know what has to be done.

I appreciate your comments, because I agree with you.

J. McIntyre: My area of questions or focus is on some of the social responsibility aspects. I really appreciate, in your presentation this morning, the effort it appears that you're putting in that area. I see there's \$4.5 million of funds expended in that direction. Some of the programs are for awareness, education and prevention — the things you've been talking about. The numbers haven't moved on the recognition of the social responsibility of the corporation.

I'd like to make sure. Do you feel comfortable that that is enough that you're putting against these programs? I mean, are there increases in numbers of people who need help? I know that the 4 percent has actually been fairly stable over the last while, from my understanding, but do you feel comfortable that you're putting enough money and resources against that to help make a difference?

The second part, which really intrigues me, is: do you have any sense as a corporation about the change with the expansion in the Internet gaming and, you know, whether or not we've got the right programs to help if people are starting to do this at home or they're not in the self-exclusion program at the casino, etc.?

If you could just touch on how you're handling some of that, especially the expansion of Internet.

[1100]

V. Poleschuk: I think in respect to the first question around the funding, the decision on the amount of funding is a provincial government ministry decision. The funds come out of gaming revenues, but the actual decision is a ministry decision. We support, with the ministry....

There's more that can be done. We've done a lot of really good work over the course of the last number of years. I think everyone is saying yet there's more that can be done over the course of the next number of years, not just in program development but in communication, specifically around education and prevention.

I think you'll see a stronger initiative towards education, prevention and awareness over the course of the next couple of years than what we've seen in the past.

J. McIntyre: The second part is really if you have any sense of how the growth in the Internet gaming.... I appreciate that some is related to BCLC, and others, as you say, are unregulated. But do you have any feel or any sense of...?

V. Poleschuk: I think in British Columbia the issue around the Internet gaming is still.... From the research we do, we still have a small percentage of the general population who participate in Internet gambling for money. But at the same time we know that that percentage probably spends a fair bit more money in playing.

We do not have direct information because they are in fact playing on websites or with companies that don't necessarily exist here in British Columbia. But I do know that, again, if people feel that they have a problem with gambling, regardless of the source of that, they have available programs and counselling here in British Columbia to take advantage of.

T. Towns: I think that you should know that on the Play Now site, we do have a self-exclusion program that applies to that site as well.

J. McIntyre: Okay, well that's good.

V. Poleschuk: On our site we have self-exclusion. We have a weekly spend limit — a maximum of \$120 a week. There is age verification, which means that unless you're able to verify that you're over 19, you won't be able to play. We have residency checks to say that you can only play from British Columbia. We have time clocks right on there to be able to show people how long they have been on the site and playing.

We believe that we've actually built in some of the industry-leading social responsibility features into our Play Now offering to our players.

J. McIntyre: Thank you. That's good to know.

J. Rustad: My question has already been asked, so I'll pass for the moment.

C. Evans: I have some experience with one of the casinos on reserve land. I've been very disappointed in the evolution of that facility in what appears to be almost the utter absence of employment of people on reserve.

My question is: when a third party operates a casino on reserve land, does the corporation have any targets or dialogue with the operator about employment from the community?

V. Poleschuk: Yes, we do. In fact, in that particular example, which is the St. Eugene's Mission....

C. Evans: How'd you know that?

V. Poleschuk: Our original service provider had an agreement with the bands in respect to employment targets. As you're well aware, that casino went through a bankruptcy protection, CCAA, and is now actually owned by first nations bands out of Ontario and Alberta. They have developed some very specific first nations employee training programs for encouraging local residents to be able to participate in the employment at the casino.

[1105]

C. Evans: My follow-up question is: can you do two things? Communicate to the contractor, that third party, that you were asked these questions and will be next year, and you would like to know what their present percentage is and what they expect it to be next year, and tell them that it will be on the public record and that we appreciate their participation?

V. Poleschuk: We will do that. Just to clarify, our service provider actually is a company that is owned by the two first nations.

C. Evans: I get that. One of my disappointments was going there and observing that the ratio of employees did not change when the employer changed — and it's fixable.

J. Horgan: Our researcher just provided me with the audited financial statements for last year. I was just doing the quick math. The numbers here have Vic's salary at \$442,000 and some change and \$64,000 in expenses, so you got to the half a million all up last year. Congratulations.

I also would like to ask....

B. Lekstrom: Jealousy will get you nowhere.

J. Horgan: I just did the math. I'm just helping out.

J. McLernon: You must have different math than I have.

J. Horgan: Well, it's in your statement here.

J. McLernon: You add vacation pay and taxable benefits and stuff.

J. Horgan: Well, I'm just reading the number — sorry. I'd like to ask: What is TBWA Vancouver? And what did they do for \$18 million last year?

V. Poleschuk: TBWA is our principal advertising agency, and the \$18 million is a combination of fees but also media placement. So that is all of the advertising that we do across all of our lottery business. They place the media, book the media. We pay them, and then they disburse those payments to the print, electronic and radio media.

J. Horgan: Further on the advertising, then, are you able to break out what portion was the ad buy or the placement buy and what portion was creative?

V. Poleschuk: Yes.

J. Horgan: And you'll send that to Kate.

I. Black (Chair): The last question of the morning goes to John Rustad.

J. Rustad: In terms of the overall revenue, in terms of the breakdown and the amounts that have increased over the last number of years, I'm wondering if you could talk a little bit about the percentage gains that have happened. I know you're projecting — what is it? — 5 percent over the next year or two in terms of revenue gains.

How are your overall management structure and costs going up associated with that? I mean, as more revenue comes in, does that mean that the actual management costs, the actual size of the company also has to grow? Or are you being able to have efficiencies and generally more revenue with the same level of your expenditures in terms of your operating structures?

Then, as well as that, in terms of return on programs — particularly on the programs around the problem gamblers and the support for the problem gamblers — as a percentage is that also increasing in terms of the dollars that are being spent on that proportionate to that revenue? Or higher or lower?

V. Poleschuk: In respect to our percentage of operating costs, as we have grown over the last four or five years, we have continued to be able to decrease our operating cost percentage as a percentage of our top-line sales revenues. I think we're probably at a point now where we will be attempting to maintain those costs as a ratio in the 4.5-to-4.7-percent range as we move forward.

We are subject to some of the same escalating cost pressures in the market both in terms of the tight labour market, increased costs of goods and services, but we will continue to try and incorporate those within that cost structure that will keep our operating expenses in that 4.5-to-4.7-percent ratio.

On the second part, on the problem gambling, just by pure mathematics the percentage of the amount that has gone to problem gambling, which has been fairly consistent over the last three or four years, is between \$3 million to \$4 million. As our revenues have grown, obviously by mathematics, that number will have decreased.

J. Rustad: As a percentage.

[1110]

V. Poleschuk: As a percentage. But the decision made by the ministry is based on program need, and that program is evaluated and assessed each year by

the ministry to determine what the appropriate funding allocation should be for that.

J. McLernon: I think you have to be careful about assuming that as the revenues go up, the percentage of operating costs goes down automatically. We're in a very competitive business for the entertainment dollar, so if we're reinventing the lottery, or if we're inventing new programs or new ways of doing things, there are always going to be the R-and-D costs of doing this. I think it's quite simple just to look at.... Revenues go up, and costs go down, but there is going to be an R-and-D component.

J. Rustad: Makes sense. Thank you.

I. Black (Chair): Gentlemen, I'd like to thank you very much for your presentations today and for providing the answers to the thoughtful questions of my colleagues over the last hour. I'd also like to note your indulgence in our tardy start this morning due to our travelling members who were waylaid a little bit.

I would declare a five-minute recess at this point to allow our guests to make a comfortable exit. We shall start again in five minutes. Once again, our thanks to the B.C. Lottery Corp.

The committee recessed from 11:12 a.m. to 11:25 a.m.

[I. Black in the chair.]

I. Black (Chair): I'll take a motion to go in camera.

The committee continued in camera from 11:25 a.m. to 12:20 p.m.

I. Black (Chair): We have been discussing the presentation and materials provided by B.C. Lottery Corp. with respect to their service plan, their annual reports and the mandate of the Select Standing Committee on Crown Corporations. We will recess until one o'clock, at which point we'll welcome our next guests from B.C. Hydro.

The committee recessed from 12:21 p.m. to 1:05 p.m.

[I. Black in the chair.]

I. Black (Chair): We will call back to order the Select Standing Committee on Crown Corporations for our afternoon session. I would like to start by welcoming our guests for this afternoon from B.C. Hydro.

I would like to — first of all, by way of introduction — explain that our committee is a very important point of transparency and accountability for the people of British Columbia with respect to the operations and performance of the Crown corporations.

What I'd like to do to get things started is to, first of all, allow you to introduce yourselves, if you would, and then I'll have my MLA colleagues on this committee introduce themselves. Over to you.

B. Elton: Thank you very much for inviting us today. My name is Bob Elton, and I'm the president and chief executive officer of B.C. Hydro.

A. Cowan: My name is Alister Cowan, and I'm the chief financial officer of B.C. Hydro.

K. Nguyen: My name is Kathy Nguyen. I'm the project manager for B.C. Hydro.

D. MacKay: Dennis MacKay, MLA for Bulkley Valley-Stikine, and Smithers is home for me.

B. Lekstrom: Blair Lekstrom, MLA for Peace River South.

J. Rustad: John Rustad, MLA for Prince George-Omineca.

J. Horgan: John Horgan, MLA for Malahat-Juan de Fuca.

G. Gentner (Deputy Chair): Guy Gentner, MLA for Delta North.

C. Evans: Corky Evans, responsible for almost every dam that he's not.

J. McIntyre: Joan McIntyre, MLA for West Vancouver-Garibaldi, living in West Van.

I. Black (Chair): Thank you, Members.

Just by way of framing our time together this afternoon. The purpose of this committee, in summary, is to review the information from your service plans, annual reports, the presentation that you're about to share with us and then the subsequent questions and answers and to take all that information and from that to try to answer four questions and to make comments based on our ability to answer four questions.

Those questions can be summed up as follows:

(1) What is your mandate as an organization?

(2) How do you know that's your mandate? In other words, show some connection for the committee and for the people of British Columbia between what you are doing and how you're spending your time and what your strategic initiatives are relative to the direction you've been given from the government.

(3) How are you performing against the mandate that you've been given? Those performance measurements can be financial, and they can be other measurements as well, of course.

(4) How do you know that's how you're doing, which speaks to the operations and mechanics of your organization and your ability to track that and to have confidence in the published information that follows?

We then review the materials, the presentations and the answers to the questions that we'll pose to you shortly, and we will form a report. Upon approval by this committee, that report is submitted to the Legislative

Assembly and made public to the people of British Columbia in that fashion.

Our agenda this afternoon is to first listen to your presentation. I would ask that you keep it to an hour. We will follow that presentation by going for an hour of questions and answers from the members within the committee. From there we will take a short recess and give you the opportunity to leave, and then we'll go to in camera and discuss what we've heard and what our overall sense is, as we start to prepare this section of the report that pertains to B.C. Hydro. Do you have any questions at all before we start?

B. Elton: No. Thank you.

I. Black (Chair): Terrific. Thank you very much again for being here. The floor is yours.

B.C. Hydro and Power Authority

B. Elton: Well, thank you very much for having us here. What I'm going to do, really, after making some brief overview comments about our company, is to get straight into the question of the mandate and spend some time on that and then talk for quite a while about what our priorities are. In doing that, I'll be talking about both what our priorities are currently and what our performance has been over the last year or so, so that you can address both issues.

This is a large and complex business that affects many people in the province, or almost everybody in the province, either because people are customers of ours or because they live in areas where they're not customers of ours but they have facilities of ours.

The size and scope of B.C. Hydro is fairly well known. A key point I want to get across up front, really, is that what we have to do in managing our business is two things. First, we have to think about making sure that in the short term we satisfy our customers and do a good job of working with people in British Columbia, whether they're our customers or not. Second, in the long term, we have to make sure that we look after the future. I'll be talking about both of those aspects today.

[1310]

We come to an overview of the B.C. Hydro system and the map of the province with the facilities shown. The main thing about this chart that really describes one of our biggest challenges is that if you look at the yellow circle, which is the lower mainland and southern Vancouver Island, that's where about 75 percent of our customers live. If you look at the two blue circles up in the Peace area and in the Kootenays, that's where about 75 percent of our generation is. I know from the comments made at the beginning that you're all very well aware of that.

In between those places are transmission lines that cross fairly tough terrain, which are managed by the B.C. Transmission Corp. So when you look at most of our challenges in terms of reliability and many of our long-term challenges in terms of meeting supply for the future, making sure that generation is built in the right places and that we have the right kind of trans-

mission built in advance to make sure that we can deliver electricity to our customers are large challenges for us.

The way we define our purpose is reliable power at low cost for generations, and I'll talk about that for two or three minutes. That's where, again, we have this dual purpose of thinking about the present and about the long-term future. I'm going to talk about reliability quite a bit and what it means in two ways: what it means when there's a storm and your power is cut off and how we respond to that. I'm going to spend a bit of time on that today, because many of the people in British Columbia in the last few weeks have experienced significant storms, and it's important that we talk about what our performance was.

The second aspect of reliability is making sure that when we're all long gone — or when I'm long gone, anyway — there will be enough; that 20, 30 or 40 years from now, British Columbians will wake up and still be able to basically put the lights on and not worry too much about whether there's enough electricity in our province; and also, of course, the for-generations part — making sure that not only is there a reliable supply then but also that it's environmentally responsible. I'm going to talk about that quite a bit.

The cost part. I think you'll see as we go through this that our performance in terms of low cost is excellent and continues to be excellent, and I'll give you some information about that later on.

Our mandate is defined, first of all, by the act. I'd describe it as a fairly old act, and it's fairly clear about what it does. It is one of those acts where what you do has to fall within it. In other words, it's not something where there's a general purpose clause. So it's pretty clear in restricting what we do to things that are to do with delivering electricity to our customers, and that's what we do.

The provincial energy plan of 2002 is, obviously, a key document that guides our actions. We are, of course, expecting in the relatively near future that there'll be another provincial energy plan, and that may happen in the next few months. But right now it's the 2002 plan together with some comments that have been made by government that indicate clear directions for the next energy plan relating to self-sufficiency. Those are the things that guide us today. I'll be happy to talk about those later on.

The shareholder letter of expectations, as you know, is a letter that we get from the minister usually every year which tells us more specifically of some priorities that the government or the minister is interested in us carrying out. During this presentation I'm going to highlight what some of those things were and just briefly talk about them.

In terms of what our mandate is and how we know what our mandate is, we know that our mandate is to supply reliable power at low cost to our customers because that's what we're asked to do by the energy plan and that's what the Hydro and Power Authority Act is fairly clear that we're supposed to do. We know we're there to do it for generations, because again, the

energy plan focuses quite a bit on the long-term future of our province, and that's what we are there to do.

The next slide shows our governance structure. I suspect this is probably fairly typical of Crown corporations, and I think what it reflects is a corporation that's got a lot of impact on the province, and therefore, there are a lot of different players that are vitally interested in what we do. From my point of view in terms of understanding that — because, obviously, I don't get up every morning and look at that chart and try and figure out what I have to do — there are two main things there that I focus on.

The first, of course, is the relationship between the board of directors who appoint me and the government. That relationship, most of the time, is through the Ministry of Energy, Mines and Petroleum Resources, but of course it's the cabinet and Treasury Board that.... The Treasury Board, I believe, is actually a shareholder. There is that relationship.

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The other key relationship in terms of governance is with the B.C. Utilities Commission. A high percentage of the major actions that we take are regulated by the B.C. Utilities Commission, including the rates we charge, including the capital plans we have, including the way in which we plan to close the gap between supply and demand and many other things.

What we have to do is strike a balance. What we have to do is understand the mandate to the commission, understand the mandate given to us by government and strike a balance. Of course, part of the mandate given to us by government includes a requirement to be regulated by the B.C. Utilities Commission.

The other key point to mention here is the customers, energy suppliers, contractors, stakeholders and first nations that are at the bottom of that chart because, obviously, (a) those people are extremely affected by what we do, and (b) those people themselves have a big influence, of course, on governments and on the B.C. Utilities Commission and so on. So we spend a fair amount of our time trying to listen and trying to communicate with other people and trying to understand what the kinds of balances are that people want us to strike.

Moving again through governance — the board of directors. I describe the board of directors as extremely busy. What they've done since they were appointed is to, obviously, have many, many board and committee meetings. They've also visited most of the key facilities of B.C. Hydro — in the Peace, the Kootenays, Prince George, on Vancouver Island, on the lower mainland and so on — and flown over the two river systems.

They are people with broad backgrounds, not particularly from this industry. In other words, they're mainly people with other kinds of backgrounds. Their job, as it says here, is to oversee our affairs and, I'd say, to make sure that everything we're doing is given the right consideration and the right context.

From my point of view, a key point about the BCUC is that it really is there to look after the customers, when you consider that we're a monopoly. The

BCUC process is a culmination, really, of two things. On the one hand, there are fairly regular public processes, including public hearings. We have one going at the moment on the IEP, and we have another one which is starting tomorrow on the Alcan transaction.

Those processes involve interveners who can either be representative of somebody — so representative of a customer group or representative of the IPPs — or they can be members of the public who show up and are there to ask us questions and make us accountable.

As I said, then those processes, which are legal-type processes, result in a decision by the commission, which determines, for example, what our rates are or, in the case of the IEP, will have a big impact on what our future capital plans are and how we're going to meet the supply-demand gap. Some of the processes involved with the BCUC are decided through negotiated settlements. I'll explain a little bit what that means later on.

It's a kind of process where there are times when I think people in our company — probably when they're in the midst of one of those hearings or are preparing for it — can feel that it's tough because there's a lot of work involved. There's a lot of work involved for us and for the interveners and so on. It's a process that works, in my opinion.

It's a process where we learn things about our business because you have people who are dedicated to.... Some of them are giving their whole lives to thinking about B.C. Hydro and questioning B.C. Hydro and calling B.C. Hydro to account. When you're a monopoly, that's actually a healthy thing to have. So we find the process, overall, to be a good thing.

In terms of some of the things that are either currently underway or currently being decided, the revenue requirements application is where we basically say that over the next two years we need a certain number of billions of dollars to run the business, to earn the return on equity that we're allowed and to provide for all the various plans we have. And I'm going to talk about those plans as we go through the presentation today.

We recently got a negotiated settlement. What that means is that the interveners.... The main interveners include people representing the industrial customers, the commercial customers, the lower-income customers, the old age pensioners and the IPPs. And then various interveners have more of an environmental bent.

These interveners met with us and met with commission staff. Basically, what we did was that instead of having a hearing with all of the complexity of that, we worked out a reasonable compromise, where we basically said: "This is what we think we need to run this business." They said: "Well, we think you need less than that." We argued about that for a couple of days and reached a settlement that was then approved by the commission.

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In terms of resource planning, the integrated electricity plan hearing is going on literally as we speak. It goes on for about four weeks. I was on the stand for about a day and a half. Alister, you're going to be about

two days altogether, I think. We have a total of about seven or eight panels, so 30 people or so giving evidence and several thousand questions asked, to which we give answers in writing, and thousands of pages of evidence.

It's a long and complex process. As I said, it's a good process. What it does is really try to deal with two big issues. One is the big picture. How do you think you're going to meet demand over the next 20 years? What are your main alternatives? Then, what are the actions you're taking right now to get there? So they're specifically approving the actions that we take as well as making comments on the integrated electricity plan itself.

Resource planning. In addition to that, capital plans. Again, we had our capital plan approved as part of the revenue requirement application. I'll talk about our capital a little bit later, but we're talking about capital of around about a billion dollars a year. It's a significant sum of money for both B.C. Hydro and, frankly, for government in terms of debt levels. That process is very public.

Again, the key point that I wanted to leave with you there is simply that we have a process where we're accountable, in addition to these kinds of processes. These processes are quite detailed and are, in our view, healthy and lead to changes in the way we run our business.

In terms of how we've responded to government direction, I'm going to start by talking about the most recent public recommendations that were made by the select standing committee, and this was in 2004. I'll just talk about how we responded to that. Then I'm going to talk about how we responded to the shareholder letter of expectations. Then I'm going to get on to the five priorities.

Slide number 12 talks about.... We were asked to look at improving our annual reports and service plans. There were some good suggestions which have led us to think about making really clear how we align our annual report and service plan with government priorities, and we obviously hope that you'll see the evidence of that.

We also have focused more on five short-term priorities rather than on all 15 of our long-term goals, although we have not dropped those goals. Of course, we've been focusing very hard on recruitment and retention of engineers and tradespeople. I'll talk about that a little bit later on. I will say that it remains a very large challenge for us, and you won't be surprised to hear that. It's a large challenge for everybody in our industry. I'll come to that later on.

We were asked to look at speeding up the process of working with IPPs. We didn't speed it up in the sense that we continued with our original process, but we had a much larger response to the last call than we expected. We ended up taking more IPPs as a result. There is a call here, in terms of 2007, that we expect to issue. There is also a call that government has talked about in terms of pine-beetle wood, which we also expect to issue, although we're still working on that with government.

Concerning Power Smart, I think it's fair to say that everyone believes in Power Smart and everyone believes in conservation. The key question for many people is: are you sure that you're getting value for money? We have, I believe, a very good record in terms of auditing Power Smart programs, and I'll be happy to talk about that later on. We'll cover that to some extent. We've certainly continued to work very hard at showing the cost-effectiveness of Power Smart. I should mention that in terms of the regulatory hearings, this issue of how effective the Power Smart programs are is something that the B.C. Utilities Commission and the interveners focus on a great deal.

The last point was to continue working through the Powerex litigation relating to California. Again, it's a very lengthy tale, this one. Since the meeting of this committee in 2004 I'd say that we've generally won more than we've lost. If you follow the way that litigation goes in the United States, you find yourselves fighting on many fronts over a long period of time. I think it would be wise... Certainly, I've taken the view that I never react to victories and never react to defeats. We just keep plugging away. It's a very political process, their legal system, as we experience it. We continue to aggressively defend ourselves.

We continue to take the view, and it's well-founded, that whenever there is a finding of fact, the finding of fact shows that Powerex did nothing wrong. Increasingly, the people who are fighting us here are in fact moving off that question of saying: "You did something wrong." Now they're more or less saying: "Well, you didn't do anything wrong, but the market was broken and you made money playing by the rules of the market. We'd like some of that money."

The shareholder letter of expectations, again, is something that you are familiar with. If you go to number 14, there are ten actions that we were asked to take specifically. What we've done here is outlined what we've done in response to those specific things.

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Making sure that we are continually looking at accountability, cost-effectiveness and performance. We've done that, and we've reorganized our company somewhat in 2006.

Aggressively pursue cost-effective Power Smart programs. We are doing that, and we've expanded our plan there.

Look at the way we consult with the public and with stakeholders and first nations. We've had a look at that, and we are currently looking at the way we consult with first nations.

Proactively provide more information to the public about the gap between supply and demand and what we're doing. We've done that.

Pursuing outsourcing where it makes sense. Again, we did our Accenture deal in 2003, of course. I think people might be surprised that with our field operations and our engineering, we've always used a mixture of our own crews and private sector crews. We continue to look at the best way of doing that to make it cost-effective and to have good service. We continue

to acquire new electricity supply competitively. In terms of our clean target, that we continue — almost everything that we buy has been clean and continues to be.

Providing the government with a comprehensive review of options is something that we've done as part of the IEP. Of course, the IEP was sent to government as well as to the BCUC.

We continue, through Powerex, to pursue extraprovincial and energy trading markets. That's really helped reduce our costs, because of the profits that Powerex makes, up to \$200 million a year goes to the customer.

Trying to get access for IPPs in B.C. to western North American markets. That's something that Powerex has worked on.

Finally, making sure that we talk to government, as we do frequently, about what we see coming up so that there are no surprises.

We feel that we've responded to those ten requirements that were in the shareholder letter of expectation.

Now I'd like to move to our priorities. I put safety at number one for obvious reasons. I'm going to talk about that for a few minutes.

When I think of safety, there are really two parts to it. There's public safety, and there's employee safety. In terms of public safety, one of the issues that we face is grow ops, where we've put quite a bit of attention into working with authorities, as we always do, to make sure that we cooperate fully so that they have the best chance of getting at grow ops.

A current problem that we're faced with is people breaking into our facilities to steal copper. One person has been killed doing that, and there have been one or two other very close near misses. It's a tough thing to deal with, because obviously, when people are doing that, they don't realize the risks they're running. They don't realize that those signs outside our facilities that talk about how dangerous it is really mean what they say. You may not think something is energized, but it may be. Public education is a tough one on that one, but it's something that we try and work with communities on.

Of course, we have facilities where people can drown and have accidents in other ways, and that does happen every year. Again, it's a question of public education and of us doing the best we can to protect our facilities.

The other side of public safety really relates to things like downed power lines, and I'm going to talk about the storms in a couple of minutes.

In terms of employee safety, it's probably the thing that gives me the biggest challenge. The responsibility for the safety culture is with me and with the board. There's no question of that in my mind, so what I have to do and what my colleagues have to do is make sure that we get the balance right. On the one hand, safety must come from making sure that we have the right training, the right supervision, the right culture, so that people realize that if they don't feel like something is work safe, they will stop. The other thing you have to do, though, is make sure that people take responsibility for their own safety.

There's a balance to be struck. We try and get that right. This year we are having a good year in terms of serious injuries. There have been none this year. Last year we had two fatalities. Last year we had a better record in terms of what you might call more minor injuries. This year we're having not quite as good a record as we had last year.

What we've done in the last year is appoint a new chief safety, health and environment officer. Previously, safety was under the chief human resources function, and I've got it reporting to me now. The individual who is involved in safety is new to employee safety. His previous role was as the chief of dam safety. Dam safety is an area where we have world-leading practices, for obvious reasons, and we wanted to apply the same thinking to employee safety that we do to dam safety.

We've worked hard on making our safety practice regulations clearer, more understandable, so that everyone can read them and understand them much more clearly, and if they're not sure, they can ask. We've geared up our training. We've worked on putting more people in the field, so we've required that our field managers spend much more of their time in the field supervising people day to day.

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We have a quarterly conference call that I and the head of the IBEW and a representative from COPE take part in, where we basically keep emphasizing the same message over and over again about safety and where we take questions and keep emphasizing those messages too.

We've commissioned an expert panel of people who are going to report in due course on our safety practices, and we've asked them not to look at us as we are but to look at us as we could be if we were one of the best companies in the world in terms of safety in any industry.

I think it's fair to say that we're finding that these things are working and that we are seeing improvement. We hear a lot from the field that people are comfortable. They understand that this is our focus. They are feeling good about the training and about the safety practice regulations and so on.

I think it's fair to say that we have a workforce that, on the one hand, is very independent-minded. They're people who have to make decisions on the spur of the moment, all the time. Second, if they make mistakes, then some of those mistakes can have very bad or, in some cases, fatal consequences.

That is the challenge that we have in terms of safety. It is our biggest priority, and we won't compromise reliability or cost in order to achieve a level of safety that we think we can achieve.

Moving on to reliability. Here is where I'm going to divide the conversation into three parts. There is reliability across the wires without storms, there is the question of storm response, and then there is the question of long-term planning and how do we know we have enough 20 years from now.

This chart on page 20 is obviously a fairly rich one. It's got, on the left-hand side, how many hours, on average, the system is unavailable to people in that area.

Now, remember that, for example, where it says Quesnel, there is a large area around Quesnel. So it's not just the town of Quesnel. It includes a lot of rural areas too.

If it's red like Valemount, Mackenzie, Stikine, etc., that means that they had more hours unavailable. Now, this is without storms. This is normalized.

The second one is: how long does it take you to get your power back on when you have an outage? Again, if it's red, it's more than three hours, and if it's green, which is where Vancouver-Burnaby is, then it's less than an hour, on average. They are averages.

I. Black (Chair): Just if I may, Bob. We will save all our questions until the end, unless they are points of clarification on a slide that are good just to grab as a point of clarification...

B. Elton: Yes.

I. Black (Chair): ...and I believe that Blair had one.

B. Lekstrom: Bob, just a quick one on your slide on the left-hand side. You have orange. Is that greater than 2.6 hours or two to six hours?

B. Elton: It's greater than 2.6. It's between 2.6 and eight.

B. Lekstrom: Okay. I was curious as to why it was greater than two hours and then greater than 2.6. Why would we break it down like that?

B. Elton: It's a good question. There are a lot of people between the two and the 2.6. In other words, there are a lot of districts. But I will check that.

B. Lekstrom: Okay.

B. Elton: In terms of how we do as a system, in terms of this left-hand measurement, we do quite well. In other words, our reliability is somewhere in the middle, and the people we compare ourselves with are all the utilities in Canada, which include urban utilities. Given our terrain, to be somewhere in the middle is probably about where we should be.

In terms of the time taken to get it back on, again, I'd say that we're about in the middle, and I'd say that the trend there tends to be getting higher. That's a function of traffic, frankly. I'll explain when I talk about the storms. It takes a while to get there, and wherever it is we have to get, it's taking longer — not in rural communities but certainly in a lot of urban communities.

So what we do, just to cover normal outage management, is make sure that we have the trees under control; make sure that we have enough people, which is a challenge; make sure that our dispatch staff and our power line technicians are working well together. We're working on improving our outage notification system.

The way we prioritize response is: when did you report the power outage, but also, what are the public safety risks? For example, if UBC goes out, we might say: "Well, it's a university. It's okay — a bunch of peo-

ple learning things." But apart from the importance, of course, of the university, there is a hospital there. And so the hospital means that UBC gets quite a high priority if it goes out of power. We have, basically, a sliding scale down in terms of facilities that need the most help.

On page 22, in terms of the kinds of strategies we have, we're also looking at.... Those charts were great in terms of giving averages. And by the way, we didn't have that information two or three years ago, so we're getting better information all the time.

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We're having two new measures that other utilities typically don't have. One is: how many people have four or more interruptions in a year? Second, how many people have a six-hour or longer interruption? This is not in a storm. In other words, who are the people who are really suffering because they live at the wrong end of the line or in a subdivision that's really struggling? So we're collecting that data. What we're doing is looking at putting more of our maintenance dollars towards those people or those communities versus just generally taking a less targeted approach, as we did in the past.

When it comes to storms, it's different, so what I'm going to say is that I believe we should be accountable for the measures I've just described in terms of normal activity. But if we have storms, then we can't predict how many storms there will be in the province in a year or how long it will take to get people's power put back on. I think that really, the question is: with each storm, did we perform well? What is involved in performing well? I want to talk about that for a few minutes.

Really, there are about four or five things that we have to do well in the storm. The first question that I think people should ask us is: did we prepare well for it? For example, did we have our vegetation program working? Had we in fact cut down the right number of trees or trimmed them near to the power lines?

The evidence over the last few years is that we've kept our spending on veg programs, and that when we've looked at storms, we haven't found any indication that we've been deficient in terms of what we've done in advance. I think it will be important, with these latest storms, to talk to the communities affected and to say: "Okay, let's talk about, for example, vegetation. Let's see what we all think. Are there things that we could do differently?" So the first thing, as I said, is planning in advance.

The second thing when it happens is: do we have our people mobilized? Do we have enough people quickly on the scene, whether it's our own crews locally, our own crews from around the province, contractor crews, people from Fortis, people from outside the province? In other words, do we recognize quickly enough the scale of the emergency and ask for help where we need it?

Again, in the recent storms, I'd say that our performance was good. By the way, I'm going to say at the end of this that I know that what we're going to do is prepare a significant report on the sequence of storms

that we just had, put it on our web and try and arrange community meetings to explain to people what has happened. We need to wait for the impacts of this particular storm to be over before we can do that, but I think that's an important thing for us to do.

In terms of did we bring the people to bear, typically the answer is yes. There's a limit on the number of people you can bring to bear, because, for example, you can bring people from outside the area, but you need somebody on the crew or with the crew who knows where they are. So for example, when somebody is phoning the control centre when it may be dark and stormy, they know precisely where they are so that when the control centre is turning off the circuit, they know which circuit they're turning off.

Even if you have a lot more people from outside, you're still going to need enough local people with local knowledge. They don't have to be PLTs, but they have to be people with local knowledge. So we feel fairly good about the way that we brought people to bear.

The next question is: do you do the work quickly enough? I'm going to spend just a few minutes talking about what the work is. At the simplest level, a tree falls on a wire. It doesn't break anything. There is an outage. We check that out. It takes about an hour for somebody, basically, with a hot stick to just remove the offending branch, as you say, not the tree. To remove it, it takes about an hour from the time that they got to the site.

If one wire came down, then it's a bigger job, obviously. It means resetting the wire. It takes about two hours. If there was damage to the cross-arm — in other words, if the wire came down and the cross-arm came off the pole — then you're talking about something more like three hours. This is for each one.

If the pole itself came down, then our crews have to go there first. They have to basically make sure everything is de-energized — make it safe. Then somebody has to come in and basically do a logging operation and clear the trees away. Then the crew has to come back and set the poles.

In Lions Bay in the last storm there were three 75-foot poles that had to be reset, and they had to be done with helicopters. That simply is why it took a long time, because the weather conditions had to be there for the helicopters to be able to operate. In those cases that we're talking about, it could be eight hours, which means, of course, that if we're talking about helicopters, there has to be weather for eight hours where you can use the helicopter.

The point I'm making is that when you look at how long it takes to get the power back on, you are talking about a few hundred people, but each of the things that they have to do is going to take one, two, three, four hours. It will take time.

When we come to this chart on page 24, which is an example of what happened in the Fraser Valley in the last storm.... In this particular area we're talking about, up to 35,000 customers went out of power pretty quickly on the first day. We got about 87 percent of them on within 24 hours, which is quite normal.

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Then the next day there are more outages reported. Then it takes awhile for the last group, because typically they're in the more inaccessible areas. The damage was worse, and so on.

That's a pattern that we see quite a lot — 90 percent the first day, then there's another blip, and then after that it takes a few more days.

We'll obviously examine this carefully, but my sense is that the performance — certainly of the folks on the ground — was very good. In terms of did we plan to get enough of them there, and did they have the right equipment, I believe definitely so.

The next question, though, is: what about when people phone up? What kind of service do they get then? That has been a challenge. I think that in this last storm, the volume of calls and the volume of people out of power was larger than we've had for several years. The combination of Telus, Accenture and B.C. Hydro all had challenges in terms of our software. There were faults at various times in various parts of our systems, and so there were times when people couldn't get through.

[G. Gentner in the chair.]

We are looking at how we can upscale that to make sure that if this happens again, we can deal with it.

The second thing that happened was that we have a process of telling people when we think the power will get back on. Generally, that works quite well. I think what we've learned in the storm is that we probably shouldn't be doing that.

We should be giving people more information about how widespread the damage is. We should be much more careful about when we promise that the power will go back on, because I know that in many cases we promised that the power would go back on by two o'clock. For example, in Lions Bay I'm aware that we promised that more than once. It didn't happen. I think what people need is the best information we have.

I'm not going to blame the crews who were doing that, because what they were really saying was that based on what they knew, they thought it would go back on by two o'clock. But I think we've all got to remember that when there are so many people out of power, there's much more chance, for example, that (a) the weather might get worse, or (b) this particular crew might get diverted to do something else, because there was a hospital without power or something that's been judged more important.

We will do better at that. We'll certainly be talking to our customers more about how we can get better at that.

The next issue of reliability is filling the gap. The slide on page 25 is one that many of you may have seen. It shows supply and demand over the next 20 years. The red shows the forecasted demand. You'll see that as the red goes out into the future, there's a wide variation — a variation of some 8,000 gigawatt hours. To put that into perspective, that would be like two very large natural gas plants or more than a large hydro plant. That's the margin of error in our forecasts.

If you look at the forecasted data, the blue box there, you'll see a drop around about 2015. That reflects the fact that Burrard is an old facility. We don't know whether it will still be able to deliver what it can deliver now after 2015. So we're saying: "Look, let's take it out of our planning. Let's take that time, or some of that time, to figure out what to do next."

To fill this gap is a combination of Power Smart, conserving more, buying more from IPPs in accordance with the energy plan and getting the most we can out of our existing heritage assets. Looking down the road, we think that over the next ten years we have a plan that works, including the calls we've announced — including the Power Smart programs we've announced.

We think that over the next year or two or whatever the period is, we need to have more of a discussion in the province about what the larger things are that people will accept down the road. In other words, is it large gas, large coal, large hydro? What is it? If we can't do more from conservation, we're going to need some large, firm additions to our system — one or two of those. What are they? There are clearly a lot of public values involved in that.

In terms of what we're doing, then, in terms of conservation, I think you're aware that we've launched a conservation research initiative. There are 2,000 people across the province, basically, in Campbell River, in Fort St. John and in the lower mainland — mainly Vancouver, Burnaby, North Shore — who are testing different rates. I'm one of them. We're paying more if we consume in the peak time. The question is: will it change our behaviour? Is it important enough to change your behaviour?

Probably in my household it will be, because we're kind of becoming obsessed with it, but that's obviously because I work for B.C. Hydro. But will people really notice enough if rates change and shift from one period of time to another? We'll have to see.

There's a lot we're doing in terms of energy conservation and efficiency. It will not be easy, because all of the gains we make so far in terms of getting people to conserve more and consume less are probably offset by the new things that people invent to have us use electricity. That will be our challenge.

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In this province we consume more per capita than virtually anybody else does — in North America and the world, really, among developed countries. You have to believe there's scope for us to improve.

Page 27. In terms of making sure that we get the most out of our existing assets and buy enough from IPPs, we had a successful call in last year. We are buying more than 7,000 gigawatt hours from those IPPs by 2010, and three-quarters of that is B.C. Clean.

We are looking at Revelstoke 5, which is a capacity project. What that means is that if you go up to the Revelstoke Dam, you'll see four penstocks leading out of the dam and two holes, and there's room for two more turbines there. That will increase capacity. It won't increase the amount of water, but it will mean that when we need it, we can turn on the power and get more. So that, we believe, is a cost-effective project.

We also have to make sure that we keep our own assets producing what they do. That's why our capital program is so big. If you look at our largest facilities, there's a total of about 30 large generators there. There's a total of about 120 very large pieces of equipment. By large, I'm talking about \$100 million here, \$100 million there to refurbish them. We are partway through a plan of doing that, and it's vital that we do that to keep that basic heritage power going.

In terms of financially, a couple of things to say there. On page 29 is a comparison of our rates with the rates in other jurisdictions. What we've got there is jurisdictions that are typically compared with British Columbia in terms of competitiveness. You'll see that we are almost the cheapest. Winnipeg is the cheapest. We put Winnipeg in, really, to show that we're not the cheapest. But if you look at our rates, particularly our industrial rates, they are below others by a large amount.

We've kept that advantage going over the last many years. I think our proposition, really, is that we want to keep that relative advantage if we can. We believe that rates will go up over the next 20 years because everything that we are doing, everything that any utility is doing, is going to cost more. Think about capital. Think about interest rates. Think about many things. Our objective is to keep our competitive advantage relative to those other places. That's what we believe our customers want to see.

The next one, page 30, compares the trend in our rates from 1996 — so for 14 years — with other types of people that charge rates. I've got Fortis in there, and I emphasize that this is not to say that Fortis has 40-percent higher rates than B.C. Hydro. What it says, though, is that from 1996 to 2008 the change in Fortis's rates has been like that.

This compares CPI. It looks at auto insurance, cable, public transportation. At the top is natural gas. What this tells us.... We, of course, are the solid blue line at the bottom. Obviously, we're always focused on making sure that we're productive. I think it's important to look at the big picture and say: "Okay, if you look at B.C. Hydro rates compared with other things that you're paying for, it looks like we've managed to control our costs."

We'll continue to do that. In fact, if anything, I think the concern would be that we do have to make sure that we have enough money to invest in our assets and to make sure that we have reliable power for the future.

[I. Black in the chair.]

On page 31 are some of our strategies there, again, to keep that result going. The recent negotiated settlement we got, which is always required to make some productivity improvements, will, I believe, enable us to improve our business.

If you look at the way we buy big things, particularly energy, we're very analytical in the way we do that. We use competitive processes where we can. Overall, I think our success is clear. The total 2006 cash transfers to the province of \$642 million plus, of

course.... The other thing that we do, which I think is important for the province, is the value of that competitive advantage. In other words, because our customers are paying less than other people's customers are, there's a value there as well. So this is a large contributor to the province.

Customer satisfaction, page 32. We have high customer satisfaction results, and we continue to have those. We think that a key aspect of customer satisfaction is getting better information around outages. We felt that well before the last storm, so we are working on that. We believe that in the next year we will have better service to customers in terms of outage.

In terms of reliability, the sense we have from customers is that overall, they are satisfied, although, of course, there are pockets of people who are in particularly tough places who have real challenges, and we recognize that. But overall, we sense that the average British Columbian, if you like, is comfortable with our level of service.

[1350]

The other thing that we find affects satisfaction is the general reputation of the company. If people feel that we are environmentally responsible, that we do a good job of working with stakeholders and first nations, then people tell us. That improves their opinion of us, and so we work very hard, obviously, on those things too.

The next area is around people. There, I think, is a challenge that we have that, again, you'll be familiar with, which is the challenge of a talent shortage. While I believe we have very good relations with our unions — we have good contracts with our unions that we recently signed — we have strong efforts to recruit people across the country. We were just in Manitoba, and we have a shortlist of people who are very interested in coming here. The challenge is that they've got to find a way of living here and buying a house here. That is a challenge.

Obviously, we have a growing and booming economy, and Manitoba does not have quite the same situation. So it can be tough to attract skilled tradespeople from across the country. We're looking at a lot of different things. We've just started a trades-trainee program that sees us hiring people who are pre-apprenticeship. What we did there was we increased our staffing levels for safety reasons, and what we've done is to make up that gap by hiring trades trainees.

On the trades-trainee, apprenticeship side, we're quite successful in attracting people. It's the mid-career people who are very difficult to attract. Obviously, the concern over the next five years is that we have a lot of people retiring. We have to find ways of encouraging those people to stay longer — people who are retiring, which we're surprisingly successful at because people enjoy the work — and then maybe using more of those people as mentors but then finding ways of getting the compensation package right and the culture right to attract the mid-career people.

Those are really the five priorities. I'll go back over them. In terms of safety, we're having a good year. In

terms of reliability, overall we're having a good year. In terms of storm response, again, I'd say that our storm response has been good. In terms of closing the gap, we've been successful this year in making some key moves there. In terms of customer satisfaction, I'd say that our satisfaction is good. In terms of people, we've done a good job of building leadership. I'd say that in terms of actually attracting or closing the skilled-trades gap, we're basically in about the same position that we were in last year.

I'm going to spend a few minutes on financial drivers — just make a few basic, quick points. I think page 35 is useful information to show how our load varies. The red line there shows our load this year. You'll see that we had a peak load on November 29 of over 10,000 megawatts. That was about 400 or 500 megawatts higher than our previous peak load. It wasn't a particularly cold night, so that's a bit concerning. It reflects, again, increased economic activity in the province.

This chart shows how our load is increasing because the red line is higher than the other lines. It also shows how seasonal it is. In terms of building power plants, you need to build power plants to make sure that you can meet the peak load. Anything we can do to manage that peak load is really important.

Again, 300 or 400 or 500 megawatts is not a big jump. It's something that can happen with forecasting error. Think about 300 or 400 megawatts as being a significant-sized power station. In other words, we always have to remember when we're doing our forecasts that we can't be too precise. We have to make sure that we have not just enough but a bit more than enough.

In terms of what drives our costs, at the top left, inflows for four of the last six years have been below normal. The 2008, of course, is a forecast, so we don't know about that one yet. It's too early to see whether that's a trend. In other words, whether there is....

I. Black (Chair): Sorry, Bob. What's an inflow, please?

B. Elton: Inflow means the amount of water or precipitation, snow or water, that flows into our reservoirs. If we don't get that into our reservoirs from nature, then — on the right-hand graph — we have to buy it from the market. That's what we've been doing. We've been importing power for the last few years to those amounts, about 10 percent to 15 percent of our total load.

The storage graph on page 36 shows that we're roughly about normal in terms of our storage. But, again, it depends. It can be very, very localized between the Columbia system and the Peace system. Those of you who are in those areas are very well aware of that, because it has a big impact on the people around those reservoirs.

The mid-C price is the price that we are effectively paying for those imports, but it's also something that helps us trade. On page 37 the red line there is the mid-C price, and that is the price that we basically buy and sell at when we import. The blue price is Alberta. You'll see how volatile it is and how large it is sometimes.

[1355]

For example, in the last few weeks we've been importing power from the States, and we've been selling it to Alberta for reasons that are obvious when you see that chart.

Interjection.

B. Elton: Yeah, that's right. Well, it's one of those things. It's the advantage of those reservoirs. It's the storage provided in those reservoirs, and it's why Powerex can be successful trading. Even though we are net importers, we still do that trading business.

B. Lekstrom: A point of clarification on that. When you say that we import and then we'll sell to Alberta, I think the first question the public would say is: "Well, why doesn't Alberta buy from the U.S.?" Is that because we're actually storing it in our reservoirs? We're utilizing what we buy, and then we resell what we can generate. I guess I'm doing that more for clarification for the public.

B. Elton: Thank you. That's a good clarification. It's because we can store it. It's because we can buy during times of the day — you know, buy light watt-hours at night — and we can sell during the day. Frankly, other people need the power. They're appreciative of the fact that we do that. But we make an appropriate profit doing that, and that profit goes to the customers.

J. Horgan: Unless they live in Los Angeles, and then they're not as appreciative. They were then. They're not now.

B. Elton: Today they're appreciative because we still sell power to them, and we still buy power from them. It's business as usual, except we have this rather large issue in our past with them.

J. Horgan: Account receivable, I think.

B. Elton: Capital expenditures. You'll see that the trend is large. You'll see that the amount is very significant. You're aware of the difficulties in getting labour and materials and so on for capital expenditures. So there's a big challenge there.

Transmission is actually the responsibility of the B.C. Transmission Corp., but we are driving a lot of the demand. I must emphasize that in terms of how long it takes to get things done, transmission lines are probably the longest lead time in our world because of the difficulty, obviously, of getting people to agree to transmission lines being built through their neighbourhoods. It will be very important that we have the right transmission lines built if we're going to have the energy we need 20, 30, 40 years from now.

This, remember, is our capital expenditure. It does not include IPPs. It's just our expenditure on our own facilities. Again, as I mentioned earlier, you just have to visit one of our facilities in, for example, the Peace or the Columbia. What we're doing is systematically go-

ing over and renewing these facilities. They're 30, 40, 50 years old. It's what you have to do every so often. It's cost-effective spending.

Page 39 talks about the sensitivity of our income. On the left-hand side is really the key one there: minus \$300 million and plus \$400 million, in terms of what inflows into our reservoirs and gas prices, because gas prices drive power. Those are the two things that most affect our income. We cannot predict what the weather will be next year, and we cannot really predict with certainty what the price of electricity or gas will be. So there's a swing of minus \$300 million to plus \$400 million, depending on what those inflows and prices are.

You know, we've talked a lot with government over the last few years about understanding that. I think there's a good understanding of that in the ministry and the Ministry of Finance. It's tough, because for government it's a large uncertainty, and it so happens that in the last few years we've had more low-water years, many more, and we haven't really had a high-water year. We've been on the downside every time.

I've talked, as I've been going through, about our performance. I'm going to just quickly summarize some of that now. In terms of a performance summary for the last year, the year ending March 2006, we were back to the normal in terms of the measurement of how long it would take to put the power back on. We were on target in terms of how long the power was on for the average year.

Environmentally, we were good. We did a good job of filling the strategic workforce. That's a question of skills shortages, although frankly, because of the retirement bulge, we're still challenged there. We were solid with the demand-side management, customer sat. We spent on our capital asset, which is very important, and our safety performance was good in terms of all-injury frequency, but we had two fatalities.

Below target in terms of new clean delivered. That's because of the way that's calculated. If we import a lot, we don't make the clean target, and we have to import a lot. So the only way we can meet that target is to buy more, and that's what we're doing — long-term contracts as part of our last call.

Net income. Again, because our load growth was higher than expected, we had to buy more on the market, and the way that our regulatory world works, we weren't able to pass that to our customers. That made our net income lower.

The next page talks about year-to-date. There are a lot of numbers on there, so I'll quickly go through it. We're doing very well in terms of severe injuries. In terms of other injuries, we're the same as last year, but we're hoping to be better. In terms of reliability, we're doing well in terms of how long the system is available. We're not as good in terms of average interruption duration. That's for a variety of specific reasons.

[1400]

In terms of demand-side management, we're good. In terms of customer sat, the changes from last year are about what we expected, and we're looking at measuring that more frequently. Net income — we are good and are expecting to meet our target.

Environmentally, we are doing fine. I think it's fair to say that as a result of the water use plans, which we are very proud of, we have more environmental compliance now to meet, and that will put a challenge on us. In terms of clean energy delivered, we are still lowering the target there, but we will be on target during the ten-year period that we're accountable for achieving that target.

In terms of other things, I'll just talk about them in terms of results — 43 and 44.... I'd say that we've got a good record over the last few years of working well with others — good settlements in our regulatory process, and water use plans complete. So there's a good sense that we're working well with people.

The open call for power was successful. The conservation research initiative will be successful, and it's a good initiative. It's a large enough pilot that we're already learning about the technology we can use.

There's good success with first nations in terms of gradually working through some old grievances, and we're hopeful of reaching success there. We've been quite successful in terms of some of our major capital, in terms of working with first nations.

We connected a lot more new customers in this last year — 30,000, compared with 15,000 the year before. That's tough work but, obviously, very important for the province. We've done well in terms of completing capital projects.

On the grow-op side. Some of the combined efforts that we've had with fire chiefs in terms of pilot projects in Surrey, together with the recent legislation that makes it easier for local government to request information from us — those are good things. This is something that we're all committed to seeing improvement on.

In terms of key issues looking forward, I think I've already dealt with all of them. I'll just very quickly go through them. Closing the gap is vital. Getting things built is tough and can't be underestimated. Making sure that we work on our assets — we are doing that. Getting the labour market issue right. I've already talked about safety quite a bit. First nations relationships continue to be a very big priority for us.

Whenever the energy plan 2 is issued, of course, we'll have implementation opportunities there. We have the call for power in 2007 that we've already announced, plus — we haven't announced it, but the government has — the call relating to the pine beetle that we believe will happen early in 2007.

Then there's the issue of debt levels. The capital I've talked about will increase debt, although in terms of our overall rate structure and the way our regulatory process works, it isn't debt that will burden government. It's debt that will be paid for as part of what our customers pay for during the life of our assets.

In summary, I'll just go back to where I started. It's a mixture of making sure we perform for our customers in the short term by giving them good service, by making sure the public and our employees are safe and by making sure our power is reliable — that we do well in storms, that our customers get good information and are satisfied about our service, that we take

care of our costs financially, and that we make sure we are building enough people.

We do all that for the short term, and we do all that for the long term as well. We have to get the balance right.

I'm looking forward to hearing your questions. I think I've used up the hour, and we'd be delighted to have questions.

I. Black (Chair): Thank you, lady and gentlemen. You have used precisely one hour. It seems to be a day for that. Our earlier presenters did exactly the same thing.

Before I open the floor to the questions, I will point out that it was with a moment of relief that I saw your explanation about the concern of the employment situation. You made the remark at one point that people in this room could relate to the challenge for finding talent, and I thought that was a slam at politicians. As it turns out, you were referring to the labour market in general, and I was relieved to hear that.

B. Lekstrom: Thank you, Bob, for your presentation. A question about something you didn't touch on — the issue of coal-fired power generation. I think you touched briefly on it, about the need to talk to the public and so on. We have, actually, the two that have been accepted into the power call right now, and one lies within my region.

The question. When you put that out and you looked at it under that call for proposals, under best-available control technology under coal-fired power generation.... Do you include that in your call for proposals, to say: "We'll accept it if you base your presentation or development on that"? I guess I may have a follow-up, following what you have to say on that.

B. Elton: Sure. Thank you for the question. I think it is a fairly open question, so I'll try to address all of it.

[1405]

When we put out a call for tender, one of the things we do is talk to our customers and the interveners in our hearings. What we do is produce the report saying: "These are all the things that you could have. You can't have nuclear because that's clearly not allowed in government policy, but everything else is allowed in government policy. These are the things that you can have, and these are the costs, and here are some of the impacts of them."

We went around the province talking to stakeholders, first nations, other people. We got various feedback, we talked to the interveners in our regulatory process, and we looked at the energy plan. The energy plan is clear that our responsibility is to make sure we have enough reliable power. So first of all, we need to have a call to get enough power. Second, we must include — and this is our understanding of the energy plan — whatever the province allows to be included.

I'll make a parenthetical comment. While I'm not going to comment on whether the province is right to include or exclude different things, I think it is right that the province does that — that the province makes that decision and not the utility. The reason is because in deciding what things should be included and what

should not be included, there are trade-offs between things like employment and jobs and the environment. I think those are trade-offs that are properly made by people in general and by people who were elected to represent people in general — and not by utilities.

I think if you look at most jurisdictions, that's exactly what happens. The government typically decides what the rules are. So first of all, coal is in, and natural gas is in. Everything is in except nuclear.

Second. The next question is: do we have a right or a responsibility to ask that people carry out environmental work beyond what is currently required by this jurisdiction? We certainly debated that long and hard and concluded we did not have that responsibility or that right. In particular, we do not have that right.

We've discussed that, again, with our customer groups, and I think the BCUC would have the same opinion. For example, if there's an environmental assessment process, it isn't up to us to decide what that is. If a government says there is one or there isn't one, that's their job. That relates to the technology too.

What we did say was that we are concerned about managing risks here, and one of the risks around thermal plants is greenhouse gas emissions. So we said: "Well, today plants like these are plants that clearly could be built, and there is no sort of extra cost to that." However, when we look at the future, in terms of these plants are going to be existing for a long time, they will have to bear the costs of whatever regulations are put in by provincial and federal governments.

We anticipate that there will be such regulations. That's not us taking a view on whether there should be; that's us as a utility prudently saying: "It's a long-term investment. Let's look at that." So what we said was that if you're bidding in a coal plant, you have two choices. You can take the risk of those greenhouse gas emissions, or you can have us do. There's a cost. In other words, we're going to assume a cost to those greenhouse gas emissions.

Alister, you can maybe remind me of what the cost was in a second. We basically said that when we're evaluating these plants, you can either have us take it, in which case we've got a risk that we have to lay off, in terms of emissions, or you have to take it, in which case we will rate you a bit higher. So they effectively had to pass a higher threshold, and we have various auditing rules in our bid which say that we are going to audit, for example, the way they do offsets, and audit the way they manage greenhouse gas-emission risk.

The effect of that was to make those coal plants face a higher standard and was also to make sure that they offset to a different level. The level that we would ask them to offset to would be a natural gas plant, which is the current rule in Alberta. So that's what we said for today. That was our way of dealing with the overall issue of emissions around coal plants. We didn't think it was appropriate for us to say that it has to be the best available technology.

B. Lekstrom: Okay. Just a quick follow-up on that. My understanding, then, is if government, under government's plan, said BAT was all we would accept,

then gasification possibly could have been the thrust that you would have had to entertain. If I'm understanding....

B. Elton: Yes.

B. Lekstrom: Versus B.C. Hydro saying: "That's all we'll accept."

Just on this same issue, and it'll be quick because it's the same question. I don't know if you can answer this. The way I look at developments.... I think Site C is probably in the five-and-a-half-cent-per-kilowatt-hour range. Maybe I'm off; I could be.

J. Horgan: Well, 46 to 64 is the range.

[1410]

B. Lekstrom: Per kilowatt or gigawatt, are you talking about? I'm talking kilowatt.

J. Horgan: Well, megawatt hour down to a kilowatt....

B. Lekstrom: If it is, can you give me a range of coal — what we would go under these...? Or is that privileged information as to what we...?

B. Elton: No, it's not. I don't want to give you the information about the two coal plants. That has not been made public. But in our plan we did give ranges of costs for the various alternatives.

There are a couple of things. For a large hydro project like a Site C, there is a large range of potential costs. For a coal project, because of this uncertainty around greenhouse gas emissions, there is a similarly large range. Actually, if you look at the two ranges, they're quite similar in the end.

I would say that if you look at them, the real question is: where do you think you will end up within that range? If, for example, greenhouse gas emissions become a large issue and there is a large cost to them, that would put coal plants at the high end of the range in terms of the kinds of the things that we would buy.

If, on the other hand, there were very limited regulations, they would tend to be quite competitive compared with, for example, a Site C. With a Site C you've got so much scheduling difficulty in predicting something like a Site C, and because it's got a large capital, therefore a delay of two or three or five years would make a difference to that. That's where a lot of that uncertainty is.

In general, I'd say that.... It was interesting. When we did our analysis, most of the major types of fuel ended up within a similar range, but with a fair amount of variety within that range. We got wind bidding into the call successfully. There's a bigger range with wind at the very top, but there's significant wind, significant coal, significant gas that you could have all within a similar range of costs.

B. Lekstrom: Can you share the costs? I was looking for the cent figure per kilowatt hour.

B. Elton: Sure. The average figure that we quoted for our call was, I think, seven cents, or \$71, depending on your unit of measure. That was the plant gate price that we got in the last call, and I think we have published that. That was an average, so there were some below and above that.

At the moment — and this is ours and other utilities — you're probably now in the range of, I'd say, six to nine — that kind of range, generally speaking.

J. Horgan: Terrific presentation, Bob. I could ask you 700 or 800 questions, but I'd like to just start off by certainly applauding the men and women who were working diligently to bring the power back in my constituency. I'm absolutely confident that as the critic for B.C. Hydro, there's no correlation between the lengthy delays for many of my constituents in Shawnigan Lake and Highlands and in Sooke that were up to seven days.

With that, when you do the post mortem, if there's any role that I could play or people in my constituency.... I know Ted Olynyk was working very, very hard on the Island, and I know Joan has questions in her constituency, as well, on the outages, but if there's any role my office can play, please, by all means, give me a call.

I'd also like to acknowledge in the gallery one of the brightest energy minds in the government of British Columbia, Les McLaren. He's not looking up because he doesn't want to blush. Besides the Utilities Commission, B.C. Hydro also has to deal....

Interjection.

J. Horgan: I want to publicly acknowledge he's a very, very bright guy. I know that the CEO of Hydro recognizes that and uses him as a resource.

I wanted to ask a series of questions on coal, as well, at the outset. You're cautious, Bob, about giving us a dollar figure. But I'm wondering. In the formulation of that levelized price, what factors did the corporation take into account?

If you were to purchase coal-fired power on the spot market, you'd get it at a significantly lower price than you're paying for these IPPs. At the end of these contracts you'll have no assets. You'll have an expired contract and a significant amount of greenhouse gases, and whether they're offset by government policy or by corporate benevolence is something that we can all look forward to.

But if you're going to burn coal as one of your primary sources of electricity, why wouldn't you purchase it at half the price on the spot market? The second supplement to that was: when you were factoring in your multiple account evaluation on the cost of those thermal plants, what social and environmental costs did you factor in?

B. Elton: Thank you for your comments about the B.C. Hydro workers. I'll pass that one on. I really appreciate that.

[1415]

If I could just maybe comment on the question of.... We are going to do a review of the storm. I think it

would be very appropriate, particularly for those areas that were hardest hit, to work with MLAs and maybe to gather together some people from local communities. I think it would be great to go there with a map and just say, "Look, this is what happened," and explain to people and have some of the people there who were actually working on it. I'd be very happy to do that, and we can figure out a way of getting that done.

In terms of the question you just asked about coal... I think the first question you asked is: would it be cheaper to buy on the spot market? That's very interesting. During our four weeks on the stand, at the moment we're addressing that very issue. We've said that we think we don't want to rely on the spot market too much. At the moment about 18 percent of our generation is exposed to spot market purchases, either because we're actually importing it or because we're importing gas to fuel the gas plant.

Today it's true that you can buy it on the spot market cheaper than you could under a long-term contract. The question is, though: what will the spot price be in 2016 or 2022? That's the question that we don't know. I think that if you looked at the chart I showed earlier, which showed the Alberta and the mid-C prices, that's the question, really.

Overall, what we've said, strategically, is a few things. The first is that we think a lot of our customers don't want a lot of volatility in the price. That particularly includes industrial customers because a large percentage of their cost is electricity. So that's one thing. While you can do some hedging of costs in the short term, you can't do it for a very long time in this business.

Second is the price of what we buy on the grid. It isn't usually the price of coal that drives it. It's the price of natural gas, and the price of natural gas is one of the more volatile commodities around.

The third point is — this is really getting to the price rather than the volatility: do we believe that 20 years from now there will be a shortage of energy, particularly of electricity and natural gas and so on around here, or do we believe there will be a surplus? If we believe there'll be a shortage, do we believe that the price could get very high? And if we believe there'll be a surplus, do we believe that the price could get low?

From where I'm sitting, if there's a shortage, that's a big problem, either because we can't get it or because it's very expensive. If there's a surplus, that isn't really a big problem. We may be paying a bit too much, but there'll be a surplus. People will be feeling pretty good about the fact that there's a lot of energy. In other words, the consequences of being wrong on the downside are far greater than the consequences of being wrong on the upside.

From a reliability point of view, I like the idea of long-term contracts. I like the idea of knowing what the price is in 20 years' time because I don't know what the spot price will be, but I know what I'm going to get from the contracts that we just entered into. For all those reasons — recognizing what you say, that there is an argument you could get it cheaper on the spot mar-

ket — I feel, and we feel as a corporation, that it is better to buy more on long-term contracts.

When you look back, it really hasn't been very long that we've been net importers. If you look at most of the history of this company, we've had a surplus. That meant, frankly, that we had surpluses that in some years we probably had to sell cheaply, but we had our surplus. In terms of the importance of this to the economy, that seems to be a bet worth making.

By going back to more long-term contracts, we're really saying: "Let's go back to the way it always was." That was probably a good time for British Columbians from an electricity point of view. That's my answer on the short versus long term. It's a fair point.

You asked, I think, about social and environmental.

J. Horgan: Multiple account evaluation is what I understand it to be. What elements went into the factoring of the price...?

B. Elton: I think I'm going to ask Alister to take that one.

A. Cowan: There were three main ones that we factored into the evaluation of the call. The first one was obviously greenhouse gases. We factored in a price. I think Bob asked what that was earlier. I believe it was \$18 per megawatt hour. Hydro had to take the risk. Obviously, we didn't factor that in if the proponent was taking the risk because they'd build it into their bid price.

We factored in green credits. Certain of the power plants and contracts that were on offer were plants that complied with B.C. green. So we would give them a credit for having green power.

[1420]

We factored in the cost of transmission to the lower mainland for the power. Some of this, as you know, is up in the north, and we have to get it to the lower mainland, where the load is, as Bob has said.

Those are the three main adjusters that we included in the evaluation.

B. Elton: In terms of social costs I would say that I do not think we have a mandate to adjust for social costs in our evaluations.

Interjection.

J. Horgan: I got some credits this morning for being on topic, so I might as well use them now while they're still fresh in his mind.

I. Black (Chair): And they'll only apply if it's somewhat related to your first question. You've had your latitude.

J. Horgan: Yes, it will be somewhat related.

Again, in your presentation you said that you relied on competitive processes when you could — that was the quote — or when you can. I'm curious. When can't

you? Would this IPP call have been one of those circumstances?

B. Elton: The IPP call was a competitive process. I think it's fair to say that we know what our responsibilities are. We make sure that our competitive processes are reviewed by a lot of different people, knowing that they will be reviewed by the commission, so we're very comfortable that they're very solid.

In addition to the call, at the same time we had a purchase from Columbia Power Corp., and we did not put the Columbia Power Corp. project into our bid. What we did was say: "Send in a bid. Make it look like the other bids. It's a parallel process, so we'll compare your bid with the IPP bids, and we'll see whether it's competitive." And it was.

That was a good example of one where it was.... I actually view it as using a competitive process to decide whether to take the Columbia Power Corp. bid, but it wasn't actually bid into the call. I think that was an appropriate thing to do.

C. Evans: I was very unhappy to see in the plan no comment whatsoever about the importance of a business finding new customers and servicing new industry. It was about where you do get power, who the existing customers are and what happens if there's a storm.

In my area I'm happy to say that I think maybe the first two mines opened in a decade have happened — one at Trout Lake and one at Sandon. With the one at Trout Lake you guys built a brand-new line in the last century that made that possible, so we're going to mine molybdenum.

The one in Sandon is a wonderful thing. It used to be called Kam-Kotia. It's a silver and lead mine. It was discovered a hundred years ago, and it actually made the money that built this building, so it has historic value to all of you. You are sitting here because once upon a time we dug wealth out of the ground and sent it to Victoria and Spokane.

Some Voices: We're still doing it.

I. Black (Chair): Oh, you northern guys. Thank you, Corky.

C. Evans: The mine has been shut down for years. The village of Sandon has deteriorated somewhat into a ghost town. There are about 11 families there. Now the Klondike Silver Corp. has reopened the mine, employing hard-rock miners for the very first time in our area.

In order to actually process the mine, of course, they need electricity. There is a historical provider there, Silversmith, which historically never supplied the mine. Klondike Silver applied to B.C. Hydro to provide power so they could get rid of the huge diesel generators that historically have been there. Hydro agreed. Klondike Silver spent \$100,000 to wire the mine. I think you guys spent \$20,000 for a couple of poles and to get the power to the mine. The mine completely redid all of its plumbing. Then you decided not

to hook it up with electricity. The plumbing has all burst, and the mine is at risk.

On December 15 there is going to be a B.C. Utilities Commission hearing because Silversmith has applied to stop you from not providing power. My guess is you're not providing power because you don't want to have to turn it off.

I'm hugely disappointed by this turn of events because 20 or 25 years of bad history at Sandon, a quarter-century, could be turned around if something hopeful happened here, and you've got the switch, and it's completely hooked up.

I. Black (Chair): Now, is there a question in here, Member?

[1425]

C. Evans: You bet. I'm getting to it.

I want a commitment that on December 15 B.C. Hydro will go to those hearings at the Utilities Commission like a business group wanting to service the client, driving, arguing, sending lawyers, attempting to prove that you have the right to turn the switch on so we can run the mine. Yes or no.

B. Elton: Well, first of all, I'll just comment on what you've said. I think the reason we have not connected the mine — you're partly right, actually — is because of the complaint we had from the local provider, Silversmith, who wrote to me and to the commission and to other people basically complaining.

The complaint was really: "You are a large, monopolistic corporation, and you are bullying a small utility, and this is our only potential industrial customer." So what we did — you're right — was to say: "We will be at the hearing." We will argue strongly for the fact that this customer has asked us to serve them and that we have an obligation to serve them. They are within 90 metres of our distribution line, and that means that we have an obligation to serve them, so that's what we want to do.

As you raise the point, I think that we felt that we had a responsibility to, again, listen to the complaint from the local provider. That's why we've delayed hooking up until this hearing. The answer to your question is yes.

C. Evans: Okay. I disagree that you have an obligation. You just answered John Horgan's question. You said: "We're not in the business of running a social agency. That is not part of our mandate." And you're making a social decision. The B.C. Utilities Commission has the job to decide if there are alternate providers being proposed. It is not your job to decide whether it's David and Goliath or whether you're looking like bullies. It's your job to provide power to your customers if they ask unless you are told you can't.

The reason I'm a little bit grumpy.... All the other people in the village have asked for power too and almost had it, and then your regulatory agent decided last time there was a hearing to not even go.

I. Black (Chair): Corky, let me remind you that that regulatory agent isn't in front of us today, and you've used about as much latitude as I can give you, so let's keep it focused on the question, if you don't mind.

C. Evans: Yes, okay. I am not personally expressing a position about which provider is right, nor am I telling the Utilities Commission anything about what they should do. I'm asking this business to provide service to my constituents, if they ask, unless they're told not to.

Can you speak to the person who has decided not to provide power or even ask to provide power at the Utilities Commission to the people of Sandon and ask her to agree to meet with me?

B. Elton: Yes, I will.

C. Evans: A situation I have hitherto been unable to achieve.

I. Black (Chair): I think you just made some headway, and your passion, as always, is noted and respected.

G. Gentner (Deputy Chair): Thank you, Chair, and to Bob. We will hopefully get two questions out of this today. Why is it that the CEO of B.C. Lottery Corp. makes more money than you? No.

I. Black (Chair): I think it's safe to say that that was a comment made in jest.

G. Gentner (Deputy Chair): Where I'm going is that on page 14 of the service plan and on slide number 14 of the PowerPoint, we're talking about reorganization. I've got the new reorg chart here, which is part of your mandate. In particular, I'm interested to know why and what is the import of the new creation of the corporate affairs department headed by Susan Yurkovich, who, as you know, worked for you as a consultant and we all know was a bag person for the B.C. Liberal Party in the last election.

I. Black (Chair): Caution there, Member.

G. Gentner (Deputy Chair): Under this new department we have Mr. Vanagas from the Premier's office, who also worked with, of course, the Fraser Institute, and we have Mina Laudan, who was from Partnerships B.C. So it's quite obvious to me that this corporate affairs department is set up to be the proactive arm of IPPs.

Would you like to comment and also bring into light what exactly this also new-created, quasi-group called intra-B.C. is?

B. Elton: Why don't I comment on the first part of the question while we're finding that other reference?

G. Gentner (Deputy Chair): Sure.

[1430]

B. Elton: The corporate affairs group existed before. There was a corporate affairs group until last Decem-

ber. I think in companies like ours there is always a group that deals with communications, both internal and external, and with stakeholder engagement — those kinds of things. This is no different.

Until last December that group reported to our general counsel, Ray Aldeguer, who is an excellent general counsel. I decided around about last Christmas that it should report to me, in the same way I decided that safety should report to me. There is no magic to whether something reports to me or doesn't, but it definitely gives it more focus.

Frankly, what I did was to... As you said, I talked to Susan Yurkovich, whom I knew from the Board of Trade. I knew her as somebody who had worked at Canadian Forest Products. Interestingly, to be honest, I did not know that she had any particular political connections provincially. I knew that she was involved with David Emerson.

I thought she was a very effective communication head, and I hired her as a consultant and then eventually hired her as a VP. I'm very happy to have done so.

G. Gentner (Deputy Chair): You're on the Board of Trade too.

B. Elton: I was on the board of the Board of Trade. That's where I met her, yeah. It was one of those situations where I just decided we needed some help. I decided to get some help, and I knew a few people — not very many people. I called somebody that I knew.

I think in terms of the group of the whole... I understand what you're saying. There are a number of people there who have a government background. There are a number of people there who don't. For example, employee communications — Cynthia Dyson. Stakeholder engagement — David Facey. David Facey is a lawyer who, a few years ago, was a trade lawyer in Powerex and is now responsible for stakeholder engagement.

We make decisions on who to hire and where to put them based on who we think the best people are. The key question to me will not be, "What is the background of those people?" but: "What do they do?"

Do we do a good job of working with communities? You mentioned Ted Olynyk earlier. I think a lot of you know the people in your local regions who deal with you. Those people report, ultimately, to Susan.

Do we do a good job? Is our public affairs group, our corporate affairs group, a good group? I believe it is already a good group and will get better. I'm not going to make any apology for that. I think that we have to explain to people what we're doing.

I think the comment you made was that you felt that it was a group that was there to promote IPPs. I personally, very strongly, don't feel that way. My job is to look after this institution, B.C. Hydro. To the extent the IPPs are an important part of that... They are, but the job of the corporate affairs group is to promote the interests of the corporation.

G. Gentner (Deputy Chair): Just to reiterate: originally, the corporate affairs was disbanded December of last year. It's been re-created as of July this year — correct?

B. Elton: When we're talking about last year, we're talking about 2005. I moved the reporting of the group that used to report to Ray Aldeguer.... In other words, it reported to a VP. I basically said: "I want there to be a VP of corporate affairs." So I brought somebody in to do that, and the group reports to that person. Was that answering your question?

G. Gentner (Deputy Chair): So to speak. But the other one I had, of course, was on intra-B.C.

A. Cowan: Can you give us some more information on that? Is it in the service plan?

G. Gentner (Deputy Chair): It's in your organizational chart that it has been created by the president-CEO. It's under "Marketing" — "Intra-B.C.: groups that have employees who are involved in electricity marketing inside British Columbia or which are co-related with groups involved in electricity marketing."

Who, for example in energy planning, does Cam Matheson deal with outside the corporation?

B. Elton: Cam Matheson....

G. Gentner (Deputy Chair): He's a part of this intra-B.C. planning bureaucracy, if you will.

B. Elton: It's not a planning bureaucracy. It's a planning group. I don't recognize intra-B.C., but the group that Cam Matheson is responsible for is a group that is responsible for long-term planning. We do have two groups that focus on planning. One of them focuses on the 20-year plan. They produce the IEP. Cam Matheson will be on the witness stand...

A. Cowan: Next week.

B. Elton: ...next week to, basically, go through the IEP and explain how that was prepared.

We also have a group that plans the system over the next three years. That's a different group, but that's what that group is.

[1435]

G. Gentner (Deputy Chair): If I can indulge, Chair, one quick other organizational question relative to.... The executive vice-president, Dawn Farrell, has interests, in my understanding, in Fording Coal Ltd. Is she in any way, in your estimation, in conflict?

B. Elton: She would be in conflict to the extent that Fording is involved in bidding on any potential projects. In the question of looking at our approach to coal plants, I wouldn't say she would be in conflict, but there might be the appearance of conflict. Therefore, Dawn would not be involved in those decisions.

G. Gentner (Deputy Chair): So there is no appearance of conflict at all. Okay.

D. MacKay: Bob, just a point of clarification first. The statistics that you've given us in the presentation — is that for the integrated unit grid only? I notice when I look at page 20 here, it looks like the northwest part of our province has no power at all, when in fact I know we have diesel generation up there.

The question is: was the presentation for the integrated grid only, or did it include diesel generation?

A. Cowan: The numbers on the chart are just for the integrated area only. We do have several non-integrated areas where we have diesel generators serving a particular island or community, but they're not in that chart, no.

D. MacKay: Thank you. Now if I could get to my question. I'd also like to go on record as acknowledging the great work B.C. Hydro did up in the central interior part of our province following that big snowfall we had with 42 centimetres in the Burns Lake and Houston areas.

Even though it was in some cases up to two weeks before we had power restored to some of those more remote homes, I think everybody who lives up there acknowledges that we do live in a large part of the province, and our homes are spread out considerably. Although the length of time it took to get some of the power hooked up was a long time, I never heard any complaints from constituents. I think B.C. Hydro did a very remarkable job in keeping people informed. I just wanted to acknowledge that fact.

To get to my question about your mandate, as defined by a shareholder's letter of expectations — that's one of the three areas from which you get your mandate. Again, coming from a small rural town in northern B.C., one of the things that always blows me away is when I arrive into Vancouver in the evening. I sometimes think they build highrises with one light switch that goes on when the highrise is completed and it never goes off, or they don't know how to shut it off.

One of your mandates, according to your shareholder's letter of expectations, is to talk about conservation. I'm wondering what you are doing to address this conservation issue with these highrises in Vancouver and, I guess, any of the larger cities in our province. It blows me away, coming from a small community. I know I shut my lights off when I go to bed at night, and I expect most of us do. When I see downtown cities with all those lights on, and we talk about conservation, I'd just like to know what you're doing.

B. Elton: With respect to the kind comments you made about the crews and so on, thank you very much for those. I should have said earlier, frankly, that the way our customers have reacted to that also shows the patience of our customers, and we really appreciate that. I think it's good on both sorts.

It's a very interesting issue, actually. What are we doing generally about telling people about Power Smart? We have schools programs, and we're actually looking at a grade 2 program in the next year because, frankly, it probably has to start that early. We have all kinds of specific incentive programs.

Specifically, with the office building question, you're absolutely right. It's a function of two or three things. It's the way that some of these buildings were designed. It's hard to turn the lights off, it's hard to find them, they don't go off automatically, and there aren't enough switches on each floor.

We are planning a program that will probably start in the spring that will cover a number of large areas where we think we should be able to make big changes. This is one of them. People have actually got used to seeing cities lit up at night, and so there's a kind of a societal change we have to make here. When people see a city that looks almost dark, they feel differently about it, and we have to overcome that. There's no good reason why the lights should be on so much, and we certainly will work on that. Thank you for the suggestion.

[1440]

I. Black (Chair): Just for the benefit of the members, following Guy's question, the materials he was referring to were not part of the materials that were handed out to all of us. We found the org chart he was referring to, so just for the benefit of all members, it's from the B.C. Hydro website.

The term "intra-B.C." is explained at the bottom right-hand corner. It's a little legend there that basically says that groups who have employees who are involved in electricity marketing and/or transmission transactions inside British Columbia, etc. It's an HR chart that's been pulled off the website, just for those of you wondering if you missed something in your materials. No, you didn't. It actually wasn't included in that particular package.

J. Rustad: I've got a couple of questions that are somewhat related, so I hope I have a little bit of latitude in terms of being able to get them both in.

I want to ask you a question. I don't know if you're capable of answering it because it deals with outside of our province. In the '90s in California they faced some brownout situations. There were a number of contributing factors on that. From what I've read and understand, part of that was the aging transportation infrastructure in terms of the lines. A big part of it, actually, was that they basically didn't generate enough power for their own needs, and they were reliant on the spot market.

Obviously, there are ongoing proceedings between us and California around that power, but it's fair to say that part of the challenge that was faced in California.... That's just the question that I'm asking: is it fair to say that a big part of that was, quite frankly, because they relied too heavily on the spot market as opposed to meeting their own internal demands?

B. Elton: I think that was part of it. I think they definitely believed that their particular market would work. It's hard for people to get electricity markets to work. In other words, electricity markets are difficult things to manage and difficult things to construct, so that's part of it. They definitely relied — they still rely,

actually — on imports. California has not built a lot of new generation, and so they had a lot of power coming from different parts of the region.

To me the key thing is that they got themselves behind the eight ball, and the same example in other jurisdictions. Once you do that in electricity, it's very hard to catch up because it takes too long to catch up, and suddenly all the options don't look very good. For example, in Ontario — again, not being critical — they have some fairly well-publicized challenges, and the lead times are such that it's hard for them to catch up.

I think with California it was a mixture of relying too much on the spot market, relying too much on imports. The market didn't work the way they wanted it to, and they left it too late to attack the issue.

J. Rustad: Thank you, and that was actually my concern. My colleague across the way here mentioned the difference between buying on the spot market versus independently producing the power here.

I wanted to, if I may, now go to the next question, which is around the independent power production component. You mentioned briefly in the presentation on page 12 a comment with regards to the potential for biomass as part of the next call of independent power producers. There have been a few co-gen-type facilities, particularly in my home community. There was quite a deal between B.C. Hydro and Canfor around the co-gen facility that provides some good, reliable power for their productions. Is that the type of proposal that you're looking for in terms power production from a biomass or a wood product — potentially dealing with the pine beetle in terms of being able to utilize some of that fibre and to get some of that forest reforested?

Are you looking for that more as an independent supplying it to the market? Or would you be more interested in company-driven, for example, like a Canfor, that has facilities that want to tie it into their existing facilities? Along those lines, how much interest has there been for that with the beetle wood? And stringing this along for one more component....

I. Black (Chair): Indeed you are.

J. Rustad: In the northwest, of course, where they haven't got a pine beetle situation, but where they have a lot of decadent wood that's currently classified as pulpwood, have there been expressions or is there potential in that area as well for the idea of power production?

[1445]

B. Elton: I don't know about the northwest. It's an interesting question.

First of all, in terms of how exactly this will work, I think we're open. In other words, I think the simple fact is that there obviously is a lot of wood, and this appears to be a use of it. We really are neutral as to what the forms are of that and who gets together with whom to bid. We don't mind.

We think that it will take quite a lot of creativity, and that the people who are actually involved in the

industry probably have a lot to say about it. There is a lot of interest in it. Our plan is that.... The first step really is to say: "Here's what a call will look like. Here's the possible size of it. Here are the general terms of it. Let's get together with folks that are knowledgeable about the industry and about the resource itself."

Obviously, the Ministry of Forests will have to be involved because they have to set the rules as to what you're allowed to do and not allowed to do. There will probably be some environment assessment questions, I would think, as well.

We will try and set up a process that's quite neutral, that just gets the best ideas and allows for a wide variety of ideas. I think it will be quite location-specific, actually.

J. McIntyre: First of all, I'd like to thank you very much for your presentation today. I think it was very solid. It was very detailed — 50 pages of your plan and your understanding of the mandate. Also, I applaud your detail in terms of the concrete actions you're taking to meet those goals and objectives. I hope it shed a lot of light.

Also, I would fully like to take advantage of the offer, as the member across the aisle here has, in terms of if B.C. Hydro was willing to do a community debrief for some of the local municipalities. I think that certainly my area — the Horseshoe Bay–Lions Bay area, and where that storm hit particularly hard in West Van — would be very appreciative of that. Thank you for that offer, and I will follow up.

Third, I wanted to speak on an issue that probably hasn't been raised today, in particular. I represent the area in which the Squamish-Lillooet regional district resides. We almost fully overlap there. I know that B.C. Hydro, I'm sure, understands that it's been a hotbed of controversy in that area — the whole subject of IPPs — largely because we're beautifully set up to do that. We're on the edge of the mountains there with lots of running water.

I have been fully supportive of the production of green power and the steps you've taken in, in fact, exceeding the goal of 50 percent of B.C. Clean. I fully understand the role IPPs are playing in your ability to do that and that basically, some policy has been set. B.C. Hydro, I presume, is acting on that policy direction.

I. Black (Chair): Are you leading to a question?

J. McIntyre: Yes, I am. Thank you. But now you're making me lose my train of thought.

It's an important preamble. It's an important context from my perspective. I've been dealing with constituents in my area who have been subject to lots of questions and information from groups like Citizens for Public Power and Council of Canadians, which I think muddies the area. There has been a lot of information.

I just wanted the opportunity to hear from you first hand and for the public to hear B.C. Hydro's commitment to.... It's very clear to me from the questions and your presentation that B.C. Hydro is very much in the hands of the public. The shareholder and the people of B.C. clearly are directing and owning this corporation.

Also, the amendment to the utilities act that was in recently.... I would just like clarification and understanding from B.C. Hydro that in fact that amendment.... It's my understanding that it really creates a level playing field and that some of the IPPs are basically agents of B.C. Hydro. B.C. Hydro is leveraging their ability to build infrastructure. The IPPs are acting on B.C. Hydro's behalf, and in fact, that amendment was creating a level playing field.

These agents would have the same right as B.C. Hydro and would have the same rights as other natural resource people like mining, agriculture, oil and gas.

I just wanted the....

I. Black (Chair): You want to hear their views on that.

J. McIntyre: Exactly.

Interjection.

J. McIntyre: Well, I'm in good company.

B. Elton: I'm sorry. Are you talking about the...?

J. McIntyre: I'm just asking you to clarify. I want to make sure that that understanding.... I'd like to hear from B.C. Hydro on the record that my understanding of those things is correct — that that amendment creates a level playing field for independent power producers to have the same rights as Hydro.

[1450]

B. Elton: Which amendment are you talking about, though?

J. McIntyre: Oh, sorry. Bill 30, which was the amendments to the Utilities Commission Act that allowed IPPs to be built under certain conditions on Crown land.

B. Elton: Thanks very much. Sorry. I'm trying to think how best to answer that.

Two or three things. The first is that you quite rightly said that we are here to carry out government policy and that government policy is to buy from IPPs, and we buy from IPPs. It's vital that they get built, because if they don't get built, we won't have enough power.

To the extent that there are impediments against them being built that are unfair, those impediments should be removed. It's hard for me to comment on whether a particular impediment should be removed or not. But an important point that we have to keep making is that these IPPs are there to help keep the lights on, so it's important that they get built.

I'm not sure whether that's responsive to your question or not.

J. McIntyre: I appreciate that it's important that they're built. I wanted to make sure, from your perspective, that they were giving these independent power producers.... By sort of creating a level playing

field, they would have the same rights as B.C. Hydro would have. But that was what that was designed to do: let those producers who are in fact fulfilling your objectives of creating that energy do what you would otherwise be allowed to do.

B. Elton: Yeah, I think.... Do you want to...?

J. McIntyre: I'm sorry if I'm not phrasing it clearly. I don't know how else to say it.

B. Elton: No, no, it's okay.

A. Cowan: I think if you're asking.... If it wasn't the IPPs building these plants, would B.C. Hydro be building them? Well, probably, but the government policy is that the private sector will build these plants. I think there was some difference in the legislation as to who could build them — the ability to actually get these things constructed. My understanding is that Bill 30 actually levelled our playing field.

J. Horgan: I just want to jump out of my seat.

Just to carry on, on the answer, the IPPs may well be acting as your agents, but at the end of the day, they have a privately owned asset that would have been publicly owned had B.C. Hydro been allowed to build it. So it's removing an impediment to public ownership....

I. Black (Chair): Why don't we allow our guests to answer questions, and you can ask them?

J. Horgan: Well, we can exchange discussion on that later, perhaps....

I. Black (Chair): That's what the hallway is for.

J. Horgan: ...because it certainly isn't my understanding of what has happened.

I'd like to go to resource acquisition, though — again, not so much on the IPPs that were in the call but the IPP that wasn't in the call. That would be Alcan. I know that the commission is going to be hearing testimony on that in the next number of days, and I look forward to reading what you have to say there. But I thought this would be a nice opportunity to enter into a discussion today, while you're here.

First of all, why wasn't Alcan included in the call? You gave a good explanation as to why Columbia Power wasn't, and perhaps you'll give me a similar answer. As it wasn't in the call, can you tell me who at B.C. Hydro would have participated in the negotiations and who else was on the team?

B. Elton: Sure. I'm just trying to think about how much of that question I can answer, because we are in front of the BCUC tomorrow. I don't particularly want to get involved in giving evidence prematurely.

Let me try to answer that. The first question, I think, was: why wasn't it included in the call? I think because we felt that strategically, this was power that

we wanted and that we would not get it if we asked it to participate in the call. In other words, we did not think Alcan would participate in the call because, frankly, one of the things that Alcan was doing was negotiating with government in relation to the agreements it had with government. So really, it was a three-cornered negotiation, and it would have been too complicated, I think, to have them participate in the call.

Therefore, the approach we took was as with CPC, which was to say, "Okay, then let's make sure that we compare it with the call, and let's make sure that it is competitive," knowing that tomorrow and the day after and probably the day after that, we're going to be discussing it with the BCUC, and they're going to make the final decision as to whether it is a commercial deal. That was our general approach. That was the first part of your question, I think.

[1455]

The second part was: who was involved in negotiations? Mary Hemmingsen was the name of the person involved in negotiations. She was at the time the head of our.... It's called P3M — the group that does power planning and acquisition. She was the person that was negotiating on behalf of B.C. Hydro. Of course, the transaction was reviewed by me but also was reviewed twice, if not three times, by the board — twice for sure, including a final approval.

J. Horgan: What I didn't understand — and I'm looking forward, as you are, Bob, to the testimony and the arguments that will take place at the commission — is that, historically Alcan's surplus power was sold by Powerex, mostly. Powerex would purchase the power and would move it, as part of its trading activities. Being formerly from Powerex, you would be well-versed in this.

What I couldn't understand is: why did B.C. Hydro up the price when Alcan, if it did have surplus power, would have tried to sell it on the open market and you could have purchased it at the market rate rather than putting it at...? This is old power, a \$5 megawatt hour.

Why would you buy it at \$75 when they would probably have to sell it at \$55 if they were not selling it to you? They were selling it through your export arm. So without compromising any evidence you're going to give tomorrow.... That just perplexes me. It might assist me in the intervention that I'm going to be making.

B. Elton: The answer in principle is that it goes back to this question I mentioned earlier about long term versus short term. We wanted to lock this up as a long-term power supply, and therefore we were prepared to pay what the market would bear for a long-term power supply versus taking a chance on it always being available over a period of years at a lower price or not being available at all through the open market. That was the reason.

So it's just sitting there. Whether that was a wise thing to do is precisely the....

J. Horgan: The same as the other one.

B. Elton: In that particular case the BCUC hearing is very precisely going to target on that question.

J. Horgan: With the last point on resource acquisition, have you approached the province with respect to the downstream benefits and contemplated purchasing that clean, green, firm power at a price that would probably be in the interests of both the ratepayers and the treasury?

B. Elton: Right now the downstream benefits.... We are using those, basically, as potential capacity in the winter. In other words, at the moment we're saying that as each winter comes by and if something goes wrong — if there is a transmission line failure or a large unit was out — would we have enough power? The answer in most cases would be: well, probably not. But if we get an option on the downstream benefits, we can do that.

Right now it makes the most sense for us to do that. We will certainly look at that over the next few years. What we're doing right now is looking at our next three years, and we see the downstream benefits as providing good insurance, which we hopefully will not have to use.

J. Horgan: Similar to Burrard Thermal, in terms of the backup generator.

B. Elton: Right. Exactly. So that's our plan, but I think that down the road we certainly will be looking at that.

J. Horgan: Okay.

I. Black (Chair): We're almost out of time, but we have time for.... We've got a longer speakers list than we have time available, so I'll be watching this one carefully. Blair, we'll turn to you, and we'll take more if time permits.

B. Lekstrom: All right. Well, I will get right to my questions versus a preamble because I have two that I think fit together. One is pretty straightforward. You mentioned that we still sell power to California. Are they paying prior to using that power, or do they send us the money after?

B. Elton: We're very careful with our credit approvals around California. The specific terms vary depending on who the customer is, but we are extremely careful. We also have, in our own minds.... We wouldn't sell to them at a very, very high price.

B. Lekstrom: Okay. All right. Now to get to the real question that I had. We didn't touch much on Site C. I mean, it's just north of me, actually — in my colleague Richard's riding. I'm a proponent and a supporter. I think hydroelectric development of that sort is the way to go.

In having your minds put around it.... I know Hydro has looked at this for 20 years. It's been ongoing. Should a project like this ever get the go-ahead — that would be, given my understanding, by cabinet; it's the

only way it could — Hydro would then take it on. From Hydro's perspective, would Hydro build this project on their own?

B. Elton: Well, the question of whether Hydro would build it is specifically in the 2002 energy plan. It's something that will be decided by cabinet — whether it will be public or private sector.

[1500]

Our view is that with any large project.... I mean, we have a strong engineering group, but for a project of that size, you would inevitably use private sector firms. We did in Revelstoke. In other words, the practice of B.C. Hydro has been to use private sector engineering firms as well as our own engineering group for many projects. We do that now, and we've always done that.

B. Lekstrom: Sorry. I was just wondering: it wouldn't be a P3 in the sense.... From Hydro's perspective. Whether you can answer this or not, I'm not sure. Right now I look at W.A.C. Bennett; I look at Peace Canyon and those ones. I mean, they're owned by the Crown — right? — which means British Columbians own them. I don't think there's a better Crown corporation than B.C. Hydro. I think you guys do a marvellous job.

C. Evans: Can you put that on the record and not, like, hand it to him...?

B. Lekstrom: That was on the record.

The question I would have.... I would hope one day.... I think as we all know in B.C., we need to produce more power. There's a vast array of ways to do that. Should this ever come forward, I will stand up in my constituency and speak my reasons for supporting it. One would be a Peace Canyon trust, which should come from government.

B.C. Hydro is the Crown that owns this asset. I don't know if you can comment on that. Maybe I'm putting you on the spot, but that would be my intention as far as the support of the project.

B. Elton: Thank you, and I appreciate your comments about our company. I can't comment on it, because it specifically says, in the energy plan of 2002, that decision will be made by cabinet as to whether it was private or public sector.

B. Lekstrom: Okay.

B. Elton: But thank you.

I. Black (Chair): I have two people who have promised to be very quick, so with the indulgence of our guests, I will allow....

B. Elton: We're in your hands.

I. Black (Chair): Are you going to be quick?

A Voice: Totally.

I. Black (Chair): I have two speakers left. I will go with Corky first and then John Rustad. John is definitely our last.

C. Evans: There is some worry where I live about whether or not the Waneta project will proceed. I think the worry is, in part, whether it is a good investment at this time to build new power projects. Given that we've just had a two-hour discussion on Hydro's need for power, my question is essentially fairly simple and short. Does Hydro have a dialogue with Columbia Power Corp. about the size of Waneta and whether or not Hydro desires, should it become available, to purchase that amount of electricity?

B. Elton: Yes, we do have a dialogue. If it's a good project and if it's properly sized and if it makes sense economically, then frankly, it's a project I think we'd love to buy the.... Again, it's an environmentally good project and so on and so on.

I don't know enough about the project yet to know whether it is a cost-effective project.

C. Evans: Of course. That's Columbia Power's....

B. Elton: Absolutely. We met with Columbia Power just a couple of weeks ago just to talk about that and to talk about, which if it was to come forward, what kind of process it would be part of.

C. Evans: And for folks at home who are concerned about whether building power projects at this point in British Columbia's history is a good long-term investment, would I be correct in assuming that since you've been spending two hours talking about our need for increased power in the future, that this would be a healthy moment in history to invest in hydroelectric production?

B. Elton: I believe so. I'm not giving anybody investment advice, but I believe that projects — particularly projects that can get permitted, which have local support — are projects that we need because there are going to be a lot of projects that can't be.

C. Evans: Cool.

I. Black (Chair): Thank you, and our final question to Mr. Rustad.

J. Rustad: Yeah. It's a quick question with 20 parts.

Actually, I just want to talk about Highway 37 electrification. I know that's a Transmission Corp. issue, but I want to talk a little bit about the Alaska panhandle. There have been several people from the Alaskan communities that have approached me and said that they're interested in generating power, but the only way they can get it on the market is if it comes through electrification of Highway 37.

Obviously, those people must have had discussions with B.C. Hydro around what some of that potential is. I'm wondering if you can maybe comment a little bit

about that opportunity for the corporation and also for power that could potentially meet our needs in the province.

[1505]

B. Elton: Yes, I think there have been discussions among Alaskans, B.C. Transmission Corp., B.C. Hydro, the government and, obviously, the mining companies that are involved in potentially investing up there. It's very complicated precisely because there are so many people involved, but I think so far the negotiations have all been very positive. So there is obviously a potential there. I think it's one of those things where a few things have to work for it to make economic sense, and we'll see how it plays out.

I. Black (Chair): Lady and gentlemen, thank you, Kathy and Alister and, of course, Bob, for being here today. You have a very complex organization that does an extraordinary job of serving the needs of the people of this province. On behalf of the committee, I want to thank you for the efforts of you and your very sizeable team. I want to thank you for taking the time to be here today to give us a very informative presentation on a very complex business. Doing it within an hour is not an easy task. I applaud you for that and for handling our questions.

Your knowledge of your area is extraordinary. I do want to go on the record as saying that it's very rare to have a CEO who can answer in the degree of detail that you have today on the different questions that were put to you. Thank you for that, Bob.

B. Elton: Thank you very much. I appreciate it.

I. Black (Chair): We will stand recessed for ten minutes to allow our guests to leave. We will reconvene at 3:20 p.m. sharp.

The committee recessed from 3:06 p.m. to 3:21 p.m.

[I. Black in the chair.]

I. Black (Chair): We will continue and resume the deliberations and the meeting of the Select Standing Committee on Crown Corporations. We just had our guests from B.C. Hydro come in and present to us and answer a series of questions.

At this point, I'll take a motion to go in camera. So moved.

The committee continued in camera from 3:22 p.m. to 3:37 p.m.

I. Black (Chair): We are no longer in camera. We are resuming our discussions. We've been in camera discussing and deliberating the presentation made to us by B.C. Hydro's executives. We stand ready to adjourn, if I could receive a motion.

The committee stands adjourned. Thank you, ladies and gentlemen.

The committee adjourned at 3:38 p.m.

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