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Submitted via email: BCHydroReview@gov.bc.ca

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RE: Comprehensive Review of B.C. Hydro: Phase 2 interim report

The Business Council of B.C. appreciates the opportunity to provide comments on the above noted B.C. Hydro report.

First, we thank B.C. Hydro for its COVID-19 relief fund, providing up to 3-month bill credits for individuals and small businesses. This will blunt some of the cost pressures faced by these groups during a time of rising unemployment and unstable business income. The 3-month bill deferment, a 9 month payment (with interest) option for medium and large business, the potential to defer 50% of use charges, and the average demand treatment for transmission voltage customers are also helpful in managing some of the COVID-19-related impacts in this difficult time. We hope B.C. Hydro and the province will consider extending these programs should cases of the coronavirus surge again in the fall. We also urge the government to reconsider the requirement for industrial customers to pay interest on deferred industrial amounts, especially if the economic recovery for manufacturers and B.C.'s major resource industries proves to be protracted.

Now we turn to the above noted report and the primary focus of this submission. The world changed in early March 2020. It has become clear that the breadth and depth of the economic effects from the COVID-19 pandemic and the related policy measures to contain it are both sweeping and deep. The scope of the impacts is unparalleled, with the final cost tally still unknown for now but certainly totalling in the multiple tens of billions of dollars for B.C. households and firms. Even optimistic forecasts suggest the province will not return to its pre-pandemic level of economic output (real GDP) until mid-2022.

Energy markets have seen an overall drop in demand for all types of energy. While the effects from the pandemic on the electricity sector pale in comparison to those evident in global oil markets, there is still substantial short- to medium-term uncertainty in the electricity and utility markets. In fact, the full extent of the impacts may not be apparent for some time. This complicates long-term decision making generally, and makes the assumptions used in the current Phase 2 report questionable. Therefore, we believe a pause is necessary to provide time for all parties to re-assess how we understand and communicate about "what's next" and "how" in relation to B.C Hydro's Integrated Resource Plan (IRP).

That said, it is our understanding that several existing suppliers face delays in renewals of contractual arrangements with B.C. Hydro. These companies invested in B.C. over the years to align with the current clean electricity brand built and promoted by B.C. Hydro and government officials. These assets have value for many years to come and are part of the base generation system. We are concerned that they could become stranded assets, which would have many cascading and negative consequences, especially against the backdrop of a struggling economy and a fragile recovery.

With this is mind, we recommend that the government change the legislated submission date for the IRP from February 2021 to February 2022, or later. Extra time will allow all customer classes and other stakeholders to stay focused on the immediate requirements for organizational survival and economic recovery. Since longer-term impacts from COVID-19 will not be clear for some time, extending the deadline should ensure more thoughtful identification and integration of new economic and social trends and pressures into the next IRP.

We believe the shifting economic, competitive and energy landscapes coming out of the pandemic crisis will call for a reorientation of programs like CleanBC, new approaches to demand-side management, a review of the need for capacity resources, and a better understanding of supply-chain risks. The realities of increased government debt, ongoing deficits, sustained higher unemployment, significant business destruction, and constraints on investment highlight the reality of stark opportunity costs among various "must" and "nice-to-have" policies and programs – certainly in the energy sector, but in fact across all domains of public policy. The next IRP should not be developed as if the pandemic and the associated painful economic slump never happened. Rushing to finish the IRP is ill-advised. A pause is clearly warranted in the present unsettled environment.

Apart from this, the Business Council believes that the next IRP must take account of the pressing need to strengthen B.C.'s competitiveness, especially in the industries that make up the province's export economy. This includes ensuring that the province has competitive electricity costs going forward. In truth, B.C.'s competitiveness in terms of the cost of power has eroded over the past decade, along with the efficiency of the regulatory framework. Competitive electricity rates are critical to the province's current and future industrial competitiveness. Maintaining load from existing industrial customers is vital for both recovery and long-term economic health. These firms do much of the heavy lifting in B.C.'s export economy, creating positive downstream employment and investment multiplier effects in other sectors.

Once the time is right to restart the IRP process, the Business Council supports exploration of and consideration of action with respect to the following issues and topics:

- New tools for forecasting and dispatch.
- New rate options for distributed resources.
- Rate design principles that ensure a focus on competitiveness.
- Elimination of the 150MVA threshold for payment of the incremental cost of new generation.
- Removal of the existing legislated self-sufficiency requirement.

And we have concerns with:

- The 100% renewable goal: B.C. Hydro's supply is already 97% clean. Whether it is essential to achieve 100% is questionable, particularly if doing so comes with a steep incremental cost. Regardless, if policy dictates adding another 3% of "clean" power, it will be important to make choices based on least cost criteria.
- Grid modernization: We recognize the need to invest in transmission and distribution networks. We urge a focus on the fundamentals of reliability and least cost in this area. We also note that there are ways to leverage the private sector to develop new infrastructure, which can reduce the exposure of ratepayers to certain capital costs and the associated operating risks.
- Rate making: Development of the IRP must avoid outcomes that result in interclass cost recovery during the rate-making process that will follow.
- Load growth: In challenging economic conditions, maintaining load from existing (commercial and industrial) customers is and, in our view, will for some time remain more important than growth. This is abundantly clear with B.C. Hydro's May 11, 2020 announcement on falling demand and the high potential for curtailments of both B.C. Hydro and independent power generation facilities.
- Internal carbon price: It is unclear why B.C. Hydro needs or would use its own elevated valuation when British Columbia has an explicit and official carbon price.
- Electrification: We support a careful look at opportunities to advance electrification of the broader energy system, using a clear road map. Additional steps towards such electrification must not lead to higher than necessary rates and must not result in carbon leakage. In fact, B.C. Hydro may have to consider long-term price incentives if the stated policy goal is to foster fuel-switching.

Finally, we offer the following ideas for consideration in the recovery phase of a post-COVID economy:

- Halt B.C. Hydro's dividend payment obligations to the province for at least 2 years.
- Provide industrial rate reductions as part of incentive packages to maintain operations in key export-focused B.C. industrial sectors.
- Identify a list of "shovel ready" projects from B.C. Hydro's current capital plan and speed them forward to construction. This should also be done with private sector energy projects. The province and B.C. Hydro must identify and support private sector activity to help accelerate the recovery and rebuilding of the economy.
- Eliminate obstacles for connecting new load and speed the development of new load at brownfield sites.
- Use and pay for excess capacity at transmission-level industrial customer facilities. This would bolster cash flow when this is clearly needed, provide system support and value in the near term, and allow for the faster ramping to full capacity when market conditions permit.
- Aggressive movement on upstream oil and gas electrification opportunities via the $680 million Peace River Memorandum of Understanding with Canada. This must lead to private sector job creation, given that most of the jobs lost in the past 2 months are private not public sector positions. As noted above, any commitment to greater electrification of the energy system should not result in higher power costs for industrial, commercial, and other ratepayers.

Thank you again for the opportunity to provide these comments. The coming months and years will be challenging for many industries and businesses in British Columbia. Collaboration and a commitment to building a strong, competitive B.C. economy will be critical in planning for future utility resources and services.

Sincerely,

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and Chief Executive Officer

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DM/vjc

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