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Our File: 05-2176  
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British Columbia Utilities Commission  
6<sup>th</sup> Floor – 900 Howe Street  
Vancouver, BC V6Z 2V3

**Attention:** Robert J. Pellatt  
Commission Secretary

Dear Sirs/Mesdames:

**Re: BC Hydro 2005 Resource Expenditure and Acquisition Plan (“2005 REAP”)  
BC Hydro 2005 Call For Tenders (“2005 CFT”)  
BC Hydro 2005 Resource Options Report (“2005 ROR”)  
BC Hydro 2005/06 Integrated Electricity Plan (“2005 IEP”)**

We write on behalf of the Joint Industry Electricity Steering Committee (“JIESC”) to express its concerns with BC Hydro’s resource acquisition and planning processes as they relate to the goals of the Provincial Energy Plan.

It is the JIESC’s view that the Provincial Energy Plan is clear, and that it should now be evident to all parties that the existing multitude of planning and resource acquisition processes are neither consistent with the Provincial Energy Plan, nor are they generating any benefits for BC Hydro’s shareholder or customers. Rather, the entire process has become an expensive exercise in central planning, wasteful consultation and administrative reviews.

Now is a good time for all parties to step back for a moment and look at what is happening, or not happening, in BC Hydro’s resource acquisition and planning processes and try to find ways to improve the current situation. It is clear to the JIESC that these processes must be streamlined and restructured before more funds are spent on what is becoming increasingly evident are inappropriate and ineffective exercises. Unfortunately, on their own, none of the processes mentioned have sufficient scope to allow for such an examination of the larger picture.

The basic resource acquisition principles found in the Provincial Energy Plan are straightforward. IPPs of every sort should be given a chance to come forward with cost-



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effective projects. BC Hydro should be able to select the most cost effective projects that meet its needs. Further particulars are set out in the following Policy Actions.

Policy Action #9 provides:

**“Electricity distributors will acquire new supply on a least-cost basis, with regulatory oversight by the BC Utilities Commission.**

When deciding how to meet a projected power need, BC Hydro’s distribution business will compare the costs of all potential resources, including IPP purchases, customer-owned generation, BC Hydro plant efficiency improvements (Resource Smart), conservation and energy efficiency, and firm imports. The distribution arms of other B.C. electric utilities are encouraged to adopt a similar resource acquisition process, if they have not already done so. The BC Utilities Commission will oversee the acquisition process to ensure that least-cost options are chosen consistent with a new clean energy goal (see Environmental Responsibility and No Nuclear Power Sources).” (emphasis added)

Policy Action #13 states:

**“The private sector will develop new electricity generation, with BC Hydro restricted to improvements at existing plants.**

The private sector is well positioned for power development, given its ability to find entrepreneurial capital, efficiently build and operate facilities, and take on the associated risk. (emphasis added)

Policy Action #26 states:

**“To allow for a fair evaluation of coal-fired electricity projects, final emission standards will be adopted for coal-fired power plants.**

Coal-fired electricity generation is currently an important source of electricity in other provinces, but not in B.C. despite large resources of cleaner thermal coal. For some industrial consumers, coal became an economically attractive energy source when natural gas prices rose sharply in 2000 and 2001. Further volatility in natural gas prices could lead to increased pressure to use coal as a replacement fuel. The province needs well-defined environmental standards and an efficient regulatory process for evaluating potential coal-fired electricity developments...



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On January 1, 2003, the Ministry of Water, Land and Air Protection will adopt emission guidelines for coal-fired power plants that will allow B.C. to compete for investment with neighbouring jurisdictions. Specific dispersion model predictions will determine whether more stringent stack limits are required at any proposed location. To determine if more stringent stack limits are required, proponents will undertake specific dispersion model predictions.” (emphasis added)

Under the heading “Designing an Effective Portfolio Standard” the Energy Plan states:

“The level of the clean energy goal must be set so as not to unduly raise electricity rates over time.” (emphasis added)

In summary, subject only to the BC Clean Guidelines issued by the provincial government, BC Hydro and other distributors should be acquiring new resources on the most cost-effective basis. This should not be as difficult as it appears to be. All that is required for appropriate and cost-effective resource acquisition is a clear understanding of BC Hydro’s load requirements and a fair and competitive resource acquisition process. BC Hydro already has a long term load forecast. A simple and broad all-resource call for tenders should provide BC Hydro with sufficient options to acquire electricity in a cost effective manner. Any resource that has, or can obtain, all necessary permits should be able to bid into such a call for tender process. To the extent appropriate or necessary, BC Hydro Resource Smart, PowerSmart and Site C Projects could be bid into the call for tenders.

In contrast to the simplicity and clarity of the Energy Plan, BC Hydro’s resource acquisition and planning process is an unclear, expensive, multi-headed process that is not moving forward. Two and one-half years after the Energy Plan was announced, much of BC Hydro’s resource acquisition policy is still in the consultation stage and is unlikely to deliver any significant firm electricity for years to come.

Instead of a basic load forecast and a simple broad call for tenders we have:

**1. 2005 REAP**

The REAP is a short term, four year, resource expenditure acquisition plan. BC Hydro suggests that this plan meets the requirements of section 45 of the BCUC Act. We submit it simply lays out what are, given a short term time frame, almost inevitable short to mid-term expenditures that would be better dealt with as part of a revenue requirements hearing in the same manner they are for every other utility. In other words, the REAP process significantly increases the regulatory burden for all parties without any discernable benefit.

**2. 2005 CFT**

The history of this call for tenders is distressing and should be of concern to all interested parties. In March 2005, BC Hydro announced its 2005 open call which would seek 800



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GWh of firm energy and up to 800 GWh of non-firm energy from large IPPs connected directly to the transmission system or large projects connected to the distribution system and approximately 200 GWh of energy from smaller projects connected to the distribution system. Putting aside for the moment the 200GWh of small projects, the 800GWh of firm and non-firm energy was then specified to be a minimum of 50% BC Clean electricity. This split between BC Clean and other resources, when combined with the call size limits, effectively makes this yet another small green call. Small restrictive calls of this nature are unlikely to attract the most cost-effective electricity projects.

### **3. 2005 ROR**

BC Hydro has, after extensive and presumably expensive study, developed the 2005 Resource Options Report which it is filing with the Commission for “guidance”, whatever that may imply. This Report looks at a wide variety of resources providing a project description and detailed information on technical, financial, social, environmental, job creation and other matters for each resource.

How the ROR is to be used, separately or as input to the Integrated Electricity Plan, is not clear. One possibility is that an approval of the plan by the Commission could result in it being used as a basis for resource expenditures. This is totally inappropriate for the reasons raised by Mr. Quail in his letter of June 22, 2005 to the BC Utilities Commission. Another possibility is that the ROR would find its way into the 2005/06 IEP and provide the basis for more restricted calls in the future. This would also be inappropriate and contrary to the spirit of the Energy Plan.

BC Hydro is also trying to restrict the Commission’s review of the ROR, urging the Commission to limit the ROR review to a written process, without information requests, where only five questions of its choosing are discussed.

In our submission, only two things are certain about the ROR. First, the financial and other information contained therein will be wrong. It consists of information provided by potential bidders and forecasters. One has to wonder what potential bidder is going to disclose its lowest price to the public ROR process and we know forecasters will be wrong, almost by definition. Second, and equally importantly, much of the information contained in this Report is not required. The Energy Plan contemplates BC Hydro acquiring new resources through open competitive processes in which actual bids by independent power producers and others are put forward to be selected from on a least cost basis by BC Hydro. For an effective call for tenders, one does not need hypothetical financial information, social and environmental information, job creation or uncertainty rankings. All of this information is only necessary when one is planning to acquire resources through central planning mechanisms of the sort implemented by previous governments and rejected by this government, IPPs and customers alike.



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#### **4. 2005/06 IEP**

We simply do not know what the 2005/06 IEP will look like, or again, how useful it will be. BC Hydro has embarked on an extensive consultation around the province to find out what people feel about various resource options, however, it is not clear where this fits into a useful Integrated Electricity Plan where resources are contracted through the selection of least cost competitive bids.

The JIESC does not believe that the current government supports a central planning approach. Accordingly, a long term electricity plan should be a much simpler document than it might be in a central planning scenario. It is JIESC's view that a long term plan should be little more than a strong load forecast, and a review of available resources to ensure that there is a reasonable probability that BC Hydro will be able to acquire resources in a cost-effective manner in the market. If for some reason it would appear it will not be able to acquire necessary resources, clearly not the present circumstance, then the electricity plan serves as an early warning for BC Hydro to consider alternative steps, including bringing on resources itself.

#### **CONCLUSION**

In summary, the JIESC believes that it is now more evident than ever that the resource acquisition and planning processes that are being undertaken by BC Hydro are leading us in the wrong direction and must be revisited. The JIESC urges the Commission to bring all stakeholders together to discuss the general topic of how BC Hydro is going to acquire resources in a cost-effective manner in the future, and following that discussion, set up a process that is efficient and results oriented.

Yours very truly,

Bull, Housser & Tupper LLP

A handwritten signature in cursive script that reads "R.B. Wallace".

Brian Wallace

RBW/nsu/1317171