

# 1 Introduction

## 1.1 *Context of the Inquiry*

On November 25, 2002, the provincial government released *Energy for Our Future: A Plan for BC* (Energy Plan). The Energy Plan has led directly to this proposal through a number of Policy Actions. Policy Action #1 calls for the development of a legislated Heritage Contract. Policy Action #2 calls for ratepayers to continue to benefit from electricity trade. Policy Actions #14 and #21 call for new rate structures under which large industrial and commercial customers are enabled and encouraged to seek supplies of electricity from sources other than BC Hydro. These Policy Actions are reflected in the Terms of Reference issued by the Lieutenant Governor in Council on March 25, 2003 pursuant to section 5 of the *Utilities Commission Act* (the Act). The Terms of Reference are attached at Appendix A.

According to the Terms of Reference:

“The general purpose of the inquiry is to obtain the Commission’s Recommendations on what changes, if any should be made to legislation, regulations, special directions or special directives affecting BC Hydro and/or the Commission in order to implement the Energy Plan in connection with the issues identified in paragraphs 3 and 4 of these Terms of Reference.”

Paragraph 3 of the Terms of Reference deals with the Heritage Contract, and paragraph 4 deals with stepped rates and access principles for transmission voltage customers.

In addition, the Terms of Reference direct that:

“The Commission shall require BC Hydro to file by April 30, 2003 a proposal that identifies the detailed Recommendations and reasons that BC Hydro believes should be contained in the Commission’s report . . .”

The Commission’s directive to BC Hydro was issued as Order No. G-23-03, and this proposal is responsive to that order. Order G-23-03 is attached at Appendix B.

## **1.2 Overview of BC Hydro's Proposal**

### **1.2.1 Two Distinct Parts**

This proposal is set out in two volumes. Volume 1 deals with all aspects of the Heritage Contract as required by paragraph 3 of the Terms of Reference. Volume 2 of the proposal covers paragraph 4 of the Terms of Reference, dealing with stepped rates and the terms and conditions under which transmission voltage customers may obtain access to BC Hydro's transmission system.

Volumes 1 and 2 of the proposal differ in approach. In Volume 1, BC Hydro presents a comprehensive vision of the way in which the Heritage Contract concept should be applied in the specific context of the BC Hydro system. The proposal is intended as a package and each of its elements is inextricably linked with all or some of its other elements. While BC Hydro acknowledges other approaches to establishing a Heritage Contract are possible, it firmly believes that this proposal is the one which best meets the public policy objectives that lie at the heart of the Energy Plan's call for establishment of the Heritage Contract.

On the other hand, when it comes to the design of stepped rates, BC Hydro believes that the Energy Plan's objectives can be accomplished in a variety of ways. However, the choice of methodology will affect the relative position of different customer groups. BC Hydro believes that consultation with BC Hydro's principal stakeholders is the best way to settle on the basic concept and choose the specific terms and conditions to be established in connection with the stepped rates and accompanying access principles. This approach is elaborated in Volume 2.

### **1.2.2 Context and Principles of the Heritage Contract Proposal**

The Energy Plan sets out a number of policy actions which BC Hydro believes assist in defining the objectives of the Heritage Contract. A number of the policy actions bear on the Heritage Contract, but in BC Hydro's view, the public policy objectives that are evidenced in the Energy Plan can be reduced to the following:

- (1) Secure, reliable supply: The Heritage Contract should allow BC Hydro to provide a secure, reliable source of electricity for all current and future British Columbians taking service from BC Hydro under the rate schedules listed in Schedule B of the Terms of Reference (the Heritage Beneficiaries) (Energy Plan Policy Actions #3 and #7);
  
- (2) Low electricity rates: The Heritage Contract should allow BC Hydro to:
  - (a) maximize the value of the generating capabilities of the resources within BC Hydro's control and allow BC Hydro to minimize the cost of acquiring resources for Heritage Beneficiaries (Energy Plan Policy Actions #2 and #3); and
  
  - (b) provide the capability of the resources listed in Schedule A of the Terms of Reference, together with the related civil works and plant (collectively, the Heritage Resources), on the basis of their embedded cost (Energy Plan Policy Action #1).

BC Hydro's proposal is designed to meet these three objectives.

The Terms of Reference for this proceeding and the Energy Plan itself impose certain constraints on the way in which these objectives are to be served. In preparing this proposal, BC Hydro recognized the following specific constraints:

- (1) BC Hydro is to be publicly owned and to be regulated by the Commission (Energy Plan Policy Actions #3 and #5)
  
- (2) Independent power generation is to be encouraged (Energy Plan Policy Action #13);
  
- (3) System operation will be implemented and new system resources will be developed in an environmentally responsible way (Energy Plan Policy Actions #9 and #20);

- (4) The quantity of energy producible from the Heritage Resources is to be determined assuming average water conditions (Terms of Reference paragraph 2(d));
- (5) Annual trade income in excess of \$200 million will go to the government (Terms of Reference 9th recital);
- (6) The Heritage Contract will be for an initial term of 10 years (Energy Plan Policy Action #1); and
- (7) The Heritage Contract is to be between BC Hydro's generation and distribution lines of business (Terms of Reference, 7th recital).

In order to develop a proposal that would meet the three public policy objectives outlined above and within these constraints, BC Hydro adopted certain methodologies or principles that it believes are consistent with the Energy Plan. The principles are as follows:

- (1) The Heritage Contract proposal ought to allocate to the Heritage Beneficiaries only those costs commensurate with the allocation of benefits;
- (2) The Heritage Contract proposal should drive economically efficient decisions at the margin for supply, demand, and trade;
- (3) The Heritage Contract proposal should serve its objectives simply and understandably as possible so that economic incentives will be clear to all participants; and
- (4) To maximize system value, those operating the system and those buying and selling power from and for the system should have, to the greatest extent possible, unfettered communications.

BC Hydro also believes that the objective of light-handed regulation, and the encouragement of independent power producers elaborated in the Energy Plan, reflect a belief that where market mechanisms can work they should be permitted to do so to as great an extent as possible.

BC Hydro believes that this proposal serves each of these principles and the overall objectives of the Energy Plan.

Finally, BC Hydro believes that the Heritage Contract proposal can be implemented relatively easily by appropriate changes to Special Direction No. 8 to the Commission and Special Directive No. 4 to BC Hydro.

### **1.3 *Names, Titles and Addresses of Contacts for This Proposal***

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