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#### Introduction

On November 25 2002 the BC Government released its new energy policy entitled “Energy For Our Future: A Plan For BC”. Since its release, Minister Neufeld has also made a number of announcements clarifying and amplifying aspects of the Energy Policy. The full text of the Energy Policy may be found at <http://www.gov.bc.ca/em/popt/energyplan.htm>.

The Energy Policy addresses each of the significant energy sectors in BC but is primarily focused on the electricity sector and the government’s plans for BC Hydro. A schedule of contemplated regulatory proceedings arising from the new Energy Policy is set out at the end of this Bulletin. This Bulletin summarizes and comments on the new Energy Policy.

#### Electricity

##### BC Hydro Transmission Corporation

The single most significant piece of the Energy Policy is the expressed intent to create a new, Crown-owned entity that would plan for, operate and manage BC Hydro’s transmission assets. This entity will have a Board separate from BC Hydro; charge rates established by, and be regulated by, the BCUC; and have the authority to direct expansions of BC Hydro’s transmission system. The Energy Policy rejects the proposal of the Energy Policy Task Force that BC Hydro be split into separate generation, transmission and distribution entities.

The Energy Policy provides for the “implementation” of the new entity through legislation, without providing the details of such legislation. The Energy Policy provides that at the first rate hearing of the new entity the BCUC must allocate costs between BC Hydro’s generation line of business and the transmission line of business that the new entity will be assuming. No date is given for this process, although the Energy Policy contemplates full implementation by 2004.

The Energy Policy speaks generally of BC Hydro’s involvement in the development of RTO West, the independent transmission operator that is expected to assume operating control of transmission facilities in the (US) Pacific Northwest. It is silent on the relationship the new transmission entity would have with RTO West should it come to fruition.

##### Market Rates and “Heritage Energy”

Under the Energy Policy BC Hydro’s generation line of business will be obliged to supply a minimum amount of electricity (“heritage energy”) to BC Hydro’s distribution line of business at low, historical costs under terms defined in legislation. The distribution line of business will be vested with the obligation to serve BC Hydro’s domestic ratepayers. It will acquire the energy in excess of the “heritage energy” necessary to serve domestic load from whomever it pleases, including the generation line of business to the extent generation has energy available in excess of the “heritage energy”. However, all such acquisitions will be subject to BCUC review. Thus, although

the Energy Policy expressly rejects any move to market rates for BC Hydro's ratepayers, it does provide the potential for higher rates, reflective of the cost of new supply.

The BCUC is to enquire into what the terms of the legislation governing the supply of the "heritage" energy ought to be, although the Energy Policy specifies that the amount of such energy will be based on BC Hydro's production capacity at average water conditions, and that the initial term will be 10 years. The Terms of Reference of this enquiry will be made public in January, 2003. No mention is made of the shape of this "heritage energy", or the criteria upon which the initial legislation might be renewed.

## **New Generation in British Columbia**

Under the Energy Policy, BC Hydro will no longer build generation facilities, except hydroelectric facilities with the approval of Cabinet. Instead, all new generation is to be built by private developers. BC Hydro will be "limited to undertaking efficiency improvements at existing facilities". Since the Energy Policy was released the Minister of Energy and Mines has announced that BC Hydro will sell its stake in the Georgia Strait Crossing and Vancouver Island Generation (Duke Point) Projects.

## **Rate Regulation of BC Hydro**

The majority of BC Hydro's rates have been frozen by legislation since 1996. This rate freeze is set to expire on March 31, 2003, unless Cabinet orders

it to expire sooner. The Energy Policy makes it clear that there will be no extension of the rate freeze, nor any Cabinet-ordered expiry any sooner than March 31.

The Energy Policy says BC Hydro will file a revenue requirements application before the end of 2003/04, following the Commission enquiry into the terms and conditions of the supply of "heritage energy". The Energy Policy is silent on BC Hydro's rates from the time the rate freeze expires and the anticipated time of BC Hydro's revenue requirements application.

It does seem clear that BC Hydro's rates will increase over time, if only because the quantity of low cost "heritage energy" is unlikely to exceed by any significant amount, if at all, BC Hydro's future domestic load.

The Energy Policy also expresses government's desire that BC Hydro rates be set on a PBR, or "performance-based regulation" basis, through a negotiated settlement process rather than an adversarial hearing process. Unspecified amendments to the Utilities Commission Act will attempt to effect that goal.

Revenue-neutral, increasing-block rates, to be designed in yet another BCUC proceeding, are also in the offing for large industrial customers, as is an expansion of time-of-use rates.

Finally, the Energy Policy provides for an amount of trade revenue "to be assigned for rate-setting purposes", suggesting a change from the current

scheme which effectively allows the BCUC to deduct from BC Hydro's revenue requirement an amount in respect of trade revenue the BCUC finds appropriate.

## **Retail Access for Large Industrial Customers**

Large industrial customers will be given the choice to avoid BC Hydro's current monopoly supply, and take their load to the market, as is the case in Aquila's service territory in south-east BC.

Recommendations with respect to access principles that would govern the departure from and return to BC Hydro supply of industrial load, currently modeled on Aquila's access principles, are supposed to be determined by the BCUC in the hearing in which the new transmission entity's rates will first be determined.

## **Outsourcing of Internal BC Hydro Functions**

The Energy Policy indicates that BC Hydro will work towards outsourcing its internal administrative functions where it is cost-effective to do so, although such decisions will be subject to BCUC prudency reviews in revenue requirements proceedings.

## **Implementation**

The Energy Policy provides for full implementation by 2004. This is an aggressive schedule, with a number of extensive public hearings contemplated between now and full implementation. To effect this goal,



the Energy Policy contemplates bolstering the BCUC's resources with the addition of two new full-time Commissioners.

## **Coal, Oil and Natural Gas**

### **Offshore Oil and Gas**

Government will establish a team dedicated to the task of establishing a provincial position on off-shore oil and gas development.

### **Natural Gas: Retail Access Expanded to Residential and Small Commercial Customers**

In the spring of 2003 the Utilities Commission Act will be amended to allow for competition in the sale of natural gas to residential and small commercial customers. The legislation will provide for the licensing and regulation of natural gas marketers.

### **Emission Standards for Coal-Fired Generation**

Final emission standards for coal-fired generation plants will be issued in January 2003 (the current ones have been interim since 1995).

### **Environmental Issues**

Amendments to the Utilities Commission Act will allow a public utility, including BC Hydro, to earn a rate of return on demand side management investments (i.e. investments intended to reduce consumption, such as BC Hydro's Power Smart program).

The Energy Policy says BC Hydro will voluntarily pursue a goal of acquiring 50 percent of all new electricity supply from "clean energy". Clean energy refers to "alternative energy technologies that result in a net environmental improvement relative to existing energy production."

The clean energy goal is voluntary, but the Energy Policy says the BCUC will take the goal into account when overseeing the acquisition process for new supply resources. It is not clear, however, how the BCUC will take the goal into account.

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## Schedule of Contemplated Regulatory Proceedings Arising from Energy Policy:

<b>Matter</b>	<b>Timing</b>
1. BCUC enquiry into terms and conditions of heritage energy legislation	Terms of reference to be released in January 2003
2. BC Hydro revenue requirements hearing	After heritage energy legislation
3. BC Hydro Transmission Corp. revenue requirements	Not specified
4. Rate design hearings for BC Hydro (time-of-use and increasing block rates) and BC Transmission Corp. (wholesale transmission)	Not specified
5. Vancouver Island Generation Project: application to BCUC for a CPCN	Not specified
6. BC Hydro (distribution) energy acquisition review by BCUC	Not specified

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