

“RELIABLE POWER, AT LOW COST, FOR GENERATIONS”

Speech by Bob Elton, President and CEO, BC Hydro
to the Vancouver Board of Trade
October 22, 2004

RELIABLE POWER, AT LOW COST, FOR GENERATIONS

Background

Before I begin my talk today, I want to acknowledge that there are a number of significant regulatory decisions pending that I will not comment on. The decision on our revenue requirements application and the outcome of our Vancouver Island Call for Tender process are perhaps the most significant ones. However, my remarks today will apply regardless of the outcome of these and other decisions.

BC Hydro is a public trust, and we employees of BC Hydro are stewards of it. That is not fashionable today – as a society we excel in being consumers more than we do in being stewards. But we owe it to our future, to build on our past.

Our purpose is to supply reliable power, at low cost, for generations. Today, our reliability is generally regarded by our customers as good; we have among the lowest costs in North America; and we have a proud environmental record

So we have a great heritage. What will we leave to our children and grandchildren? That is what I want to talk about today. I want to explain some of the very high long term goals that we are setting for ourselves as a company, and then talk about what we, and you, must do to make sure that we achieve them.

Reliable Power

Reliability comes from having enough energy there when you need it; and then from getting it to you along the wires

Many years ago, British Columbia built large hydro dams that meant we would be exporting a surplus. Gradually, we have let that surplus erode to the point where today, we are in a slight deficit. Should we allow that deficit to continue to build? I believe not. Aiming for self-sufficiency will improve our ability to develop a variety of electricity sources within the Province; and it will also add to our sense of energy security.

So we will make the case to our regulator that we believe BC should be self-sufficient in electricity to meet domestic needs.

We will still import through Powerex when the price is low, as that helps keep costs down for our customers. And Powerex will

continue to export when the price is high to bring in additional revenue for the Province. But in net terms, we will be self sufficient.

As for getting the energy to you along the wires, we face several physical challenges— the mountainous terrain, the distances between our generation and our customers, the combination of trees, and winter weather. That puts limits on the reliability that you can expect. I think this is a balance that our customers are prepared to accept.

So we intend to ensure that we keep reliability at today's levels; to preserve our heritage and not squander it. We will target our investments so that our maintenance and capital will be spent more on the places in the Province where reliability most needs to be improved.

And we will improve the way we talk to you about reliability, so that we will eventually tell you what outages you have had, how long they lasted, and how your reliability stacks up with others. That will help you put pressure on us to do better.

At Low Cost

Let's come to our low cost heritage. You have practically the lowest costs in North America – typically, we are tied with Quebec and Manitoba. We recently applied for a rate increase of 8.9% next year, and 0% the year after. If those increases are granted in full we will still be practically the lowest and in addition we return about \$700 million a year to our shareholder, through profits and water rentals.

We are a very different enterprise than many in the public sector, in that labor is only about 20% of our costs. 40% of your bill is actually to pay for capital costs – depreciation, financing, and so on. That means that we must focus on the long term – ensure that we invest wisely, and that we make the right capital decisions in particular.

Our goal is to preserve our competitive advantage. Put another way, we want to continue having the lowest rates in North America relative to other jurisdictions, while at the same time providing a strong financial return to you through our shareholder. As long as we continue to look at our assets on a lifecycle basis, as long as we

ensure that we buy energy using open, transparent, competitive processes, as long as we build Powerex within proper risk tolerances, and as long as we work constructively within our strong regulatory framework, then we will succeed.

For Generations

So – we intend to preserve our reliability, and to preserve our cost advantage. But not at the expense of the future.

Reliable power at low cost for generations – those generations are not an abstraction. They are real people. They are children who look up at me, and at you, with that look in their eyes that is full of hope, that says: “I trust you to look after my future.”

Let me talk particularly about the environment. What right do **we** have to leave our children with an environment that is blighted, that is worse than the one we inherited?

Some answer that we must create wealth. But if we reduce electricity rates today, or increase reliability, in a way that destroys the environment, that is not creating wealth. That is taking wealth

from the future, so we can consume more in the present. Why should we do that?

Some answer that technology will save us. That is irresponsible, because **we** are deciding to take the risk, but it is our children who will suffer the consequences if we are wrong.

Some answer that market forces will take care of environmental costs. But history shows us that market forces consistently underestimate environmental costs. In our industry they have done this repeatedly. When our own dams were built, we did not think about the future costs of water use planning, and the impacts of them on First Nations people.

What we must do is become a generation of leaders, who will accept responsibility for our actions.

Environmental Goal

To do that at BC Hydro we are finding out precisely what our impact is on the environment, and we are setting a long term goal to make sure that we do not increase it – **that we have no net**

additional impact on the environment. It will not be easy, but it is a goal that will energize our company.

I've become committed to this environmental goal relatively late in life. I've always been very focused on developing young people, in the belief that they would have time to change the world, and that they would start with a good base. In the past few years, a few things have changed me. My own children have grown into being very strong minded about right and wrong, and about our ability to change, urgently, what must be changed.

And when I visit BC Hydro facilities, I get a very clear picture both of the beauty of our Province, and of the scale of those facilities.

They leave me with a conflicting sense – on the one hand, pride in the massive effort needed to construct them. On the other, when you look beyond the dams to the size of what they hold back, or when you look at how tiny our wires are against the backdrop of the mountains they go through, you realize how dependent we are on nature.

We already have a proud environmental record and we want to build on it. Yes, our facilities have a massive environmental impact – wires, dams, power stations. At the same time, we have low greenhouse gas emissions, we work constructively with others on water use plans, we have many outstanding programs ranging from recycling poles, to protecting birds that want to perch near our wires.

Reliable Power at Low Cost for Generations

We are clear about our purpose – we will supply you with reliable power at low cost, in a way that takes care of the future.

Choices: Conservation

Now, let me talk about some of the choices that we must make to get there. First there are two choices that you must make as consumers, and as citizens.

As time goes on, as our population grows, people consume more electricity.

To get electricity in balance, we must either consume less, or generate more. That is a choice for the people of this Province. Let's examine that choice.

Can we consume less? That's a question that each of us can answer for ourselves, but here are some facts. In British Columbia, the average person consumes 15,000 kilowatt hours in a year. We consume three times as much as the average German; two and a half times as much as the average Briton; and more than the average American.

We use electricity in a way that cries out for waste reduction. We use it when we are out of our homes, when we are in different rooms. We wouldn't leave the taps on all over our homes, but we use electricity carelessly.

We can clearly consume less. For the past few years we at BC Hydro have run a world leading Power Smart program that has reduced the increase in electricity consumption by 3000 gigawatt hours annually – that's enough electricity to meet the needs of 300,000 homes each year!

Can we do better? Can we create, in this Province, a conservation culture? If we can reduce our consumption at home by 20% then that would change our need for new generation sources, and therefore protect the environment. And it would allow us to keep our costs lower.

How can we achieve that? What is our role at BC Hydro? It is our role to continue to provide leadership on energy efficiency and conservation. To build on the leadership shown by enterprises such as UBC, Vancouver International Airport, Colleges, the GVRD, the City of Vancouver, and so many others. To increase our efforts to see that people, especially young people, understand the choices they can make.

We will set goals for reducing electricity consumption in BC, and we will publicize those goals, and we will try to cajole you, inspire you, and if necessary embarrass you, into using less.

Choices: Energy Sources

The second choice we have to make is about the type of energy that we buy

There is a debate raging in our industry about what will fuel our future. The public needs to be more involved in that. The world intends to double its generation of electricity in the next 30 years. Using what?

Natural gas is today's popular source, but its cost and availability are under great pressure. Coal is more plentiful, but has higher environmental costs. There is research going on into cleaning up coal that very much needs to bear fruit. Large hydro projects are increasingly difficult to build in developed countries, because of their effects on communities, as well as conflicting demands on water. Nuclear power has unresolved long term storage issues.

Renewables such as wind, or small hydro, or solar, or tidal, or wave, or biomass, or geothermal are usually more expensive today, and there needs to be more technological development on many of them. For that to happen, there needs to be clear public support.

So what about British Columbia? Our commitment is to buy BC clean energy to meet half of our new needs, and we already have 90% of our power supplied from clean sources. In the past 2 years

we have signed 17 contracts to buy enough renewable power to meet the needs of 190,000 homes. And the investment is in excess of one billion dollars, which is providing a very solid base for the developing IPP industry

We will soon be going around the Province listening and talking with people as part of our Integrated Electricity Planning process. We need to understand what people are prepared to do.

What facilities will you accept in your back yard? People have protested against Sumas 2 and Vancouver Island gas plants; Site C; run of the river hydro plants that affect other water users; wind farms that kill birds. What is it you want? What will you pay for?

Remember, we have to either consume less, or generate more. Which is it? And if we will not consume less, then how can we generate more in a way that protects the future? This is a debate about the future, about 10 and 20 and 50 years from now – but some of the choices must be made today.

We will provide leadership, express opinions, set out facts, and we will see what the regulatory process and the public policy process allow us to achieve. We will try to use competitive processes

wherever we can. Ultimately, the choices we make about this will be made by society, by the BCUC, by you, and me, and others living in this Province.

Will you support an approach that sees us continuing to pay more for clean energy, that sees us buying off-sets where we buy from other sources, and that perhaps sees the money from off-sets used in British Columbia?

Our Employees

Description

I now want to talk about the changes we must make within our company, so we can achieve our purpose. And to do that, I think it's useful to begin with a description of our work-force – inevitably simplistic, of course.

I am very proud to be an employee of this company, and very proud of the company I keep – of the 4300 people who are very dedicated to serving you, and to keeping you safe. Of course they will challenge me about the way the company is run, about pay and conditions, about many things. But overwhelmingly they will

aggressively speak out on behalf of our customers, suggest improvements, rail against bureaucracy.

They have been doing this for 40 years, and this is one thing that has never changed at BC Hydro. “Reliable power is the work of reliable people”.

In Prince Rupert, for example, we have precisely three people. They respond to calls, often by helicopter, and work in storms and other conditions. They are independent minded people who are empowered to make decisions quickly, to communicate them properly, and to maintain the highest safety standards. If storms hit a particular place in the North, our crews move quickly to work together to restore power.

I am not being naive about this – of course there are things we need to do differently. But this work force is a key asset of this company.

Focus on Costs and on Commercial Decisions.

Within our company, the focus on future generations is what can inspire our people, and also help us to attract some great new

talent. We already have a great drive to do this, and just need to tap into it.

And the drive towards reliability, and great customer service, is very strong in our company.

But I also recognize that as a public sector monopoly, it is vital that we pay attention to our costs. If we see our costs rising relative to other utilities, if we start to erode that great competitive advantage that we have, then you as consumers will demand that we change our habits. We can be idealistic about the environment, but only if we are hard-headed about our costs. So how we will strike the balance?

Managing for Performance

There is no magic bullet that will achieve this – just the will to eliminate waste, a drive for more commercial decision making without sacrificing quality, and a focus on identifying and rewarding performance, and developing people to achieve great things.

Culture of Teamwork

The next area for change is to create a culture of real teamwork. Difficult. In our company, we have a management team that is generally quite new in their jobs. Many came from somewhere else. Many have a private sector background. In the field, we generally have the opposite.

We also face skill shortages and our work force is ageing, and many of you can relate to that. Our work-force in the future will need to have more women, more people from different ethnic groups, more First Nations people, partly because diversity of thinking will improve our company, and partly because we simply will not be able to keep finding enough people in the traditional mold. I know that it will be hard for us to welcome people who do not easily fit that mold. We have some learning to do, and we will do it.

It is easy to exaggerate our differences, but we cannot. People who come into our company, me included, have to learn how to celebrate our history, and our core of people doing great work serving customers. People who are long serving have to learn to

accept that new people can bring creativity and help us to raise our sights.

This is not done by pretending that new ideas must always replace the old, or by pretending that new ideas will only come from people who just got off the bus.

This is done by recognizing that what we are building here is a company that will take the best people, the best thinking, the best visions, the best execution. What we are building is a company that will, as it always has, mirror our Province – become more vibrant, more diverse, more exciting, and ultimately more successful, because adding new people never has to result in merely replacing the old, but will make it stronger.

Stakeholder Engagement

The other area of change that we need is to learn to listen better. We have very smart people- engineers, accountants, lawyers, economists, biologists, scientists; we have people who are world leaders in a variety of fields. Working at BC Hydro is like drinking knowledge through a fire hose.

But if BC Hydro were an animal, what would it look like? It would have a large forehead, to fit in the very large brain. It would have a large mouth, so we could talk a lot. It would have a big heart, because our people care a lot. But the ears? The ears would either be very small, or stapled shut. We have to open our ears.

When we listen, it works. The Power Smart program features great ideas from many of our customers; the water use planning process has helped us see how better to run our facilities. On Vancouver Island, the lengthy regulatory processes have brought forward excellent ideas from companies like Terasen and Norske, that can help us to achieve our goals.

One of the advantages of being in the public eye so much is that we get bombarded with advice. A lot of it is very good advice!

It is so important that we listen to others because in the end we cannot achieve our goals without support. We will need to explain ourselves to the Regulator, to the Government, to you, if we are to gain permission to do what we believe needs to be done. We can only do that if we have first built strong support for our priorities – and that takes good listening.

This work of learning how to listen is underway, and it will not happen overnight.

Conclusion

Can we achieve our purpose of reliable power, at low cost, for generations?

We can with your help. If you will join with us in learning to conserve, then we can keep our costs lower and also minimize our environmental impact.

If you will increasingly express a preference for us buying clean energy and for offsetting our environmental impacts then we can keep our long term costs low while again reducing environmental effects.

If you tell us your ideas to help us achieve our goal of no incremental net effects on the environment, then our joint creativity will preserve mountains, instead of moving them.

We will gradually eliminate waste in what we do, and manage our costs so that we keep for you the competitive advantage that we have all inherited.

Our 4300 people will work together, listening to you, serving you, and building for a future that we will be proud to bequeath to future generations.

Think again about the look of hope on the faces of our youth. When they look up at each one of us and ask what kind of future we are building for them, what will we say?

At BC Hydro, we have a clear path, a clear purpose. Reliable power, at low cost, for generations. We are excited about the chance to achieve that with you.

