

TO: UBCM Members

FROM: RESOLUTIONS COMMITTEE
Councillor Pat Wallace, Chair
Mayor Frank Leonard
Director Rick Hardie
Councillor Jim Thom

DATE: September 6, 2002
(Oct 1, 2002 amended)

RE: ENERGY POLICY DIGEST

<p>POLICY PAPER #4 2002 Convention</p>
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[Please note amended section 4. Disposition of the 2002 UBCM Convention]

1. INTRODUCTION AND DECISION REQUEST

Energy issues remain a concern for members in 2002. Six resolutions have been submitted this year with broad ranging recommendations regarding energy policy. The resolutions emphasize concerns around policy changes to BC Hydro recommended in the Provincial Government's Energy Policy Development Task Force Interim Report, Nov. 2001.

This energy policy digest has been prepared to assist the 2002 UBCM Convention in dealing with the energy resolutions. It identifies and consolidates the specific recommendations made in the resolutions, compares them with UBCM standing policy on energy matters, and seeks member direction on new policy recommendations. The resolutions can be reviewed in full in the Annual Report and Resolutions Book, C62-C67.

Delegates are requested to consider their direction on the 'digest' recommendations. It is recommended that:

- a. the recommendations in Section A be endorsed by the Convention. These are supported by UBCM standing policy
- b. members, by specific motions, determine which of the additional recommendations put forward in Section B (points 3-7) should be endorsed.

Recommendations coming out of consideration of this policy paper may revise or augment the UBCM current standing policy on energy. Endorsed new energy policy recommendations will be forwarded to the Provincial Government for consideration.

2. BACKGROUND

The Interim Report of the Energy Task Force

The provincial Energy Policy Development Task Force was established in August 2001 in order to develop an energy policy framework for the province, which at present has no comprehensive explicit energy policy. The Task Force was asked to be guided by five principles: ensuring a secure, reliable and environmentally sound supply; application of market forces to ensure competitive ability and choice; regulation that emulates market principles focussed on outcomes and consumer protection; entitlement of British Columbians to current benefit of existing low-cost supply; and government efficiency and accountability in the regulation and development of energy.

The Interim Report of the Energy Task Force was released late in 2001. It recommended that the provincial government move to a deregulated system based on a "market" price, establish an independent transmission company, and separate generation and distribution into distinct companies with the possibility that the generation company be broken down into multiple companies in the future. Moreover, it recommended that export procedures be streamlined, that large customers have access to the wholesale energy market and that generators develop facilities for both domestic and export customers. If the changes recommended by the Task Force are implemented, the Task Force recognizes that a price increase of between 30% to 60% for hydro electricity could occur.

It should be noted that deregulation and privatization are not one in the same, although deregulation is often the precursor to privatization. Deregulation means breaking up the integrated public monopoly and encouraging private participation in the market whereas privatization refers to sale of public assets. At this time the Task Force is recommending deregulation. BC Hydro has facilitated the move to deregulation through the unbundling of its generation, transmission and distribution functions. At present three BC Hydro units are for sale: customer service, vehicle division and Westech. Final agreements are pending for customer service and IT service, formerly provided by Westech, to be provided by a private corporation.

The final report of the Energy Task Force was originally planned for endorsement by the end of February. The final report has not yet been released.

UBCM Position on Energy

Members will recall the UBCM notified members of the release of Interim Report of the Energy Task Force in late 2001 and issued a call for comment. A UBCM response was, by necessity, prepared in an exceedingly short time frame. Members' contributions and the 2001 UBCM Convention Energy Policy Recommendations formed the basis for that response, which is available for review on the website.

The 2001 UBCM Energy Policy recommendations are:

1. *UBCM does not support the removal of GST/PST on the utility bills but that the provincial and federal governments consider using these tax revenues to promote energy conservation and alternative energy sources.*

2. Request that the utilities, federal and provincial governments provide funding, advice and tax incentives to all energy users who wish to undertake energy efficiency programs.
3. Advise the Provincial Government that the UBCM does not support the deregulation of electricity.
4. Encourage the pursuit of alternative energy sources such as woodwaste, tidal, solar, district energy and geothermal as well as any other economically and environmentally feasible alternatives.
5. Request that consideration be given to rate restructuring / stabilization or some method of rewards and incentives instead of rebates to address the peaks which presently occur.
6. Encourage the federal and provincial governments to work in concert with local governments to develop an energy strategy that would include:
 - . an outline of the energy sources available
 - . alternative energy options to be pursued
 - . a conservation strategy
 - . a statement relating to domestic energy supply and relations with other international governments,
 - . long term energy planning (ensure reliability of the systems) as well as other issues including statements around air quality and greenhouse gas emissions.

3. 2002 ENERGY POLICY DIGEST

The policy recommendations proposed in the resolutions submitted for this year's convention cover a breadth of points. The specific recommendations within each resolution have been extracted in this digest to lend some structure and clarity to the energy policy deliberations. The proposed recommendations are compared with current UBCM policy where appropriate.

Section "A" deals with the issues where there is a parallel between proposed recommendations and standing policy. Section "B" contains those issues where the resolution's recommendation is not addressed by existing policy.

SECTION "A" — RECOMMENDATIONS SUPPORTED BY CURRENT POLICY

This section deals with the issues where there is a parallel between proposed recommendations and standing policy. *It is recommended that Section A recommendations be endorsed.*

1. Pricing

Recommendation: The UBCM supports the maintenance of a regulated price structure utilizing cost-based, postage-stamp rates that ensure economical electricity to all parts of the province.

Resolution references:

- . maintain regulated price structure (C62,C63,C64,C65,C67)
- . establish cost-based rates (C67)
- . ensure postage stamp rates (equal for all users) across province (C63)
- . provide low cost energy (C62, C63, C67)

These recommendations are supported by existing policy that UBCM does not support the deregulation of electricity; however, current UBCM policy is not specific about price policy. Members have offered three suggestions for price policy: that rates be regulated, that they be based on the cost of production and that they be postage-stamp, or equal for all customers regardless of consumer's geographic location. This reflects current BC Hydro pricing policy, indicating that members would like to maintain the status quo. Regarding low costs, UBCM standing policy supports the provision of economical energy sources.

2. Community Energy Policy and Programs

Recommendation: The UBCM supports community-based energy policies and programs.

Resolution reference:

- . support community-based energy policies and programs that promote local energy sustainability (C66)

This recommendation reflects 2001 policy that encourages the federal and provincial governments to work in concert with local governments to develop an energy strategy, however it goes further in suggesting community-based policy and programs toward energy sustainability.

SECTION "B" — RECOMMENDATIONS FOR NEW POLICIES

Section "B" contains those recommendations not addressed by existing policy. Note that the "digest recommendations" in Section B represent composite resolutions compiled from member resolutions and are not recommendations of the Resolutions Committee.

3. Privatization

Digest recommendation: The UBCM does not support the privatization or sale of BC Hydro electrical generation, transmission or distribution functions and urges the provincial government to recognize BC Hydro as a strategic core public asset to preserve and promote energy advantages for British Columbians.

Resolution references:

- . do not support privatization or sale of BC Hydro electrical generation, transmission or distribution functions (C62,C63,C64,C65,C66).
- . recognize BC Hydro as a strategic core public asset to preserve and promote energy advantages for British Columbians (C62,C66)

UBCM does not currently have policy on the privatization or sale of BC Hydro assets. At present the Energy Policy Task Force Interim Report is not recommending the sale of the electrical generation, transmission or distribution functions however, analysts have noted that in other jurisdictions privatization often follows deregulation.

4. Servicing costs

Digest recommendation: The UBCM supports a program that ensures low cost service extensions to provide electrical power to all areas of the province.

Resolution references:

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| <ul style="list-style-type: none">. low cost for service extensions (C63, C67). no discrimination toward rural customers (C64) |
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These recommendations have not been addressed by current policy. A recommendation on postage stamp rates (see 1.Pricing above) would ensure fair pricing of energy for rural customers, but it does not speak to matters of access or servicing. The sponsor notes that some currently under served areas of the province require provincial investment, on an affordable cost-sharing basis, to finance the up-front cost of service extensions.

5. Taxation

Digest recommendation: The UBCM urges the BC Utilities Commission, when considering future policy development, to review and articulate the tax load presently affecting BC electricity rates in order to present the true-cost of electricity in the province.

Resolution reference:

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| <ul style="list-style-type: none">. BCUC to review load of direct and indirect tax affecting electricity rates (C63) |
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This recommendation is not addressed in current policy. It is the intent of the sponsor to ensure that the government articulate the direct and indirect taxation compounded in electricity rates, in order to expose a true cost for energy before taxes and to ensure that tax load is taken into consideration when establishing price policy.

6. International Agreements

Digest recommendation: The UBCM recommends the consideration of implications of the Kyoto Protocol and federal legislation that may affect provincial policy.

Resolution reference:

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| <ul style="list-style-type: none">. consideration of implications of the Kyoto Protocol in development of energy policy (C63) |
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This recommendation has not been addressed by current policy. The sponsor notes that international climate change analyses such as the Kyoto Protocol were considered beyond the mandate of the Energy Task Force but that they should be considered because global action on climate change has the potential to affect BC energy policy. With respect to standing policy, UBCM members endorsed resolution SR3 in 2001, which recognized the federal government's

commitment through the Kyoto agreement to address air quality issues. Resolution 2001-SR3 also sought partnership between local government and the provincial and federal governments to support local climate change monitoring programs.

7. Transmission and Export

Digest recommendation: The UBCM supports the improvement of BC Hydro transmission lines, the export of hydro electricity after domestic needs are met and access to transmission lines allowing independent power producers access to export markets.

Resolution references:

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| <ul style="list-style-type: none">. BC Hydro improve export transmission lines (C63). export at market rates after domestic needs met (C63). BC Hydro transmit independently produced power to export markets (C63) |
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These recommendations are not addressed in current policy. BC Hydro currently exports its excess capacity to other markets and there is capability for independent producers to access BC Hydro's transmission lines for export.

4. DISPOSITION OF THE 2002 UBCM CONVENTION

The UBCM supports the maintenance of a regulated price structure utilizing cost-based, postage-stamp rates that ensure economical electricity to all parts of the province.

The UBCM supports community-based energy policies and programs.

The UBCM does not support the privatization or sale of BC Hydro electrical generation, transmission or distribution functions, nor does it support the contracting of administrative services to Accenture, and urges the provincial government to recognize BC Hydro as a strategic core public asset to preserve and promote energy advantages for British Columbians.

The UBCM supports a program that ensures low cost service extensions to provide electrical power to all areas of the province.

The UBCM urges the BC Utilities Commission, when considering future policy development, to review and articulate the tax load presently affecting BC electricity rates in order to present the true-cost of electricity in the province.

The UBCM recommends the consideration of implications of the Kyoto Protocol and federal legislation that may affect provincial policy.

UBCM support for the improvement of BC Hydro transmission lines, the export of hydro electricity after domestic needs are met and access to transmission lines allowing independent power producers access to export markets was referred to the UBCM Executive.