

Application Overview

Chapter 1

Chapter 1, Overview

- ◆ Seeking Commission approval for:
 - Domestic rate increases of 7.23% and 2.00% on April 1, 2004 and April 1, 2005, respectively and
 - Interim rate increase of 7.23% on April 1, 2004.

Chapter 1, Overview

- ◆ Rationale for increasing rates now:
 - Not earning a just and reasonable rate of return; and
 - Not able to file for rate relief until government response to Heritage Recommendations were known.
- ◆ Rationale for two year filing:
 - Regulatory schedule over next two years (BCTC application, BCH rate design application); and
 - Size of applied for rate increase in F2006.

Chapter 1, Overview

- ◆ What is not included in this application:
 - No new rate forms or re-design of current rates (E-Plus and Stepped Rates are not part of this application); and
 - VIGP and GSX expenditures do not impact rates in the test periods at this point. Future decisions may cause this to change.

Energy Plan

- ◆ Four cornerstones of the Energy Plan:
 - Continued low electricity rates and public ownership of BC Hydro;
 - Secure, reliable supply of energy for British Columbia;
 - More private sector opportunities in wholesale electricity supply; and
 - Environmental responsibilities and no nuclear.

Implementation of Energy Plan

- ◆ Resource Acquisition and Clean Energy:
 - Resource Smart, acquisition from Independent Power Producers, clean energy target.
- ◆ Environmental & Social Responsibility:
 - Increased costs from environmental and social related issues (First Nations, Water Use Plans)

Implementation of Energy Plan

- ◆ BCH organization and Outsourcing:
 - Line of business operating focus;
 - Creation of British Columbia Transmission Corporation ; and
 - Outsourcing opportunities that reduce costs and maintain service levels.
- ◆ DSM Investments Encouraged:
 - Re-launch of Power Smart.

Current Rates

- ◆ Current Rates have been in place for ten years:
 - In real terms, rates have decreased by 14% to 2003.
- ◆ Offsets to cost pressures over last decade:
 - Reduced financing costs; and
 - Increased trade income.
- ◆ Going forwards, the cost of incremental supply exceeds current rates.

Principal Cost Drivers

- ◆ Increased cost of energy;
- ◆ Increased costs to maintain reliability of the system;
- ◆ Increased pension costs;
- ◆ Increased finance costs;
- ◆ Increased investment in Power Smart;
- ◆ Increased costs to be incurred as a result of the creation of BCTC; and
- ◆ Increased costs relating to management of environmental and First Nations related issues.

Secure, Reliable Supply of Energy

- ◆ BC Hydro has an obligation to serve and seeks to deliver appropriate service levels in the most cost effective manner in carrying out our responsibilities to:
 - Maintain and replace an ageing infrastructure;
 - Acquire new energy resources and invest in new infrastructure to meet growing demand; and
 - To be environmentally responsible in our operations.