

**Submission to the Select Standing Committee on Finance and  
Government Services  
Budget 2009 Consultation Paper  
Submitted by Andy Ross, President  
Canadian Office and Professional Employees Union, Local 378  
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Background

The Canadian Office and Professional Employees Union, Local 378 (COPE 378) has over 11,000 members working in a variety of public and private sector industries. Our largest bargaining units include the Insurance Corporation of British Columbia, BC Hydro, Accenture Business Services for Utilities, TransLink, Coast Mountain Bus Company, Terasen Gas, Hastings Racecourse, and Fortis BC. We also represent workers at employers throughout the education, travel and tourism, transport, insurance, and energy sectors.

For many years COPE 378 has been an active participant in the public process surrounding provincial budgets and setting provincial finance priorities. We attend the provincial budget lock up on an annual basis and issue a series of responses to the budget in accordance with the interests of our membership and our organizational goals. COPE 378 has also participated, both as our own organization and as an affiliate of the BC Federation of Labour, in a wide range of consultations with the provincial government, including the Ministry of Finance.

As an organization we are an active and engaged stakeholder advocating for pragmatic, progressive governance in British Columbia. We welcome the opportunity to make this submission to Select Standing Committee on Finance and Government Services.

BC Hydro Rate Increases

This year, in addition to past and future years, BC Hydro ratepayers are again seeing dramatic rate increases to their BC Hydro bills. Independent research has shown that this increase of rates is due largely to a flawed provincial Energy Plan which places an undue focus on expensive, unsustainable private power development.

The rate increases projected in 2008 are dramatic and extreme, and verge on what the British Columbia Utilities Commission has termed "Rate Shock." Page 192 of *Balanced Budget 2008* shows a total rate increase of 24.2% (compounded) by 2011. This includes increases of 6.56% for 2008/2009, 8.21% for 2009/2011, and 6.52% in 2010/2011, plus a .5% rider each year.

The reasons for these extreme increases are made clear in the government's Budget documents. The Provincial Government's 2008 Budget states explicitly that the primary driver of the increased costs that are resulting in higher rates is the cost of new privately produced supply. *Balanced Budget 2008* states on page 70:

Energy costs are also expected to increase due largely to a greater proportion of energy requirements being met by energy purchases from new sources of supply which cost more than energy from Heritage resources.

With regards to cost drivers, page 18 of the 2008 BC Hydro Service Plan states “new supplies are significantly more expensive than electricity from our Heritage Assets.”

Increases of this magnitude will dramatically increase costs for residential, commercial, and industrial customers across BC, and place an undue burden on the people of British Columbia. Asking ratepayers, particularly residential and small business customers, to shoulder this financial burden in a time of economic uncertainty and against any rational case for need or demand is unreasonable and punitive.

### The BC Energy Plan

Independent research conducted by economist Dr. Marvin Shaffer<sup>1</sup> indicates conclusively that there is no demonstrated need for the dramatic increase in new private power provider supply in BC. Dr. Shaffer concluded that the province’s 2007 Energy Plan is fundamentally flawed. It will needlessly increase the cost of electricity supply in the province and greatly diminish the value of our unique, publicly-owned hydro reservoir assets.

Shaffer points out the Plan calls for self-sufficiency in electric energy supply even in critical low water years. It ignores the ability of BC Hydro to back up the risk of low water conditions with cost-effective market purchases of power. One industry expert estimated the cost of this policy to be in the order of \$160 million per year, equivalent to a rate increase of 5.5%.

The Plan calls for so-called ‘insurance’—the acquisition of 3000 Giga Watt hours (GWh) of electricity over and above its self-sufficiency target. Shaffer shows that there are no economic parameters or constraints for this policy. Nor is there any economic rationale. It will almost certainly add to the uneconomic acquisition of new sources of supply, and potentially double the cost impact that the self-sufficiency policy will in itself have.

The combination of self-sufficiency in critical low water years plus insurance is effectively a policy of acquiring new private, or Independent Power Producer (IPP) resources for export, with BC Hydro and its customers assuming all of the export price risk.

The Plan calls for conservation and energy efficiency measures to meet half of forecast incremental requirements. At the same time, however, the Plan through the Heritage Contract extends in perpetuity the policy of selling electricity at well below market prices. The Plan does not recognize the fundamental conflict between its rate and conservation policies. It does not offer a serious, coherent strategy to reduce inefficient or uneconomic requirements for electricity— electricity that customers would not want if they had to pay the economic and environmental costs of new supply.

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<sup>1</sup> Attached.

The Energy Plan calls for the rapid development of IPP resources, such as run-of-river hydro and wind, that are generally high in cost; rely on and diminish the value of BC Hydro's reservoir system; can have significant cumulative environmental impacts; and do not offer any security of supply or price beyond specified contract periods. While there are specific circumstances where these resources may be beneficial, in excessive amounts they will have excessive cost.

In short, the Energy Plan is not well-considered and it is not in the general public interest. There is no constraint on demand by rates that reflect the cost of new supply, and no constraint on new IPP supply by what the market and BC Hydro's own projects would otherwise cost. The Energy Plan will result in the development and purchase of too much electricity supply at too high a price.

In lay terms this means that the BC government has time to develop a new legacy of sustainable energy using our public power system and allowing BC Hydro to select the best resources available to it, taking into full account all of the economic, environmental and social consequences any such development would have.

It is the position of COPE 378 that the government's decisions to place the burden of generating new supply entirely on the private sector, without due diligence paid to the exorbitant costs of this development, constitutes reckless economic policy and incoherent energy planning.

Rate increases are, of course, a fact of life and with rising costs of energy a constant factor on the economic horizon, COPE 378 recognizes the need for electricity pricing to be realistic. However, the rate increases documented in the 2008 Budget, and the updated rate forecasts currently before the regulatory process are extreme. The fact that these rate increases are actually the result of a policy that is, it appears, based on an ideology that favours private development regardless of the costs and financial impacts, makes these rate increases even less acceptable.

#### Smart Meters

The government's plan to introduce so-called Smart Meters to BC Hydro customers is also noted in budget documents and in the BC Hydro Service Plan. This plan is being implemented aggressively, but apparently without any presentation of a business case, cost-benefit analysis, or other economic analysis. To date over \$20 million has been spent on implementing the nearly \$1 billion program but—in addition to the absence of a business plan—the fast-tracked Smart Meters have not even been presented to the BCUC.

It is the position of COPE 378 that this program is largely political and is being implemented without any consideration of costs or benefits to consumers, to BC Hydro, ratepayers, taxpayers, or principles of conservation.

The 2008 Budget notes that the costs of this program are anticipated to be close to one billion dollars. Page 30 of *Balanced Budget 2008* notes that the meters, which are to be installed by 2008, are expected to cost \$930 million (it is presumed that this estimate is in 2008 dollars). This extraordinary sum deserves careful and thoughtful consideration

by the government and BC Hydro, and the case for its implementation needs to be made clear to British Columbians before this massive outlay of capital begins. However, there appears to have been no case made for whether this initiative is either cost effective, or if it will even ultimately benefit conservation efforts.

There is no clear indication that passing the burden of conservation on to ratepayers simply by means of providing them with the ability to monitor energy consumption in-house will result in significant energy savings. There is similar lack of evidence that this initiative will result in either cost savings to consumers, or any net benefit to BC Hydro.

It may well be the case that providing ratepayers with a mix of incentives and revised cost structuring will result in both reduced energy consumption, effective conservation, and the ability to better monitor personal energy costs. All of these goals are certainly priorities that should be aggressively pursued by BC Hydro and the provincial government. However, embarking on this exorbitantly expensive program without any demonstrated economic or conservation analysis is simply bad policy and constitutes reckless spending.

The ultimate result of such huge capital spending will inevitably be transferred to ratepayers, adding even further pressures onto the rate increases identified and discussed above. With BC Hydro so quickly approaching the threshold of "Rate Shock," COPE 378 would recommend that this program be put on hold immediately pending the presentation of a comprehensive business case and cost-benefit analysis.

COPE 378 wholly supports and encourages the adoption of effective, system-wide conservation measures to reduce electricity consumption in BC. However, system-wide conservation measures are not being undertaken aside from show-piece conservation advertising. "Smart Meters" themselves do not constitute effective conservation. In fact, measures such as this distort the true sources of demand and consumption placing the burden on residential and commercial ratepayers and ignoring energy-intensive industry, which is subject to an alternate pricing scheme.

COPE 378 would also like to point out that the government's policy of encouraging IPP production and dramatically and aggressively growing the supply of electricity is in and of itself counter-intuitive to conservation. This policy is geared entirely towards a large expansion in production, and you can not meet conservation goals when a core component of the policy is an increase in supply.

True and effective conservation measures need to focus on all sources of consumption, and place more of a focus on intensive industrial consumption, not on flashy showpieces which have an effect more resembling tokenism than any serious commitment to conservation.

### Carbon Tax

The impacts of the carbon tax will also increase the financial burden on British Columbians as they see additional taxes placed on their household energy consumption. With ratepayers already being saddled with skyrocketing BC Hydro rates that are coming as a result of government energy planning, it is wholly unreasonable to place an additional punitive consumption tax on residential ratepayers.

Ultimately the Carbon Tax does nothing to address the root causes of pollution and instead simply imposes a regressive, punitive tax that impacts consumers, ratepayers, and taxpayers on a grossly disproportionate level.

COPE 378 would like to state its overall opposition to the government's carbon tax and note that it represents regressive taxation that will unduly impact working and low-income people. The above-noted impacts on energy costs are but one example of this. The carbon tax does not adequately address the crises of climate change and does not ultimately represent a progressive environmental policy that addresses the true costs of pollution.

### Attached

Shaffer, Marvin, Lost in Transmission: A comprehensive Critique of the BC Energy Plan. 2007.

Shaffer, Marvin, "Response to Jaccards' Review of *Lost in Transmission*," 10 October 2008.