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Ministry of Energy and Mines

GOVERNMENT OKS RECOMMENDATIONS, SECURES LOW COST POWER

VICTORIA – Minister of Energy and Mines Richard Neufeld announced today that government has accepted 22 BC Utilities Commission (BCUC) recommendations that will keep electricity rates low for British Columbians.

On Oct. 17,2003, the BCUC - the independent regulator of BC Hydro and the BC Transmission Corporation - submitted 27 recommendations to government to take the next steps in achieving provincial energy plan goals. The BCUC made their recommendations after conducting a public process including workshops around the province and a hearing in the Lower Mainland. Government accepted 22 of the recommendations and empowered the BCUC to deal with matters relating to the remaining five.

The BCUC recommended government direction for a Heritage Contract to preserve the value of BC Hydro's existing, low-cost electricity generation for British Columbians.

Government is implementing the recommendations through special directions, including a Heritage Contract.

Heritage Contract

1. Heritage Special Directive to BC Hydro (HC1)

- HC1 is issued under section 35 of the Hydro and Power Authority Act.
- It requires BC Hydro to pay a dividend to the Province.
- The definition of BC Hydro's debt and equity is updated to be consistent with how BC Hydro reports these accounts in its financial statements.
- It simplifies and replaces Special Direction 4 to BC Hydro.

2. Heritage Special Direction to the BCUC (HC2)

- Establishes a heritage contract between BC Hydro's generation line of business and BC Hydro's distribution line of business, including obligations to deliver power and to pay for that power.
- The definitions of debt and equity are the same as in HC1.
- HC2 replaces Special Direction 8 to the BC Utilities Commission. With a strengthened BC Utilities Commission and changes made to the Utilities Commission Act in the Spring 2003 session, superfluous requirements in SD8 were eliminated.
- HC2 adopts the commission's stepped rates recommendations.
- All of the trade benefits up to \$200 million per year accrue to BC Hydro's ratepayers and there is no need to provide Powerex with an incentive mechanism or regulatory oversight.
- Deferral accounts will be established to absorb the variances in trade income and energy supply. The commission will have the flexibility to use balances of the deferral accounts to smooth out BC Hydro's revenue requirements.

Heritage Contract

- An attachment to HC2.
- All of the protected assets are included in the definition of “heritage resources” including potential future Resource Smart investments (for example Mica 5 and 6 and Revelstoke 5 and 6).
- On or after April 1, 2009, the Heritage Contract can be terminated on five years notice. The Heritage Contract will be for a minimum of 10 years and it will continue unless the government decides it wants to terminate, in which case five years notice of termination must be given.

Stepped Rates

The BCUC also recommended a stepped rate structure to encourage BC Hydro’s large, industrial customers to conserve electricity and allow them to access a portion of the power they need from suppliers other than BC Hydro. This is tentatively scheduled for implementation in 2005.

Transmission Access

The BCUC recommended principles to ensure equal access to the transmission system for all electricity producers. Government has responded to the BCUC with Special Direction 9 (SD9).

3. Special Direction 9 (SD9) to the BC Utilities Commission

- SD9 applies primarily to BC Transmission Corporation.
- It defines BCTC’s debt and equity and allows BCTC to earn a return on equity similar to BC Hydro.
- It ensures that BCTC and BC Hydro may intervene in each other’s proceedings before the commission.
- The BCUC may take into account the long lead times for planning and constructing transmission facilities to serve its customers.
- Deferral accounts will be established to absorb the variances in utilization of the system. The commission will have the flexibility to use balances of the deferral accounts to smooth out BCTC’s revenue requirements.
- SD9 clarifies that storage services will continue to be for the benefit of ratepayers.

The table attached contains the BCUC recommendations and government’s response to each.

For copies of the BCUC report and government’s response, visit www.gov.bc.ca/em on the Internet.

1 backgrounder(s) attached.

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**HERITAGE CONTRACT, STEPPED RATES & TRANSMISSION ACCESS
BCUC RECOMMENDATIONS & GOVERNMENT RESPONSE**

No	BCUC Recommendation	Government Response
1	That the Heritage Contract attached as Appendix B (to the Commission's October 17,2003 report) be legislated as contemplated in the Energy Plan.	The Heritage Contract attached hereto will be legislated as contemplated in the Energy Plan. The attached version contains a number of changes from the version recommended by the Commission which are reflected in the balance of this document.
2	That the start date of the Heritage Contract should be April 1,2004.	Accepted. This date is consistent with the financial year and the test period for BC Hydro's revenue requirements hearing before the Commission. It is also expected that the Rate Stabilization Account will be close to zero at that time which will minimize the impact of accounting changes required by the establishment of the heritage deferral account.
3	That the Heritage Contract have a ten-year term with provision for automatic annual renewal, subject to termination at the end of the ten-year term by a Government directive.	The Heritage Contract will not have an expiry date. The Term will be for at least 10 years. Government can terminate the Heritage Contract with 5 years notice, any time after April 1,2009.
4	That the Heritage Contract provide that the Commission may modify the Heritage Payment Obligation to accommodate Performance-Based Ratemaking or any other determinations of the Commission.	The Heritage Contract shall provide that the Commission may modify the Heritage Payment Obligation and the Heritage Energy amount but that modifications of any other aspects of the Heritage Contract will be at the direction of Government (see No. 7 below). Action on Performance-Based Ratemaking is left to the discretion of the Commission to implement.

No	BCUC Recommendation	Government Response
5	<p>That the British Columbia Transmission Corporation (BCTC) be the sole supplier of transmission and ancillary services that can be provided from the assets of BC Hydro, except so far as such services may be self-supplied pursuant to a BCTC tariff or required for the transactions contemplated in the Transfer Pricing Agreement.</p>	<p>The BCTC will be the sole supplier of transmission and ancillary services that can be provided from the assets of BC Hydro, except so far as such services may be self-supplied by BC Hydro. The right of BC Hydro to self-supply will not to be subject to the provisions of any tariff insofar as the ancillary services are in connection with supply under the Heritage Contract or required for the transactions contemplated in the Transfer Pricing Agreement.</p> <p>These arrangements may be reviewed after 3 years (see No. 9 below).</p>
6	<p>That the Commission allocate the benefits of Heritage Resources among customer classes as part of its ratemaking jurisdiction pursuant to the <i>Utilities Commission Act</i>.</p>	<p>Accepted. No government direction necessary. This approach is consistent with normal regulatory board functioning and provides the necessary flexibility to allow Heritage Contract benefits to track the constant changes in electricity use that occur in different customer classes.</p>
7	<p>That Special Direction No. 8 be amended such that the Commission may review projects that may derive material benefits from the Heritage Resources to determine whether the project or projects should be included as Heritage Resources in the Heritage Contract. Further that Special Direction No. 8 be amended to allow the Commission to revise the definition of Heritage Energy or Heritage Payment Obligation in the Heritage Contract if it is satisfied that a material change in circumstances has permanently affected the capability of the Heritage Resources or of BC Hydro's cost of generating the heritage energy.</p>	<p>Special Direction will be given that allows the Commission to modify the Heritage Energy and modify the Heritage Payment Obligation. All other changes to the Heritage Contract contemplated in the recommendation are reserved for government.</p>

No	BCUC Recommendation	Government Response
8	<p>That stepped rates be implemented according to the principles and considerations set forth in Chapter 3. The principles are repeated below for convenience:</p> <ul style="list-style-type: none"> • the Tier 2 rate should reflect the long-term opportunity cost of new supply, where long-term is understood to include the acquisition cost required to obtain that supply; • the quantity of power being sold to industrial customers at Tier 1 of the stepped rate should be initially set at 90 percent, and the Tier 2 quantity should make up the remaining 10 percent (the Tier 1/Tier 2 Split); and • the Tier 1 rate should be derived from the Tier 2 rate and the Tier 1/Tier 2 Split to achieve, to the extent reasonably possible, revenue neutrality. 	<p>Accepted. Further, the prospective Tier 2 rate should be published periodically, even if no change is being made to the actual rate charged, for the purpose of providing a public benchmark against which others can make investment decisions on conservation or alternative supply. The Tier 2 rate will reflect the cost of new supply more closely than would be the case if it were based on market indexes (mid-C market). The Tier 1/Tier 2 Split provides a good balance between providing incentives and imposing unnecessary hardship.</p>
9	<p>That a report be submitted to the Government of a three year review of the impacts of the stepped rates, including customers' demand response and the percentage of customers' load served by third party suppliers.</p>	<p>Accepted.</p>
10	<p>That prior to the completion of the rate design hearing the initial determination of the stepped rates and time-of-use rates be based on the same revenue requirement used for determination of the Rate Schedule 1821 rates.</p>	<p>Accepted. This is a practical approach that is consistent with the desire to make changes revenue neutral to the extent possible.</p>
11	<p>That load aggregation within multiplant ownership be allowed so long as it is restricted to operating units.</p>	<p>Load aggregation within multiplant ownership will be allowed so long as it is restricted to operating units and that the units aggregated would qualify individually for stepped rates and time-of-use rates.</p>
12	<p>That the Customer Baseline Load ("CBL") used for applying stepped rates to industrial customers should be based on past experience adjusted for anomalies and reviewed annually. Further, that the Commission will continue to approve CBLs and to resolve disputes as necessary.</p>	<p>Accepted. Adjustments to CBLs will be required on an ongoing basis and a well defined dispute resolution mechanism will be beneficial.</p>

No	BCUC Recommendation	Government Response
13	That time-of-use rates should be implemented at the same time as stepped rates.	Accepted. It will be important to design stepped rates and time-of-use rates together to ensure that customer choice between them does not shift costs to other customers. It is expected that there will be some measure of integration between the rates to achieve this.
14	That industrial and large commercial customers eligible for BC Hydro's Rate Schedule 1821 be required, at their election, to take service from BC Hydro from either the stepped rate or the time-of-use rate. Rate Schedule 1821 would be terminated.	Accepted and further that the stepped rates and time-of-use rates will be subject to conditions the Commission considers appropriate from time to time for application to the rates of BC Hydro for industrial and large commercial customers and as currently found in Supplements 5 and 6 to BC Hydro's electric tariff.
15	That Aquila, New Westminster and UBC, as entities that distribute all or a significant portion of their load to others, be exempted from the application of stepped rates at this time, and form a new rate schedule(s).	Accepted. These customers are effectively distributors who sell the electricity they purchase onwards to end-use customers. Only the end-use customers can control the amount of electricity purchased by the distributors and the distributors' purchases will therefore not be influenced by the wholesale rate structure.
16	That BC Hydro's targeted Powersmart and Customer Based Generation programs should be continued at funding levels justified on the basis of the Tier 2 rate, and that the programs be reviewed with the changes required for retail access for large power consumers.	Accepted, no Government direction necessary.
17	That the Government revise Special Directive No. 4 as set out in Appendix C.	The attached Heritage Special Direction to BC Hydro will be issued. The attached version contains a number of changes from the version recommended by the Commission. These changes are reflected in the balance of this document.
18	That the Government revise Special Direction No. 8 as set out in Appendix D.	Attached Heritage Special Direction to the Commission will be issued. The attached version contains a number of changes from the version recommended by the Commission. These changes are reflected in the balance of this document.

No	BCUC Recommendation	Government Response
19	That Special Direction No. 8 be revised to establish a Heritage Deferral Account to become effective on the same date as the Heritage Contract and that any balance in the Rate Stabilization Account (“RSA”) should be transferred to the Heritage Deferral Account.	Accepted and incorporated in the attached Heritage Special Direction to the Commission. The attached version contains a number of changes from the version recommended by the Commission. These changes are reflected in the balance of this document.
20	That the Government review Special Direction No. 8 and Special Directive No. 4 regarding the definition of equity and deferred credits to determine if a revised Special Direction is required.	No change in the definition of equity is required at the present time.
21	That Powerex file an application with the Commission for approval of an incentive mechanism that provides for an incentive to Powerex related to its trading activities prior to April 1, 2005. Such an incentive mechanism may provide for sharing of the amount set out in subparagraph 3(h)(ii) of the Terms of Reference, provided that the amount eligible to be shared by Powerex does not exceed \$20 million.	Not accepted. As noted by the Commission, it is not necessary for Powerex to be regulated, nor for it to file an incentive mechanism for approval by the Commission, when the proceeds of trade income are dedicated to customers, as provided for in the attached Heritage Special Direction to the Commission and the Heritage Contract.
22	That the appropriate level of regulatory oversight by the Commission of Powerex be limited to the review of the income statement of Powerex. That the Commission review the extent of the appropriate regulatory oversight of Powerex when, and if, an incentive mechanism for Powerex is approved.	Accepted. Any change to the regulatory oversight of Powerex will be a government decision based on the Commission’s review
23	That the Government accept a filing date for the BC Hydro revenue requirement application that is no later than March 1, 2004.	Accepted. It is anticipated that the filing will be made in December 2003, well before the deadline.
24	That an LGIC Order be issued, pursuant to section 4(1) of the <i>Transmission Corporation Act</i> , prescribing a date of March 1, 2004 if retail access is to be implemented prior to 2005.	An LGIC Order is not needed since there is no pressure to implement retail access prior to 2005. The <i>Transmission Corporation Act</i> requires filing by December 31, 2004 which would result in a Commission decision by April 2005 to enable retail access in late 2005. BCTC is encouraged to file the application for its tariff during the Q1 2004 which will allow retail access as early as April 2005.

No	BCUC Recommendation	Government Response
25	That BC Hydro file an application, within 30 days of the Commission Decision in the BCTC tariff filing pursuant to section 4(1) of the <i>Transmission Corporation Act</i> , seeking approval for stepped rates, time-of-use rates and generation access principles, and Powersmart and Customer Based Generation programs.	Government direction not needed. The Commission can schedule this with BC Hydro in the normal course of its activities once the Commission Decision on the BCTC tariff (No. 24 above) is in hand. Anticipated to be in early Q4 2004, but could slip into Q1 2005 depending on timing of preceding proceedings.
26	That BC Hydro file a rate design application prior to April 1, 2005.	Government direction not needed. The Commission can schedule this with BC Hydro in the normal course of its activities.
27	That the determination of Generation Related Transmission Assets (“GRTAs”) for the BC Hydro Wholesale Transmission Service rates, be accepted for purposes of the of the BCTC tariff filing to be made pursuant to section 4(1) of the <i>Transmission Corporation Act</i> , and that functionalization of GRTAs otherwise continue to be within the jurisdiction of the Commission.	Government direction is not needed. The Commission has the discretion to treat and define GRTAs in its proceedings.

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