



Weekly Update From Bob Elton For December 5

[Today's Headlines](#)

[Last 10 Editions & Archive](#)

A few weeks ago, I introduced four key elements of BC Hydro's purpose as identified by the Executive Management Committee: supplying reliable electricity at low cost; serving our customers' needs; operating in a sustainable way; and returning dividends to the Province.

So far I've talked about reliability and serving customers, and this week I'd like to turn to the issue of "sustainability". Many of you are aware that BC Hydro's vision is to be the "leading sustainable energy company in North America".

What is sustainability?

One of my first questions was, "What does that mean?"

Like many people, I have a tendency to talk about "sustainability" as if it were the same thing as being concerned about the environment.

But sustainability means acting as if we are here for the long term. And, therefore, it applies as much to our financial bottom line as it does to our environmental and social bottom lines.

If we are a sustainable company, then we look after our people, our business, our assets, our environment and our communities - all on the assumption that we want to leave them better than we found them.

How are we doing today?

I emphasize that I am early in the process of discovery here, but clearly there are some great signs of our sustainability:

Resource acquisition

We have a voluntary 50 percent clean target for new acquisitions as a result of the BC government's Energy Plan; we will meet that target and we hope to exceed it. Power Smart is the most comprehensive energy efficiency program in Canada. We are also helping to create a green energy industry in B.C. by working with the independent power community. In 2003/2004 - a low-water year - we will get 87 percent of our generation from renewable Hydro resources; in normal water years, we get 90 percent or more from renewable resources.

Water Use Planning

The goal of BC Hydro's Water Use Planning (WUP) program is to find a better balance between competing uses of water that are socially, environmentally and economically acceptable to British Columbians. WUPs engage us with other agencies and the public in a dialogue about the options, impacts, tradeoffs and priorities in operating our facilities. That dialogue is creating a new and truly

sustainable approach to managing our water.

First Nations

Another area where BC Hydro shows leadership is in building relationships with First Nations. Our committed and dedicated people do the right things every day as part of their jobs - in the office and in the field - to work to ensure that we have strong long term relationships with First Nations communities. We are recognized across B.C. and Canada for our efforts with First Nations, and even provide cross-cultural training for other companies who are aiming to improve their relationships with First Nations.

Community and Stakeholder Relationships

Another day-to-day part of sustainability is the work we do with communities and stakeholders all over B.C. Mayors and Councils, Chambers of Commerce, community and environmental groups - forging strong relationships with all of these groups is critical to building and maintaining public consent to operate. It is a key part of the social side of our triple bottom line. And it's something our field staff as a whole, including community relations staff, do a great job of all across the province. In addition, as I mentioned a few weeks ago, I believe the way in which BC Hydro employees and their families plug themselves into their local communities, has a huge, positive effect on the way those communities function.

Research and Development

We are setting out new frontiers in hydrogen through the work that Powertech is doing. We also plan to increase our research and development (R & D) expenditures over the next few years, as we have been spending at levels well below those of other utilities. We expect that much of that research will be aimed at increasing our sustainability.

A key part of our enhanced R&D will entail a review of our existing programs to see where we can make the greatest sustainability improvements. For example, we will be focusing on the next wave of Power Smart savings by looking at how new technology development can be translated into greater energy savings and more options for our customers. As well, as part of our Resource Smart initiative, we will consider the benefits of upgrading transmission lines to support reliability and make our overall system more sustainable.

World Business Council Report

Recently, the World Business Council for Sustainable Development released a list of key items that electricity companies should do to be sustainable. If you compare their recommendations to our way of operating today, our track record is impressive.

Integrated Electricity Plan (IEP)

In some areas, we also face sustainability challenges. One is with our new IEP, which will replace the last one prepared in 1995 and the update completed in January 2000. The new IEP is scheduled for completion in spring 2004.

In putting the IEP together, we will keep sustainability top of mind. A challenge with the new IEP is that most of our future supply will come from the private sector through open calls for power. So, unlike in the past, we can't by ourselves

define one "preferred portfolio".

We will focus on "low cost" and meeting our needs regarding the 50 percent clean target, including the possibility of exceeding that target and by how much. We will also ensure that alternative portfolios are presented, including one or more portfolios designed to have the lowest possible environmental impact. But in the end, the resources we acquire will be a function of how our regulator and customers see the cost/environmental balance, and what the market can provide. We can provide leadership but we cannot dictate the outcome.

We will be very clear with our stakeholders about this as we go through the public engagement process.

Vancouver Island Supply

We need new, firm capacity to make sure that the lights go on for Vancouver Islanders during peak winter demand in 2006/2007, when forecasts show demand will outstrip reliable supply. That's why we are in a Call for Tenders (CFT) process for alternative supply for the Island.

Again, some of the projects included in the CFT are more environmentally friendly than others. But we cannot select on that basis.

Because this has become urgent, we have no time to look for a program that could emphasize particular fuel sources. Supplying long-term reliable power is part of the sustainability challenge for us, and we must find what we can through the CFT process.

The key lesson here is that, where there is a delay in replacing and repairing our assets, we will be forced to make choices among a limited set of alternatives. If we catch up with the process of looking after our assets, then we will preserve more choices for the future.

Sustainability Network Discussion

This week I met with 34 members of "The Sustainability Network." - a group of BC Hydro employees who share an interest in keeping sustainability a real and tangible part of our business. It was a very productive meeting, and I was impressed by the enthusiasm and commitment to success the group showed.

During the discussion we identified a number of potential core areas to focus on:

1. We need to integrate sustainability into our day-to-day operations. It cannot be a special project, or left to a particular group of people.
2. We must commit to looking at our current performance measures, and confirm that they fit with the sustainability vision - for example, if we achieve them, will we be moving towards our goal of planning for the long term in terms of our financial, environmental and social bottom lines?
3. We must ensure that everyone who works for the company can say how what they do in their job contributes to a sustainable company. That might mean, for example, making sure that our buildings or our fleet are gradually transformed. We need ideas from everyone!

Safety and Health Issues

As I said earlier, BC Hydro employees are already contributing to our company's

sustainability in a variety of ways every day. For example, I want to acknowledge the outstanding work and commitment of all the line crews who have done an excellent job getting our customers back on line after some serious storms this week. Their work supports the social bottom line-side of sustainability at BC Hydro because it contributes to the health, safety and quality of life of our customers. BC Hydro's line crews are critical to maintaining a sustainable system, and they deserve our thanks for a job well done.

There were two incidents this week that I need to mention, both involving people who were working for our contractors at our sites. There was an electrical contact incident this week where one of our contractors was injured while doing some work in Whistler. Fortunately, he is recovering in hospital. Our support and best wishes for a speedy recovery go out to him and his family.

On another very sad note, a contractor passed away after suffering a heart attack while shoveling snow at the top of Seven Mile dam on Wednesday. We are always deeply distressed by incidents involving our crews, and our sincere condolences go out to the contractor's family and loved ones.

BC Hydro's safety record has shown continued improvement this year, but each incident represents a very sad event.

Conclusion

Our shareholder, our customers, our communities - all expect that we will operate our business as if we are here for the long term. There will be short-term pressures on us, of course, and we have to deal with these pressures.

We are in an industry where long-term thinking, reliability, and balance, are all virtues. We operate facilities that have a massive footprint in the Province, and our more than 4,300 employees are influential in so many ways in their communities. So our ability to balance environmental and community with financial needs is fundamental to our business.

Staying with our long-term perspective, and explaining it to our stakeholders so that they believe in it as much as we do, is critical for us and ultimately for our customers.

Next week, I will address another key component of BC Hydro's purpose - that is, our goal of strong financial performance to achieve low rates, and a steady return to our shareholder.

Until then, please visit the President's Page for more information and send any comments, suggestions or questions to the [Corporate News ID](#) or the President's Page.

• [top](#)

Contact: Corporate C

[Next Story](#)[Today's Headlines](#)[Last 10 Editions & Archive](#)

BC Hydro Launches 2004 Integrated Electricity Plan Regional Information Sessions

In Vancouver and Victoria today, BC Hydro began the first two in a series of regional information session about the 2004 IEP. Between now and early February, members of the IEP team will visit 11 communities and talk to more than 200 stakeholders about the 2004 IEP.

BC Hydro last completed an IEP in 2000, as an update to the 1995 IEP. The 2004 IEP began in February 2003, when **Ron Monk**, manager, Strategic Planning, established an internal working team consisting of representatives from various groups at BC Hydro.

The 2004 IEP will show how we plan to meet our customers' needs for electricity in the future. It will guide BC Hydro's plans for purchasing and developing new energy resources over the next few years.

Over the last 11 months, the IEP Team completed drafts of (available on the [intranet page](#)):

- Part 1. Electricity Planning Introduction and Objectives
- Part 2. Demand-Supply Outlook
- Part 3. Resource Options
- Part 4. Action Plan
- Part 9. Summary (of Parts 1-4)

The remaining Parts will be complete by March 31, 2004. These include:

- Part 5. Risks and Uncertainties
- Part 6. Portfolio Evaluation
- Part 7. Stakeholder and First Nations Engagement
- Part 8. Long-Term Outlook, Medium-Term Direction and Short-Term Action Plan
- Part 9. Summary (of all Parts 1-8)

"Input from the regional information sessions launched today will help shape this IEP and future electricity planning activities," says Ron Monk, Project manager 2004 IEP. "In the future, BC Hydro intends to complete or update the IEP every two to three years."

Other methods of providing information and obtaining feedback from our stakeholders and employees include:

- Focus group research – summer 2003
- Stakeholder and First Nations meetings – began fall 2003
- First Nations regional information sessions – to begin late January
- Employee information sessions

What is the IEP?

The 2004 IEP shows how BC Hydro forecasts the supply and demand for electricity to change over the next 20 years. It outlines the electricity supplies that are now available and includes recommendations on the best ways to meet future needs in a cost-effective, sustainable way. The options in the plan include both "supply-side" (generation) and "demand-side" (conservation) options. The IEP includes long-, mid- and short-term plans describing the facilities needed to deliver electricity to our customers.

BC Hydro's corporate goals are to meet our customers' electricity needs at a low cost and with a high degree of reliability. The IEP helps meet that goal by identifying the steps to reliably match electricity supply with customer demand at the least cost. It reflects the situations and challenges BC Hydro faces, such as a dynamic energy market, newly defined provincial energy policy and changing utility regulations.

The B.C. Utilities Commission (BCUC) has set Resource Planning Guidelines that describe the content and procedures to follow when preparing a plan such as the IEP.

For more information about the 2004 IEP, please visit the [IEP intranet page](#).

If you have comments or questions, please email Lexa Hobenshield, 2004 IEP Stakeholder Engagement Task manager, or OCS to the IEP Team on D10.

[Next Story • top](#)

Contact: Corporate C



Weekly Update From Bob Elton For January 30

[Today's Headlines](#)

[Last 10 Editions & Archive](#)

I want to follow up on the theme of my last message, which was how building strong working relationships is critical to BC Hydro's success.

Before I revisit that theme, I want to touch on some of the discussions that took place at the Board and Board Committee meetings yesterday. Among the agenda items was the subject of the three serious contact incidents that happened in our company in the last few months.

Executive Vice-President of Generation **Dawn Farrell** and Vice-President of Field Services **Dennis Maniago** explained to the Board members how these incidents happened, what lessons we have learned, and what actions have been taken in both Lines of Business to address the situations and help prevent future incidents. The Board members emphasized their wish that these incidents be taken extremely seriously across the company, and specifically wanted all employees to know that they support BC Hydro's view that safety is of the highest importance.

Later in the day, there was a discussion of the full Board, including the Executive Management Committee, about long term supply and demand.

The BC Energy Plan makes clear that we have a mandate to use Power Smart and other mechanisms (for example, rate structures) to encourage conservation and energy efficiency. Then, we must meet demand through private sector means, that is, independent power producers (IPPs).

A key question is how we should decide what type of energy we should buy. There are some broad alternatives that we discussed with the Board in this informal meeting. We could look at the greenest portfolio possible, or the lowest possible cost, or something that is a blend of both. We did not set out to form precise conclusions, but rather to talk about issues.

Some of the issues we discussed include how much freedom of action BC Hydro has, and wants to have; how we should try to work with the regulator and other stakeholders to develop particular positions; and what is the broad shape of a resource portfolio that we would like to achieve. There will be further discussion on these issues as we get input from the public in the next few weeks. After the Board retreat in April, I will talk more on this subject and we will be in a position to explain our vision much more clearly. I would be very interested to hear ideas from any of you about this.

At the Board meeting itself, we reviewed a number of items, including one I'd like to focus on specifically. The Board approved significant capital expenditures at BC Hydro's Mica facility, and supported our undertaking similar expenditures at the Peace Canyon facility. In both cases, the issue is with stators.

These decisions come out of our view as a utility that we must invest prudently in our assets, if they are to be sustainable. These capital expenditures mark the

beginning of a comprehensive program of stator replacement over the next six years.

Integrated Electricity Plan (IEP)

Returning to the subject of building relationships, right now we are talking to customers and stakeholders about the 2004 IEP. We're explaining how the IEP includes BC Hydro forecasts of the supply and demand for electricity over the next 20 years, describing the electricity supplies currently available, and discussing the options for meeting future needs in a cost-effective, sustainable way. These options are on both the "supply-side" (generation) and the "demand-side" (conservation), and cover the long, medium and short terms.

A series of regional information sessions on the 2004 IEP got underway on January 20 in Vancouver and Victoria. Sessions have also taken place in Campbell River, Nanaimo, Cranbrook, Prince George, Terrace and Fort St. John. Despite bad weather in the Kootenays and temperatures well below normal in the North, all sessions were well attended. The questions from attendees have been informed and intelligent.

Some of the issues raised include:

- Reliability - some customers expressed willingness to have the lights go out from time to time if it means greater "green" energy options, while others are adamant that we need to choose the options that would provide the highest reliability possible;
- Low cost power - some argued that keeping rates as low as possible should be our aim, while others don't mind paying more if it means environmental and social considerations are reflected in the price;
- Conservation - some say more effort should be made to raise awareness of the benefits of conserving energy; and,
- Safety - some expressed the desire for a greater focus on safety issues to protect BC Hydro employees and customers alike.

This initial feedback was recorded and will be considered; where possible, it will be reflected in the 2004 IEP. We intend to take a leadership role in our industry when it comes to providing reliable service in ways that are sustainable, within parameters set by our regulator, the BC Utilities Commission, and our shareholder, the provincial government, through the B.C. Energy Plan.

The IEP team will also hold sessions in Vernon, Kamloops and Castlegar in February to complete their visits to 11 communities and more than 200 stakeholders. The team's plan to gather feedback from our stakeholders and employees is comprehensive. It also includes focus group research that took place in summer 2003, meetings with stakeholders and First Nations that have been underway since 2003, regional information sessions with First Nations that started this week, and employee information sessions both this year and last.

Vancouver Island Call for Tenders (VI CFT)

Another key project that requires a lot of work with stakeholders is the VI CFT.

First, let me explain why we're doing the VI CFT. In March 2003, BC Hydro applied to the BC Utilities Commission for a Certificate of Public Convenience and Necessity to allow us to proceed to the next step with the Vancouver Island Generation Project (VIGP) at Duke Point in Nanaimo. At the hearing, we proposed that we also initiate a call for tender (CFT) to identify potential

alternatives. In September 2003, the Commission denied the application, but agreed we had a need for capacity and encouraged us to carry out the CFT. In October we issued the VI CFT and received 17 bids, several of which included interest in the VIGP assets.

BC Hydro designed the VI CFT to ensure the BCUC's expectations are met, and determine the most cost-effective option for providing dependable capacity to meet the supply shortfall anticipated for Vancouver Island in 2007. PriceWaterhouseCoopers is serving as an independent reviewer of the process to keep us on track. As well, we asked the Commission to give us direction to ensure the process is competitive and conducted in an open, fair and transparent manner.

On January 23, the Commission responded with a recommendation that BC Hydro continue with the VI CFT with some changes to the parameters, including a reduced megawatt requirement for projects proposed and a longer timeline for the process. Right now we are reviewing the Commission's response and considering our options for next steps, and I will keep you updated on our decisions.

One challenge for us here is that some stakeholders have said they believe we are biased in favour of VIGP and they are concerned about the fairness of the process. We understand their position but we have no preference for a particular option. We believe the use of an independent reviewer will help ensure fairness. This underlines the need for us to keep building these relationships.

Revenue Requirements - BCUC decision on interim rate

As you are probably aware, BC Hydro filed its revenue requirement application with the BC Utilities Commission in December 2003. The application included a proposal for an interim rate increase of 7.23 per cent, effective April 1, 2004. On January 23, the Commission approved the increase on an interim basis, as proposed. In the event the Commission's final decision is to approve a smaller increase after it holds public hearings this spring, the difference will be fully refundable with interest on BC Hydro customers' bills.

So far, BC Hydro has put considerable effort into informing and engaging customers, stakeholders and employees on our revenue requirement application. We've held face-to-face meetings, presentations, information sessions and employee brown bag sessions, and issued media materials, advertising, Current Directions, for example. We're committed to continuing to communicate in an accurate, open and timely way as the process goes forward. We know that intervenors and others will ask tough questions about our actions and our costs. That scrutiny will help us understand our business better and we welcome it.

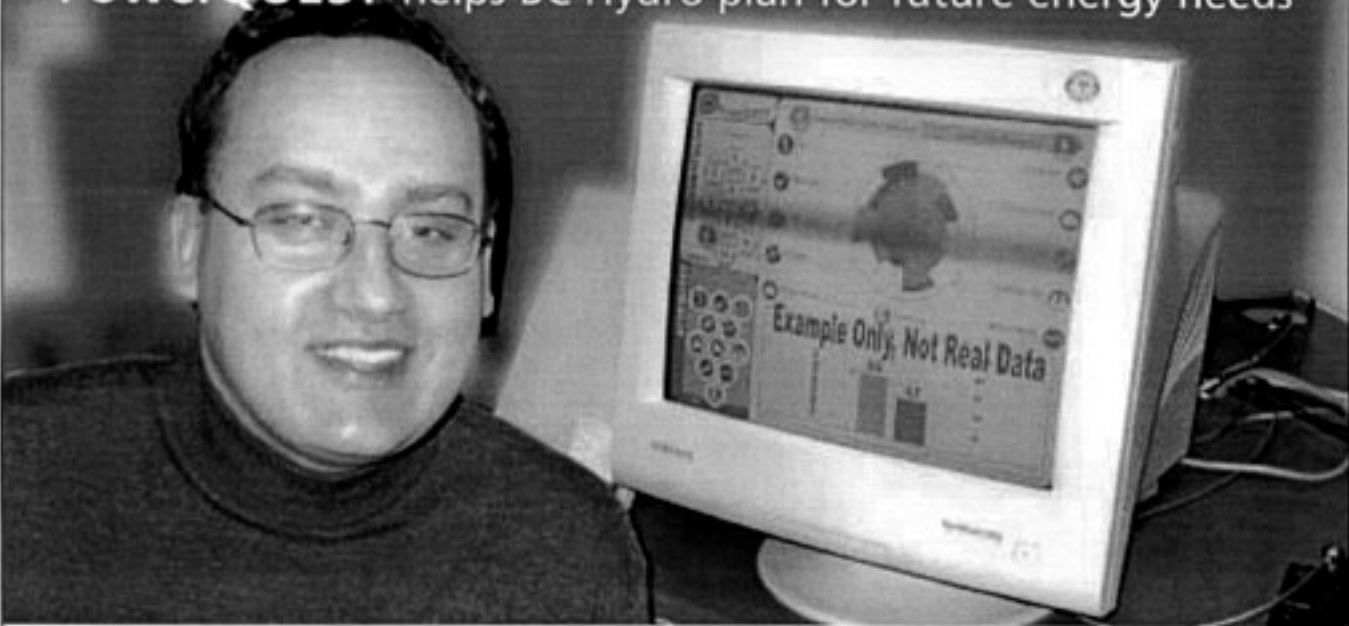
I invite you to continue to offer your feedback. I am particularly interested in any comments you have about our supply/demand picture.

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• [top](#)

Contact: Corporate C

PowerQUEST helps BC Hydro plan for future energy needs



Ron Monk logs into the PowerQUEST simulation program.

By Richard Banner

A new Web-based simulation program helps explain how BC Hydro plans for electricity needs up to 20 years in the future.

The Web-based PowerQUEST is BC Hydro's interactive simulation program designed to help users understand the electricity planning process. Initially designed as a desktop-based computer simulation for stakeholder workshops on long-term electricity planning, it is also being streamlined to work on-line, and will be available to employees and the public.

"The objective behind PowerQUEST Express is to inform employees and other stakeholders about the kinds of issues, options and choices that BC Hydro faces in making electricity planning decisions," says Ron Monk, project manager for the 2004 Integrated Electricity Plan (IEP).

The IEP lays out the forecast of electricity needs for the next 20 years and the steps the company will have to take to meet our customers' needs. BC Hydro will be seeking public input to the 2004 IEP over the next month in regional information sessions and through the website. The IEP is scheduled to be complete in the spring of 2004.

Currently in the last stages of development, PowerQUEST will let stakeholders review different "portfolios," or mixes of electricity resources. Users can explore the impacts of choices on four key evaluation characteristics (rate impact, reliability, private sector

involvement and the clean target), over a planning period from 2003 to 2024. The program also shows the trade-offs that take place between evaluation characteristics, otherwise known as "attributes."

Users can choose from a large hydro portfolio based on the development of a resource like Site C on the Peace River; a thermal energy portfolio based on construction of gas-fired generators; and an alternative portfolio that adds small hydro and wind energy to Hydro's conventional resources. They can then compare the projected scores for each attribute for the years 2004, 2009, 2014, 2019 and 2024. Charts and graphics make the comparisons easy to view and understand, and information pointers highlight interesting facts as the portfolios develop.

For example, users may find that the alternative portfolio has little overall impact in the early years. But by 2024, the score rises for items such as public sector involvement, and is lowered in other attributes.

These are the kinds of considerations – although on a simplified scale – that planners in BC Hydro's Power Planning and Portfolio Management division have to evaluate as they work through the 2004 Integrated Electricity Plan. The Plan, or IEP, lays out the forecast of electricity needs for the next 20 years and the steps we will have to take to meet the needs.

continued on page 7

PowerQUEST is being developed by a team made up of BC Hydro planners and Envision Sustainability Tools Inc., a company that markets QUEST, the simulation software that originated at UBC's Sustainable Development Research Institute. The software was originally designed in a collaborative project including BC Hydro and several other partners to simulate future scenarios for metropolitan regions like Greater Vancouver. The idea to modify PowerQUEST for the IEP process emerged after BC Hydro staff attended a QUEST workshop and saw its potential for electricity planning.

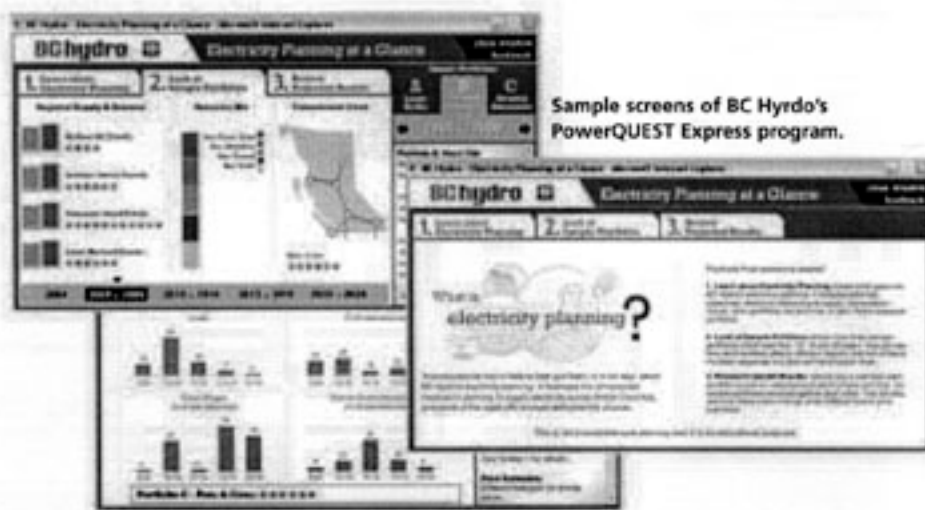
By simplifying the choices available, the Web version of PowerQUEST lets users get a three-minute taste of power planning. Using all of the actual choices that face the planners in BC Hydro's Power Planning and Portfolio management division would have involved modeling 10 different evaluation characteristics for portfolios of several hundred resource options.

"The objective behind PowerQUEST Express is to inform employees and other stakeholders about the kinds of issues, options and choices that BC Hydro faces in making electricity planning decisions."

— Ron Monk

concepts that we work with as planners and get a taste of the process. Power planning can seem pretty mysterious to people who are not part of it, so we hope that this simulation will make it less of a 'black box.'"

The simulation also helps meet BC Hydro's objective of making the planning process more transparent. Some members of the public in the past have asked how Hydro comes up with the figures in our short-term and long-term plans. Together with



In the actual planning, risk, and uncertainties such as future energy prices and regulatory issues also play a major role in the analysis, which the three-minute experience does not allow. The numbers used in the simulation are real, however. The data behind PowerQUEST is the actual data that the planners are working with, and the projections were developed using the same procedures being used for the 2004 Integrated Electricity Plan.

"As users view and understand portfolio examples, the resource options available and the trade-offs they involve, they become more aware of the complexities of long-term electricity planning," says Ron Monk. "We want users to be able to explore the

more detailed explanations in planning documents, PowerQUEST should help answer their questions.

"The end result will be a more informed audience that better understands Hydro's objectives and the choices we have to make," says Ron. "With better information, we think the public and our stakeholders will be better able to understand the directions that BC Hydro takes."

When PowerQUEST for the Web launches, (currently scheduled for the end of February) users will link to it from the IEP page on the BC Hydro Intranet and Internet. For more information on the 2004 IEP, visit the on-line IEP site at <http://w3ex/info/epi/epi8970.html>.