

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26

**CAARS**

VICTORIA, B.C.

July 21, 2003

**(PROCEEDINGS COMMENCED AT 9:03 A.M.)**

THE CHAIRPERSON: Good morning. I understand that the sound system may not be working but that the recording is. If you unable to hear me at the back, please let me know. I also will be challenged because I have a cold. But if you are unable to hear me, just raise your hand I'll do my best to speak a little bit more loudly.

This is the first of three regional inquiry sessions of the inquiry regarding a Heritage Contract, stepped rates and access principles. I'm Robert Hobbs, I'll be the panel chair. With me are Commissioner Ken Hall and Commissioner Paul Bradley. Commission counsel is Gordon Fulton. Lead staff is Jim Fraser and he's joined by Rob Gorter this morning and Werner Kreml.

On November 25<sup>th</sup>, 2003 the province of British Columbia announced its new Energy Plan. The four cornerstones of the Energy Plan are low electricity rates and public ownership of B.C. Hydro, secure and reliable energy supply, more private sector opportunities and environmental responsibility and no new nuclear power sources.

Several policy actions are relevant to this inquiry. I won't read them into the record, but I will

1 list them for you: Policy action 1, 2, 3, 7, 8, 9, and  
2 21.

3 On March 25<sup>th</sup>, 2003 the province directed the  
4 Commission to hold an inquiry relating to a Heritage  
5 Contract for B.C. Hydro's existing generation resources,  
6 step rates for transmission voltage customers and  
7 transmission access. As directed under the terms of  
8 reference for the inquiry, B.C. Hydro filed its proposal  
9 on the inquiry issues on April 30<sup>th</sup>, 2003.

10 The Commission is to provide a report and  
11 recommendations to the province by October 17<sup>th</sup>, 2003.  
12 The Commission's report will include recommendations on  
13 the terms and conditions of a Heritage Contract that  
14 will lock in the value of existing low-cost generation,  
15 otherwise referred to as the Heritage Energy, in order  
16 to benefit all B.C. Hydro ratepayers. The contract will  
17 be implemented through legislation and specifies the  
18 term and amount of energy involved.

19 Public ownership of B.C. Hydro generation,  
20 transmission, and distribution assets, along with the  
21 use of trading revenues to supplement domestic revenues  
22 is to continue.

23 We will be holding regional inquiry sessions  
24 in addition to this one in Prince George on Wednesday,  
25 in Kelowna on Friday, and then next week we will be in  
26 Vancouver starting on Tuesday.

1 I'll now ask Commission Counsel to speak to  
2 the order of proceedings.

3 MR. FULTON: Thank you, Mr. Chairman. The order of  
4 appearances today will not be the same as our usual  
5 order of appearances in the sense that not all the  
6 parties who have intervened in the proceedings are here  
7 today. The regional hearings are for the purpose of  
8 enabling people in the regions to come forward and make  
9 either submissions to the Commission or ask questions of  
10 the B.C. Hydro panel or both, and so that there are a  
11 limited number of participants today. And when I ask  
12 for appearances it will be basically restricted to  
13 Hydro, and then I will identify the people who are here  
14 who I'm aware of and who had contacted either the  
15 Commission or myself in advance.

16 So I'll begin by asking for the appearance on  
17 behalf of the British Columbia Hydro and Power  
18 Authority?

19 MR. SANDERSON: Thank you, Mr. Fulton. Mr. Chairman,  
20 Commissioners, C.W. Sanderson for B.C. Hydro and with me  
21 today is Mr. Iain Webb.

22 MR. FULTON: There are no other counsel present today, Mr.  
23 Chairman. The members of the public who have indicated  
24 to me that they wish to make presentations today are  
25 first, the Regional District of Alberni-Clayoquot. They  
26 are driving down from Port Alberni today and should be

1 here sometime around 10, 10:30. They have advised me  
2 that they will be here certainly for 10:30; they weren't  
3 sure whether they could make it earlier than that. So I  
4 anticipate that given we usually take our morning break  
5 at 10:15 that they will be on immediately after the  
6 morning break.

7                   Norske Skog Canada is going to make a  
8 presentation. A Mr. Fitzgerald is here from Norske  
9 Skog. Robert Gillespie who is a councillor for the  
10 Municipality of Saanich wishes to make a presentation,  
11 and he is here this morning, and Mr. Ian Cass, is also  
12 here and he wishes to make a presentation to the  
13 Commission.

14                   Is there anyone else here this morning who  
15 wishes to make a presentation to the Commission?

16                   I see Mr. Campbell is here this morning, Mr.  
17 Chairman, but he is auditing the proceedings and holding  
18 his powder for Vancouver, as they say.

19                   All right. Well, that being the case, Mr.  
20 Chairman, I'll turn the mike over to Mr. Sanderson for  
21 the B.C. Hydro panel.

22 MR. SANDERSON: Thank you, Mr. Fulton. Mr. Chairman, we do  
23 have a panel here today to overview, if you want, the  
24 B.C. Hydro proposals as filed with the Commission on  
25 April 30<sup>th</sup>. They are in the form of two witnesses, Mr.  
26 Lusztig who will deal with Heritage Contract issues, and

1 Mr. Fussell who will deal with the stepped rate issues.  
2 And so I think the simplest thing is to call them both  
3 up together and have them walk through that overview.  
4 They do have some slides, and I appreciate we don't have  
5 any projector here, but I think I've got enough copies  
6 to distribute and so probably the simplest thing is to  
7 get those slides marked as an exhibit and then have them  
8 walked through, just so that there's something people  
9 can follow as they speak.

10 My hope is they will be fairly brief, fifteen  
11 to twenty minutes. As I apprehend it, the main purpose  
12 today is to hear from people in Victoria and more  
13 elaborate presentation of what they have to say will be  
14 conducted in Vancouver with additional witnesses.

15 They should be able to answer most questions  
16 if people want clarity, but if they feel over their head  
17 in terms of technical areas, from questions that are  
18 addressed, then we'll be deferring those questions to  
19 Vancouver, we'll make a note of the questions and answer  
20 them on the record and can make arrangements with  
21 anybody who is directing those question to make sure  
22 they are apprised of what the answers were when it's  
23 provided in Vancouver. But hopefully that won't be  
24 necessary. Hopefully they'll be able to handle most  
25 things.

26 Finally both of them have said that if



1 **CAMERON LUSZTIG, Affirmed:**

2 **EXAMINATION IN CHIEF BY MR. SANDERSON:**

3 MR. SANDERSON: Q: Mr. Lusztig, if I could start with you  
4 and just ask, for the benefit of the record and the  
5 audience today, if you could just state your full name  
6 and indicate what responsibilities you have at B.C.  
7 Hydro?

8 MR. LUSZTIG: A: My name is Cameron Lusztig, I am the  
9 manager of regulatory economics and policy for B.C.  
10 Hydro.

11 MR. SANDERSON: Q: Thank you. And Mr. Fussell, if I  
12 could ask you to do the same.

13 MR. FUSSELL: A: My name is Colin Fussell, I work within  
14 the rates department of B.C. Hydro.

15 MR. SANDERSON: Q: Now, I'm not going to do a direct  
16 examination. Rather I understand you've got a  
17 presentation you're going to make and I'll ask you to do  
18 that. You, as am I, are tending to speak into the mike,  
19 but I'm told the mike doesn't actually help in terms of  
20 anybody in the room.

21 Oh, it is on. Good, all right. Well, I take  
22 it all back. So please proceed and walk us through your  
23 presentation, I guess starting with you, Mr. Lusztig.

24 MR. LUSZTIG: A: Thank you. This morning we just have a  
25 brief presentation to make. It's divided into two  
26 parts. I'll be handling the first part as Mr. Sanderson

1 suggested dealing with the Heritage Contract which we  
2 are describing basically as an opportunity to lock in  
3 the value of existing load cost generation assets for an  
4 extended period of time. Mr. Fussell, after me, will be  
5 speaking on the issue of stepped rates which is an  
6 opportunity to encourage conservation through sending a  
7 higher price signal at higher levels of consumption, and  
8 it applies to transmission voltage customers only, it's  
9 not a service that will be provided to residential on  
10 residential rates.

11 B.C. Hydro's Heritage Contract proposal comes  
12 from two elements of the provincial Energy Plan. The  
13 first is policy action number 1 which specifies a  
14 legislated Heritage Contract to preserve the benefits of  
15 B.C. Hydro's existing generation. The second is policy  
16 action number 2 which states that B.C. Hydro ratepayers  
17 should continue to benefit from the electricity trade  
18 that B.C. Hydro undertakes.

19 The terms of reference provided further  
20 clarity to the Heritage Contract inquiry by defining  
21 certain key assumptions and based on the combination of  
22 the Energy Plan, as we understood it, and the terms of  
23 reference, B.C. Hydro defined its objectives for the  
24 Heritage Contract proposal, and ultimately we designed  
25 the proposal itself.

26 Based on the terms of reference in the Energy

1 Plan we developed certain key assumptions that drove the  
2 policy, or the proposal rather, which we put forward.  
3 The terms of reference were very plain in specifying  
4 which resources were to be considered Heritage resources  
5 and they were listed in what's referred to as Schedule A  
6 of the terms of reference, and they are the entirety of  
7 the Peace and Columbia system, the coastal hydro plants,  
8 Burrard Thermal, Rupert and Fort Nelson thermal  
9 facilities, as well as certain obligations that are  
10 attached to the Heritage Resources.

11 The terms of reference also told this inquiry  
12 who should benefit from the Heritage Resources, and they  
13 refer to those as the Heritage beneficiaries and are  
14 defined in another schedule attached to the terms of  
15 reference, this time Schedule B. And basically Schedule  
16 B is a list of rate classes and customers and it  
17 includes all of B.C. Hydro's bundled service customers.

18 The terms of reference in the Energy Plan  
19 also specified the degree to which the Heritage , the  
20 output of the Heritage Resources was to go to the  
21 service of the Heritage contact, and it specified in  
22 particular that the energy from the -- determined under  
23 average water conditions is the volume of energy that  
24 the Heritage beneficiaries should receive from the  
25 Heritage Resources.

26 And in the matter of trade income, the terms

1 of reference specified the trade income in excess of  
2 \$200 million was to flow directly to government through  
3 B.C. Hydro and left for this inquiry and B.C. Hydro's  
4 proposal to suggest ways in which the trade income below  
5 \$200 million should be allocated between the parties.

6 From all of that, B.C. Hydro developed its  
7 objectives for the Heritage Contract, and these really  
8 were two in substance. The first is that we wanted to  
9 ensure secure reliable supply. We wanted to ensure that  
10 nothing we did in the Heritage Contract proposal  
11 degraded the high level of system reliability that Hydro  
12 is able to provide now.

13 Secondly, and this emerged directly from the  
14 Energy Plan, we wanted to ensure low electricity rates,  
15 and we wanted to make sure that we had a Heritage  
16 contract that allowed B.C. Hydro to provide the  
17 capability of the Heritage Resources on the basis of  
18 their embedded cost. And we wanted to make sure that  
19 the Heritage Contract proposal we developed allowed B.C.  
20 Hydro to maximize the value of the generating capability  
21 of the resources within our control and minimize the  
22 cost of acquiring new resources for ratepayers so we  
23 could achieve an optimal system optimization, overall  
24 system optimization now and into the future.

25 When we say overall system optimization, what  
26 we meant is the ability to serve domestic customers in

1 the least cost manner while maximizing the trading  
2 capability of the system.

3 From an operating perspective this really  
4 means coordinating the Heritage Resources, our  
5 independent power purchases and market purchases so that  
6 the least cost supplies are used first.

7 From a planning and acquisition perspective,  
8 we wanted to ensure that we had a Heritage contract that  
9 allowed the output of the Heritage Resources to respond  
10 as the system changed over time. The Heritage Contract,  
11 as it was described in the Energy Plan and the terms of  
12 reference, defined a certain regulatory structure to  
13 govern BCUC oversight and in particular it was specified  
14 that the Heritage contract should be implemented through  
15 an agreement between B.C. Hydro's generation line of  
16 business and its distribution line of business.

17 From that construct, we've developed a  
18 proposal where the Heritage beneficiaries in aggregate  
19 will receive the full benefit of the Heritage Contract  
20 in return for paying the full embedded cost of the  
21 system. As well, they will receive the first call on  
22 all available Heritage capacity. In essence we've  
23 constructed a system, or a proposal that we think  
24 provides the full benefit of the system, capacity and  
25 energy, in return for paying the whole cost of the  
26 system, the full embedded cost of the system.

1                   In order to achieve that construct, we've  
2                   developed a model which is triggered around, in many  
3                   ways, a Heritage payment obligation. And the Heritage  
4                   payment obligation, as we've described it or defined it,  
5                   is the actual cost to deliver the Heritage electricity  
6                   which is required to meet the needs of the domestic  
7                   customers and is determined after the fact.

8                   In defining it that way, and setting up our  
9                   proposal that way, there's an implication, and the  
10                  implication is that neither the Heritage reference price  
11                  that we've included in the application which is \$25.30  
12                  or the Heritage Energy which is 49,000 GWH feed directly  
13                  into the Heritage payment obligation forecast, and  
14                  therefore neither of those two numbers directly affects  
15                  the rates that are paid, or the value of the contract to  
16                  the customers.

17                  The implication of that, to take it one step  
18                  further, is that while those numbers, the \$25-30 has  
19                  been included in this proposal as a reference price, the  
20                  true forecast cost that customers will pay for the  
21                  Heritage Energy in the form of the Heritage payment  
22                  obligation will be determined in the 2004 revenue  
23                  requirement.

24                  To the extent that that forecast is  
25                  inaccurate at that time, as it surely will be in the  
26                  course of things, B.C. Hydro is also proposing a

1 Heritage deferral account which will capture the  
2 differences between the forecast in the revenue  
3 requirement and the actual events as they unfold. And  
4 we are proposing that that deferral account in capturing  
5 those differences between the forecast and actual  
6 outcomes will help to stabilize rates going forward, and  
7 again this feeds into our general perspective that the  
8 ratepayers are receiving the full benefit of the system  
9 in return for paying the full costs.

10 As I mentioned a little bit earlier, the  
11 terms of reference were explicit in stating the trade  
12 income in excess of \$200 million was to return to the  
13 government by the mechanism of flowing through B.C.  
14 Hydro. The manner in which trade income below \$200  
15 million was to be allocated was the subject of this  
16 inquiry, was properly the subject of this inquiry. B.C.  
17 Hydro's proposal is that all trade income below 200  
18 million will flow to the ratepayers, so there will  
19 ultimately be a cap on trade income allocations.  
20 Anything between zero and 200 will flow to ratepayers,  
21 anything above will flow to government as required by  
22 the terms of references. B.C. Hydro will protect  
23 ratepayers from trading losses in the event they should  
24 occur. There is also a floor on trade income allocation  
25 for ratemaking of zero.

26 B.C. Hydro is also using a definition of

1 trade income for the purpose of this application that is  
2 -- this proposal that are slightly different, or  
3 somewhat different from the one we've used in the past,  
4 and the effect of that is to create a trading  
5 definition, a trading income definition to make it  
6 unlikely that the trade income amount will exceed the  
7 \$200 million figure.

8 So B.C. Hydro's proposal then is essentially  
9 constructed of three parts. It's a Heritage Contract,  
10 it's what we are calling a Heritage deferral account,  
11 and it's got an element of trade income allocation in  
12 it, and together these, we believe that these elements  
13 create a proposal that has three basic outcomes for the  
14 ratepayer. As I mentioned before, they will pay the  
15 full benefit of the system in return for its full costs.  
16 We have a flexibility built into the system that allows  
17 them to take that energy, the 49,000 -- or I'm sorry,  
18 the Heritage Energy that's available to them, in the  
19 form of either energy or in the form of cash. It's a  
20 cash or kind arrangement through the deferral account  
21 and through their flexibility that again is to the  
22 benefit of the ratepayer.

23 And finally the proposal has a -- is for ten  
24 years. The Heritage contract is defined to be in place  
25 for ten years, and so these benefits that I've described  
26 are locked in place with the ratepayers for ten years.

1                   In short then, we believe that our proposal  
2                   does meet the objectives we set out at the beginning of  
3                   this presentation and in our application. It does  
4                   provide secure reliable supply for the ratepayers, and  
5                   it does provide the ratepayers with low rates by passing  
6                   on the full benefit of the Heritage Resources at  
7                   embedded costs, and allowing the full optimization of  
8                   all of B.C. Hydro's resources.

9                   I'll now pass on to Colin Fussell who will  
10                  explain the stepped rates aspects of B.C. Hydro's  
11                  proposal.

12 MR. FUSSELL:   A:   Good morning. The stepped rates, I  
13                  guess, were put forward as part of the Energy Plan. The  
14                  two policy action items that sort of set out the stepped  
15                  rates within the Energy Plan are number 14, which  
16                  suggested under the new rate structures large  
17                  electricity consumers will be able to choose a supplier  
18                  other than the local distributor, and in fact it  
19                  introduces the concept of retail access for large  
20                  electricity consumers.

21                  The other one is policy action 21, which says  
22                  that the new rate structure will provide better pricing  
23                  as to large electricity consumers for conservation and  
24                  energy efficiency, and that suggests a design of a rate.

25                  B.C. Hydro has filed -- on April 30<sup>th</sup> they  
26                  filed a report which looked at the various options that

1           you could use in designing such a rate proposal. On  
2           June 27<sup>th</sup> they put forward a suggestion as to how a  
3           specific rate proposal might be put in place. This is a  
4           B.C. Hydro suggestion. This isn't an application on our  
5           behalf.

6                         If you'd turn to the next page you'll see  
7           sort of conceptually what a stepped rate sort of  
8           pictorially looks like. What you have is a -- there's a  
9           number of items here I'd like to point out. You have a  
10          Tier 2 rate which is the higher rate, which under the  
11          Energy Plan is to be tied to the cost of the new -- I  
12          mean the cost of new supplies of electricity. You have  
13          a historical consumption level and it's referred to as  
14          the customer CBL or customer base line consumption  
15          level, and it's based on sort of historically what the  
16          customer has consumed. You also have a Tier 1 rate  
17          which in this case is -- in our suggestion, is set so  
18          that the customer's bill will not change if his  
19          historical consumption level does not change.

20                        The main principles that we see that are set  
21          out within the Energy Policy, and this is B.C. Hydro's  
22          understanding of the Energy Policy, is that the rate is  
23          to be mandatory. In other words, if the rate is found  
24          to apply to a specific class of customers, the customer  
25          doesn't have a choice. That rate will apply to them.

26                        The other one is bill neutrality, and by bill

1           neutrality we mean that the customer's historic  
2           consumption level or CBL, his bill will not change under  
3           the proposed rate structure.

4                     The other one is income neutrality, and this  
5           is important to other customers, not particularly the  
6           industrial class or the large transmission class. But  
7           it assures that other customers will not be affected by  
8           changes in consumption due to this introduction of this  
9           rate by large industrial users.

10                    And what I'd just like to step through  
11           quickly is how B.C. Hydro has suggested that the Tier 2  
12           rate should be structured, the Tier 1 rate should be  
13           structured, as well as the Tier 1, Tier 2 split; the  
14           retail access principles and the rate treatment for  
15           increased productive capacity, in other words, what rate  
16           would apply to new investment and what rate would apply  
17           if you have a plant that shut down productive capacity,  
18           or how the rate treatment for those plants should occur.

19                    Now, looking at the Tier 2 rate, I mean, the  
20           idea and it goes back to the income neutrality  
21           principle, is that since B.C. Hydro will manage the  
22           consumption changes within the Tier 2 step through  
23           market sales or purchases, B.C. Hydro proposes that a  
24           Tier 2 rate should be based on the one-year market  
25           index. In effect, if B.C. Hydro has to buy more energy  
26           to serve additional demand under the Tier 2 rate, it

1 will do it through market purchases. If consumption is  
2 reduced under the stepped rate proposal, B.C. Hydro will  
3 do that through additional sales within the market.

4 So in order to keep the rate income neutral,  
5 in other words so the cost that B.C. Hydro either incurs  
6 in buying additional supplies or the cost that B.C.  
7 Hydro saves as a result of reduced production or reduced  
8 consumption, we believe that the rate, the Tier 2 rate,  
9 should be tied to a market index which would be an  
10 indication of what those costs are.

11 Tier 1 rate would be set, and it would just  
12 be an arithmetic calculation. The Tier 1 rate would be  
13 set so that the customer's bill does not change at his  
14 historic consumption level. In other words, if you  
15 increased the Tier 2 rate, the Tier 1 rate is reduced  
16 accordingly so that at the customer's CBL his bill will  
17 not change.

18 The Tier 1, Tier 2 split, B.C. Hydro is  
19 proposing a 90/10 split. This came out of some  
20 discussions we've had with customers, including some  
21 input from the Commission over the past month or so,  
22 which suggested that most people believe that a 90/10  
23 split is a reasonable place to start. From B.C. Hydro's  
24 perspective it's a reasonable place to introduce the  
25 rate because it probably -- we could introduce it  
26 relatively simply without a lot of conditions attached

1 to how the consumption is, you know, what the impact on  
2 B.C. Hydro is. And it probably makes it -- so going  
3 back to the income neutrality principle, it probably  
4 makes it reasonably simple to introduce it at that  
5 level, at a 90/10 split.

6 Retail access, I think there's another --  
7 within the Energy Plan, of course, the Energy Plan talks  
8 of creating a new transmission company, the B.C.  
9 Transmission Company. When they take over that  
10 function, they will also be looking at the tariff under  
11 which they operate, the transmission tariff under which  
12 they operate. So B.C. Hydro is recommending at this  
13 time that retail access not be implemented until the  
14 appropriate ancillary service rates are determined after  
15 the B.C. Transmission Company assumes responsibility for  
16 the wholesale transmission service. It would be through  
17 that transmission service tariff that the large  
18 industrial customers gain access to the transmission  
19 system.

20 So we think that given that they're supposed  
21 to be in place within approximately -- or B.C. Hydro  
22 believes that that application which would set the  
23 appropriate ancillary service rates, et cetera, should  
24 be completed before retail access is introduced.

25 And finally just touching on the rate  
26 treatment for new investment, this is one of things that

1 really wasn't addressed within the Energy Plan but I  
2 think is very important, is that, you know, if you have  
3 a new plant is being built, how should the rate apply to  
4 him, I mean to the new plant? And I guess what we're  
5 suggesting is that for new plants, that the average  
6 rate, the average Tier 1, Tier 2 rate would apply until  
7 a new plant has sort of gone through its teething stage  
8 and has determined what its appropriate sort of customer  
9 base line consumption level would be; and at that time  
10 we would introduce the CBL. But until then he would be  
11 operating under the average rate.

12 With respect to additional productive  
13 capacity on an existing plant, we've sort of suggested a  
14 plus or minus 10 percent ban around the customer base  
15 line loan. If they put in investment -- additional  
16 productive capacity that increased consumption above 10  
17 percent, in other words to 110 percent of what their  
18 historic level was, then we would adjust the CBL to  
19 reflect that new investment.

20 Correspondingly, if an existing plant reduces  
21 consumption and reduces consumption below 90 percent of  
22 the historic level, we would look at that reduced  
23 consumption and determine whether in fact it was put in  
24 place, or the consumption reduction followed for some  
25 conservation investment that was put in place. In that  
26 case the customer base line load would probably be

1 unchanged. However, if the consumption reduction was  
2 due to a reduction in production, then the customer base  
3 line level would be reduced accordingly.

4 And I guess, well, that was the final page.  
5 It just reflected on it. So that basically ends my  
6 presentation on stepped rates.

7 MR. SANDERSON: Thank you, Mr. Fussell. Mr. Chairman, this  
8 panel, as I said, is available to answer questions from  
9 anyone in the audience who isn't going to be able to  
10 participate in Vancouver when the more fulsome panels  
11 will be brought forward. So if there's anybody in that  
12 category, the panel would be happy to take any  
13 questions.

14 MR. FULTON: I'll then call out the names of the people who  
15 identify to me are here. Mr. Gillespie, do you have any  
16 questions of the B.C. Hydro Panel?

17 MR. GILLESPIE: No, not yet.

18 MR. FULTON: Mr. Cass?

19 MR. CASS: No, thank you.

20 MR. FULTON: Is there anyone else here who will not be  
21 participating in Vancouver who has questions of this  
22 panel?

23 I have simply one question of clarification,  
24 and Mr. Fussell, in your presentation you referred to  
25 the discussions about the Tier 1, Tier 2 split with the  
26 Commission, and I take it you meant with the Commission

1 Staff as opposed to the Commission proper.

2 MR. FUSSELL: A: Correct.

3 MR. FULTON: Thank you.

4 MR. POTTS: Can I ask just one question?

5 MR. FULTON: Mr. Potts had asked if he could ask a  
6 question. They're participating in Vancouver. Perhaps  
7 I could suggest that he deal with that question off the  
8 record with Hydro. If he wants to get them thinking  
9 about something, then they can think about it off the  
10 record and counsel for JIEFC can ask the question in  
11 Vancouver.

12 MR. POTTS: That's fine.

13 THE CHAIRPERSON: Thank you. I suspect that'll be very  
14 helpful, Mr. Potts.

15 MR. POTTS: Thank you.

16 MR. SANDERSON: Well, thank you very much, Mr. Chairman. I  
17 don't think we have anything more from Mr. Fussell and  
18 Mr. Lusztig unless the Panel has anything for them.

19 THE CHAIRPERSON: No, we will also -- I appreciate Mr.  
20 Fulton's comment with respect to the distinction between  
21 the Commission and Commission staff. Thank you very  
22 much for your presentation.

23 MR. SANDERSON: Mr. Chairman, I have only one other matter  
24 while they are taking their seats, and that is on Friday  
25 late, and I suspect, practically speaking, effectively  
26 this morning, Hydro filed a bunch of material which was

1 responsive to the Commission's procedural order of July  
2 the 9<sup>th</sup>, I think. I understand that didn't get to the  
3 Commission in time that it got circulated within the  
4 Commission in a reasonable timeframe Friday, so we  
5 brought a bunch of copies of that material here. Mr.  
6 Fulton, I know, has it, and we can make more copies  
7 available.

8 I'm told that that will be marked as Exhibit  
9 29, and so maybe I should put that on the record now.

10 It's a letter dated July the 18<sup>th</sup> on my  
11 letterhead, containing responses to some outstanding  
12 information requests and responding more generally to  
13 the July 9<sup>th</sup> letter from the Commission, and as well  
14 identifying the panels of witnesses we'll be calling in  
15 Vancouver next week. So if that could be Exhibit 29  
16 please.

17 THE HEARING OFFICER: Marked Exhibit 29.

18 (LETTER DATED JULY 18 FROM MR. SANDERSON TO BCUC MARKED  
19 EXHIBIT 29)

20 MR. SANDERSON: And that is all I have this morning, Mr.  
21 Chairman, thanks.

22 THE CHAIRPERSON: Thank you.

23 MR. FULTON: As for the public presentations, Mr. Chairman,  
24 the first individual on my list is Mr. Robert Gillespie  
25 who is a councillor for the Municipality of Saanich.  
26 Mr. Gillespie prefers not to be sworn, so if I could ask

1           him to come forward and take a seat.

2                           And if you could state your name for the  
3           record, Mr. Gillespie, and who you are here  
4           representing.

5   MR. GILLESPIE:    Standing or sitting?

6   MR. FULTON:       Sitting would be fine, sir, thank you.

7   MR. GILLESPIE:    Thank you.

8   THE CHAIRPERSON:  Is that your preference, Mr. Gillespie?

9   MR. GILLESPIE:    Pardon?

10  THE CHAIRPERSON:  Is it your preference to sit?

11  MR. GILLESPIE:    Yes.

12  **EVIDENCE IN CHIEF:**

13  MR. GILLESPIE:    A:  I am Robert Gillespie.  I'm a councillor  
14                   of Saanich and I've been elected for the period of  
15                   fifteen years -- elected, not appointed by anybody,  
16                   elected.  So I represent a fair amount of people that  
17                   are concerned for the future of B.C. Hydro.  My concern  
18                   is the energy for our future.

19                   I've been involved with B.C. Hydro and B.C.  
20                   Electric for well over forty years.  I've been a  
21                   contractor and I know how originally B.C. Electric  
22                   operated for the shareholders and the few.  And then  
23                   finally we created B.C. Hydro and that was a great thing  
24                   for this province, and because it made it even and it  
25                   spread it across this province, even for everyone, not  
26                   like under the B.C. Hydro [sic] system.  I'll make very

1 clear that.

2 I had a letter sent to me from the premier  
3 asking me to speak out strongly about the direction and  
4 the new energy section, and I have some very deep  
5 concerns, gentlemen, between what I used to understand  
6 about B.C. Electric and Accenture. I'm very disturbed.  
7 And I understand also that forty years we've built a  
8 system by the people for the people, and the people had  
9 to guarantee it. And it disturbs me where I see that it  
10 could be going. Because the *Crown Corporation*  
11 *Protection Act*, fundamentally a part of the economic  
12 development of B.C. and assets to provide the  
13 infrastructure for the economic growth in British  
14 Columbia. And I fear we all agree with that.

15 But then we swing into Heritage Contract  
16 Stepped Rates which we just heard, and access to the  
17 transmission IPP. Now, when you -- transmission, I know  
18 a fair amount about transmission lines, and when people  
19 or companies tap into it, then I'm asking the question:  
20 Do we go into a market rate base? Because we're not  
21 just people in British Columbia where this power will be  
22 going; it'll go to our well friends to California [sic].

23 I understand by the news in the paper the  
24 other day, that surplus power is currently made  
25 available. Surplus power currently made available to  
26 Powerex to sell. I think that's a true statement. My

1 question would be Powerex. Powerex developed in a  
2 bidding method, in trading games. Is that a true  
3 statement? In the year 2000-2001 was B.C. Hydro board  
4 of directors aware of the Powerex activities aimed at  
5 manipulating the energy prices which we're being charged  
6 with?

7 I certainly like the old B.C. Hydro. Is  
8 Powerex and others are under an investigation of the  
9 gaming and the behaviour? And I think they are.

10 Energy to me is not like lumber or coffee or  
11 a pig in a poke. Energy is something we, all of this  
12 province, live by day in and day out.

13 Another question. When prices are high, B.C.  
14 Hydro produce electricity that Powerex sells. That's  
15 the way I understand it. Then when the U.S. prices are  
16 low, Hydro conserves its water and Powerex buys cheap  
17 power from the U.S. That's a question; I understand it  
18 is true.

19 B.C. Hydro forecasts new sources of energy  
20 will be required by 2010 -- I thought it was 2007, now  
21 here it's 2010 -- to meet the domestic demands, and  
22 that's true in some areas. There's 1100 megawatts and  
23 Site C is over surplus power. I hope it belongs to us.  
24 And that's probably got enough power for 500,000 B.C.  
25 households. And I have been involved for a long time in  
26 conserving of water, and also in conserving of

1 electricity. So it's another portion of at least 10  
2 percent that we can educate the people.

3 Transmission access to the IPPs for within  
4 B.C. Transmission and selling to the U.S. is my rate  
5 stays here in British Columbia, or is there a different  
6 rate for the customers in the United States of America?  
7 Because I think there's agreement, NAFTA comes into  
8 this, and I would not accept a market-based system  
9 because my rate'll go up to the benefit of others.

10 Schedule A, Terms of Reference. In the Terms  
11 of Reference Booklet they sent me, page 2, lines 11 and  
12 14 says: "Private ownership and more private sector  
13 opportunities." What does this mean? I'm looking for  
14 opportunities for the people here in this province.

15 Lines 26, 27 and 28: "Heritage Contract be  
16 created between B.C. Hydro and generation line of  
17 business," that's Accenture, and its distribution line  
18 of business. If you have partners, where does the B.C.  
19 Hydro customer fit into this? Is it a master plan for  
20 some shareholders? I understand Accenture has  
21 shareholders in the system of 2,500 people. That won't  
22 benefit me. And I do not want to happen what happened  
23 in Alberta, Ontario, and other areas where deregulation  
24 came in effect.

25 Under the same document that I had under the  
26 Heritage Contract, it's page 3, line 4, 5 and 6, energy

1 suppliers have access to transmission and are providing  
2 energy for all opportunities that are need -- of their  
3 needs, based on principles to be establish. I  
4 certainly, gentlemen, would like to know what these  
5 principles are going to be established and when. I'm  
6 entitled to this. It's been a real struggle to find out  
7 any information of what's going on. A real struggle.  
8 This is wrong. We own this company. We own it. I'm a  
9 shareholder of it. Now, I need -- I want more respect.

10 Accenture deal without any public review, and  
11 I went through that and it was very hard to get  
12 information. I went to all the politicians, MLAs,  
13 couldn't get a word. Actually I was called a liar  
14 because I made a statement.

15 Market rate base, market rates, and I just  
16 said that Ontario and Alberta, and it has been a vast  
17 disgrace where people ended up with candles and then cut  
18 off their gas or electricity.

19 The other question I have of the power, the  
20 coal power plants that could be generated here in  
21 British Columbia. Is that a new policy, and if it is,  
22 where does it fit into the environment in the future?

23 I end up, gentlemen, by saying our return on  
24 our investment, I'm looking for the return on the  
25 investment that we have put in for many years, we, the  
26 people of British Columbia guaranteed it. Win or lose,

1 we guaranteed it and we're not getting that respect.

2 And this belongs, this belongs, number one,  
3 to the province or people of British Columbia first, but  
4 I'm very very worried, gentlemen, so if we've tied up  
5 the transmission, and I know about transmission lines,  
6 when you've tied that up and it starts to flow, then  
7 there's a market base and we get lost in the shuffle.

8 So I appreciate being here today and I've  
9 been working for the last few months, or the last six  
10 months, to get as much information as I possibly can on  
11 the new direction for B.C. Hydro. And there's not just  
12 me. I've been all over and there's many people very  
13 concerned. I'm not getting into politics, I'm just  
14 getting into the basic where we're going. And I don't  
15 want to go like Alberta or Ontario, I'll tell you that.  
16 Thank you.

17 THE CHAIRPERSON: Thank you, Mr. Gillespie. My guess is  
18 you spend many evenings in meetings, and this was yet  
19 another effort on your part. We very much appreciate  
20 your presentation. Thank you.

21 MR. GILLESPIE: I do. I spent many many evenings -- last  
22 year I was on fourteen different committees.

23 THE CHAIRPERSON: Yes, I'm not surprised. Thank you.

24 MR. FULTON: Now, Mr. Gillespie, before you move away, are  
25 you prepared to answer any questions that people might  
26 have?

1 MR. GILLESPIE: A: I certainly am.

2 MR. FULTON: Does anyone in the audience have any questions  
3 of Mr. Gillespie? No? No questions.

4 COMMISSIONER BRADLEY: Can you be more specific? You  
5 discussed the fact that transmission is tied up. I  
6 didn't understand what particular policy has tied up  
7 transmission.

8 MR. GILLESPIE: A: Well, when the IPP hook into our  
9 existing transmission systems, they're looking for  
10 benefits. They have an investment. But does the market  
11 rate change? Because you're going to be dealing, you're  
12 going to be selling it across the line. Does it get  
13 into the NAFTA agreement? If it does, I can't do  
14 anything about my rate change. It will be tied to that  
15 market rate and a very dangerous situation. I don't  
16 mind wholesale here and retail down the line, but I will  
17 not take the high rate across for the benefit of a few  
18 new investors.

19 COMMISSIONER BRADLEY: Would you consider the new IPPs  
20 as -- they have to be considered as distinct from the  
21 Heritage Resources, do they not? In other words --

22 MR. GILLESPIE: A: Yes.

23 COMMISSIONER BRADLEY: -- do you see the possibility of  
24 developing more Heritage Resources that would be more  
25 effective and more cost-effective than the IPPs?

26 MR. GILLESPIE: A: Yes, more of that development within

1 the structure.

2 COMMISSIONER BRADLEY: And how would that take place?

3 MR. GILLESPIE: A: Well, you'd have to start at Site C,  
4 start in those areas. There's quite a future of  
5 developing that and finishing it. There's obviously  
6 other areas, but I can see that what we have in this  
7 province is unique, unique than any other area probably  
8 in North America. Third lowest rate, so other people,  
9 other investors can see this opportunity. I'm saying  
10 for the people of British Columbia, make it very very  
11 clear, we put up the regional investment, we put up the  
12 guarantee, and we should have the respect.

13 THE CHAIRPERSON: Commissioner Hall?

14 COMMISSIONER HALL: I have no questions.

15 THE CHAIRPERSON: Thank you, and I have none.

16 MR. GILLESPIE: A: Thank you very much. I appreciate  
17 that, panel.

18 THE CHAIRPERSON: Okay.

19 (WITNESS ASIDE)

20 MR. FULTON: The next presentation is from Norske Skog  
21 Canada Limited, and Mr. Dennis Fitzgerald will speak to  
22 that presentation, Mr. Chairman, and Mr. Fitzgerald has  
23 provided me with written copies of the presentation and  
24 I'll provide copies to the Commission Panel and to the  
25 Hearing Officer at this time and distribute them through  
26 the room as well.

1 THE CHAIRPERSON: The Commission Panel has copies.

2 MR. FULTON: All right, and then if this document might be  
3 marked Exhibit 30.

4 THE HEARING OFFICER: Marked Exhibit 30.

5 (NORSKE SKOG CANADA LIMITED PRESENTATION BY MR.

6 FITZGERALD MARKED EXHIBIT 30)

7 **DENNIS FITZGERALD, Affirmed:**

8 **EVIDENCE IN CHIEF:**

9 MR. FITZGERALD: A: Thank you very much and I would be  
10 happy to answer any questions there may be at the  
11 conclusion of this presentation. I have handed out  
12 copies, so basically what I would like to do is refer to  
13 my notes, and at the end of it if there are any  
14 questions, I'd be happy to answer them on the basis of  
15 the notes.

16 So good morning and thank you for the  
17 opportunity to provide input to this Commission.

18 NorskeCanada is a paper and pulp manufacturer  
19 with four large operations on Vancouver Island and the  
20 Sunshine Coast. We are also major consumers of energy.  
21 And while we provide as much as possible of our energy  
22 internally, we also spend \$200 million each year for  
23 outside energy supplies, of which about three-quarters,  
24 70 to 75 percent, roughly, of that is electricity from  
25 B.C. Hydro. New electricity rate structures are  
26 therefore very important to us.

1                   We understand from B.C. Hydro that we are  
2                   their largest customer by a factor of two. As important  
3                   as we are to them, electricity makes up 20 percent of  
4                   our newsprint product costs, second only to fibre as a  
5                   cost element. So it is true that our supplies of  
6                   electricity from B.C. Hydro are also very important to  
7                   us.

8                   NorskeCanada, as is the case for most pulp  
9                   and paper mills because of the 24/7 nature of our  
10                  operations, have very desirable electrical load  
11                  characteristics that maximize the use of the utility  
12                  facilities needed. Our loads are relatively constant,  
13                  unlike commercial and residential loads that vary  
14                  dramatically within hourly and daily cycles. Although  
15                  largely untapped, there is significant flexibility  
16                  possible in our operations through load management  
17                  techniques that can optimize around the utility supply  
18                  system, with the potential to reduce their costs of  
19                  supply.

20                  We would like to confirm our broad level of  
21                  support for the objectives and policy actions outlined  
22                  in the Energy Policy announced last November. We  
23                  believe the government got it right in defining a  
24                  framework that addressed all of the stakeholder needs.  
25                  Now it will be up to B.C. Hydro, customers such as  
26                  ourselves, other ratepayers and this Commission, to come

1 up with a more detailed design that converts the broad  
2 framework into rate structures that meet the objectives  
3 of the Energy Policy.

4 The first principle that we ascribe to is  
5 that rates should always be tied to costs. Prices that  
6 recover the costs of providing a service plus a margin  
7 will ensure that ratepayers pay no more than is  
8 necessary, and that shareholders, in this case the  
9 province, receive an adequate return on capital  
10 employed. As the Heritage supplies represent a unique  
11 set of low-cost resources, the costs associated with  
12 providing those resources should be used to determine  
13 the rates that are charged to receive that service.

14 As well as pricing, volumes of the blocks  
15 within a stepped rate structure need to be determined.  
16 Heritage resources have been given a very broad  
17 definition, almost to the point of making up 100 percent  
18 of the required supply. If the first block was  
19 comprised of the lowest-cost Heritage hydro from within  
20 the Heritage group, up to say 80 to 90 percent of the  
21 total supply, with everything else in the second and  
22 higher cost block, an appropriate split of volume and  
23 price between the two blocks would result.

24 One of the Energy Policy actions is to offer  
25 customers more flexibility and choice of supplier. Most  
26 customers will want to retain their access through B.C.

1 Hydro to the first block, or Tier 1, but there may be  
2 some choices possible in the second block, Tier 2. We  
3 believe that a simple system will be the best one and  
4 will favour a set of rules that follow cost-based  
5 principles, allow choice, and are easy to administer.

6 We also believe that fair access to and rates  
7 for transmission will be an important element of a  
8 stepped rate structure. As we are a year or more away  
9 from new rates for transmission, it is suggested that  
10 the demand component of Rate Schedule 1821 serve as  
11 proxy to allow stepped rates to be implemented more  
12 quickly. Fair access to transmission will also allow  
13 customers such as ourselves, who from time to time have  
14 self-generation surplus to our needs, gain value at no  
15 disadvantage to ratepayers.

16 The ability to aggregate loads is considered  
17 by NorskeCanada to be a mandatory feature of the new  
18 rate structure. It is imperative that customers with  
19 multiple sites be permitted to aggregate their Tier 1  
20 and Tier 2 supplies in the same way that natural gas and  
21 many other purchases are made today, and there is no  
22 valid rationale for not doing so. Without aggregation,  
23 larger opportunities to reduce load for a given capacity  
24 will go uncaptured, and the Energy Policy objectives of  
25 conservation and efficiency will not be maximized.

26 Aggregation will also provide system benefits

1 through customers that are able to coordinate production  
2 from multiple plants, will help reduce costs associated  
3 with system expansion, and ultimately will lower rates.

4 NorskeCanada believes that new customers  
5 should be encouraged to locate their businesses in B.C.  
6 by giving them a share of the Heritage supply.

7 Similarly, existing customers who increase their  
8 capacity should be allowed an increased share of  
9 Heritage, and the opposite would be true for customers  
10 who reduce capacity.

11 The rules around customer allocations of  
12 Heritage have yet to be set, but as the supply is fixed  
13 it could be argued that it is the customers themselves  
14 who should play a deciding role in the allocations as no  
15 one else is impacted.

16 In short and to close, NorskeCanada is  
17 excited about the prospect of restructured rates that  
18 will maintain our ability to access low cost supplies,  
19 will provide a significant element of choice and promote  
20 efficiency in our incremental supplies, and will  
21 encourage and promote new IPP businesses to the benefit  
22 of all. We look forward to assisting with the details  
23 and are confident that with careful attention to these  
24 next stages of design, we will end up with rates and  
25 structures that meet the full intent of the Energy  
26 Policy objectives and will be of benefit to all.

1                   Thank you again for the opportunity to speak  
2                   to this Commission and to provide our input. As I  
3                   mentioned before, I'd be happy to take any questions you  
4                   may have or Mr. Fulton may have.

5 MR. FULTON:    Is there anyone present who has questions of  
6                   Mr. Fitzgerald? Mr. Sanderson?

7 MR. SANDERSON: I hope not, Mr. Fulton and Mr. Chairman.  
8                   That is, I'm assuming that what Mr. Fitzgerald has said  
9                   here sort of stands in parallel, if you want, to what  
10                  the Hydro Panel said. That is, either Norske or the  
11                  JIESC, I am assuming, will be presenting these points  
12                  and I'm sure more, more fully in Vancouver. And it had  
13                  been my intention at least to address these issues with  
14                  that panel at that time. So I don't want to take up  
15                  this proceeding with questions that I could better cover  
16                  there. But I'd just ask for Mr. Fitzgerald's  
17                  confirmation that either he or a representative of the  
18                  JIESC will be addressing these points more fully in  
19                  Vancouver.

20 MR. FITZGERALD: A: Yes, that is correct, and it may go  
21                  without saying, but as the major member of JIESC we will  
22                  also be participating, and as a company we see our needs  
23                  and objectives very parallel and aligned with JIESC as  
24                  well.

25 MR. SANDERSON: All right. Well, especially in the absence  
26                  of Mr. Wallace, I'd be much more comfortable addressing

1 my questions next week in that case.

2 THE CHAIRPERSON: Mr. Fitzgerald, are you planning on  
3 appearing in Vancouver as part of the panel with the  
4 JIESC?

5 MR. FITZGERALD: A: At this point in time JIESC, and Mr.  
6 Potts may wish to speak to this more, is intending to  
7 field an expert panel. At this point in time we are not  
8 anticipating fielding a panel of members of JIESC or  
9 customers themselves, but I think that's still to be  
10 determined.

11 THE CHAIRPERSON: I also have a number of questions, but  
12 I'm also sensitive to the issues that Mr. Sanderson  
13 raises. As Mr. Sanderson has indicated, I'm thinking  
14 that it might better be in Vancouver. The regional  
15 inquiry sessions are an opportunity for us to hear from  
16 people who are unable to make the journey to Vancouver.  
17 It may very well be helpful for the JIESC to make a  
18 customer panel available in Vancouver. And I think with  
19 that comment I'll leave it with you and the JIESC to  
20 make a determination as to whether or not a customer  
21 panel would be a step that the JIESC would like to make.  
22 So I'll very much leave it with to make that call, but  
23 I'll also leave my comment with you too.

24 MR. FITZGERALD: A: No, I appreciate that comment and I  
25 think we would be quite happy to field the panel if you  
26 think it would be of assistance. Certainly we're quite

1 prepared to do that.

2 THE CHAIRPERSON: Thank you.

3 MR. FULTON: Thank you, Mr. Gillespie, I have no questions.

4 MR. FITZGERALD: Mr. Fitzgerald.

5 MR. FULTON: Or Fitzgerald, sorry.

6 THE CHAIRPERSON: May I add to my comments with respect to  
7 a customer panel from JIESC, that I've just conferred  
8 with Commissioner Bradley and Commissioner Hall, and  
9 they echo my comments with respect to questions that  
10 they may have of such a panel if it was to appear in  
11 Vancouver.

12 (WITNESS ASIDE)

13 MR. FULTON: Thank you, Mr. Chairman. The next presenter  
14 is Mr. Ian Cass. Mr. Cass, if you'd like to come  
15 forward.

16 MR. FULTON: Mr. Cass has chosen not to be sworn. So if  
17 you could state and spell your last name for the record,  
18 please, Mr. Cass?

19 MR. CASS: Good morning. My name is Ian Cass, think of  
20 "ass" and add a "C" in front of it.

21 **EVIDENCE IN CHIEF:**

22 MR. CASS: A: Academically I'm a certified industrial  
23 manager from McGill and my background is essentially  
24 contact management, basically in the aerospace industry  
25 and I've been retired for more years that I care to  
26 think about.

1                   The Heritage B.C. Hydro is essentially  
2                   supplied to people of B.C. with low cost reliable clean  
3                   electric power for almost half a century, and this has  
4                   been possibly largely through the wisdom and  
5                   farsightedness of our forefathers and leaders who  
6                   harness the power of our river systems to drive water  
7                   pressure turbines. And the continuation, and even the  
8                   expansion of this process is in our hands, if we have  
9                   the will and the determination to do so.

10                   The idea that this publicly owned and  
11                   successful utility can be torn asunder at the  
12                   instigation of a new premier and a few advisors is, in  
13                   my mind, a tragedy. I think it requires a full  
14                   investigation, which it's not yet had, and some real  
15                   answers instead of the evasiveness and optimism shown to  
16                   date. Specifically, why was the decision to totally  
17                   restructure this public utility taken without reference  
18                   to the MLAs at large -- I might say I've introduced many  
19                   of the MLAs on this matter -- and no vote in the house,  
20                   nor any public consultation whatever? And how can the  
21                   savings to be made be announced as a positive advantage  
22                   when no cost benefit analysis has been done and in fact  
23                   cannot be done as the performance of Accenture is  
24                   unknown?

25                   We don't know what was the reason for  
26                   bringing in a third party, Accenture, and who decided

1           that this work package should be farmed out? We know  
2           that the memorandum of understanding, of which I had a  
3           draft, was signed by a Hydro member but the decisions  
4           were made long before that. Constant reference is made  
5           to B.C. Hydro in this matter, but there is little  
6           question in my mind that the moving forth behind this  
7           move is Premier Campbell's office and a few advisors  
8           such as Larry Bell and Minister Neufeld.

9                         In the release draft of the memorandum of  
10           understanding, significant details -- in fact all  
11           significant details in my mind were deleted on the  
12           grounds that this was going to fall on the basis of a  
13           contract whose negotiations were confidential. This  
14           contract has now been executed and involves significant  
15           public expense. When are the details to be released?

16                        The claim that the contract has been signed  
17           with Accenture for a ten-year period at a cost of 1.45  
18           billion and will save B.C. Hydro \$250 million is just a  
19           newspaper headline. The reality is that Accenture is  
20           taking over much of the administration workload formally  
21           done by B.C. Hydro staff for reasons which remain  
22           unclear. In the past Hydro performed these tasks  
23           reasonably well, and their personnel will continue to do  
24           so under a different boss and with an added layer of  
25           supervision, management and lines of communication. If  
26           Accenture do not perform in the manner required and do

1 not achieve any savings, which is quite possible when I  
2 look across the country, we will have another expensive  
3 contract on our hands and no easy exit.

4 The record of service providing companies in  
5 North America, particularly in the last few years, is  
6 not impressive and seems to be a somewhat incestuous  
7 often politically underwritten tendency of the present  
8 day bureaucratic mind. The basic question remains,  
9 after the corporate ballyhoo is gone, why are we doing  
10 this? Why are in fact disintegrating a successful  
11 integrated utility which has served the people of B.C.  
12 well for 50 years? This is another example of  
13 administration, PR work, advertising, finance, and  
14 corporate strategy gained such importance while the  
15 front line real task of electrical generation,  
16 distribution and maintenance takes a back seat.

17 One must ponder on the possibility that all  
18 Accenture involvement was a heavy handed aim at dilution  
19 of union power and labour costs. If that is the case,  
20 we are jumping out of a frying pan into a much hotter  
21 fire. Furthermore Accenture will not contribute one  
22 watt of additional electricity nor improve reliability,  
23 and will almost certainly in my judgment increase the  
24 cost of doing business.

25 Coming to the government's policy Energy Plan  
26 issued in November of 2002 in which these issues were

1 identified, the first year, I think they've already been  
2 mentioned. I'll re-mention them. One, low electricity  
3 rates and public ownership of B.C. Hydro; two, secure  
4 and reliable supply and development of methane, coal,  
5 oil and gas resources.

6 I'm going to make some comments applicable to  
7 the whole of the province, followed by a consideration  
8 of Vancouver Island's special and certainly more urgent  
9 concerns since we are almost entirely dependent on power  
10 imported from the Mainland.

11 On the provincial scene, low electricity  
12 rates and public ownership are what we have enjoyed for  
13 many years under different governments. The burning  
14 question now before us is will we continue to enjoy such  
15 rates when gas-fired generation replaces hydro in a  
16 large part of the system, and an expensive subcontractor  
17 is hired to perform much of the administration. We know  
18 that gas is more costly than hydro. We have no  
19 guarantees regarding Accenture's performance.

20 Government's ambitions for world market sales  
21 will, as we have found out, necessitate domestic charges  
22 in line with exports. I believe it is foolishly  
23 optimistic to assume that these plans will permit  
24 continued low power rates, using the word "low power  
25 rates" in the context in which we have used it in the  
26 last many years.

1                   On the matter of public ownership, which we  
2                   are assured will continue, I personally am no longer  
3                   clear what the government has in its mind when it uses  
4                   that phrase. Since Hydro was a public company in 2002,  
5                   it is difficult to understand how the government finds  
6                   the authority to make major changes in the company's  
7                   structure, objectives and method of operation without  
8                   any reference to or mandate from the people of the  
9                   province or any debate or open vote of the government.  
10                  I believe that the government's claim that their energy  
11                  plan will ensure low rates, public ownership, secure,  
12                  reliable supply, and environmental responsibility are  
13                  entirely spurious. Low cost clean power comes from  
14                  water driven generation which is evident of our  
15                  experience of the past many years.

16                  The government's energy plan contained no  
17                  mention of assessing hydro expansion but focuses instead  
18                  on oil, gas, coal and methane, all of which are finite,  
19                  expensive and polluting. Surprisingly, consideration of  
20                  Site C on the Peace River, which I understand much of  
21                  the engineering has been done, is not even mentioned.

22                  There are many other weaknesses in the Plan,  
23                  but I understand my time is limited so I now wish to  
24                  address briefly the specific problems of Vancouver  
25                  Island and the very vulnerable position we shall be in  
26                  if the cable system which carries 80 percent of the

1 power to this island is allowed to fall into disrepair.

2 There is nothing, and I must repeat nothing,  
3 even in the active planning stage which will produce  
4 enough electric power to replace this cable supply  
5 system. That is with or without the proposed Nanaimo  
6 project and the new pipeline. This plant plus the one  
7 recently commissioned in Campbell River and including  
8 all other on-Island sources, will be able to produce a  
9 total of approximately 950 megawatts. Without Nanaimo,  
10 the figure is around 700 megawatts. The peak load on  
11 the Island right now is 2,100 megawatts and is rising.  
12 If the cable system fails, as it did last December, and  
13 we found out very quickly, we are faced with a disaster.

14 It is clear that the maintenance of the cable  
15 system is top priority. Amazingly, in an interview  
16 reported in the *Times Colonist* on June 25<sup>th</sup>, a spokesman  
17 from B.C. Hydro was saying that the cable systems which  
18 provide the Island with 80 percent of its power are  
19 nearing the end of their usefulness. That is an  
20 incredible statement. Without the cable system we are  
21 out of power and no plan displayed by this government so  
22 far changed that statement. The cable system needs to  
23 be refurbished, and that work is vastly more urgent and  
24 important than completion of the Nanaimo gas-fired  
25 plant, and would probably cost approximately the same  
26 amount of money.

1                   On the subject of cables, it seems that the  
2 high voltage DC cables in the system are considered  
3 expendable since direct current transmission does not  
4 fit future plans. It may be useful to point out that  
5 HVDC lines still have two basic advantages, lower power  
6 loss than alternating current and less cost to  
7 construct. It might be informative to some to know that  
8 Manitoba Hydro have already constructed high capacity  
9 Radisson converter stations which readily convert  
10 alternating current to DC current or vice versa.

11                   To conclude, furthermore, in plans for the  
12 future I believe it would be prudent to attempt to  
13 located gas-fired plants as close as possible to the  
14 source of gas. Pipelines have always been a contentious  
15 issue in Canada, as those of us who have long memories  
16 on the Federal scene will recall.

17                   In conclusion, Mr. Chairman, the dramatic  
18 downgrading of B.C. Hydro as an integrated successful  
19 utility, the move from water generation to gas, the  
20 hiring of an outside corporate body to administer a B.C.  
21 public utility and most dangerous of all, the neglect of  
22 the cable supply systems on which this Island is totally  
23 dependent, leave us with only two options. The  
24 government must change its plans or the people must  
25 change the government.

26                   Thank you.

1 MR. FULTON: Mr. Cass, are you prepared to answer any  
2 questions that people may have of you?

3 MR. CASS: A: I certainly am.

4 MR. FULTON: Does anyone have any questions of Mr. Cass? I  
5 have no questions, Mr. Chairman.

6 THE CHAIRPERSON: Thank you.

7 MR. FULTON: Mr. Cass, if you'd just wait, the Commission  
8 may or may not have some questions.

9 THE CHAIRPERSON: No, we do not. Thank you, Mr. Cass.

10 MR. CASS: A: I had to rush here and I was able to make  
11 copies of this.

12 MR. FULTON: All right, Mr. Cass, what we will do then is I  
13 will have your presentation marked an exhibit so that  
14 it's available to everyone. So if you want to leave a  
15 copy with me. And if that might be marked Exhibit 31.

16 MR. CASS: Very good.

17 THE HEARING OFFICER: Exhibit 31.

18 (PRESENTATION OF MR. CASS MARKED EXHIBIT 31)

19 MR. FULTON: Mr. Chairman, I'm in your hands as to the  
20 morning break. We would normally break at this time. I  
21 understand that the Regional District of Port Alberni-  
22 Clayoquot is here, so whatever your wishes are.

23 THE CHAIRPERSON: Let's take a fifteen minute break.

24 MR. FULTON: Thank you.

25 **(PROCEEDINGS ADJOURNED AT 10:17 A.M.)**

26 **(PROCEEDINGS RESUMED AT 10:32 A.M.)**

1 MR. FULTON: Mr. Chairman, before we hear next from the  
2 Regional District of Alberni-Clayoquot, I had one  
3 preliminary matter and that relates to an application  
4 that was made late Friday afternoon by Mr. Bois on  
5 behalf of Aquila, UBC and the City of New Westminster to  
6 obtain from the Commission an extension for the filing  
7 of evidence on behalf of those intervenors to Wednesday  
8 of this week. I have discussed the matter with Mr.  
9 Sanderson and B.C. Hydro agrees to the extension, so  
10 it's over to the Commission then for the final  
11 determination as to whether or not the extension would  
12 be granted.

13 THE CHAIRPERSON: Thank you, and thank you to B.C. Hydro.  
14 That will be fine. The extension is granted.

15 MR. FULTON: I'd next like to call the representatives of  
16 the Regional District of Alberni-Clayoquot, and the  
17 Regional District, Mr. Chairman, is represented by its  
18 Chair, Mr. Derek Appleton, and Ms. Janet Schlackl. Mr.  
19 Appleton and Ms. Schlackl will be familiar to you, Mr.  
20 Chairman, because they came and made a presentation at  
21 the VIEC hearing in Nanaimo several weeks ago.

22 THE CHAIRPERSON: Yes, sir, good morning.

23 MR. APPLETON: Good morning.

24 MS. SCHLAKO: Good morning.

25 **JANET SCHLACKL, Affirmed:**

26 **DEREK APPLETON, Affirmed:**

1 MR. FULTON: Mr. Chairman, the evidence of the Regional  
2 District is found at Exhibit 13 which is the submission  
3 of the Regional District dated June the 5<sup>th</sup>, 2003, and at  
4 Exhibit 20 which is the Regional District's response to  
5 the BCUC Staff IR No. 1, and Exhibit 20 is dated June  
6 the 26<sup>th</sup>, 2003.

7 MR. FULTON: Mr. Appleton, on behalf of the Regional  
8 District, do you adopt the submission Exhibit 13 and the  
9 response to the BCUC Staff IR Exhibit 20 as the evidence  
10 of the Regional District before this Commission?

11 MR. APPLETON: A: Yes, I do.

12 MR. FULTON: Thank you. If you would like to then make  
13 your presentation.

14 **EVIDENCE IN CHIEF:**

15 MR. APPLETON: A: Thank you. I'd like to just summarize  
16 the submission if I could please.

17 The decline in resource-based industries  
18 during the past decade has severely impacted our  
19 community, prompting a need for economic diversification  
20 with a view to sustaining existing industry business and  
21 attracting new investment. We believe power is a key  
22 component to the economic stability and growth of our  
23 region. The Regional District of Alberni-Clayoquot on  
24 behalf of the City of Port Alberni, the Port Alberni  
25 Port Authority, the Port Alberni Labour Council, and the  
26 member communities Ucluelet, Tofino, and electoral areas

1 including Banfield wishes to address the following  
2 issues of concern opposed to B.C. Hydro's proposal  
3 regarding Heritage Contract, stepped rates, and access  
4 principles.

5                   Number 1: Economic Development Concerns  
6 Related to the Security of Power Supply. Small  
7 resource-based communities on Vancouver Island are faced  
8 not only with the market threats, soft lumber agreements  
9 and regulatory process changes to traditional economic  
10 sectors, but have to deal with the resulting shrinking  
11 tax base. The community demand for services in  
12 operational dollars has not declined. The shift in  
13 economic base has resulted in industry closures, and to  
14 some degree, population decline. The loss of the tax  
15 base results in fewer paying more, placing greater  
16 burden on existing industry. This shift in financial  
17 burden poses a significant risk to communities who are  
18 unable to augment their economic base to provide a  
19 greater share of the tax load. An inability to access  
20 more power on Vancouver Island severely curtails the  
21 potential for any new industrial development.

22                   Number 2: Fair and Equitable Access to  
23 Heritage Power for Vancouver Island Communities. The  
24 Heritage resources are available now. Vancouver Island  
25 has been identified as one of the areas in B.C. facing a  
26 critical power shortage in the near future. The B.C.

1 Hydro proposal provides for a bundled service without  
2 the security of allocation to the Heritage energy for  
3 any area of B.C. B.C. Hydro seems to suggest in both  
4 their Vancouver Island Generation Plant application and  
5 recent articles in the media, that the power needs on  
6 Vancouver Island will be met by some form of gas fossil  
7 fuel generation.

8 How will Vancouver Island communities be  
9 assured of the benefits of the Heritage resources? An  
10 embedded pricing formula will not guarantee the right of  
11 access to the energy. What guarantee do Island  
12 communities have that they will indeed receive fair and  
13 equitable access to Heritage energy in a timely fashion  
14 and not be subjected to embedded rates that continue to  
15 rise due to the increased use of IPP generated power.

16 The B.C. Hydro proposal does not include the  
17 transmission infrastructure currently in place and owned  
18 by B.C. residents. The proposal allows the rates to be  
19 set for Heritage rates to be determined to the gate of  
20 generation facilities. We would argue that the  
21 transmission of power on the existing grid should be  
22 included in the Heritage resource, and as such included  
23 in the rate schedule.

24 The Heritage Contract clearly excludes power  
25 generated from the downstream benefits associated with  
26 the Columbia River Treaty. Mr. Neufeld emphatically

1           advised this community that the Canadian entitlement is  
2           owned by the province, not B.C. Hydro, and is available  
3           for purchase by B.C. Hydro. The B.C. Hydro proposal  
4           excludes this energy in its estimate of Heritage power,  
5           thereby not making it available for use in the province  
6           to assist with the business expansion and economic  
7           development opportunities.

8                         The Regional District advocates that the  
9           downstream benefits should be directed to B.C. for  
10          domestic use to ensure that Heritage beneficiaries  
11          receive the full benefits of generation of the Heritage  
12          resources and first call on available Heritage resource  
13          capacity.

14                        The energy policy under the heading of  
15          Solutions Policy Action Number 1 indicates the intention  
16          of the Heritage Contract to preserve the benefits of  
17          B.C. Hydro's existing generation. If the Heritage  
18          Contract is not tied to the step rate designs, how can  
19          B.C. Hydro ensure that the 1821 customers benefit from  
20          the Heritage resources?

21                        Number 3: Allocation of Heritage Power to  
22          New Commercial Industrial Customers. Clearly, if we are  
23          not able to provide power at a competitive long-term  
24          rate, attraction or expansion of industry is unlikely.  
25          But if we are not able to provide power, the opportunity  
26          for economic growth does not exist. We suggest that the

1 Canadian entitlement already in the grid be included in  
2 the 49,000 gigawatts proposed as the quantity of  
3 Heritage energy available, be redirected for use within  
4 the province. The power is hydroelectrically produced  
5 as in the grid and will help to ensure low-cost  
6 electricity embedded rates for the residents and  
7 industry of B.C.

8                   Number 4: The Direction of Surplus  
9 Capacity, i.e. the determination of quantity to be  
10 traded or sold by Powerex and to whom. The sale of  
11 surplus power appears to be available for outside of the  
12 province only. New industrial customers requesting  
13 power supply bringing new investment to the province  
14 have been consistently advised that there is no surplus  
15 power for sale in B.C. If in fact there is a surplus of  
16 power, including the Canadian entitlement, it must be  
17 made available to British Columbia communities to assist  
18 with economic development and employment replacement.  
19 Allocation of Heritage power to new commercial  
20 industrial customers is not addressed in this proposal,  
21 which suggests the opportunity cost has not been  
22 appropriately considered and does not consider future  
23 economic development opportunity. The distinct lack of  
24 reference to new industrial demand for power, and the  
25 obvious omission of economic development concerns in  
26 B.C. Hydro's proposal, is cause for concern in

1 communities who are trying to sustain and build new  
2 economic drivers.

3                   Number 5: The Terms and Conditions  
4 Governing Existing or New Industrial Rates. B.C. Hydro  
5 suggests that in determining cost of new supply, the  
6 last block of energy consumed should reflect the cost.  
7 We argue that this provides no incentive to new  
8 customers, nor indication that new industrial customers  
9 considering investment in our communities will benefit  
10 from Heritage power.

11                   During the May 13<sup>th</sup> workshop, B.C. Hydro in  
12 discussing slide number 45 suggested that the  
13 conservation by large industrial customers could be met  
14 through the curtailment of production. Curtailment of  
15 production in B.C. communities translates to job layoffs  
16 and spins out to dramatically affect the entire economic  
17 engine of small communities.

18                   B.C. Hydro proposed to establish a customer  
19 base line for each industrial customer based on some  
20 estimate of historical consumption. How will this apply  
21 to new industry and to new investment by existing  
22 companies?

23                   Number 6: The Net Cost Effect to B.C.  
24 Communities Resulting from the Introduction of IPPs.  
25 The net cost effect to B.C. communities of encouraging  
26 new thermal generation is not explored in this proposal

1 but it should be considered. Nowhere in this proposed  
2 plan does B.C. Hydro address the environmental effects  
3 significant new generation may cause. In addition,  
4 Vancouver Island's power demand has been deemed best  
5 answered by gas generation.

6 How will this proposal ensure that Island  
7 communities will benefit equally from the Heritage  
8 resources if the current mindset is gas generation for  
9 the Island? The incentive for customers to pursue IPP  
10 power could have negative impacts on the communities in  
11 isolated parts of the province. The potential for new  
12 industrial investment in communities located on  
13 Vancouver Island, for example, may be somewhat limited  
14 if the only opportunity for industry to benefit from the  
15 low energy rates B.C. Hydro advertises, is to either  
16 self-generate or purchase from an IPP who may be willing  
17 to locate closer to industry.

18 Number 7: Incentive for Large Industrial  
19 Customers. Vancouver Island has limited access to  
20 mainland IPP generated power. The transmission  
21 infrastructure that is currently in use is aging and has  
22 to be replaced. The access -- other IPP resources will  
23 demand an upgrade to the transmission system from the  
24 mainland to the Island. This is not contemplated in  
25 this proposal. Even if the decision were made to supply  
26 100 percent of the current Vancouver Island demand by

1 gas generation without mainland to Island transmission,  
2 Island communities would be at a distinct disadvantage  
3 to access a shopping credit unless they were able to  
4 self-generate, conserve or curtail production. As  
5 previously stated, a program that encourages production  
6 curtailment or suggests that a shutdown may result in a  
7 more profitable situation for a customer, is simply not  
8 accepted by this Regional District.

9 MR. FULTON: Thank you, Mr. Appleton. Are there members of  
10 the public who have questions of the Regional District?

11 All right, then I understand that B.C. Hydro  
12 has some questions. Mr. Sanderson.

13 MR. SANDERSON: Thank you, Mr. Fulton.

14 **CROSS-EXAMINATION BY MR. SANDERSON:**

15 MR. SANDERSON: Q: I think just one, Mr. Appleton. I  
16 just wanted to make sure that I caught one of your  
17 comments. You made reference, I think, to your concerns  
18 with respect to the encouragement of new load, and I  
19 guess that led me to wonder whether it would be  
20 satisfactory to the District if the Heritage Proposal  
21 was structured in a way that made a proportionate share  
22 of the Heritage resource entitlement available to new  
23 load in exactly the same way that it does existing load  
24 that's there today.

25 MS. SCHLACKL: A: I guess our concern is that the load on  
26 Vancouver Island may -- it's been addressed now and the

1 plans for the expansion of that load simply doesn't  
2 allow for, in our minds, new industry to access any of  
3 the Heritage rates which we have been able to offer over  
4 the long term and are significantly conducive to new  
5 industrial development. If B.C. Hydro were to structure  
6 a proposal that in fact was going to allow for the  
7 continued enjoyment of favourable rates, whether they  
8 were through the Heritage Power or other such sources,  
9 we would certainly be willing to consider that as a step  
10 forward.

11 MR. SANDERSON: Thank you. Thank you, that was my only  
12 question.

13 **CROSS-EXAMINATION BY MR. FULTON:**

14 MR. FULTON: Q: Mr. Chairman, I just have one question  
15 and it arises out of the response to staff question 2.3  
16 in Exhibit 20. And if you do not have a copy, Mr.  
17 Schlackl or Mr. Appleton, of that document, I'll pass it  
18 on to you and reference the point that I wish to seek  
19 clarification on. So if you'd like to read question 2.3  
20 and then the response, and I'll take you to the part of  
21 the response that I would like clarification on.

22 MS. SCHLACKL: A: "The selling price to..."

23 MR. FULTON: Q: No, you could read it to yourself but --

24 MS. SCHLACKL: A: Oh, sorry.

25 MR. FULTON: Q: Thank you.

26 Okay, and could you tell us what the basis is

1 for the statement that -- well, let me summarize it for  
2 the people who don't have the question before them. The  
3 Regional District, as I understand it, advocates that  
4 surplus power should be provided to the domestic  
5 customers on the same basis as it is now offered almost  
6 exclusively to non-domestic customers, correct? You  
7 have to say yes or no.

8 MS. SCHLACKL: A: Yes. Sorry.

9 MR. FULTON: Q: Thank you. Can you tell us what the  
10 basis is for the statement that it is now offered almost  
11 exclusively to non-domestic customers?

12 MS. SCHLACKL: A: Well, our understanding and research  
13 indicates that Powerex is the agency that is responsible  
14 for the trading and sale of power and energy in British  
15 Columbia on behalf of British Columbia and B.C. Hydro.  
16 And that surplus energy currently is being made  
17 available, particularly as it relates to the downstream  
18 benefits, exclusively to the United States or outside of  
19 British Columbia, and a company or community  
20 organization wishing to bid or to acquire that surplus  
21 power for use in British Columbia has consistently, in  
22 our experience, been turned down.

23 MR. FULTON: Q: Are you able to tell us, Ms. Schackl,  
24 whether the bid has been on the same basis as to the  
25 amount for which the power has ultimately been sold?

26 MS. SCHLACKL: A: What I'm telling you is that the

1 approaches that have been made in our experience to  
2 request permission to bid for that power have been  
3 turned down. We've not been allowed to bid.

4 MR. FULTON: Q: All right. Thank you, those are my  
5 questions, Mr. Chairman.

6 COMMISSIONER BRADLEY: In your submissions which is called  
7 Exhibit 20 in both response to question 1 and response  
8 to question 2, you make suggestions that clearly are  
9 within the terms of reference that we're operating. Can  
10 you tell me in 2.1 where you advocate a significant  
11 portion, namely 1140 megawatts of the Canadian  
12 Endowment, that's a figure that you think should be  
13 taken and identified as surplus and included in the  
14 Heritage Endowment?

15 MS. SCHLACKL: A: Yes.

16 COMMISSIONER BRADLEY: Where did that figure come from?

17 MS. SCHLACKL: A: It came from some research that we had  
18 done through a private consultant and from B.C. Hydro  
19 numbers that were provided to that consultant. I could  
20 forward those references.

21 COMMISSIONER BRADLEY: Is that represented as an average  
22 amount for the next ten-year period of the Heritage  
23 Contract? In other words, do you foresee that as a  
24 component of the Heritage Contract that would be a  
25 figure that would stand throughout the ten-year life of  
26 the contract? I don't quite understand the context or

1 the identification of the 1140.

2 MS. SCHLACKL: A: I think that the context of the 1140  
3 was that it was provided to us through figures that, as  
4 I said, our consultant derived from both his own  
5 research and B.C. Hydro figures that were given to them.  
6 The thought is, in our minds, that that 1140 megawatts  
7 is currently produced in the grid and could be produced  
8 on an ongoing basis over the life of the Heritage  
9 Contract.

10 COMMISSIONER BRADLEY: So am I correct in understanding  
11 that it's a forecast of the amount of surplus you think  
12 will exist under average water conditions for ten years?

13 MS. SCHLACKL: A: It's the amount of water, amount of  
14 hydro that is predicted to be produced under the  
15 Columbia River Entitlement over the next ten years.

16 COMMISSIONER BRADLEY: So that's where the figure comes  
17 from.

18 MS. SCHLACKL: A: Yes.

19 COMMISSIONER BRADLEY: That's it. In response 1 you  
20 suggest that we include transmission as part of the  
21 Heritage Endowment. Have you given any thought to  
22 identifying what would be Heritage transmission and what  
23 would be non-Heritage transmission?

24 MS. SCHLACKL: A: Well, if you used the same definition  
25 of Heritage transmission as you are for the energy in  
26 terms of the resources that now currently exist with the

1           onslaught of the new Energy Policy, the introduction of  
2           new policies, we would advocate that the transmission  
3           system that currently exists that British Columbians  
4           have paid for over the years is part of the heritage of  
5           the whole energy system in British Columbia.

6   COMMISSIONER BRADLEY:    So there would be a two-part  
7           transmission rate determination.  One would be the  
8           frozen in time existent transmission as of now, and the  
9           other would be any incremental transmission that is  
10          installed in the next ten years?  Each would be a  
11          component of the overall transmission rate?  In other  
12          words, we have a clear indication with generated  
13          powered, generated electricity, as to what is comprising  
14          the Heritage Endowment and what will be incremental to  
15          the Heritage Endowment.  And I'm just trying to figure  
16          out how the same thing would apply, the same principle  
17          would apply to transmission capability.

18   MS. SCHLACKL:    A:    Well, it's our understanding that the  
19          transmission capability at the moment is fairly easily  
20          defined, not unlike they've done with the actual energy.  
21          And it appears to us that those transmission facilities  
22          as they currently exist, particularly the cables that  
23          come to Vancouver Island, should be part of that  
24          Heritage Power and we should be entitled to retain that.  
25          I'm not suggesting that perhaps the rates would be any  
26          different.  We were just saying that that transmission

1 is part of our heritage, and if it needs to be upgraded,  
2 certainly you would have to pay for that. But we think  
3 it should be part of the Heritage Contract.

4 COMMISSIONER BRADLEY: I see, okay. Thank you very much.

5 THE CHAIRPERSON: Thank you very much. I don't have any  
6 questions, nor does Commissioner Hall. This is your  
7 second effort to appear before the Commission or a  
8 Commission Panel in the last few weeks, and I very much  
9 appreciate the effort that you've put in, both with your  
10 consultant on your own behalf and making a contribution  
11 to our proceedings. Thank you.

12 MS. SCHLACKL: A: Thank you.

13 (WITNESSES ASIDE)

14 MR. FULTON: Mr. Chairman, that concludes the presentations  
15 from the individuals or groups who had indicated either  
16 to me or to the Commission Secretary that they wished to  
17 make presentations before the Commission at this  
18 regional session. In the Notice of the Regional  
19 Sessions which was published in the local newspapers,  
20 people were advised on how to participate, and the  
21 notice says: "Persons who intend to actively  
22 participate in the regional inquiry sessions should  
23 contact Mr. Robert J. Pellatt, Commission Secretary,"  
24 and then provided the information on where to contact  
25 Mr. Pellatt.

26 We did call Mr. Pellatt this morning to see

1 if there was anyone else who had indicated an intention  
2 to attend at these sessions, and there is no one else.

3 THE CHAIRPERSON: Thank you, Mr. Fulton. On that -- Mr.  
4 Campbell?

5 MR. FULTON: Mr. Campbell has advised me that Ms. Schlackl  
6 has told him that someone from Port McNeill is coming  
7 down for this afternoon. I'm not aware of anyone at  
8 this point, so I suppose that leaves us with something  
9 of a dilemma.

10 THE CHAIRPERSON: Mr. Campbell, my preferences would be to  
11 adjourn. As Mr. Fulton said, that presents us with a  
12 bit of a dilemma. If someone is travelling from Port  
13 McNeill to be here at 1 o'clock on the assumption that  
14 we will be sitting at 1 o'clock, then I'll have to give  
15 this further consideration. But I did intend to adjourn  
16 now for the day. Can you tell us a little bit more of  
17 your understanding of the appearance of someone from  
18 Port McNeill?

19 MR. CAMPBELL: Ms. Schlackl has just left the front door  
20 and she had all the information. I'm sorry. Other than  
21 that, she just mentioned that somebody from Port McNeill  
22 was coming down this afternoon to me. That's all I  
23 know.

24 THE CHAIRPERSON: Thank you.

25 MR. CAMPBELL: Okay.

26 THE CHAIRPERSON: I'm going to adjourn, but there's one

1 procedural matter I wish to raise with B.C. Hydro.

2 Before I do that, I would like to thank  
3 everyone who attended today. I think these regional  
4 inquiry sessions are valuable, and I also think that  
5 it's very valuable that we hear from the broader public  
6 who usually do not participate. I also think it's very  
7 helpful to the regional inquiry sessions if we hear from  
8 people like Mr. Fitzgerald, so that although there were  
9 no questions of Mr. Fitzgerald in this session because  
10 it may be that he will appear in Vancouver, I don't want  
11 to leave Mr. Fitzgerald with the wrong impression that  
12 he ought to have appeared in Vancouver and not here. I  
13 very much appreciate his appearance here. So I see he's  
14 not here, but if somebody can pass that along -- Mr.  
15 Potts, that would be appreciated.

16 Thank you.

17 THE CHAIRPERSON: With that, I do have one procedural issue  
18 that I wish to discuss with you, Mr. Sanderson, and it  
19 arises from Exhibit 29 which in fact I just received  
20 this morning as it was being filed. I think I only have  
21 one question depending on the answer to the question,  
22 and the one question is whether or not there will be a  
23 representative from BCTC either on a panel or -- as part  
24 of a panel, or on their own account.

25 MR. SANDERSON: Mr. Chairman, no, it had not been our  
26 intention to provide a BCTC witness at this stage,

1           neither way, that is, as part of the B.C. Hydro Panel or  
2           independently, but I'm happy to address that further  
3           with you if there's something I'm not thinking of when I  
4           say that.

5   THE CHAIRPERSON:   Exhibit 29, at least part of Exhibit 29  
6           arises from our July the 9<sup>th</sup> letter, as you mentioned in  
7           your introduction of Exhibit 29. In the July the 9<sup>th</sup>  
8           letter, the Commission Panel was, I would suggest,  
9           rather specific with respect to its interests in making  
10          sure that all options were available to us when it came  
11          time for us to make recommendations. And my quick  
12          glance of part of Exhibit 29 is that it attempts to be  
13          responsive to that request in that it leaves the option  
14          available, if the Commission so chose, to make  
15          recommendations with regard to the implementation of  
16          retail access prior to 2005.

17                   I don't want to leave you with a question  
18                   that's problematic in terms of calling for you to give  
19                   evidence, but I would be interested if you were in a  
20                   position to make comments as to whether or not you feel  
21                   that a BCTC panel would be of assistance in addressing  
22                   parts of Exhibit 29.

23                   And I think of the comments of Mr. Christian  
24                   at the pre-hearing conference when he suggested that  
25                   access principles had implications for both B.C. Hydro  
26                   and BCTC. I would need to go back to the record to

1 confirm that, but I believe he said that. And it struck  
2 me at the time that there might very well be some merit  
3 in his comments with respect to that. And so I would  
4 welcome your comments now with respect to that or with  
5 respect to an appearance from somebody from BCTC.

6 MR. SANDERSON: Yes, Mr. Chairman, that discussion was  
7 brought to my attention. And if I can just take you to  
8 the attachment to Exhibit 29, which is a document  
9 entitled "B.C. Hydro's Position With Respect to Access  
10 Principles Required for Retail Access", I think at least  
11 it -- the first page and a half of that probably set out  
12 B.C. Hydro and I believe BCTC's thinking with respect to  
13 the issue that you're raising.

14 In our mind at least, and I think we have to  
15 take responsibility for being the source of this  
16 confusion if that's what it is, the words "access  
17 principles" have lacked precision in much of the  
18 discussion in the documentation filed by a number of  
19 parties, and as I say, I'm including Hydro in that.  
20 What we meant throughout the April 30<sup>th</sup> proposal and the  
21 June 27<sup>th</sup> filing when we talked about access principles,  
22 were the principles under which those who are eligible  
23 for the stepped rate would be permitted to have access  
24 to it.

25 So I distinguish here between obtaining  
26 bundled service from B.C. Hydro for transmission voltage

1 customers pursuant to this new stepped rate and those  
2 principles which govern access to transmission from  
3 Hydro today, through grid ops, and ultimately from BCTC.  
4 And the intention was, throughout the documentation in  
5 the earlier filing, that we were talking about the  
6 generation access principles, the terms and conditions  
7 which would limit your ability to get power from Hydro  
8 if you chose to take retail access from someone else.  
9 Or sorry, if you -- no, I'm creeping back into the  
10 confusion. If you chose to obtain some of your power  
11 from somebody else.

12 That said, it's common ground between B.C.  
13 Hydro and BCTC that the responsibility for identifying  
14 and putting forth submissions with respect to the  
15 appropriate generation access principles, if I can call  
16 them that, reside exclusively with B.C. Hydro, and will,  
17 will continue to.

18 On the other hand, it's common ground between  
19 BCTC and B.C. Hydro that once BCTC takes over  
20 administration fully of the transmission tariff, the  
21 exclusive responsibility for obtaining approval for  
22 transmission access terms and conditions will be BCTC's.  
23 And so the access principles that govern access to  
24 transmission will be theirs.

25 With that split in mind, and that's a split  
26 that B.C. Hydro and BCTC both view, I think, in a common

1 way, what the document of July 18<sup>th</sup> sets out, I think, is  
2 the generation access principles that Hydro believes are  
3 appropriate, and says one of two things. Either, as was  
4 our first submission throughout the material, leave  
5 transmission access principles and rates and everything  
6 else out of this until BCTC takes over -- that's 2005 --  
7 or as you suggested, if the Commission were to go a  
8 different direction, say, "No, we want to get retail  
9 access more quickly," then allow B.C. Hydro to impose,  
10 as generation access principles, certain limitations on  
11 people getting access to generation from Hydro, but  
12 still, don't touch BCTC or the grid ops transmission  
13 access principles. So in neither event do you touch  
14 those, is our position.

15 That being our position, and because B.C.  
16 Hydro and BCTC take exactly the same position with  
17 respect to where the relative responsibilities lie, it  
18 was our conclusion that there wasn't a need for BCTC  
19 testimony separate from Hydro's because we're not  
20 getting to the area for which they're going to become  
21 responsible when the split is complete.

22 THE CHAIRPERSON: I appreciate the distinction that you've  
23 drawn. Does retail access call for both sets of access  
24 principles, assuming that choice for an industrial  
25 customer let's say, is for service of the second tier of  
26 the stepped rate, but using the WTS, for example? If

1 the industrial customer is using the access principles  
2 that apply to generation to make the choice, does it  
3 necessarily follow that they're going to need access to  
4 the transmission system, or is it your position that  
5 they don't need that second set of access principles  
6 because in fact they don't need to, in order to make  
7 that choice, use a BCTC tariff?

8 MR. SANDERSON: To the extent that they want access to  
9 transmission as part of a retail access for industrial  
10 customers, there clearly would need to be transmission  
11 access principles but there's no proposal here that  
12 those changed. That is, the WTS is in effect now. The  
13 WTS on its face can allow that to occur. And what we  
14 have said is the way to control the concerns that exist  
15 with respect to the impact that unconditioned access and  
16 an ability to switch back and forth might create, the  
17 proper place to put terms and conditions is on the  
18 access to B.C. Hydro service under the stepped rate.

19 So the terms and conditions which need to be  
20 different than exist for wholesale customers are all  
21 lumped into the B.C. Hydro stepped rate terms and  
22 conditions or access principles. And so it all resides  
23 on the generation side. And for that reason, the WTS  
24 transmission access principles at this stage don't need  
25 to change.

26 THE CHAIRPERSON: When you say they don't need to change,

1           can you be more specific as to what transmission access  
2           principles are in place now?

3 MR. SANDERSON:   Those are the terms and conditions  
4           basically that govern access to transmission under WTS.

5 THE CHAIRPERSON:   So the access principles, the second set  
6           of access principles are included in the WTS as it is  
7           today, and if one were to look for the access principles  
8           they would be entirely within the four corners of the  
9           WTS?

10 MR. SANDERSON:   As things exist today?

11 THE CHAIRPERSON:   Yes.

12 MR. SANDERSON:   Yes. I'm hesitating because -- my little  
13           aside with Mr. Lusztig was just to confirm, as is  
14           discussed in the July 18<sup>th</sup> paper, there are wholesale  
15           transmission access principles that apply to the  
16           provision of wholesale service to two primarily -- well,  
17           actually no, practically speaking only one wholesale  
18           customer of Hydro, and that's the City of New West. So  
19           Hydro provides on a wholesale basis service, generation  
20           bundled service to New West, and New West under the  
21           existing WTS has access. So it would be in that sense  
22           parallel to the way a retail industrial customer would  
23           be if you, by analogy, gave retail access to them.

24                       There are terms and conditions which govern  
25           the access to which -- the access principles which apply  
26           to New West in the context of the bundled service Hydro

1 provides them. The July 18<sup>th</sup> paper discusses those and  
2 considers whether those generation access principles, as  
3 I'm now defining them, are sufficient for the purpose of  
4 retail, concludes they aren't, and says why not and what  
5 more needs to be added? And that will clearly be the  
6 subject matter of the testimony of the Hydro witnesses  
7 in that respect.

8 For New West, the additional principles of  
9 access are the rates, terms and conditions that go with  
10 wholesale service. What B.C. Hydro has said in this  
11 document is, and indeed one of the reason that you need  
12 additional generation access principles is, in the scale  
13 that retail service would encompass, the existing rates  
14 in WTS are inadequate. That is, in particular the  
15 energy and balance charge would lend the ability for  
16 significant abuse. If B.C. Hydro's solution to that was  
17 to say, "So change the energy imbalance charge," then we  
18 would have to produce a BCTC panel, no question, and we  
19 would turn this hearing into an investigation of WTS.  
20 That seems to us to be a very impractical solution in  
21 the timeframe, because as this panel of anyone will  
22 know, once you are into the rates for WTS you're into  
23 quite a sophisticated and protracted proceeding.

24 The solution B.C. Hydro is proposing is not  
25 that. The solution that B.C. Hydro is proposing is  
26 leave WTS and leave the rates where they are for now

1           until BCTC can look comprehensively at those rates and  
2           determine what it thinks is best to do with them.

3                       In the meantime, condition access to Hydro's  
4           generation service on certain access principles which  
5           are elaborated in the July 18<sup>th</sup> paper and which simply  
6           are conditions which will apply to access to bundled  
7           generation from Hydro for those customers who are taking  
8           advantage of retail access.

9   COMMISSION BRADLEY:   It's Hydro's position that these  
10           interim measures will provide an identifiable  
11           structure for transmission rates, such that it would be  
12           impossible for an IPP to access transmission within the  
13           timeframe --

14   MR. SANDERSON:   Absolutely.

15   COMMISSIONER BRADLEY:   -- until the transmission company is  
16           set up?

17   MR. SANDERSON:   Yes, and indeed, narrowly put, they won't  
18           change the terms and conditions that industrial  
19           customers will pay for transmission from what they are  
20           under WTS. They will condition the access to hydro  
21           generation that has to go with the IPP generation, to  
22           deal with the concerns that are discussed here. So,  
23           narrowly put, nothing'll change about access to  
24           transmission, but there will be terms and conditions  
25           governing access to generation from hydro.

26                       I guess just to complete that thought, the

1           reason for all of this stems largely from the fact that  
2           nobody, at least in the stepped rate proposal and  
3           generally here, is expected to leave the system  
4           entirely. And so it would be no solution for the  
5           industrial to say to them, "Look, here's a rate you can  
6           have but you've got to leave our system entirely." I  
7           mean, that's not what the stepped rate proposal is most  
8           likely to produce. It's most likely to produce  
9           industrial customers with an interest in going to an IPP  
10          for a part of their load. And so the controlling factor  
11          is the terms and conditions which govern access to the  
12          remaining service from Hydro, and until, again, if  
13          that's going to occur under the current regime, you need  
14          some controls on that to stop arbitrage.

15 COMMISSIONER BRADLEY:   So the potential industrial customer  
16          that sees an opportunity with an IPP will be able to  
17          identify the terms and conditions that B.C. Hydro  
18          imposes on him, and will take a Schedule 1821 rate for  
19          the transmission that he gets from the independent power  
20          producer?

21 MR. SANDERSON:   The industrial customer will do two things.  
22          They will go and strike their own deal with the  
23          industrial -- oh, sorry, with the IPP.

24 COMMISSIONER BRADLEY:   Yes.

25 MR. SANDERSON:   And they'll get WTS, one or other of them,  
26          to get the power to -- that portion of their power to

1 the load.

2 COMMISSIONER BRADLEY: At the 1821 power transmission.

3 MR. SANDERSON: Well, no, that's -- the transmission is  
4 Schedule 3000 or 3001 WTS transmission plus whatever  
5 they're paying to the IPP. They will need to obtain the  
6 remainder of their power from Hydro. That will no  
7 longer be 1821, rather that will be under this new step  
8 rate, whatever number it gets, and what I apprehend this  
9 Commission is doing is making recommendations to  
10 government about what terms and conditions should attach  
11 to this new rate. And that's where I'm saying the terms  
12 and conditions ought to be imposed, in that -- terms and  
13 conditions that have to be added to the existing terms  
14 and conditions governing 1821 to make this new rate  
15 fairer.

16 THE CHAIRPERSON: Those are the generation access  
17 principles if you will.

18 MR. SANDERSON: Yes.

19 THE CHAIRPERSON: And so they deal with the arbitrage  
20 issues, and the arbitrage issues -- I should ask this as  
21 a question. Are the arbitrage issues restricted to the  
22 generation costs?

23 MR. SANDERSON: Yes. Well, the controls that B.C. Hydro is  
24 proposing on arbitrage are being proposed exclusively  
25 through the generation access principles, yes. That's  
26 how, if there is to be retail access in the current

1 environment, Hydro is proposing it be handled.

2 THE CHAIRPERSON: And once BCTC has an opportunity to  
3 develop a retail access -- I'll call it, I'll be very  
4 broad here, a regime, and presumably it will include a  
5 transmission tariff, and as you describe it, a  
6 transmission set of access principles.

7 MR. SANDERSON: Yes.

8 THE CHAIRPERSON: Once that's completed, and that may --  
9 let me ask. Is it B.C. -- and I have a problem here.  
10 I'm talking to presumably a B.C. Hydro counsel about  
11 BCTC matters, but is it --

12 MR. SANDERSON: Well, as of this week that's entirely  
13 appropriate.

14 THE CHAIRPERSON: Well, let me take advantage of this  
15 week's circumstances then. As you see things now, do  
16 you anticipate that BCTC will file as part of its  
17 December the 1<sup>st</sup> filing both sets of the transmission  
18 tariff and the transmission access principles that could  
19 be implemented before 2004, before the end of 2004?

20 MR. SANDERSON: Yes, I would expect that BCTC -- and here I  
21 am not -- I mean, here, this is an expectation not  
22 instructions at all, because this is now looking forward  
23 into the period when BCTC is in a regulatory sense  
24 distinct. But I would anticipate that BCTC will  
25 consider whether it shares the view that there need to  
26 be transmission access principles to control arbitrage

1 or any other issue, as part of its December 31/04 filing  
2 or prior to December 31/04 filing, and if it concludes  
3 there are, yes. That's where its conclusions with  
4 respect to what's fair will become manifest.

5 THE CHAIRPERSON: Does it follow that it's B.C. Hydro's  
6 position that no changes to existing legislation,  
7 regulation or special directives are necessary to enable  
8 BCTC to make that decision when it comes time for BCTC  
9 to do that?

10 MR. SANDERSON: I think, yes, that's so. That is, B.C.  
11 Hydro has taken the position that there needs to be no  
12 special direction or change in legislation or regulation  
13 to accommodate retail access, that is -- and even at the  
14 existing tariff that can be accomplished. BCTC, I think  
15 through the legislative changes that have already been  
16 introduced and through arrangements with Hydro, is  
17 assuming responsibility for administration of all of  
18 that function. I don't believe that there is any  
19 further regulatory or special direction required. If  
20 there is, and if I'm wrong on that, it would be part of  
21 the transaction by which BCTC and B.C. Hydro are  
22 finalizing that separation.

23 But I don't think that I'm aware of anything  
24 that fits within your description that needs to occur as  
25 part of that transaction that hasn't already happened.

26 THE CHAIRPERSON: Let me --

1 MR. SANDERSON: Mr. Lusztig points out it may be that this  
2 whole question of retail access still resides with the  
3 Commission, that is the Commission could conclude that  
4 WTS ought not to be made available more broadly, but I  
5 don't think any higher level regulatory or legislative  
6 step needs to be taken.

7 THE CHAIRPERSON: On that point, my concern is, is that  
8 there is an opportunity now as part of this inquiry for  
9 the Commission panel to make recommendations that may,  
10 in fact, turn out to be helpful to BCTC when they need  
11 to address those two sets of issues, if you will, the  
12 tariff issues and the access principles issues as they  
13 relate to transmission. And if that opportunity is  
14 missed it may not present itself again in the near  
15 future. So it may be, if we are not going to hear from  
16 a BCTC panel to pursue those issues, it may be to the  
17 disadvantage of BCTC and B.C. Hydro, but it -- let me  
18 leave that part of this discussion with you and  
19 Commission panel will also give some thoughts to that.  
20 But it might be helpful -- I'll just complete my  
21 sentence and then I'll give you a chance, Mr. Fulton.

22 I think on Monday morning we should probably  
23 return to this discussion after we've all had an  
24 opportunity to review this and there's a broader  
25 audience that may have an interest in this.

26 Mr. Fulton?

1 MR. FULTON: Yes, that was going to be my suggestion, Mr.  
2 Chairman. First of all it will be Tuesday --

3 THE CHAIRPERSON: Thank you.

4 MR. FULTON: -- because we have the VIEC oral argument on  
5 the Monday. My concern was, as I listened to the  
6 exchange that there may be other counsel representing  
7 other intervenors who have some comments to make about  
8 this distinction between access to generation and access  
9 to transmission, and whether or not the Commission  
10 should back away from its request and its letter of July  
11 the 9<sup>th</sup> at B.C. Hydro, have a representative from B.C.  
12 Hydro and BCTC present to speak to certain issues.

13 And so that was going to be my  
14 recommendation, and you, Mr. Chairman, have anticipated  
15 that in your comments.

16 MR. SANDERSON: And for our part, Mr. Chairman, we are  
17 happy to continue that discussion and I will make sure  
18 that this portion of the transcript is brought to the  
19 attention of those within Hydro and BCTC who ought to  
20 see it, so that I'll be armed to address the question  
21 more fully, as Mr. Fulton and you suggest, on Tuesday.

22 THE CHAIRPERSON: Thank you. On Monday morning, then,  
23 let's -- pardon me. I continue to make that error. On  
24 July the 29<sup>th</sup>, Tuesday, let's at the beginning of the  
25 morning let's return to this issue and that will then be  
26 followed by the fifteen to twenty minute presentations

1           that we discussed at the pre-hearing conference from  
2           counsel and participants who are unrepresented by  
3           counsel.

4                         With that, I think we are adjourned until  
5           Wednesday morning. It, I think, is important that Port  
6           McNeil have an opportunity in writing to make  
7           submissions to the panel, and certainly if they do make  
8           a submission to the panel I'll accept those as part of  
9           the record. Thank you.

10                        We are adjourned then. Thank you very much.

11           **(PROCEEDINGS ADJOURNED AT 11:28 A.M.)**

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26