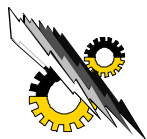


**STRATEGIC CONSIDERATIONS
FOR A NEW
BRITISH COLUMBIA ENERGY POLICY**

**A JIESC RESPONSE TO THE
INTERIM REPORT OF THE
TASK FORCE ON ENERGY POLICY**



**Joint Industry Electricity
Steering Committee**

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INTRODUCTION

On December 17th the Task Force on Energy Policy released its Interim Report titled, *Strategic Considerations for a New British Columbia Energy Policy*. The Report recommends far-reaching change in the structure and operation of the electric power supply system in BC. While the scope of the Report includes areas beyond electric power, our submission is limited to issues impacting the electric power supply system.

This submission is presented by the Joint Industry Electricity Steering Committee (JIESC), which represents 30 industrial companies operating at 42 locations in BC, with over 15,000 employees in their electric power intensive operations. Representing an investment of over \$10 billion, these companies invested in BC with the expectation that the cost of electric power would be derived in a regulated, cost-based fashion. Under such a cost-based regime, the huge investment in power generating facilities in prior years would provide a low cost source of power that mitigates the need for rate increases and provide stable, predictable rates for customers. BC's low cost power is the envy of other jurisdictions where restructuring is their response to high costs. The Interim Report contemplates the replacement of the current regime with a market based pricing scheme. This fundamental shift is a cause for serious concern within the JIESC membership.

With this submission we will attempt to do the following:

1. Describe the power intensive industries in BC and how they use electric power.
2. Review the current economic status of these industries in BC.
3. Estimate the impact of a 60% increase in electric power prices.
4. Provide some historical perspective on the customer's role in the development of BC Hydro.
5. Review the key drivers for change.
6. Identify the aspects of the Interim Report we support.

7. Outline our concerns in key areas.
8. Offer an alternative model for change that would accommodate the drivers for change while preserving the long-term advantages of regulated, cost-based, rates for consumers.

1. THE POWER INTENSIVE INDUSTRIES

The power intensive industries in BC, which are represented by the JIESC, include the electrochemical industry, the pulp and paper industry, and the mining industry. The importance of electric power to individual plants varies greatly. For production facilities within these industries the cost of electric power ranges from 3% to 75% of operating cost.

(a) Electrochemicals

The electrochemical manufacturers are the most power intensive in BC. Three firms operate electrochemical manufacturing facilities at four locations in BC. The facilities include one chlor-alkali plant producing chlorine and caustic soda and three plants manufacturing sodium chlorate.

Electricity, salt, and water are the three raw materials for the manufacture of the chlor-alkali co-products (chlorine and caustic soda). Pure salt brine is made by saturating water with sodium chloride (salt). The next step is electrolysis, which uses the flow of electricity through the salt solution to decompose the purified salt brine inside the electrolytic cells. The chemical reaction requires 3,000 kWh of electricity per tonne of chlorine. About one-half of the salt in the brine is converted to chlorine and the other half to caustic soda.

Electricity, salt, and water are also the three raw materials for the manufacture of sodium chlorate. Pure salt brine is processed using electrolysis in a chemical reaction that consumes approximately 5,000 kWh per tonne of sodium chlorate.

It is important to point out that with processes such as these, there is no way to produce the product without consuming electricity. The process is intrinsically electric power intensive.

(b) Pulp and Paper

The importance of electric power to the producers of pulp and paper varies with the process employed and product produced. The typical kraft pulp or paper mill is a large facility that may have literally several thousand electric motors employed to operate pumps, refiners, conveyors, paper machines, etc. Power consumption is in the range of 800 kWh per tonne and from 5% to 15% of total production costs.

The kraft process uses chemicals and heat to dissolve the lignin and separate the wood chips into individual fibers. The dissolved organic material is burned in a recovery boiler to provide the bulk of the thermal energy requirements of the process. The production of large quantities of high-pressure steam makes the process well suited for co-generation and many of BC's kraft pulp mills generate a portion of their electric power. However, most of BC's kraft pulp mills were constructed during periods when ample hydropower was available. As a result they were "encouraged" by the government to minimize self-generation and purchase the available hydropower. As a result, the BC kraft pulp industry is more dependent on electric power purchased from BC Hydro than would otherwise be the case. Expanding co-generation is an option (requiring significant capital investment) at several kraft mill locations but it will not be possible to achieve the same level of energy efficiency from an add-on as would have been possible if incorporated into the original design.

The two products produced in BC's pulp and paper industry that are more power intensive are newsprint and BCTMP (bleached chemi-thermomechanical pulp). Both of these processes use mechanical refiners rather than chemicals to separate the fibers for subsequent use for manufacture of either pulp or paper. The refiners employed in these processes require the use of large electric motors that may exceed 30,000 horsepower. The pulp produced by the mechanical process is not as bright or strong as

kraft pulp, however the wood consumption per tonne of product is greatly reduced and this type of pulp is satisfactory for many applications. While electric power costs are higher for BCTMP than for kraft pulp, the lower wood cost resulting from a higher yield provides sufficient cost reduction to make the process economic.

The electric power requirement to produce a tonne of mechanical pulp for BCTMP or newsprint is in the vicinity of 2,500 kWh. The requirement for electric power is intrinsic to the product produced. No amount of investment will eliminate this requirement.

(c) Mining

Both metal mines and coal mines require large quantities of electric power for material handling, size reduction, pumping and processing. The concentrator at a copper mine must reduce the ore to the equivalent of fine sand in order for the flotation process to separate the valuable copper from the waste rock. The major equipment used to accomplish this size reduction includes crushers and grinding mills, both powered by electric motors which exceed 10,000 horsepower in some instances. For a typical copper mine in BC, the cost of electric power represents 14% of production costs. As a major cost item it is the subject of continuing efforts to improve efficiency and reduce costs.

2. INDUSTRY ECONOMIC STATUS

For JIESC members, the cost of electric power is a very significant economic factor. In June of 2001, Willis Energy Services Limited completed a report for the JIESC that provided an estimate of the cost of electric power to various industry sectors utilizing the transmission tariff only. Their estimate is based on consumption data for the year 2000 and is presented in Table 1. As can be seen from Table 1, the annual cost for electric power for these transmission service industrial customers amounted to over \$484 million with over half the total cost incurred by customers in the pulp and paper sector.

Table 1 – Year 2000 Electric Power Purchases

Industry Sector	Total Cost (\$000)
Coal Mines	17,660
Metal Mines	54,178
Electrochemicals	56,785
Pulp and Paper	290,297
Wood Products	28,514
Other	37,101
Total	\$ 484,514

Note: Does not include service other than at Rate 1821

The markets served by these industries in the year 2000 were stronger for most commodities than they are today. Copper had a peak year at \$0.82 per pound. Northern Bleached Softwood Kraft averaged \$685 per tonne and prices for newsprint were reported at \$560, with most mills operating at full available capacity. The costs set forth in Table 1 are therefore believed to represent near capacity operation of the various industry sectors.

The impact of a cost increase for an input such as electric power will vary depending on a number of factors. These include strength of the markets for the products produced, the alternatives available to reduce the use of the particular input, and the ability of the industry involved to pass on costs to the customer. For the electric power intensive industries in BC practically every commodity market served is now at or near historic lows. The pulp and paper industry throughout Canada is at record low capacity utilization rates and the percentage of market related curtailment is significantly higher in BC, than Canada as a whole, due to higher costs. The pulp and paper industry in BC has earned its cost of capital in only two years in the past decade and prices continue to trend downwards. Though we are currently at or near the bottom of a cycle, it is apparent that returns over the past 10 years are not adequate for reinvestment over the long term.

The major market for the products of the electrochemical manufacturers is the BC pulp and paper industry, which consumes over 90% of the sodium chlorate produced by the three BC plants. The sodium hydroxide produced by the one chlor-alkali plant is also utilized by the pulp and paper industry within the province while the chlorine is shipped out of province. As a result, the reduced current operating rate within the pulp and paper industry has led to excess capacity and low prices in the markets for electrochemical producers.

Commodity prices for metals are also at low levels, with a number of BC mines currently curtailed or facing likely shutdown in 2002. The price of copper is now \$0.68 per pound, down 17% from the average in the year 2000.

3. IMPACT OF A 60% INCREASE IN ELECTRIC POWER PRICES

The Interim Report estimated that the market price of electric power would have to increase to approximately \$50 per megawatt hour to support the development of the next increment of power supply. This translates into a 60% increase for industrial customers. The JIESC surveyed its members to determine the impact of an increase of 60% in the cost of electric power. Responses were received from 12 companies operating in BC.

The results of the JIESC survey clearly indicated that operations at some facilities would not continue under current conditions in the commodity markets. While the facilities would remain in place, many would become “swing” operations that would operate only during periods of stronger commodity markets. The 12 responding companies indicated electric power consumption would decline by 2,500 gigawatt hours annually and employment would drop by 2,600 direct equivalent jobs under current conditions in the commodity markets. The full impact on BC industry is probably several times the aggregated responses to the survey.

Markets are dynamic and an increase in the price of electric power would trigger actions that would reduce the demand for electric power and therefore, the price. Further, the reduced level of commodity production in BC might very well lead to increases in commodity prices which would, in turn, help support a higher electric power price. Where the “market” for electric power would reach equilibrium remains unknown. What is clear is that, under current conditions in the commodity markets, the demand for electric power would drop dramatically if industrial prices were to increase 60%.

4. HISTORICAL PERSPECTIVE

The predecessor of BC Hydro, BC Electric was taken over by the provincial government in 1961 in order to embark on an aggressive hydro development program. The acquisition and subsequent development of BC Hydro was financed with debt, supported with the revenue from customers. Under this regime, the customers paid the costs and took the risk that the investments by BC Hydro would prove successful. If today BC Hydro had stranded costs instead of stranded benefits, the customers would be required to absorb such stranded costs. Therefore, the customers are of the view that they are entitled to the low cost power produced by BC Hydro’s dams and generating facilities.

The construction of the various generating facilities effectively created a contract with consumers to recover the costs through the purchase of electric power. These contracts represented a commitment to purchase power with the expectation that the cost of this power would be advantageous over the long term. Very significant industrial investments were made in British Columbia with that expectation. Fairness requires that the benefits of these investments accrue to the customers.

Canada is the largest producer of hydroelectric power in the world. Among the Canadian provinces, BC is the second largest hydroelectric producer. With its large dams and reservoirs, the BC hydroelectric system has an exceptional ability to meet changing market demands by simply changing the flow of water through the turbines.

This advantage should not be cast aside because markets external to BC are not as fortunate.

5. REVIEW OF THE PERCEIVED DRIVERS FOR CHANGE

(a) Energy Industry Development

The foremost driver for the recommendations of the Interim Report would appear to be the desire to create an environment that would promote the development of private sector power generating projects with the accompanying jobs, economic activity, and government revenues. In the area of electric power the creation of a market with many sellers and buyers, an independent transmission operator, and access to export markets are assumed to serve this objective.

Response of JIESC

In attempting to facilitate the development of electric power by the private sector the Task Force would place at risk the existing electric power intensive industry in BC. It is the view of the JIESC that the economic losses would very likely exceed the economic gains if the recommendations in the Report are implemented. The Report needs to give much greater consideration to the adverse impact of its recommendations on residential, commercial and industrial consumers of electric power.

(b) The Need for New Supply

The forecasted supply and demand growth, as set forth in the Interim Report, identifies the need for major new generation resources by 2010 to meet growing domestic demand. Developing an institutional structure that will assure economically efficient development of these new resources is a major driver for policy development. The new provincial government is a strong supporter of private sector, market-based solutions and, is skeptical about politically directed crown corporations when making investment decisions that would likely involve hundreds of millions of dollars. Public utilities motivated to grow their rate base in other jurisdictions have sometimes had a poor track record in this regard; witness the huge ill-conceived investments in nuclear power in

Ontario. The provincial government, therefore, would like an institutional structure that would result in private investment providing the additional investment in required facilities.

In recent years, BC Hydro has made attempts to contract the supply of electric power to a variety of Independent Power Producers (IPP). In these attempts, BC Hydro has caused great frustration within the IPP community through lengthy and costly negotiations that have seldom resulted in actual construction of new facilities. As a result, the IPP community is convinced that a market must be created. Such a market requires an independent transmission entity and many buyers and sellers. In order to meet this requirement, BC Hydro must be broken up and all industrial customers must buy a portion of their electric power from the market.

Response of the JIESC

There is no immediate need for substantial quantities of new electricity to serve domestic load. The Report indicates that, under minimum rainfall assumptions, new supply may not be required until 2010. There is clearly not sufficient need for additional electricity in British Columbia to create a large IPP industry based on domestic requirements and whether the export market will support building IPP plants is open to question. While we do not object to creating a structure that facilitates such IPP development, it must not be at the expense of existing power intensive industries with major investment in BC. In any event, there is no need for precipitous action. There is time to implement change in market access and long term supply contracts in a gradual, incremental manner that addresses real British Columbia issues and needs.

(c) The Need for New Consumer Price Signals

Another major driver behind the recommendations in the Interim Report is the stated need for price signals. The Report accepts the premise that the cost of new sources of power will be equivalent to the cost of electric power produced from combined cycle natural gas (CCNG). With a long range projected cost of \$3.00 US per MMBTU, the estimated cost of additional power is stated to be between \$48 and \$52 per megawatt

hour. The Report concludes that the market price of electric power will also be in this range in the near future. Therefore it is necessary to communicate the market value of electric power to customers so that power will not be utilized unless the value it delivers is equivalent to the incremental cost of production. The solution is for industrial customers to buy a portion of their power at market price.

Response of the JIESC

The determination that market prices for electric power will be equivalent to the full cost of electric power produced by CCNG generating plants lacks substantiation. The total amount of analysis would seem to be represented by the statement, "*...the consensus in North America is that CCNG facilities will determine the long-term cost of electricity supply...*" In the long-term, we can be certain that prices and technological development will provide options not considered or unknown at present. As borne out in the last year or two, no one can predict the market price of much of anything.

(d) Maintenance of Export Revenues

Access to the US market has been a significant source of revenue for BC Hydro and therefore, the provincial government in recent years. In order to maintain this revenue source and access to the US market, BC has to conform to certain market access rules laid out by the Federal Energy Regulatory Commission (FERC). FERC is promoting the formation of Regional Transmission Organizations (RTO's) to own and operate electric power transmission systems in the US. In the US West, it is proposed to form RTO West, which would include portions of BC. In order for BC Hydro to become a member of RTO West and maintain its seamless access to the US market, a separate transmission entity is required.

Response of the JIESC

It is our understanding that FERC is "encouraging", not "requiring", independent ownership of transmission facilities. This encouragement is coming through higher allowed returns for independent transmission owners, something that would raise rates for BC transmission users. The JIESC believes that at this time there would not appear

to be any reason why transmission must be spun off into a separate entity. The JIESC is concerned that doing so will increase costs and rates without any benefit for customers. Transmission access can be resolved in other ways. An example would be the creation of an Independent Transmission Operator (ITO). However, if there are savings identified that would result in both lower costs and improved reliability, then the JIESC would support reorganization of transmission into a separate entity.

(e) Requirement to Raise Capital

We suspect another driver is the concern within government over the future capital requirements for investment in generation and transmission. From page 17 of the Interim Report:

“The electricity transmission system, largely owned by BC Hydro and UNC, is aging. Approximately 80 per cent of the infrastructure was built between 1965 and 1982, and the remainder is more than 40 years old. Significant capital expenditure will be required in the near future to maintain and improve capability.”

Setting up a separate transmission entity, and perhaps a movement to private ownership, would relieve BC Hydro of the potential need for substantial borrowing to maintain this asset. The sale of this asset could even be a source of cash for a government desiring a balanced budget in some future fiscal year.

Response of the JIESC

BC Hydro has always been able to raise debt, directly or indirectly, on attractive terms and there is no reason it could not do so for future transmission expansion. There is no pressing need to create a new organization for this reason. The sale of BC Hydro monopoly assets is the wrong way to balance the budget. These are core infrastructure assets that do not require provincial subsidies and in fact, provide ongoing returns to the province and an important competitive advantage for industry.

(f) The Relationship between Gas and Electricity Prices

Another driver for change is the concern about the relative price of natural gas and electric power. During the recent run-up in natural gas prices, natural gas lost its economic advantage as a source of residential energy, causing much dismay and concern in the natural gas supply industry. For the natural gas industry, the obvious way to restore their advantage as a source of residential energy is to increase the price of electric power.

Response of the JIESC

We believe patience is the answer and that there is no need to change the current regulatory relationship, based on what already appears to have been a very short-term run-up in natural gas prices. If specific incentives are required to assist natural gas in the residential heating market, these incentives should not be at the expense of all electric power customers where gas is currently much less expensive than electric power on an equivalent heating value basis.

g) Summary of the JIESC Views on the Drivers for Change

In our review of drivers for change, we are unable to identify any crisis that requires immediate action. Electric power customers and the BC economy are being well served with reliable power at regulated, predictable rates. BC Hydro is returning substantial benefits to the province. Additional supplies of electric power are not required until 2010. The opportunity to invest in power generating facilities to serve markets to the south is proving ephemeral and the market may be oversupplied by merchant plants planned or proposed within the US (See Chart 1, on mid-C prices on page 17). Plans for additional gas-fired generation are being shelved and the life of coal and nuclear plants is being extended. BC is in the envious position of having the time to carefully review the need for change and proceed on a well-planned, incremental basis.

6. POSITIVE ASPECTS

There are many positive aspects to the Interim Report on issues that deserve careful consideration.

(a) Developing an Energy Policy

The JIESC supports the development of a provincial energy policy, particularly as it relates to the supply of electric power. A clearly articulated policy should facilitate the cooperation of the many public and private entities involved as the development of resources proceeds. A clear policy should also encourage economic development through reducing the uncertainties regarding approvals, location, transmission access, supply contracts, energy availability and cost. The Interim Report is a first step in developing such a policy.

(b) Permitting and Export Markets

We also applaud the Interim Report for recognizing and supporting the need to streamline the permitting process for the development of energy resources, including coal, for electric power production. We also support the idea that IPP resources developed in BC also be allowed to serve the domestic and/or the export market. Major generation assets come in large chunks and using the export market to absorb surpluses that develop will encourage facilities that can capitalize on economies of scale.

(c) Role for Private Sector

We support the utilization of the private sector to develop generation assets, if they can be provided at lower costs than projects proposed by BC Hydro. We are convinced that there are a number of opportunities for the development of additional generation that could be done most efficiently by the private sector. We doubt that there are many opportunities for such development that will be economically attractive as solely merchant plants. There is currently no market potentially available to BC developers that would support generation from available thermal resources in BC.

(d) Burrard Thermal and Vancouver Island

We are also pleased to note that the Interim Report recognizes the importance of Burrard Thermal to the BC electric power supply system. BC needs Burrard Thermal as a supplemental source of electric power in the Lower Mainland to reduce the inherent risks associated with hydropower supplied from dams located a great distance from the major load centers. The special problems of Vancouver Island are also highlighted in the Report. The Island is a center of major industrial power consumption and Island operators need assurance that adequate power will be available as the load grows. We are not satisfied that all the potential options to solve this problem have received serious consideration and would urge further expansion of this section of the Report with more evaluation of possible options and recommended solutions.

(e) Natural Gas Storage

We also applaud the Task Force for resurrecting the idea of natural gas storage in the Lower Mainland. Many of our members experienced high gas prices at the Sumas hub as a result of demand exceeding the gas transportation supply capacity last year. Storage is a logical way to provide additional security for both gas and gas fired electric power supplies and to improve the utilization of natural gas pipeline capacity. Storage should also mitigate the potential for price spikes at Sumas. We assume the cost benefit ratio would be attractive when viewed on the basis of total system economics.

7. JIESC CONCERNS

(a) Moving to Market Prices

The major concern of the industrials is the proposed abandonment of the current system of regulated, cost-based rates. Experience with electric power markets is relatively recent in North America and several jurisdictions have encountered major problems during the transition, many of which are not yet resolved. The recent BC Hydro Transmission Conference featured speaker after speaker from throughout the world who described major difficulties and minimal benefits with restructuring in their

own jurisdictions. JIESC members are not convinced that a market-based system is the right solution for BC. BC Hydro can continue to build or contract with IPPs for additional supplies of electric power as needed. If costs are higher than existing embedded costs (and we expect that they will be), the higher costs can be rolled into the existing rate base with modest impact. As long as IPP's are assured transmission access to the US market and fair supply contracting policies are put in place, BC Hydro cannot exploit its position as a monopoly buyer, as some suggest it has done in the past. We believe the current system is doing a good job of providing reliable power at reasonable rates and, with appropriate adaptations, can continue to meet the needs of BC consumers for many years to come. The JIESC does not oppose market access by IPP's, but this objective can be accommodated without abandoning the existing system of regulated, cost-based, rates.

(b) Suggested Market Price Level

The JIESC is also concerned about the lack of analysis that leads to the conclusion that the cost of additional supplies of electric power is equivalent to the cost of combined-cycle natural gas, with a projected gas cost of \$3.00 US/MMBTU. The total analysis in the Report supporting this fundamental conclusion is the statement, “...*the consensus in North America is that combined-cycle natural gas facilities will determine the long-term cost of electricity supply.*” Is this “North American consensus” applicable to BC? Are there no opportunities left to develop lower cost sources of electric power in BC? Who will bear the risk of sustained low market prices when supply exceeds demand? What is the economic fall-out of higher electricity prices? We believe these questions need much more serious and critical evaluation, extending beyond the scope provided by the Task Force Interim Report.

(c) Endowment/Entitlement

The Interim Report introduces the term “endowment” when describing the benefits accruing from the historic investment in hydroelectric generating facilities in BC. The term “endowment” is normally used to describe a gift. The Task Force needs to clearly

understand that BC Hydro's industrial customers take exception to the concept that these benefits are a "gift".

As a regulated utility, BC Hydro has an obligation to serve and has rates established by the BCUC to provide a reasonable rate of return. Under this regulated structure, all the risk related to investment decisions is borne by the customers. If bad investment decisions are made, the customers bear the costs. Likewise, if good decisions are made, the benefits are delivered to the customers in the form of lower rates. Having accepted this risk, BC Hydro's customers have earned, and therefore, are "entitled to" the benefits of the historic investments in hydroelectric generating facilities.

(d) Transition to Market Prices

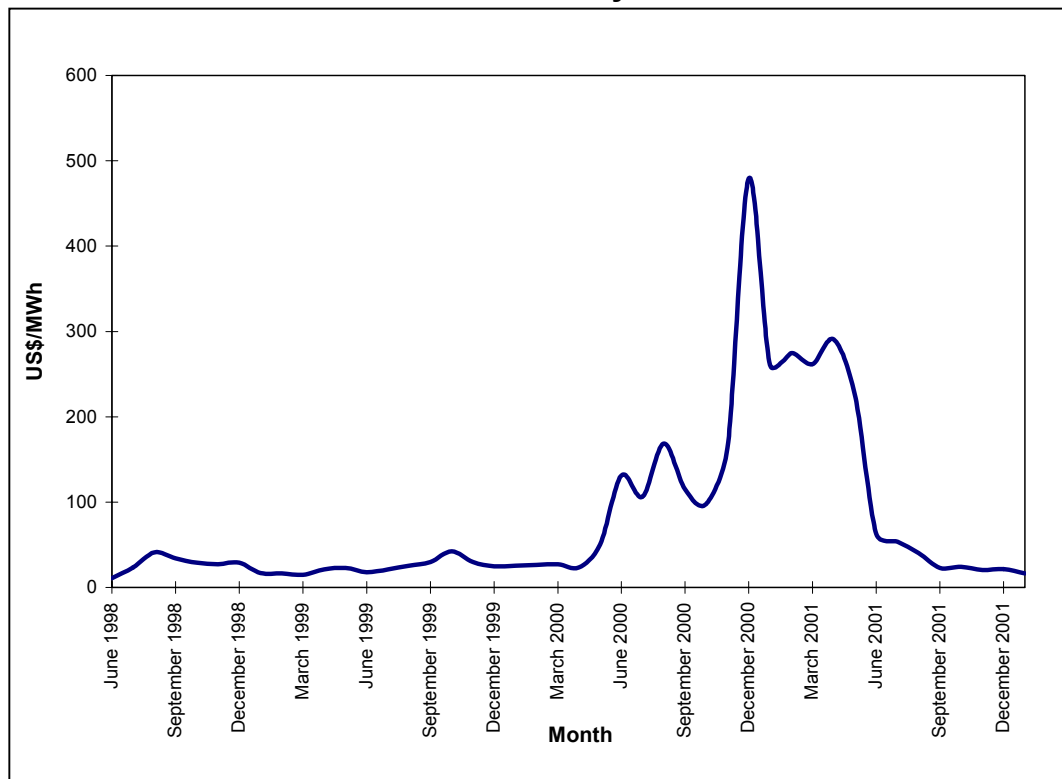
The Interim Report contemplates a transition to "full market prices" that would involve an interim period where existing customers would receive the benefit of the existing entitlement of low-cost power resulting from the BC Hydro hydroelectric generating facilities. For industrial customers, it is contemplated that a major portion, perhaps 80-90 percent, of their electric power consumption would be supplied from the entitlement at a price expected to be lower than market. The size of the entitlement for each industrial customer would be based in some way on historical consumption. While conceptually appealing, the JIESC members are concerned that such a system will be difficult to administer.

Developing and administering a system to divide up the entitlement between customer classes and individual customers will present some serious challenges. Whatever historical period is chosen, it will not be representative of current operations for a variety of reasons. Perhaps it was a labor strike, or market related curtailment, or the installation of additional power consuming facilities since or during the historical period selected to establish the entitlement. In any case, there will be a myriad of reasons why the entitlement has to be established at a level higher than the simple average of a particular period. The disputes that arise over the entitlement will require significant effort and expense to resolve.

(e) Future Market Prices

JIESC members are also concerned that the Energy Policy Task Force may be over-reacting to recent, relatively short term developments in the North American electric power markets (See Chart 1. below). The recent rapid rise in market prices for electric power in North America, and the idea that the value of the “endowment” approaches a \$1.0 billion/year, may prove quite ephemeral. Clearly the prices from the recent past are not going forward on a sustained basis. Furthermore, if electric power for industrial consumers were priced at even \$50 per megawatt hour, there would be a significant decline in industrial consumption, perhaps as much as 300 megawatts under current conditions in the market for commodities produced in BC. Commercial and residential consumption would also likely decline. The combined demand reduction would likely be large enough to obviate the need for additional generation for several years beyond 2010, but with other consequences and costs.

Chart 1 – Mid Columbia Monthly Average Firm Electricity Index From June 1998 to January 2002



Source: Willis Energy Services Ltd., February 2002

If mid-C prices are a proxy for the electric power market in BC, electric power intensive industry will be exposed to huge risks typical of prices for any major commodity. If prices in BC mirrored mid-C prices in late 2000 and early 2001, massive plant closings would have been the result. With electric power prices exceeding \$200 per megawatt hour, shutdowns would include the three electro-chemical plants, the three BCTMP mills, most of the newsprint manufacturing capacity, and all of the remaining metal mines except those with their own generation. Employee layoffs would exceed 6,000 persons. BC was able to avoid this type of disruption to employees, employers, communities and government because of the existing structure of cost-based, regulated rates. This is an advantage that should be maintained.

(f) Revenue Uncertainty

Pricing electric power at market creates risks for the provincial government as well as electric power consumers. Market prices for commodities, including electricity, are not always above full cost. In the bleached kraft pulp industry, for example, prices have been lower than full cost in BC for eight of the last ten years. It is not at all inconceivable that, under conditions of ample water supplies and weak manufacturing demand, market prices would fall below current rates. In fact in 1999, several industrial customers took advantage of BC Hydro's RTP program to buy a small portion of their power requirements at the real time market price, resulting in significant savings compared to the 1821 transmission tariff rates. This market price volatility would be reflected in BC Hydro and therefore government revenues. While the utilities, provincial government, and taxpayers might be delighted when market prices bring handsome returns, will the government accept the decline in revenues that will inevitably occur when the commodity price of electric power is at a cyclical low? Or will the regulatory regime be revised once again to stabilize government revenues?

(g) BC Hydro Regulation

Another concern of the JIESC members relates to the regulation of BC Hydro. The issue of regulation is addressed in a separate chapter in the Task Force Report. However, the current situation is not really described. BC Hydro has operated under a

rate freeze since 1993. This situation has effectively precluded rate hearings and the resulting regulatory oversight by the BCUC. Effectively BC Hydro has been allowed to become an unregulated monopoly. Periodic appearances before the BCUC helps instill a needed level of financial and operating discipline that may not exist without such regulatory proceedings. As a result of a court ruling in 1996, BC Hydro was exempted from providing resource development plans to the BCUC. The last Integrated Electricity Plan, published in January of 2000, represents a warmed-over recap of the 1995 plan without any presentation of options considered and rationale for selection of the recommended alternatives. As a regulated utility with a guaranteed rate of return, where customers pay the cost unconditionally, plans need meaningful public review to build confidence that the appropriate tradeoffs have received consideration. The ability of the BCUC to require informative resource development plans should be legislatively restored.

We would suggest the Task Force Report should address the issue of BC Hydro regulation, supply acquisition and transmission access directly and propose a regulatory scheme that effectively restores regulatory oversight of BC Hydro, while still maintaining the political imperative of Crown ownership of the core BC Hydro assets.

8. A JIESC ALTERNATIVE MODEL

Regulated, cost-based rates are the key aspect of the model we would propose. The entitlement would continue as a source of low cost power averaged into the overall rate. New sources of electric power from private or publicly owned developments would be rolled in as required. This would insure predictable rates insulated from the extreme market volatility recently seen in other North American jurisdictions. Such an approach should also include providing access to export and domestic markets by IPP's. Providing IPP access to the transmission system would likely require the creation of an Independent Transmission Operator (ITO) in order to provide a level playing field for all participants. The ITO would manage access to the transmission system to assure all participants both access and fair transmission tariffs. With transmission access for

IPP's, we support the view expressed in the Interim Report. Let the market decide if development of electric power generation facilities beyond that required to supply domestic demand is desirable.

In summary, our view is that the current system of rolled-in, or blended, cost-based, regulated rates can be maintained while providing opportunities for private sector development of electric power generating facilities. The risks of abandoning this approach far outweigh the rewards.

THANK YOU

We wish to express our appreciation to the Energy Policy Task Force for their interest in our submissions and their willingness to meet with a delegation of our members. Energy policy is important to British Columbia and we trust that the Task Force will develop a policy that promotes the general well being of all citizens of British Columbia.

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