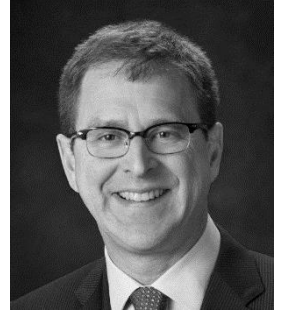


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Hon. Bill Bennett
Room 301, Parliament Buildings
Victoria, BC V8V 1X4

February 1, 2016

Dear Minister,

On Tuesday January 19th 2016, your government and BC Hydro once again demonstrated your determination to avoid reality in making energy policy decisions. This approach has led to the 28% rate increases BC business and residential customers are facing now.

BC Hydro revealed at the Rate Design Application Procedural Conference that it will only be offering a 10 year update on the Crown Corporation's energy load resource balance – in short, BC Hydro's planning forecast for energy supply and demand. Normally, the balances are for 20 years. On the supply side, Site C is really only going to be the next source of generation for the next 20 years so why not show how this supply and the demand compare to one another for the next 20 years?

The rationale for not providing this information is pretty clear. BC Hydro's demand component is not growing as fast as planned. If the demand isn't growing as planned, then you don't need as much supply. So why do you need to build Site C right now, when you say you do? Covering up the facts won't improve the situation for BC ratepayers.

To justify Site C, BC Hydro estimated in its 2013 IRP based on a 2012 forecast, that domestic energy demand would grow by 40% over 20 years. This view is now divorced from reality. Already, these forecasts are dramatically off. According to BC Hydro's 2nd quarterly report released in December 2015, domestic demand is down dramatically. Domestic sales load is down 1,740 GWh over one year to 52,600 GWh, way below BC Hydro's estimates. In fact, the drop year-over-year is almost one-third of Site C's future annual production.

BC Hydro is already planning for Site C to lose \$850 million in its first three years. Changing conditions will dramatically increase that loss, and British Columbians have a right to know the truth. There is no need in terms of timing to avoid a BCUC hearing on Site C.

Our energy future should be built on sensible planning and not on Liberal wishful thinking. I'm asking that you and BC Hydro ensure that the February update of the energy load resource balance be for 20 years.

Sincerely,

Adrian Dix, MLA
Vancouver-Kingsway

Encl. supporting documentation

FUTURE OUTLOOK

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each year. BC Hydro's Service Plan filed in February 2015 forecasted net income for fiscal 2016 at \$653 million. The Company's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, domestic sales load, market prices for electricity and natural gas, weather, temperatures and interest rates. The impact to net income of these non-controllable factors is largely mitigated through the use of regulatory accounts. BC Hydro filed an updated forecast with the Province in November 2015. The updated forecast for fiscal 2016, based on information as at September 30, 2015, assumes water inflows at 88 per cent of average, domestic sales of 58,194 GWh, average market energy prices of U.S. \$28.34/MWh and short-term interest rates of 0.68 per cent.

The net income forecast for fiscal 2016 remains at \$653 million. The significant changes from the Service Plan for fiscal 2016, which has no net income impact after regulatory account transfers, include:

- Domestic tariff sales load of approximately 52,600 GWh, a decrease in domestic tariff sales of approximately 1,740 GWh. Forecast sales in the large industrial, and commercial categories have decreased largely as a result of lower forecast customer load in the mining and pulp and paper sectors due to metal mine closures, closure of a major pulp and paper mill in July 2015 and lower commodity market outlook;
- An increase in the forecast cost of energy mainly due to higher forecast IPP deliveries and higher IPP costs resulting from a change in the accounting treatment of an EPA in fiscal 2015. This has been partially offset by lower forecast net market purchases, hydro generation costs, and non-treaty storage costs; and
- A decrease in forecast short term interest rates in fiscal 2016 from 1.32 per cent to 0.68 per cent.

The impact of the changes above flow through BCUC-approved regulatory accounts and have the net effect of putting upward pressure on future rates.

1 Energy LRMC in a document to be submitted on 18
2 February, 2016, in advance of Round 2 information
3 requests.

4 By way of background, three factors
5 underpin the changed Energy LRB, and in summary they
6 are a reduced load forecast. The forecast used in the
7 2015 RDA dates from December 2012. Second is an
8 increase in independent power producer energy
9 contributions, largely because more of these are
10 reaching commercial operating dates. And the last is
11 an expected change in demand-side management savings.
12 BC Hydro is forecasting a decrease in savings from
13 rate structures which is somewhat offset by an
14 increase in savings from programs and codes and
15 standards.

4 Proceeding Time 9:45 a.m. T11

5 The first item to note on page 5 consists
6 of the load, B.C. Hydro's load resource balance, and
7 the resulting long run marginal cost. As you know,
8 the Energy IRLMC is a referent for the five default
9 rates, and in particular, pursuant to subsection 3(1)
10 of Direction No. 7, the Commission must ensure that
11 Rate Schedule 1823, Tier 2, reflects B.C. Hydro's
12 Energy IRLMC.

13 For rate stability purposes, B.C. Hydro
14 uses an Energy IRLMC based on a 20-year outlook of its
15 energy load resource balance. B.C. Hydro typically
16 develops these energy and capacity load resource
17 balances through its 2013 Integrated Resource Plan,
18 and thus the IRLMC set out in Sections 2.3.2.2 and
19 2.3.2.3 of Exhibit B-1 are based on the 2013 IRP. BC
20 Hydro is in the process of updating its energy and
21 capacity load resource balances, and there is the
22 potential that these updated load resource balances

