



To: General Purposes Committee

Date: July 12, 2002

From: Terry Crowe
Manager, Policy Planning

File: 0035-01

Re: Provincial Energy Task Force (BC Hydro Privatization)
- City of Richmond Position Paper

Staff Recommendation

That Council:

1. Endorse the District of Maple Ridge's resolution to the Provincial Task Force on Energy Policy to "undertake a more open, transparent and inclusive consultation process so that the full impacts and benefits (of any B.C. Hydro privatization) can be reached and accounted for on a local, regional and provincial basis",
2. Inform the Provincial Task Force on Energy Policy, the Greater Vancouver Regional District, the Union of B.C. Municipalities, the Local Municipal Managers Association, and Richmond's MLAs of Council's decision.

Terry Crowe
Manager, Policy Planning

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ROUTED TO:	CONCURRENCE	CONCURRENCE OF GENERAL MANAGER
Engineering	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>	
Facility Management.....	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>	
Economic Development.....	Y <input checked="" type="checkbox"/> N <input type="checkbox"/>	

Staff Report

Origin

The Provincial Task Force on Energy Policy has completed an "Interim report on Energy Policy" with a final report expected soon. The Task Force's mandate is to examine and focus on various energy sectors, which include: electricity, oil, gas, coal, and alternative energy.

The purpose of this report is to:

- 1) Update Council on the Provincial Task Force's Interim report,
- 2) Specifically, respond to the Task Force's proposed recommendation to privatize BC Hydro, and the implications on local government, and
- 3) Comment on the recent resolution endorsed by the Local Municipal Managers Association on the proposed privatization of BC Hydro.

Findings Of Fact

Energy

Energy is the lynchpin of modern industrial society, enabling us not only to light our homes and drive our kids to school, but to power factories and heat offices, creating jobs and wealth. Until recently, most Canadians took it for granted that we would always have an ample, affordable supply.

While the current outlook is far more positive than it was during the legendary shortages of the 1970s, experts agree that we can't rely forever on finite resources such as oil and natural gas to fill our energy needs. So far we've used over half the world's known supply of oil. Prices are going up and the impact on the environment is increasingly severe. Turbulence in the marketplace for natural gas has caused concern for homeowners across the country.

Governments continue to play a big role in determining what direction Canada takes on energy. Ottawa and the provinces all have different agendas and interests on the energy policy. And there are influences beyond our borders as well. United States' policies and Canada's international agreements (i.e. Kyoto Protocol), especially on the environment, have an impact on energy development.

For consumers, the threat of shortages has prompted a renewed interest in energy conservation. That has prompted industry to develop new ways to make homes and vehicles more fuel-efficient, such as solar heating and electric cars. While such cars are not ready to be rolled out in bulk yet, we're closer than ever to having the option.

BC Electricity

For more than 40 years BC have had among the lowest electricity rates in North America, with reliable delivery of clean, non-polluting publicly owned hydro-electric power. Electricity prices in BC are the lowest in the three provinces with publicly owned power utilities (B.C., Manitoba, and Quebec). This situation has been an inducement to maintain and attract business investment into the province. The Vancouver area ranks as the third lowest metropolitan area in North America in terms of residential electricity prices (source: Hydro-Quebec's Comparison of

Electricity Prices in Major North American Cities, Rates effective – May1, 2000). Since this publication, electricity prices in California, Alberta and elsewhere have dramatically increased, while B.C. rates remain the same. It is expected that even if BC Hydro remains publicly owned, that consumer rates are expected to increase.

Task Force on Energy Policy

In August 2001, the Provincial Government commissioned a report to develop a comprehensive new energy policy, designed specifically to guide all participants in the energy sector as to where we are going and how best to get there.

The Energy Policy Task Force was formed in September 2001, to develop an energy policy framework for British Columbia. This framework is to be based on best practices worldwide and designed specifically to meet the energy needs of British Columbians.

The Task Force members include:

- Jack Ebbles Deputy Minister, BC Ministry of Energy and Mines – Chair,
- Peter Meekison Former Deputy Minister, Federal and Intergovernmental Affairs, Alberta,
- John Bechtold Former Senior executive with Petro Canada with extensive knowledge of the natural gas industry,
- Erik Westergaard Vancouver-based management consultant on energy and expert on electricity issue with extensive experience in Australia and New Zealand, and
- Brenda Eaton Deputy Minister to the Premier of British Columbia and former Deputy Minister of Energy and Mines

The Task Force's Interim Report Executive Summary is attached as **Attachment 1**.

The Interim Report suggests that a new energy policy for British Columbia focus on *energy growth, diversification, competitiveness, industry restructuring and expansion, environmental imperative, government leadership, and community and First Nations Involvement*.

Analysis

The Interim Report on Energy Policy recommends the four following strategic directions:

1. A move to fully competitive markets in the electricity system.
2. The development of natural gas storage capacity in the Lower Mainland.
3. Additional considerations for coal use to improve the use of British Columbia's abundant coal resources and energy potential.
4. The development of alternative energy sources for the social and economic objectives including making a range of energy options available to consumers.

On **Attachment 2**, staff have reviewed these strategic directions and present the pros and cons of each direction provided for discussion and consideration.

Local Government Awareness

In December 2001, the Corporation of District of Maple Ridge became aware that the Provincial Government had commissioned a report to develop an Energy Policy. In January 2002, they presented an information report on the Task Force's Interim report. Maple Ridge reviewed the report and suggested that *"a more open, transparent and inclusive consultation process so that the full impacts and benefits can be reached and accounted for on a local, regional and provincial basis"* be pursued. On January 22, 2002 Council endorsed a resolution on the matter (see **Attachment 3**).

Since then, the Task Force's Interim report was raised at the GVRD. From the discussions at the table, it was evident that there was little knowledge about the Task Force's work, report or potential impacts/concerns for municipal governments.

The Local Municipal Managers Association (LMMA) at their May 9th, 2002 Annual General Meeting discussed this report and endorsed the resolution (see **Attachment 4**).

The LMMA position is supported by Richmond staff. However, it is noted that deregulation of some aspects of BC Hydro may be warranted. But, further review and discussion on the merits to the public on this direction need further public consultation, debate, and dialogue.

Public Consultation

Staff believe that the Provincial Task Force on Energy Policy process has reached such an advanced stage without:

- An adequate public consultation on a demonstration of:
 - public energy needs,
 - the economic benefits, affordable and reliable energy supply, and
 - the environmental objectives (i.e. particularly with the proposal for expanded coal use).
- A public, comprehensive cost-benefit analysis of the merits of the energy deregulation and privatization,
- An examination of the NAFTA implications, and
- A guarantee that local supply will be secured at acceptable costs.

Generally, local governments make up the largest user of BC Hydro's services in the Lower Mainland. However, the municipalities have not been included in the discussions to date nor has the GVRD or the UBCM been approached.

To protect and advance its interests, it would be prudent for the City through the GVRD and the UBCM to seek an audience with the Provincial Government on the "Interim report on Energy Policy" to discuss the report and its implications to local governments and its residents.

It is noted that under the proposed Community Charter municipalities could operate utilities, which may or may not be beneficial for the City. Additional discussion is needed to determine the implications of such a step for the City.

Financial Impact

The impact on the City from deregulating electricity may result in increased energy costs, and other unforeseen impacts. Current grants from BC Hydro may change as well. It is also recognized that privatization may bring some benefits.

It is acknowledged that BC Hydro electricity costs have not increased for the past several years. However, under the Task Forces report proposals, the projected energy cost increases for the City of Richmond in electrical costs will be significant. In 2001, the City spent approximately \$2.81M (civic buildings heat and light, streetlights, pump stations, etc.). Therefore, based on the Task Force's projection that market prices will increase commercial and industrial charges by 40%, this amounts to a significant increase of approximately \$1.11M per year (based on 2001 usage) to the City. This is equivalent to a City tax increase of 1.1%. This would be in addition to the projected 30% increase in residential rates under this fully competitive market scenario.

Conclusion

There have been limited discussions among the GVRD member municipalities on the "Interim Report of the Provincial Energy Task Force on Energy Policy".

The City of Richmond staff acknowledge this concern, and endorse the District of Maple Ridge's resolution to the Provincial Task Force on Energy Policy. Which is to undertake a more open, transparent and inclusive consultation process so that the full impacts and benefits can be reached and accounted for on a local, regional and provincial basis, and that this discussion include the GVRD and its members municipalities and the UBCM.



Kari Huhtala
Senior Planner

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EXECUTIVE SUMMARY

In August 2001, the Premier of British Columbia, the Honourable Gordon Campbell, established a Task Force to draft an energy policy framework for British Columbia. This framework is to be based on best practices worldwide, designed specifically to meet the energy needs of British Columbians and to foster energy development in the province consistent with exemplary environmental practices.

This Interim Report presents the preliminary findings and conclusions of the Task Force and is presented for public consideration and comment prior to the Task Force finalizing its recommendations to government.

British Columbia is energy-rich. The sector is large and diverse, encompassing hydroelectric power, oil, gas and coal resources. There are also cutting-edge alternative technologies such as hydrogen fuel cells and innovative ventures in wind, wave and solar power. There are highly developed transmission and distribution systems for delivery of energy to industry and individual consumers. In fiscal year 2000/2001 energy production in the province was at record levels, with direct revenues of more than \$3 billion flowing to government. Some 50,000 British Columbians are employed directly or indirectly in jobs related to the energy sector.

Like other components of the economy, however, the energy sector is undergoing fundamental structural shifts. For most of its existence, the British Columbia energy sector was able to operate as a collection of relatively independent sub-sectors and industries focused on British Columbia. Today's economic reality is the emergence of one integrated energy market operating in a North American context. Despite the richness of its resource base, the energy sector will continue to be a major contributor to the economy and well-being of British Columbia only if it can adapt quickly and flexibly to changing circumstances.

There is a need to attract private capital to increase energy supply, thereby lowering our energy costs and increasing our energy security. Growing the energy sector will increase jobs and income in British Columbia.

Strategic Directions

The Task Force has identified a number of key strategic directions that, if addressed as part of a comprehensive energy policy, would position British Columbia to take full advantage of its energy potential. The Task Force suggests that a new energy policy for British Columbia focus on the following:

1. *Growth*: There is a compelling need to develop the energy business in British Columbia in order to ensure safe, reliable energy and to capture economic opportunities.
2. *Diversification*: Diversification of energy supply is critical given the role energy plays in a modern economy.
3. *Competitiveness*: Energy prices are best determined in a competitive market environment. At the same time, the long-term hydroelectric investments made on the Peace and Columbia Rivers have created an endowment that remains available to British Columbians for years to come.

4. *Industry Restructuring and Expansion:* The energy sector needs to be restructured and infrastructure expanded in advance of need. Market participants need fair access to key components of the system and, in particular, fair transmission access.
5. *Environmental Imperative:* Energy efficiency and sound environmental policy are essential elements of a modern energy policy.
6. *Government Leadership:* Regulation of the energy industry should be based on best practices. Appropriate policy, research and development, consumer information and education are critical. Inter-governmental linkages must be strong.
7. *Community and First Nations' Involvement:* Resource communities and First Nations have a role to play with respect to energy policy, particularly the application of that policy in their areas.

Critical Action

If the British Columbia energy sector is to continue to be successful in a 21st-century context, it must undergo fundamental change. Among the most critical elements of that change are the following:

1. A move to fully competitive markets in the electricity system:
 - a. British Columbia access to expanding North American electricity markets depends upon opening the system to more competition, thereby increasing private sector investment. In the opinion of the Task Force, this requires the restructuring of BC Hydro into three separate and independent operating entities dealing respectively with generation, transmission and distribution. In particular, the electricity transmission system must be able to accommodate new energy producers and enable them to deliver their product to market on an equitable basis.
 - b. Electricity pricing needs to move to market levels and thereby provide good market signals. This process must occur within a timeframe that balances the need for industry and individual consumers to adjust with the requirement to attract investment and ensure the development of new sources of supply to meet future needs. A transitional mechanism needs to be developed to ensure the adjustment process is done fairly and well.
2. Development of natural gas storage capacity in the Lower Mainland: The Lower Mainland is currently one of the only major markets in North America without such storage capacity. The lack of storage exposes natural gas customers to the risk of price increases when demand is particularly high. An ongoing mechanism must be available to protect consumers from excessive price fluctuations.
3. Additional considerations for coal use: Given the current state of emission-control technology, and the focus on continuing improvement in this area, British Columbia's abundant coal resources could be utilized as a significant component of British Columbia's energy potential. Final guidelines and standards related to emissions should be developed as soon as possible, based on an appropriate balance between economic and environmental considerations.
4. Development of alternative energy sources: The social and economic development possibilities inherent in new alternative energy sources are enormous. British Columbia needs to provide focused leadership to build on its reputation as a leader in the development of new technologies such as the fuel cell and diversify the range of energy options available to consumers.

Expected Outcomes

A fully competitive energy market will attract private capital and bring more energy supply, thereby lowering our energy costs and increasing our energy security. Growing the energy sector will increase jobs and income in British Columbia, including income to government. Developing a diversified mix of energy sources – electricity, natural gas, coal and alternative energy – makes good business and environmental sense.

The Task Force is confident that, with strategic planning, innovative thinking and the willingness to take action now, British Columbia's energy sector can play a leading role in the expanding North American energy market. British Columbia has the resources, the skills and the creative energy to make it happen. What is required is the commitment and corresponding action that will enable the energy sector to grow, to flourish and to contribute to the social and economic development of the province for generations to come. If the past can serve as a guide, a comprehensive energy policy can be the early-21st-century equivalent of the two-river policy of the latter half of the 20th century.

**Purpose: To Summarize the
Interim Report of the Task Force on Energy Policy Strategic Directions**
prepared by City of Richmond

The Interim Report on Energy Policy recommends the four strategic directions, which are presented as follows, with the pros and cons of each direction provided for discussion and consideration:

1. A move to fully competitive markets in the electricity system.

<p>Pros</p>	<ul style="list-style-type: none"> ❑ Potential exists for increased power generation by the private sector, including local jurisdictions (i.e. co-generation plant). ❑ Over the long term, it is projected that electricity consumers will save on energy costs.
<p>Cons</p>	<ul style="list-style-type: none"> ❑ Expected that customer rates will increase, and may vary from supplier to supplier. ❑ Competition and increased transmission access and distribution corridors may impact the City's current utility plans. ❑ BC Hydro already provides an affordable, reliable and clean power source for businesses, without it BC's business investment advantage may not be as bright. ❑ Additional provincial legislation will be required to protect consumers (Ontario). ❑ Independent companies may use high-pressure tactics to lure consumers into long term, fixed-rate contracts (e.g. Alberta). ❑ Alberta tried deregulation a few years ago, but the government had to step in recently and impose a cap on price increases proposed by private power companies. ❑ There maybe some unforeseen NAFTA implications on privatization of energy services.

2. Development of natural gas storage capacity in the Lower Mainland.

Pros	<ul style="list-style-type: none"> □ Increase in natural storage capacity may reduce the risk of price increases in the Lower Mainland.
Cons	<ul style="list-style-type: none"> □ Increased natural gas storage facilities may have potential safety risks and public concerns in the area where they are located (i.e. Squamish).

3. Additional considerations for coal use to improve the use of British Columbia's abundant coal resources and energy potential.

Pros	<ul style="list-style-type: none"> □ May create opportunities for local use of coal for non-electricity and coal thermal generation. □ May create opportunities to increase power exports and increase Provincial revenues.
Cons	<ul style="list-style-type: none"> □ Long-term effects of building more coal-fired plants will be increased greenhouse gases and more pollution (e.g. Kyoto Agreement).

4. Development of alternative energy sources for the social and economic objectives (i.e. those in the Task Force's Interim Report) including making a range of energy options available to consumers.

Pros	<ul style="list-style-type: none"> □ Provides private initiatives, including the City, to develop alternative sources of energy including independent power producers to explore the range of energy options that could be developed for such as the solar, wind, fuel cell technology, etc.
Cons	<ul style="list-style-type: none"> □ Consumers may have to cover the costs of private companies and the City in exploring alternative energy options.

District of Maple Ridge's Suggested Resolution Consideration

That the Task Force implement a more open, transparent and inclusive consultation process so that the full impacts and benefits can be researched and accounted for on a local, regional and provincial basis.

That the Task Force and Minister consider the direct economic and social impact and costs to local governments and residents as a result of:

- electricity deregulation,
- gas storage in the lower mainland,
- right-of-way management of transmission and distribution corridors,
- increased coal use on the environment, and
- changing existing electricity rate endowment mechanisms that current customers currently enjoy.

That the Energy Policy:

- establish electricity system for residents to enjoy rates that reflect the benefits of past investments in B.C. power generation,
- improve or extend environmental stewardship programs,
- honour existing agreements between local governments and B.C. Hydro, and
- enable local government the right to control, manage and collect revenues for the use of rights of way.

And that the GVRD be requested to compile and coordinate concerns of member municipalities and other input to the Task Force.

Date endorsed by Maple Ridge Council on January 22 ,2002.

**Local Municipal Managers Association Resolution
on BC Hydro – Provincial Energy Policy**

WHEREAS BC Hydro was created by British Columbia in part to provide significant comparative advantage for industry to locate within the Province and such advantage has led to direct improvement in the quality of life of British Columbian;

AND WHEREAS the BC Government review may ultimately result in the loss of economic advantages currently enjoyed by industry and all British Columbians;

THEREFORE BE IT RESOLVED THAT the Province of British Columbia cease immediately, the break-up and sell off of the components of BC Hydro, and ensure that industry and residents of British Columbia will not suffer business uncertainty and negative economic impacts recently experienced in other North American jurisdictions as a result of government energy policy;

AND BE IT FURTHER RESOLVED THAT the Province of British Columbia support community-based energy policies and programs that promote local energy sustainability and declare BC Hydro a strategic core asset of the Province dedicated to preserve and promote energy advantages for British Columbians.

Endorsed by the Local Municipal Managers Association at their May 9th, 2002 Annual General Meeting.