

## ENERGY NEWSLETTER

## B.C. Energy Policy - Interim Report

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## Introduction

In our Winter 2001 Newsletter we highlighted the Energy Policy Review initiated by the new B.C. government. The Task Force's Interim Report was made public on December 17.

## Electricity

Several significant recommendations are made regarding the electricity sector in B.C. Arguably the most controversial is the recommendation that electricity rates increase to reflect market prices, rather than being based on the (lower) historical cost of electrical facilities, as they are today. The Task Force suggests that higher prices are necessary to ensure the development of new sources of supply.

The range of increases necessary to reflect market prices is estimated at between 30% (residential customers) and 60% (industrial customers). The Report contemplates domestic customers continuing to enjoy an "endowment" in the short term but the endowment being phased out over time. No recommendation is made regarding the time period during which rates should rise to market prices, although the issue is flagged as critical and in need of further consideration.

The other significant recommendation is that B.C. Hydro be broken up into separate generation, transmission and distribution entities.

The Task Force believes that an independent transmission company is necessary to attract private investment in the electricity sector and that continued access to U.S. electricity markets necessitates the creation of a transmission entity that includes the transmission system not only of B.C. Hydro but also UtiliCorp Networks Canada (formerly West Kootenay Power) through purchase or lease. The form of such an entity is not discussed but a clear inference is made that it ought to be compatible with the development of Regional Transmission Organizations in the U.S.

The Task Force recommends that the generation company continue to be Crown-owned, that it own all of B.C. Hydro's generation assets, and that it be operated on a commercial basis. By contrast, the distribution company would not be a Crown corporation.

## Oil and Gas

The most significant and controversial recommendation of the Task Force regarding the oil and gas industry is that a large natural gas storage facility be developed in the Lower Mainland. The Task Force believes that such a facility would reduce the natural gas price volatility that has been experienced in the last few years.

Less controversial recommendations are that government commits to significant upgrades



of the road system in northeast B.C. to support the development of the industry in that region, and that the province generally supports the development of natural gas pipelines. The Task Force also recommended that the B.C. Oil and Gas Commission move to results-based regulation as soon as possible.

## Coal

The Task Force recommendations on the coal sector focus on the size of the resource and the need for government to encourage its development. The Task Force specifically suggests the government develop emission guidelines for coal-fired electric plants.

## Alternative Energy

The Task Force uses a broad definition of “alternative energy” that includes traditional thermal or large hydroelectric projects applied in a “progressive” fashion, and the more usual “green” energy sources such as fuel cells, biomass and solar. The Task Force’s view is that B.C. is well positioned to take advantage of what it sees as a coming boom in alternative fuel technologies. Its recommendations are extensive, but high-level, and are generally meant to encourage the development of the industry. Some notable recommendations include the development of net metering (a necessary pre-condition to distributed generation) and a requirement that energy distributors be obliged to provide, to customers who want it, alternative energy at market price.

## Regulation

The Task Force identifies overlapping federal-provincial regulation as an issue that

needs to be addressed. It urges the provincial government to do as much as possible to ensure that there is at most one process per project. It also suggests that the B.C. Utilities Commission might require some re-focusing, particularly if B.C. Hydro is split into different components.

## Conclusion

The two key recommendations – the splitting of B.C. Hydro and the increase in electricity to market prices – provide a backdrop that puts other recommendations in perspective. For example, the Report implies that no development of an alternative (and green) energy policy is possible while electricity rates are tied to the low historical cost of generation facilities.

If the key recommendations in the Report are implemented we believe there will be increased opportunities for many new and existing participants in B.C.’s energy sector.

The Report can be viewed at <http://www.em.gov.bc.ca/EnergyPolicytaskforce/InterimReport.pdf>. Comments on the Report can be made by following the instructions at <http://www.em.gov.bc.ca/EnergyPolicytaskforce/feedback.htm>.

There is no official deadline for comments. However, Task Force consultations with selected parties are scheduled to be completed by January 15, 2002.

Note: the Report does not deal with offshore oil and gas development, which is the subject of a separate review process. The next report from this process is expected to be available mid-January 2002.

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