COLUMBIA POWER CORPORATION

SERVICE PLAN
2003/04 – 2005/06

February 19, 2003

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1.0 Introduction

Columbia Power Corporation ("CPC") is a Crown corporation, wholly owned and controlled by the Province of British Columbia (the "Province"). CPC undertakes power project investments in the Columbia Basin Region (the "Region"), as an agent of the Province, on a joint venture basis with the Columbia Basin Trust ("CBT"). CPC/CBT joint ventures produce power that is sold into the wholesale market, primarily under long-term contracts to two regulated utilities, Aquila Networks Canada ("ANC") and BC Hydro, who in turn sell to end-use consumers.

2.0 Historic Context and Overview of the Organization

In 1964, Canada and the United States ratified the Columbia River Treaty (the "Treaty"). Under the Treaty, Canada, through the Province, agreed to build three new storage dams in the Canadian section of the Columbia River: Duncan (1968), Keenleyside (1969) and Mica (1973). The purpose of the new dams was to create 15.5 million acre feet of water storage which would control flooding in Washington and Oregon and allow hydroelectric facilities in these states to produce more electricity, about 2,400 megawatts ("MW") of additional capacity (BC Hydro has about 10,000 MW of capacity). This additional power is referred to as the downstream benefits ("DSBs"). In consideration for building the new dams, the Province was awarded $64.4 million plus one-half the DSBs, which it sold to a consortium of U.S. utilities for a period of 30 years from the completion dates of the three Canadian dams.

The construction of the three Treaty dams brought current and future financial benefits to the Province, but also significant economic, environmental and social costs to the residents of the Region, both at the time and on an ongoing basis. Twenty-three hundred residents were displaced, communities were lost, lands were expropriated and properties were flooded. There continue to be ongoing negative environmental effects from reservoir and river-flow fluctuations.

In 1995, the Province, through legislation and contractual arrangements, created a unique model to compensate the Region for the costs borne because of the Treaty dams. Through this Columbia Basin Initiative it was agreed to allocate a share, about 8 per cent, of the value of future DSB sales to the Region. The mechanisms of the Columbia Basin Initiative were the *Columbia Basin Trust Act*, which created CBT, and the 1995 Financial Agreement between the Province and CBT, which set out the terms for the regional allocation.

Under the 1995 Financial Agreement, CBT and CPC, as agent of the Province, receive $250 million each over ten years to provide equity for qualifying power project development in the Region. Three core projects were designated: Keenleyside or Arrow Lakes Generating Station ("ALGS"), Brilliant Expansion ("BRX") and Waneta Expansion ("WAX") – the latter two involve development rights purchased by CPC in 1994 from Cominco Ltd., now Teck Cominco Metals Ltd. ("Teck Cominco"), pursuant to an agreement between the Province and Cominco Ltd. Other generation, distribution and transmission projects can be carried out by CPC and CBT, so long as both CPC and CBT agree and so long as the projects meet the same commercial and other tests as the core projects. Project debt is expressly non-tax supported and limited-recourse to the Province and is raised in the institutional bond market.

The mandate of CPC, with its joint venture partner CBTE Energy Inc. ("CBTE") (a wholly-owned subsidiary of CBT), is to invest, subject to Treasury Board approval, the funds provided under the 1995 Financial Agreement in qualifying power projects in the Region. More specifically, the mandate is to:

- develop core hydroelectric projects and other qualifying generation, transmission and distribution projects in the Region;
- earn an acceptable rate of return given the risks;
- finance power projects without tax-supported or government-guaranteed debt; and
- promote employment, economic development and new industry through environmentally sound, cost competitive power project investment.

CPC is a "Government Corporation" under the *Financial Administration Act*, since its shares are owned and controlled by the Province. As noted, CPC is an agent of the government. CBT is not an agent of the government. Under the terms of its Agency Agreement with the Province, CPC is required to obtain Treasury Board approval for its annual budgets and its material decisions, including the issuance of debt. CPC also has a Funds Management Agreement with the BC Investment Management Corporation, a provincial Crown corporation, which establishes a segregated trust account to receive the annual appropriations from the Province. CPC participates in banking service programs available to Government Corporations from the Province.

Returns from CPC's 50 per cent share of the power projects are available to be distributed to the Province, CPC's shareholder, or retained for future investment needs. Returns from CBT's 50 percent share of the power projects will be used by CBT to provide benefits to the people of the Region in accordance with the *Columbia Basin Trust Act*.

3.0 Strategic Context

3.1 Vision

In 1994, CPC was created to purchase certain hydroelectric rights from Cominco Ltd., as part of an agreement between the Province and Cominco Ltd. to support the Trail lead smelter and the economic base in that area. In 1995, CPC was designated as the Province's agent to carry out the Columbia Basin Initiative, through the 1995 Financial Agreement.

CPC has gone from a "start-up" company in 1994 to the fourth largest producer of electricity in B.C. in 2002 (with the commissioning of ALGS), managing $574 million in assets. With BRX, CPC will become the third largest producer of electricity in B.C. CPC does so efficiently, operating as a commercial corporation while producing income for the Province and the Region in an environmentally sound and socially responsible way, displacing greenhouse gas-emitting thermal power, improving fisheries values and making beneficial use of existing storage on the Kootenay and Arrow Lakes and water that would otherwise be spilled.

With ALGS completed, BRX due to commence construction in 2003 and most of the allocations under the 1995 Financial Agreement received, CPC's development role is well advanced. CPC is becoming an operating company. With this advance, it has always been anticipated that CPC would likely change its focus, and possibly ownership.

CPC and CBT were both subject to the Core Services Review in 2001. While there have been follow-on discussions with the Province with respect to the ownership and structure of CPC and CBT, no decisions have been made to this point.

3.2 Mission

To efficiently develop and operate commercially viable, environmentally sound and safe power projects for the benefit of its shareholder, the Province, and the residents of the Region.

3.3 Values

CPC's values are:

- efficiency in the use of scarce resources;
- good value for money for the Province, our shareholder, and the Region;
- proactive and economically-responsible environmental management;
- socially-responsible decision making, to the extent possible guided by the market;
- promote employee productivity by providing training and respectful employment practices.

3.4 Planning Context

CPC develops and operates CPC/CBT power projects as an independent power producer ("IPP"), using limited-recourse project finance and (unlike BC Hydro) without a provincial debt guarantee. As an IPP, CPC is not a regulated utility with a built-in customer base that can absorb any cost overruns, regulatory costs or tax increases. CPC develops and operates power projects at existing dams using water that would otherwise be spilled. Thus, CPC/CBT power projects are low impact, but may be marginally economic from a private sector perspective. CPC/CBT power projects are also on international rivers, built and operated in a very difficult environmental regulatory system (which includes federal and provincial regulators, an international treaty and local, regional, aboriginal and U.S. stakeholders). CPC/CBT power projects also operate in a monopoly-controlled transmission and retail power market characterized by under-investment in critical transmission infrastructure and power prices based on the average cost of existing supply, not the marginal cost of new supply. For all of these reasons, CPC must be efficient and innovative to achieve its goals and objectives.

The main uncertainties and challenges facing CPC are:

- a difficult environmental regulatory regime in which to develop and operate power projects, where there is frequently little regard for compliance costs or the impact of regulatory uncertainty on the investment climate;

- a home market dominated by one buyer of new power and regulated prices based on average costs;

- a promising export market for green power which is not easily accessible because of monopoly ownership of transmission and ongoing under-investment in transmission capacity on both the B.C. and U.S. sides of the border;

- uncertainty regarding future interest rates and thus the cost of debt funds for the remaining core CPC/CBT power projects; and,

- uncertainty regarding new property and other tax costs that may be implemented as part of the Province's economic and energy policy, which have the potential to negatively affect the efficient allocation of investment in new electricity supply.

4.0 Strategies

- Adopt innovative approaches to minimize the cost of CPC/CBT projects, including the use of design/build bidding processes whereby external engineering firms and construction contractors form strategic partnerships to submit competing proposals that meet technical specifications and electricity output levels set by CPC/CBT.

- Pursue a balanced portfolio of power sales contracts in order to enable limited-recourse project finance, manage risk and capture market opportunities.

- Minimize overall interest costs while enabling CPC/CBT to pursue project development goals by: making use of equity resources to reduce interest obligations to acceptable levels during project development; and, securing lower cost debt finance once power projects have been completed and power sales contracts put in place.

- Pursue other projects and opportunities that achieve synergies and scale economies with CPC/CBT core projects, and participate in strategic partnership with other power companies, where appropriate.

- Secure improved transmission and market access, both domestic and export, at a reasonable cost and maintain federal and provincial export permits in good standing, as required.

- Participate in the development of environmental legislation and participate in water use plans that recognize existing CPC/CBT rights, minimize impacts on existing operations and prospective projects and meet the Province's environmental stewardship objectives.

- Develop an environmental management system that incorporates environmental protection and enhancement into CPC/CBT planning, project designs, operations and due diligence.

- Ensure CPC employees and employees of our agents have the knowledge and skills necessary to conduct their work in a manner that complies with environmental and safety laws and regulations and CPC policy.

- Pursue "green power" designations where possible and secure ownership of such rights in any sales contract.

- Develop regional support for CPC/CBT power projects by promoting consultation with local and regional community stakeholders, and by negotiating land issues with owners.

- Continue to work to develop solutions that address First Nations issues relating to CPC/CBT projects.

- Sequence CPC/CBT projects to create long-term, stable construction employment and minimize strains on regional infrastructure.

- Encourage local hiring, skills training, employment equity hiring and local procurement by successful bidders for CPC/CBT design-build contracts, within the constraints of a commercial corporation and government policy.

5.0 Goals/Objectives, Strategies, Performance Measures, Benchmarks and Targets

CPC's Service Plan is a work-in-progress. Changes from the "2002-2005 Service Plan" reflect the increased emphasis under the *Budget Transparency and Accountability Act* for specific performance measures, benchmarks and targets, and CPC's transformation from a development company to an operating company as the core projects set out in the 1995 Financial Agreement are completed. The 2002-2005 Service Plan and its predecessors defined CPC's strategic goals and objectives, in broad terms, as maximizing the value of the rights and assets purchased from Teck Cominco (the Brilliant and Waneta Expansion Rights and the Brilliant Dam), and investing the $500 million in equity provided pursuant to the 1995 Financial Agreement in the three core hydroelectric projects, subject to the conditions that would be established by a reasonable commercial lender, including a commercial rate of return on equity and commercial self-supporting (limited-recourse and non-taxpayer-supported) debt. Within these broad goals and objectives, key performance measures focussed on CPC's role as joint venture project manager and ability to: develop projects on time and on budget; secure markets for the power generated by CPC/CBT projects; earn a target rate of return on equity; and, maintain or improve the bond ratings for CPC/CBT project debt.

The 2003/04–2005/06 Service Plan recasts the broad performance measures of the 2002-2005 Service Plan as a series of more specific Goals/Objectives. These specific Goals/Objectives are then used to develop specific, defined, performance measures, with clear benchmarks and targets, where possible and as appropriate. For example, the broad performance measure of developing projects on time and on budget has been broken down into two specific Goals/Objectives: develop approved projects on time; and, develop approved projects on budget. The specific performance measure for developing projects on time is the variance between expected and actual project start-up dates for approved projects, in months. Specific start-up dates are set down in CPC's design-build contracts, with specified incentives for early completion and specified penalties for late completion. Similarly, the specific performance measure for developing approved projects on budget is the variance between expected and actual project development budgets from project approval through to commissioning.

This is a work-in-progress in that further research is necessary to define suitable benchmarks and targets given CPC's rather unique role as project developer and Joint Venture project manager. As discussed below in notes to the various Goals/Objectives and related performance measures, the best benchmark may be to baseline against previous CPC experience. For example, ALGS was brought in 7 months early and on budget.

<u>Goal/Objective #1</u>

- Develop approved projects on time.

Measure

- Variance in project development time from project approval to start-up, showing differences between expected and actual commercial start-up dates, in months, by approved project (performance measure 1.1).

Goal/Objective #2

- Develop approved projects on budget

Measure

- Variance in project development budgets through to commissioning, by approved project, showing variance in $ and % (performance measure 2.1).

Goal/Objective #3

- Effective project construction management, by ensuring that, on assumption of operation on an approved project's Final Acceptance Date, a project is "fit for purpose" and Owner's Requirements are substantially met with any unresolved material deficiencies offset by liquidated damages.

Measure

- Ratio of the value of any unresolved material deficiencies to the value of liquidated damages at a project's Owner Operator Date, by approved project (performance measure 3.1).

Note: Specific design-build contract information may be commercially confidential and, in any event, does not allow for cross-project benchmarking due to differences in project scale. An index created by the ratio of the value of any unresolved material deficiencies to the value of liquidated damages at a project's Final Acceptance Date (January 1, 2006 for ALGS) can provide a CPC project construction management effectiveness measure, with a target value of $\leq$ 1.0.

Goal/Objective #4

- Reliable plant operations, with a minimum of planned and unplanned outages.

Measure

- Ratio of actual energy entitlements to potential energy entitlements, by project, under Entitlement Agreements with BC Hydro (performance measure 4.1).

Note: BC Hydro, as system operator, optimizes power production from the overall integrated system and decides how much and where to produce, how much and where to store and how much to purchase to meet load. CPC/CBT, in turn, receive contractual energy entitlements based on long term average stream flow, plant capabilities (energy and capacity) and plant availability (based on planned and unplanned outages). Accordingly, actual energy production at a plant is not necessarily reflective of whether a plant is performing efficiently. A better efficiency measure is the ratio of actual to potential energy entitlements, as this reflects the impact on entitlements of both planned and unplanned outages.

Goal/Objective #5

- An acceptable return on equity.

  Measures

  - Annual return on equity, as a percentage (performance measure 5.1).
  - Return on assets in service, as a percentage (performance measure 5.2).

Note: Expected return on equity or assets for a given year can be projected, however since CPC/CBT projects do not earn a regulated rate of return each year, but rather a target internal rate of return over the life of the investment, there will not be readily available industry benchmarks. Annual return on equity and return on assets in service measures are provided, as they are standard industry measures. Further, a project's target internal rate of return is sensitive commercially confidential information.

Goal/Objective #6

- Project cost competitiveness, by developing projects with a cost of energy that is competitive with the cost of new electricity supply.

  Measure

  - Levelized cost index, by project, measured by the ratio of the levelized cost of energy for a CPC/CBT project, in $ per MWh, divided by the levelized cost of energy for the benchmark source of new electricity supply, generally assumed to be a combined cycle gas turbine (CCGT) plant (performance measure 6.1).

Note: While levelized unit cost information is commercially confidential, an index created by the ratio of the levelized unit cost of a CPC/CBT project to the levelized cost of the benchmark market alternative can provide a project cost competitiveness measure, with target values ≤ 1.0. (Because of the nature of CPC/CBT power plants – marginal projects utilizing otherwise spilled water – more traditional cost competitiveness measures for base load power plants, such as GWh per year per installed MW of capacity or $ of capital investment per installed MW, are not very informative measures of project performance).

Goal/Objective #7

- Maintain investment-grade, non-tax supported, project credit ratings.

  Measures

  - Bond rating, by project (performance measure 7.1).

  Note: Bond ratings provide an independent, objective and credible third-party evaluation of the risks associated with a project's bond issue (commercial debt). As part of its strategy to minimize overall interest costs, CPC makes use of equity resources during project development and secures limited-recourse project debt once a project is in-service and power sales and backstop agreements are in place. Prior to raising debt in the commercial bond market, CPC obtains a project bond rating from bond-rating agencies.

  - Debt service coverage ratio (performance measure 7.2).

  - Debt ratio (performance measure 7.3).

  Note: In addition to individual project bond ratings, overall corporate debt service coverage and debt ratios are standard industry measures in assessing investor risk for companies involved in limited-recourse project finance. However, these measures for CPC may not be comparable to debt service coverage and debt ratios reported for utilities earning a regulated annual rate of return or for Crown corporations with government debt guarantees. Regulated utilities and most Crown corporations with government debt guarantees do not obtain limited-recourse project financing, thus their bondholders tend to focus more on interest coverage ratios, which do not take into account the amortization on debt.

Goal/Objective #8

- Be a cost efficient joint venture manager.

  Measure

  - Operation, maintenance and administration ("OMA") cost for assets in service, in $ per MWh of net electricity entitlement (performance measure 8.1).
  - Labour cost per MWh of net electricity entitlement (performance measure 8.2).

Goal/Objective #9

- Promote employee productivity, by ensuring that CPC employees have the knowledge and skills necessary to conduct their work in an efficient and safe manner, in compliance with environmental and safety laws and CPC policy.

  Measures

  - Revenue per employee, in $ per full-time equivalent ("FTE") (performance measure 9.1).
  - Employee training, in hours per FTE (performance measure 9.2).

  Note: Because of the extent to which CPC relies on external contractors, through the project design-build bidding strategy and the contracting out of project operation and maintenance to ANC, these measures may not be comparable to industry standards.

Goal/Objective #10

- Comply with all applicable environmental legislation, licences, permits and legal obligations and other non-regulatory requirements to which CPC subscribes.

  Measure

  - Number of non-compliance notices received (performance measure 10.1).

Goal/Objective #11

- Contribute to the economic well-being of the Province and the Region.

  Measures

  - Net income, in million $ (performance measures 11.1).
  - Cumulative employment creation, in person years (performance measure 11.2).

6.0 Specific Project Development Accomplishments

i) Arrow Lakes Generating Station ("ALGS")

- Assumed operation of ALGS on the Owner Operator Date of January 1, 2003, with a plant that is "fit for purpose" with all identified deficiencies either corrected within a reasonable period or offsetting liquidated damages obtained.
- Achieve all availability guarantees during the initial 3-year warranty period through 2006 or obtain offsetting liquidated damages.

ii) Brilliant Expansion ("BRX")

- Board approval to proceed, with construction starting by June 2003 and the project in-service by August 2006, on budget.
- Follow the same design-build construction strategy used successfully at ALGS.

iii) Brilliant Terminal Substation ("BTS")

- Satisfy remaining conditions in the BTS – Facilities Interconnection and Investment Agreement ("FIIA") with ANC and Teck Cominco.
- Arrange necessary debt and equity funds.
- Actively monitor design and budget during BTS construction.
- Have the BTS built on budget before April 30, 2004 and "fit for purpose".
- Operate as agreed with ANC under the BTS-FIIA and accommodate BRX.

iv) Waneta Expansion (“WAX”)

- Continue to carry out necessary environmental, engineering and financial analyses to allow submission of an application for a Project Approval Certificate (“PAC”) in 2005.
- Advance planning and preserve the option to develop up to a 380 MW WAX project starting 2006.
- Submit an application for a PAC in 2005.
- Protect WAX water rights and seek compensation if negatively impacted.

v) Environmental Responsibility

- Adopt and implement a CPC Environmental Management System by the end of 2004 to ensure all CPC/CBT contractual obligations, rights and permit conditions are properly included in decision making, information systems and training.

vi) Availability and Cost of Project Development Funds

- In early 2003, while interest rates are still low, raise at least $90 million in “take-out” debt on a limited recourse basis from the ALGS project for BRX equity and other project needs.
- Secure a long-term power sales agreement with a high credit purchaser for BRX so that when BRX is commissioned take-out financing can be arranged to provide a source of funds for the WAX project.

vii) Manager of Joint Venture Projects

- Remain focussed on carrying out business plan for Columbia Basin Initiative.
- Ensure support for all material decisions from shareholder and CBT.
- Minimize cost of carrying out Manager function by keeping overhead down and contracting out.

viii) Regional Economic Development and Employment

- Create 2,200 person years of direct employment within the Region over ten years, with a target of 15% or greater employment equity hires.

- Encourage project builders to secure to the extent possible local employees and local goods and services and support training programs for target groups for employment, within commercial constraints and government policy.

7.0 Alignment with Government's Strategic Plan

The Province's Strategic Plan 2002/03 – 2004/05, titled "Restoring Hope and Prosperity" lists three fundamental goals:

Goal #1: A strong and vibrant provincial economy.
Goal #2: A supportive social infrastructure.
Goal #3: Safe, healthy communities and a sustainable environment.

CPC's Service Plan will make significant contributions directly to goals #1 and #3.

Goal #1 – The Economy

Over the period 1999 through 2002, with the construction of the $270 million ALGS, CPC/CBT had the third largest hydro project under construction in North America and the largest industrial project in B.C. ALGS was completed on budget and ahead of schedule. During the three-year construction period, ALGS created 750 person years of direct employment (85% local hires), $60 million in direct and indirect income and $20 million in regional procurement.

With construction of the $200 million BRX due to commence in the first quarter of 2003, CPC/CBT will create over 450 person years of direct employment, $30 million in direct and indirect income and $15 million in local procurement during the three-year construction period.

In fiscal 2003/04 – 2005/06 CPC/CBT will produce $40 million of net cash flow for the Province and the Region. CPC/CBT will also contribute $34 million in taxes and water rentals.

Goal #3 - The Environment

Since 1999, CPC/CBT have provided $175,000 per year for the Arrow Lakes Fish Fertilization Program, to rebuild phytoplankton (algae) and kokanee abundance in the Arrow Lakes. There were an estimated 671,000 spawning kokanee in 28 streams feeding the lakes in 2001, compared to 97,000 spawners in 1996. Kokanee spawner size has also jumped from 21 cm to 30 cm, the largest increase in 30 years. This apparent ecosystem response to fertilization has resulted in the limited re-opening of the Upper Arrow kokanee fishery. As well as conserving fish populations, fertilization appears to be providing a better food source for wildlife predators and scavengers, such as bears and eagles, by increasing the number of kokanee spawners.

ALGS in combination with the BRX project will reduce the number of days when total gas pressure (TGP) in the Columbia River at the U.S. border exceeds the U.S. standard by 70%. When TGP reaches a level of 115% of normal, bubbles can form in the cardio-vascular systems of fish, which can lead to death and disruption of salmon migration. CPC/CBT's projects are of major benefit to the U.S., which spends millions of dollars to reduce TGP. For this reason, eight U.S. federal and state agencies, including the Environmental Protection Agency and the Fish and Wildlife Service, plus the Colville Confederated Tribes have endorsed CPC/CBT projects.

ALGS and BRX together would displace over 700,000 tonnes per year of CO_2, equivalent to displacing 140,000 cars from Vancouver streets. CPC/CBT have maintained ownership of any greenhouse gas credits for their projects, which could potentially be sold in the future.

8.0 Summary Financial Outlook

8.1 CPC Consolidated Statement of Income Forecast

FOR THE YEAR ENDED MARCH 31
$ in thousands

		2002/03	2003/04	2004/05	2005/06
REVENUES					
Sale of power	$	44,186	29,727	31,141	31,867
Interest		371	484	492	499
Management fee		440	484	532	585
		44,997	30,695	32,165	32,951
EXPENSES					
Water rentals		2,355	3,200	4,134	4,217
Amortization of capital assets in service		4,702	7,172	7,363	7,408
Property tax		881	1,063	1,102	1,124
Operations and maintenance		1,092	1,274	1,208	1,232
Provision for BC corporation capital tax		63	-	-	-
Administration and management		1,404	1,677	1,651	1,734
Insurance		384	460	471	481
Power sales revenue sharing		14,537	-	-	-
Community sponsorship		75	75	75	75
Development costs expensed		500	-	-	-
		25,993	14,921	16,004	16,271
INCOME FROM OPERATIONS		19,004	15,774	16,161	16,680
FINANCE CHARGES					
Interest expense		5,831	10,467	10,391	10,065
Amortization of deferred debt issue costs		25	67	67	92
		5,856	10,534	10,458	10,157
NET INCOME	$	13,148	5,240	5,703	6,523

Notes:

1. Revenues and expenses in the consolidated statement of income represent CPC's 50 percent share of joint venture revenues and expenses.

2. Power sales revenue sharing expense represents the portion of early power sales revenues paid to the design-build contractor under the terms of the construction contract for ALGS.

8.2 Key Assumptions

Key assumptions affecting the forecasts are as follows.

- Long-term financing is obtained for ALGS in 2003/04, based on an investment grade credit rating.
- Approval is received to proceed with BRX in 2002/03.
- Grants in lieu of property tax are paid by ALGS and future CPC/CBT projects.
- BTS is completed in 2003/04.
- Market prices for electricity are US$35 per megawatt-hour at March 31, 2003, escalating in nominal terms at 2 per cent per year.
- The Canada/US exchange rate is 1.5:1.
- Operating cost inflation is 2 percent per year.

8.3 Risk Factors and Sensitivities

Key risk factors are discussed below in terms of how they are managed and their potential impact.

Risk	How managed	Impact
Plant Reliability	At Brilliant, the risk of plant losses is transferred to the buyer/plant operator. At ALGS, steps are being taken prior to the Owner Acceptance Date, to ensure the design-build contractor corrects all deficiencies and operating personnel are properly trained.	If the plant outage factor at Arrow Lakes reaches 10% instead of the budgeted 5%, the impact on earnings will be $1.5 million in 2003/04, assuming none of the loss is covered by business interruption insurance.
Cost of Funds	The cost of debt issued for ALGS is being minimized by matching the term of the debt to the term of the power sales agreement.	A 100 basis point increase in medium-term interest rates would decrease cash flows by approximately $1.5 million annually.
Availability of Funds	Key agreements for each project are structured keeping in mind the requirements of lenders so as to achieve a financeable project with a high credit rating.	If either equity or debt funding is not available, construction of BRX will not proceed.
BRX Power Marketing and Transmission	Discussions are being held with BC Hydro, Powerex, Teck Cominco, power marketers and utilities in Alberta and the US.	If satisfactory arrangements are not in place, proceed as a “merchant plant” until favourable long-term arrangements are available.
Property Taxation	CPC has undertaken analysis of property tax impacts and provided this information to government agencies.	Taxation at current tax rates in the regional district would reduce annual earnings at ALGS by about $5.8 million, and the BRX return on investment by about 25%.
Regulatory Risk	Participate in or monitor initiatives such as Water Use Planning, Instream Flow Regulation & Columbia River Treaty variable flow regimes (“VARQ”) to ensure CPC/CBT interests are understood.	Operating constraints imposed by regulatory bodies could impact the viability of projects.

9.0 Major Capital Plan

BRX is the only CPC/CBT Major Capital Project in the period 2003/04 to 2005/06. CPC is currently working to satisfy all pre-conditions necessary to allow a go-no go investment decision. Treasury Board and CBT Board approval to proceed with construction starting June 2003 with in-service by August 2006 is being sought.

CPC Service Plan 2003/04 – 2005/06 Performance Measures

PERFORMANCE MEASURE	Definition	Benchmark	Target
Objective/Goal #1 – Develop Projects on Time			
1.1 Variance in project development time to start-up, in months, by approved project	Variance between expected and actual start-up dates, in months, for approved projects	ALGS = -7 (7 months early)	≤ 0, indicating an approved project has achieved commercial start-up on time or early
Objective/Goal #2 – Develop Projects on Budget			
2.1 Variance in project budgets, in $ and %, by approved project	Variance between project development costs actually incurred & development budget approved by Treasury Board, in $ and %	Benchmark: ALGS = 0 (on budget)	≤ 0, indicating an approved project has achieved start-up on or under budget
Objective/Goal #3 – Effective Construction Management			
3.1 Ratio of the value of any unresolved material deficiencies to the value of liquidated damages at a project's Final Acceptance Date, by approved project	Ratio of the value of any unresolved material deficiencies to the value of liquidated damages at the Final Acceptance Date	Benchmark: N/A (ALGS Final Acceptance Date is not until Jan.1/06, or 3 years after contractual commercial start-up date of Jan.1/03)	≤ 1, indicating that the value of any unresolved material deficiencies is offset by the value of liquidated damages
Objective/Goal #4 – Reliable Plant Operations			
4.1 Ratio of actual energy entitlements to maximum energy entitlements, by project	Actual energy entitlements divided by maximum energy entitlements, by project	Canadian Electricity Assoc. ("CEA") Benchmark: Hydraulic Weighted Capability Factor 2001 value = 0.906 (or 90.6%)	≥ 0.95, indicating that planned and unplanned plant outages do not result in more than a 5% reduction in potential energy entitlements for the year

CPC Service Plan 2003/04 – 2005/06 Performance Measures

PERFORMANCE MEASURE	Definition	Benchmark	Target
Objective/Goal #5 – Acceptable Return on Equity			
5.1 Return on Equity, as a %	CPC consolidated net income divided by consolidated equity (contributed surplus plus retained earnings)	Over the life of the projects, comparable to regulated utilities	2003/04 – 1.8% 2004/05 – 1.9% 2005/06 – 2.2%
5.2 Return on Assets In-service, as a %	CPC consolidated net income divided by Assets In-service	Over the life of the projects, comparable to regulated utilities	2003/04 – 2.0% 2004/05 – 2.2% 2005/06 – 2.5%
Objective/Goal #6 – Project Cost Competitiveness			
6.1 Levelized cost index	Natural gas price in C$/GJ that equilibrates the levelized cost of energy for a CPC/CBT project with the levelized cost of energy for a new CCGT power plant	Equilibrating plant-gate price of natural gas, for an approved CPC/CBT project	ALGS = 3.50 BRX = 4.00

CPC Service Plan 2003/04 – 2005/06 Performance Measures

PERFORMANCE MEASURE	Definition	Benchmark	Target
Objective/Goal #7 – Investment Grade, Non-Tax Supported, Credit Ratings			
7.1 Bond Rating	Project debt bond ratings as set by Moody's Investor Service ("Moody's") of New York & Dominion Bond Rating Service ("DBRS") of Toronto	Benchmark: August 2001 Moody's rating of A1 and DBRS rating of A (high) for Brilliant bonds, up from A2 and A (mid), respectively	Maintain investment grade commercial credit ratings for project bonds (limited-recourse, non-tax supported project debt)
7.2 Debt Service Coverage Ratio	Consolidated net income plus interest & amortization divided by debt service payments	Industry benchmark for Investment grade bond rating: $\geq$ 1.3	2003/04 – 1.5 2004/05 – 1.5 2005/06 – 1.5
7.3 Debt Ratio	Consolidated average debt divided by consolidated average debt plus equity, as a percent	CEA overall Composite Performance Measure for 2001 = 74%	2003/04 – 30% 2004/05 – 28% 2005/06 – 27%
Objective/Goal #8 – Cost Efficient Joint Venture Manager			
8.1 Operation, Maintenance & Administration (OMA) unit cost for assets in-service, in $ per MWh of project net electricity entitlements	OMA costs divided by net electricity entitlement in MWh, by project	No suitable industry benchmark available; past project performance to be used to develop a baseline	2003/04 – ALGS = 3.24; BRD = 2.14 2004/05 – ALGS = 2.96; BRD = 1.96 2005/06 – ALGS = 3.01; BRD = 2.00
8.2 Labour unit cost, in $ per MWh of net electricity entitlements	Consolidated labour costs (salaries & benefits) divided by MWh of net electricity entitlements	No suitable industry benchmark publicly available	2003/04 – 2.00 2004/05 – 2.11 2005/06 – 2.22

CPC Service Plan 2003/04 – 2005/06 Performance Measures

PERFORMANCE MEASURE	Definition	Benchmark	Target
Objective/Goal #9 – Employee Productivity			
9.1 Revenue per employee, in $ per FTE	Consolidated revenue divided by the # of FTEs at year end	CEA average 588,000	2003/04 – 877,000 2004/05 – 869,000 2005/06 – 845,000
9.2 Employee training, in hours per FTE	Total training hours divided by the # of FTEs at year end	Suitable industry benchmark not publicly available	2003/04 – 35 2004/05 – 35 2005/06 – 35
Objective/Goal #10 – Environmental Compliance			
10.1 Number of non-compliance notices received	Number of notices from regulatory agencies of environmental non-compliance	Further research required on suitable benchmark	No material non-compliance notices
Objective/Goal #11 – Economic Contributions			
11.1 Net income, in million $	Revenues less expenses	N/A	2003/04 – 5.2 2004/05 – 5.7 2005/06 – 6.5
11.2 Cumulative Employment Creation, in person years	Cumulative direct employment creation, in person years	N/A	2003/04 – 1,210 2004/05 – 1,440 2005/06 – 1,580