

Terms of Reference

Comprehensive Review of BC Hydro – Phase 2

Context

The 2017 Mandate Letter to the Minister of Energy, Mines and Petroleum Resources directs the ministry to undertake a Comprehensive Review of BC Hydro and to work with BC Hydro to develop a refreshed plan to keep rates affordable over the long-term.

In June 2018, Government announced a two-phase approach for carrying out the Minister's mandate:

- Phase 1 - examine opportunities to keep BC Hydro's rates affordable by increasing BC Hydro's revenues, reducing its costs and protecting ratepayer interests by re-empowering the British Columbia Utilities Commission to oversee BC Hydro's costs and activities; and
- Phase 2 - explore global energy sector shifts and provincial strategies that could transform the way BC Hydro does business.

Phase 1 of the Comprehensive Review of BC Hydro is now complete. On February 14, 2019 the Province released a final report on this first phase, which details actions to ensure sound financial and regulatory oversight of BC Hydro, and a five-year rate forecast reflecting cost and revenue strategies to keep rates affordable.

In December 2018, Government released its CleanBC plan, a combined economic development, energy and climate strategy. CleanBC offers a pathway that will enable our province to seize opportunities for innovation and growth. To meet the goals in CleanBC, we must increase our use of cleaner energy, including electricity generated from renewable sources, to shift away from our reliance on fossil fuels for transportation, industry, and buildings. CleanBC's actions will get British Columbia approximately 75% of the way to legislated 2030 greenhouse gas reduction targets. Achieving the remaining 25%, and ultimately the 2040 and 2050 targets, will require additional clean energy.

Objective

The objective of the Comprehensive Review's second phase is to develop recommendations for how BC Hydro can accomplish the provincial policy objectives laid out in the CleanBC plan, including how BC Hydro can support meeting British Columbia's legislated 2030, 2040, and 2050 greenhouse gas reduction targets in a manner that ensures BC Hydro sustainability in the future for the benefit of British Columbians.

The Review will consider the potential impacts of North American energy and market trends, the needs of current and future BC Hydro customers, evolving technologies and utility structures, the affordability of electricity to consumers, and opportunities to involve indigenous peoples and communities.

The recommendations from the Phase 2 Review will be used to inform BC Hydro's Integrated Resource Plan that will be filed with the British Columbia Utilities Commission in early 2021.

Governance

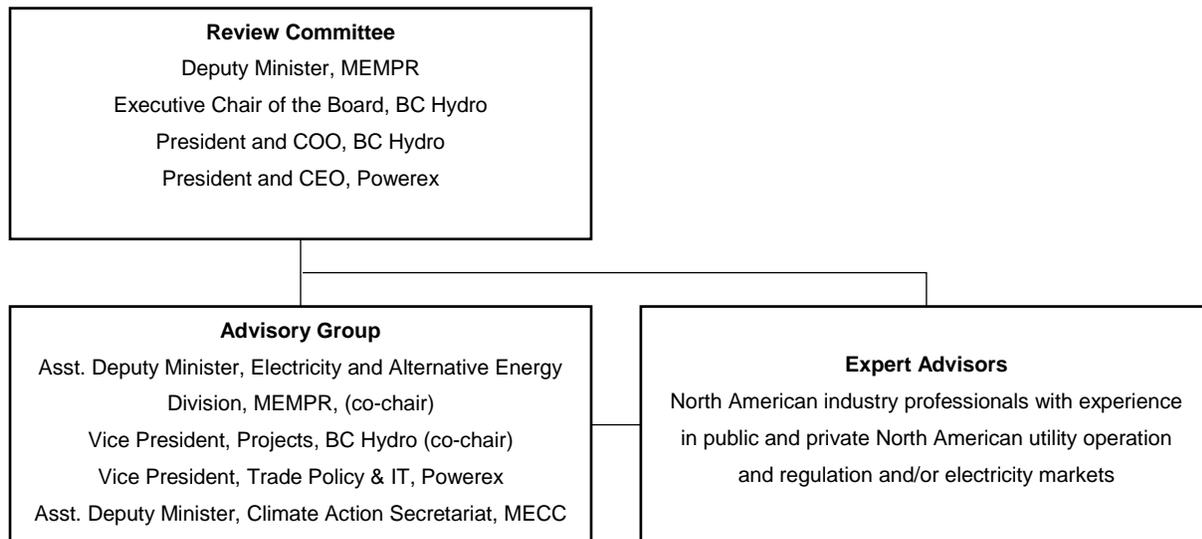
Overseeing the Phase 2 Review process will be a Review Committee consisting of:

- Deputy Minister of Energy, Mines and Petroleum Resources,
- Executive Chair of the BC Hydro Board of Directors,
- President and Chief Operating Officer of BC Hydro, and
- Chief Executive Officer of Powerex.

This Review Committee is responsible for ensuring that the objective of the second phase of the Review is met.

An Advisory Group consisting of senior staff from the Ministry of Energy, Mines and Petroleum Resources (MEMPR), Ministry of Environment and Climate Change (MECC), BC Hydro, and Powerex will provide advice to the Review Committee, draft material for their consideration and prepare a final report that includes the recommendations of the Review Committee. Industry experts that have extensive experience in public and private North American utility operation, regulation, and/or electricity markets will inform and guide Review Committee recommendations.

Governance Chart - Phase 2 Review:



Areas of Interest

The Review Committee, with the support of the Advisory Group and advice from industry experts, is tasked with addressing questions within four areas of interest, with the goal of gathering the information necessary to develop a final report with recommended actions for the utility.

1. Supporting CleanBC

CleanBC is central to reducing greenhouse gas emissions while also meeting BC's energy and economic development goals. Any recommended changes to BC Hydro must achieve the electrification goals set out in CleanBC to meet our legislated 2030 greenhouse gas reduction targets and lay the groundwork for additional greenhouse gas emissions reductions to meet the province's legislated 2040 and 2050 emissions targets. Achieving the electrification targets will support the production of lower carbon natural resources for export. The Review will identify additional opportunities to reduce greenhouse gas emissions through fuel-switching, electrification, energy efficiency and conservation and will include responses to the following questions:

- What is required to ensure that new customer demand for access to clean electricity from the grid is achieved in an efficient, cost-effective, and timely manner?
- How should the costs of this new access be allocated between existing and new customers? Is there a role for government(s) in financing the infrastructure to provide this access?

- What can/should BC Hydro do to encourage fuel switching to increase the use of clean electricity as an alternative to fossil fuels and reduce greenhouse gas emissions?
- How can BC Hydro and the Province's CleanBC Better Homes/Better Buildings program coordinate further to address climate change by reducing greenhouse gas emissions and meeting CleanBC objectives?

2. Thriving in an Evolving Electricity Sector

The Phase 2 Review final report will describe the trends in technology, changes in electricity markets and transformative approaches used by other electric utilities (e.g. distributed generation, microgrid and digital utilities). Recommendations will address how BC Hydro must adapt to a broad range of future scenarios and evolve its existing structure, services, and assets in support of ensuring BC Hydro's sustainability for the benefit of all British Columbians. At a minimum, the Phase 2 Review final report will address the following questions:

- Which industry trends are most likely to have an impact on BC Hydro?
- What actions are needed to ensure that BC Hydro is able to benefit from new markets and integrate new technologies while keeping rates affordable?
- Are there opportunities for BC Hydro to provide customers with more energy choices and information?
- Are changes needed to BC Hydro's governance structure to allow the utility to pursue new business opportunities?

3. Leveraging Our Strengths

BC Hydro's wholly-owned subsidiary Powerex currently buys and sells electricity in other markets throughout the Western Interconnection. The Phase 2 Review will consider whether there are opportunities to enable increased participation in external markets to the benefit of BC Hydro ratepayers. The Phase 2 final report will make recommendations that consider each of the following questions:

- What constraints, if any, reduce Powerex's ability to trade electricity in the Western Interconnection today or in the future?
- Is there an opportunity or actions that can be taken that will enable Powerex to expand its business in markets outside of BC, further leveraging BC Hydro's clean generation and/or Powerex's expertise in energy markets?

- How should cost effective clean energy located outside of BC be considered in BC Hydro's planning and operations?
- Is there an opportunity to own and/or operate assets outside of BC Hydro's current service area that would benefit BC Hydro's ratepayers?

4. Opportunities for Indigenous Nations and Communities

In support of BC's commitment to reconciliation with Indigenous Peoples, the Review will consider future opportunities or new roles for Indigenous Nations in the development, ownership, or operation of electrical infrastructure or services. In relation to BC Hydro's existing business and proposed new lines of business, the Phase 2 Final Report will include recommendations to enhance Indigenous Nations' participation in the energy sector. The review will also consider how BC Hydro currently works with communities and explore alternatives.

For each of these four areas of interest, the Expert Advisors will provide advice on opportunities for program and rate design, changes to BC Hydro's governance structure and regulatory framework, and other opportunities for improved organizational readiness to enhance BC Hydro's financial and operational sustainability to keep rates affordable over the long term.

Process

The Review Committee and Advisory Group will undertake the Review utilizing the advice of the Expert Advisors as and when needed. In late fall 2019, stakeholders and Indigenous Peoples will be asked to provide feedback on interim Phase 2 results.

A final report will be completed in early 2020 and will outline the Review Committee's recommendations on policy, governance, and strategy to ensure BC Hydro's sustainability and ability to contribute to CleanBC and other Government policy objectives.