BC hydro News Release

BC Hydro Media Relations
333 Dunsmuir Street
Vancouver, B.C. V6B 5R3

No. 11
April 25, 2003

Contact: Elisha Odowichuk
Media Relations manager
Phone: (604) 623-4099

Powerex challenges U.S. order on California refunds

" Grave error made by FERC; Order full of flawed reasoning, false conclusions"

VANCOUVER - Powerex, BC Hydro's power marketing arm, requested in an April 25, 2003 submission to the US Federal Energy Regulatory Commission (FERC), a rehearing and reconsideration of certain aspects of FERC's March 26, 2003 Order regarding California energy refunds. In particular, Powerex is requesting that FERC reverse its decision to accept its Staff's revised gas pricing methodology for calculating refunds or, in the alternative, grant parties a full evidentiary hearing.

"Full of flawed reasoning, unsupported assumptions and false conclusions – that's our view of the gas pricing methodology that FERC accepted from its Staff," said Doug Little, Powerex Vice President of Marketing and Trade Policy. "The methodology is seriously flawed and FERC made a grave error in accepting it as a way for calculating California refunds. Not only that, it completely ignores the concerns, evidence and suggested alternatives we and dozens of others submitted in previous filings."

As part of its filing, Powerex submitted expert testimony by Dr. Richard Tabors of Tabors, Caramanis and Associates, a prominent US energy consulting firm. Dr. Tabors' testimony demonstrates that FERC Staff's gas pricing methodology is flawed in a number of significant ways, including the facts that, among other things:

- it completely ignores basic demand/supply fundamentals and the impact the scarcity of gas pipeline capacity and gas storage had on market prices;
- it calls for electricity suppliers to pay for a problem of alleged gas market manipulation by a few specific sellers;
- it discriminates against suppliers outside California by allowing only in-state generators to recover their production costs plus a margin, without providing a parallel cost recovery mechanism for other suppliers; and
- in the long run it will discourage the development of adequate infrastructure and power supplies from non-gas resources.

Evidence of the weakness of the methodology is demonstrated by FERC Staff's assumption, in establishing the pricing formula, that a scarcity of natural gas pipeline capacity and storage had no quantifiable impact on electricity prices in California, and that market dysfunction was a key cause of the high prices.

"They assumed this even though documented evidence and their own report show that unprecedented scarcity was a major driver of those prices", said Little. "Furthermore, their own analyses do not support their assumption that market dysfunction had a significant impact on prices." Powerex points out that the Staff had available to it the data and means to calculate the impact of scarcity, but failed to do so.

If FERC does not decide to reverse its decision and reject its Staff's findings outright, or adopt the substitute methodologies proposed by Powerex, then Powerex requests a full evidentiary hearing on the matter so it can present its case directly before FERC.

Powerex also argues that the Commission erred in adopting certain recommendations of the Judge who oversaw the California refund hearings last year, without due consideration to the evidence put forward by Powerex and others. Powerex has asked the FERC to reconsider its ruling on these matters in light of the evidence it provided.

"As we've said before, California was the architect of its own misfortune in the energy market during the crisis of 2000 and 2001. And while we accept that the FERC has ordered refunds by all suppliers to the California market during that time, in its March 26th Order FERC has gone too far by adopting the flawed, unsupported pricing methodology recommended by its staff, " concludes Little.

-30-

Visit BC Hydro's web site at www.bchydro.com
Powerex www.powerex.ca