COLUMBIA POWER CORPORATION

SERVICE PLAN 2005/06 – 2007/08

February 15, 2005

January 27, 2005

Honourable Richard Neufeld
Minister of Energy and Mines

Dear Minister Neufeld:

I am pleased to submit Columbia Power Corporation's 2005/06 – 2007/08 Service Plan.

Columbia Power Corporation ("CPC") is wholly owned and controlled by the Province of British Columbia (the "Province"). CPC develops and operates power projects 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 is the joint venture manager. Returns from CPC's 50 per cent share of power projects are available to be distributed to the Province. Returns from CBT's 50 per cent share of power projects are available to be distributed to CBT to provide benefits to the people of the Region in accordance with the *Columbia Basin Trust Act*.

CPC was created in 1994 to purchase certain hydroelectric rights from Cominco Ltd. Since then, CPC has gone from being a "start-up" company to the fourth largest producer of electricity in B.C. CPC now manages over $800 million in assets. CPC develops and operates CPC/CBT projects on a commercial basis, as an independent power producer, using limited-recourse project debt and without a provincial debt guarantee. CPC/CBT power projects utilize existing dams and harness water that would otherwise be spilled. Thus, CPC/CBT power projects create significant net environmental benefits. Despite this, being on international rivers, CPC/CBT power projects are permitted, 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 sell into a monopoly-controlled domestic power market characterized by limited transmission access to adjacent power markets in Alberta and the U.S., with domestic power prices based on the average cost of existing supply, not the marginal cost of new supply. Accordingly, CPC must be efficient and innovative to achieve its goals and objectives.

Over the period 1999/00 to 2002/03, CPC managed the construction and commissioning of the 185 megawatt, $270 million, Arrow Lakes Generating Station ("ALGS"). ALGS was completed on budget and ahead of schedule, and received the Lieutenant Governor's Award for Overall Excellence from the Consulting Engineers of British Columbia, as well as awards from the Canadian Consulting Engineers and the Design Build Institute of America. During the three-year construction period, ALGS created 750 person years of direct employment (85 per cent local hires), $60 million in direct and indirect income and $20 million in regional procurement.

At ALGS we have carried out many tests and warranty inspections since assuming responsibility for operation from the design-build contractor on January 1, 2003. Under the ALGS design-build contract, the construction contractor, Peter Kiewit Sons Co. ("PKS"), has an obligation to address material deficiencies relative to the project's contractual design and performance specifications through to the project's "Final Acceptance Date" of January 1, 2006, or 3 years after CPC/CBT, as owners, assumed responsibility for plant operation. Further, the manufacturers of ALGS machinery and equipment have ongoing obligations to meet all warranties and related performance specifications. As part of CPC's overall risk management strategy, all CPC/CBT joint venture projects also carry business interruption, property and liability insurance.

On April 30, 2004, the ALGS suffered pressure-induced damage to the underwater concrete lining of the approach channel. Power generation was suspended and, in consultation with the Comptroller of Water Rights and BC Hydro, CPC undertook emergency channel repairs and related contingency measures to help ensure the integrity of BC Hydro's Keenleyside Dam. With the prior approval of the Comptroller of Water Rights and BC Hydro, CPC then proceeded with interim repairs that enabled resumption of ALGS power generation as of August 2, 2004. On October 4, 2004, the Comptroller of Water Rights approved the continuous interim operation of ALGS, subject to certain controls and limits, and requested that a plan for permanent repairs be submitted before September 30, 2005. CPC's independent owner's engineer has been requested to undertake an assessment of the interim repairs and advance plans by March 31, 2005 to enable CPC/CBT to make decisions regarding the proposed timing and nature of permanent repairs for 2005/06 and beyond. CPC has begun to receive monies under the ALGS insurance policy and will pursue remedies available under the design-build contract for recoveries from the contractor, as appropriate.

Over the period 2003/04 to 2006/07, CPC is managing the construction of the 120 megawatt, $205 million, Brilliant Expansion Project ("BRX") using the design-evaluate-build strategy applied in the development of ALGS. Under this strategy external engineering firms and construction contractors form strategic partnerships to submit competing proposals to meet technical specifications and electricity output levels set by CPC/CBT. The objective is to ensure the most cost-effective construction methods while transferring most of the construction risk to the design-build contractor. BRX construction commenced in April 2003 and is scheduled to achieve commercial operations in September 2006. With construction of BRX, 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.

CPC is also permitting and using the design-evaluate-build strategy for the Waneta Expansion Project ("WAX"), which has a capacity of up to 435 megawatts. CPC is on track to seek the requisite approvals to enter into a design-build contract for WAX and proceed with project construction in early 2007/08.

Over the period 2005/06 to 2007/08, the CPC/CBT power projects are expected to generate $63 million in net income, and will pay an additional $35 million in taxes and water rentals.

The Province, CPC and CBT have examined a number of restructuring options over the past two years. Based on direction from the Minister of Energy and Mines in January 2005, CPC and CBT will continue as separate corporations, and CPC will remain manager of the joint ventures. This Service Plan has been prepared on that basis.

The 2005/06 – 2007/08 CPC Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions and identified risks, as of January 27, 2005, have been considered in preparing the plan. I am accountable for ensuring CPC achieves its specific objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,

Lorne Sivertson
President and Director

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COLUMBIA POWER CORPORATION

SERVICE PLAN 2005/06 – 2007/08

1.0 Introduction

Columbia Power Corporation ("CPC") is a Crown corporation, existing under the B.C. *Business Corporations Act*. CPC is wholly owned and controlled by the Province of British Columbia (the "Province"). CPC is primarily an asset development and management company, and 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 is the joint venture manager. CPC/CBT joint ventures produce power that is sold into the wholesale market, primarily under long term contracts to two regulated utilities, FortisBC Inc. ("FortisBC") and BC Hydro, who in turn sell to end-use consumers.

2.0 Historic Context and Organization Overview

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 exchange, the Province received $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 in recognition of the costs borne by the Region as a result 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 receive $250 million each over ten years to provide equity for qualifying power project development in the Region. Three core projects were designated: Keenleyside, subsequently renamed as Arrow Lakes Generating Station ("ALGS"), Brilliant Expansion ("BRX") and Waneta Expansion ("WAX"). BRX and WAX involve development rights purchased by CPC in 1994 from Cominco Ltd., now Teck Cominco Metals Ltd. ("Teck Cominco"). Other generation, distribution and transmission projects can be carried out by CPC and CBT, provided both CPC and CBT agree and the projects meet the same commercial and other tests as the core projects. In 1996, CPC/CBT purchased the 120 megawatt Brilliant Dam and Powerplant ("BRD") from Teck Cominco. BRD has been refurbished and upgraded to 140 megawatts.

The mandate of CPC, with its joint venture partner CBT 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 using the government's equity contributions, retained earnings and limited-recourse project debt, without government debt guarantees; 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*. CPC is also a "Government Organization" under the *Budget Transparency and Accountability Act*. As noted, CPC is 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. Returns from CBTE's 50 per cent share of the power projects are available to be distributed to 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 the BRX and WAX development rights from Teck Cominco, as part of an agreement between the Province and Teck Cominco 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 grown from a "start-up" company in 1994 to the fourth largest producer of electricity in B.C. in 2002 (with the commissioning of ALGS). CPC now manages over $800 million in assets. 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 in operation, BRX under construction and the final $50 million equity allocation under the 1995 Financial Agreement scheduled to be received on April 1, 2005, CPC's development role is well advanced and CPC is becoming an operating company.

The Province, CPC and CBT have examined a number of restructuring options over the past two years. Based on direction from the Minister of Energy and Mines in January 2005, CPC and CBT will continue as separate corporations, and CPC will remain as manager of the joint ventures. This Service Plan has been prepared on that basis.

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 and the Region;
- socially-responsible decision making, to the extent possible guided by the market;
- proactive and economically-responsible environmental management;
- respectful employment practices.

3.4 Planning Context & Key Strategic Issues

CPC develops and operates CPC/CBT core power projects as an independent power producer ("IPP"), using limited-recourse project debt without a provincial debt guarantee. Like other IPPs, CPC is not a regulated utility, and thus does not have a service area with a built-in customer base to absorb ALGS, BRX and WAX capital and operating cost overruns, environmental and regulatory compliance costs, or tax and tariff increases. ALGS and BRX have fixed-price power sales contracts.

CPC's mandate is to develop and operate ALGS, BRX and WAX at existing dams using water that would otherwise be spilled. CPC/CBT power projects create significant net environmental benefits. However, CPC/CBT core power projects also have low capacity utilization factors (of about 50 per cent), relying primarily on spring run-off water and upstream flow regulation. CPC/CBT power projects are also on international rivers, and are 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 limited access to adjacent power markets in Alberta and the U.S. Pacific Northwest with domestic power prices based on the average cost of existing supply, not the marginal cost of new supply. Accordingly, CPC must be efficient and innovative to achieve its goals and objectives.

The key strategic issues facing CPC include:

- obtaining federal and provincial approvals, permits and licenses to develop and operate power projects within a difficult environmental regulatory regime;
- developing regional support for CPC/CBT power projects through consultation with local and regional community stakeholders, negotiating land issues with owners and continuing to work to develop solutions to First Nations issues regarding CPC/CBT projects;
- securing power sales contracts in a domestic market, where CPC/CBT power projects represent a low cost source of new power supply, but where there is one dominant buyer, power prices are regulated based on average costs, and policy has limited CPC's ability to bid into BC Hydro Requests for Proposals;
- accessing a promising market in the U.S. for green power in the face of monopoly ownership of transmission and ongoing under-investment in transmission capacity on both the B.C. and U.S. sides of the border;
- adjusting to a higher Canadian dollar, which lowers the value of power exports to the U.S. market, and higher construction and commodity prices, such as steel and concrete;
- completing negotiations with BC Hydro, FortisBC and Teck Cominco to renew for 30 years the Canal Plant Agreement ("CPA"), key parts of which expire in September 2005, and to include BRX and WAX (the existing CPA includes BRD; ALGS has a separate entitlement agreement with BC Hydro);
- uncertainty regarding future interest rates and thus the cost of debt finance for the remaining core CPC/CBT power projects;
- 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 adversely affect the economic viability of CPC/CBT power projects; and,
- CPC/CBT restructuring discussions and proposals have created uncertainty for CPC staff, contractors, suppliers, lenders, potential BRX power purchasers, regulators and potential WAX design-build bidders. This uncertainty has been substantially reduced by the Minister of Energy and Mines' direction of January 2005, and CPC will need to communicate this direction to stakeholders and renew relationships.

4.0 Goals/Objectives, Strategies, Measures and Targets

CPC's Service Plan is a work-in-progress. It reflects *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks and targets linked to specific goals/objectives and strategies. The Service Plan also reflects CPC's transition from a development company to an operating company.

The number of goals/objectives and related measures and targets in the current Service Plan has been reduced from prior years in order to focus on key aspects of CPC's project development and operation mandate. In addition, the current Service Plan aligns specific strategies to each goal/objective, and incorporates further research regarding suitable benchmarks and targets. Given CPC's role as joint venture manager, and the extent to which CPC contracts out, finding suitable industry benchmarks remains a challenge, as the industry is still largely dominated by vertically integrated regulated utilities. These challenges are described more fully in the individual performance measures. Where suitable industry benchmarks are not available, CPC-specific benchmarks have been used. In future Service Plans, CPC plans to develop additional performance measures for the Goal/Objective of cost efficient joint venture management in order to disaggregate the current measure for Operations, Maintenance and Administration into its key functional components of plant operations, plant maintenance, renovations/major improvements, as well as on-site and off-site support functions, with a particular emphasis on engineering services.

Goal/Objective #1 – Development of projects on time

Strategy:

CPC's project development strategy employs design-build contracts that specify commercial start-up dates, with incentives for early completion and penalties for late completion. In addition, throughout the term of a contract, there are key milestone dates with provisions for CPC to withhold payments if these milestones are not met.

Performance measure, benchmark and target

1.1 Variance in project development time to start-up, measured as the variance between expected and actual start-up dates. The benchmark for this measure is ALGS, which was developed 7 months early. The target is to achieve a variance of less than or equal to zero, indicating an approved project has achieved commercial start-up on time or early.

GOAL/OBJECTIVE **1. Development of Projects on Time**	**BENCHMARK**	**TARGETS**				
PERFORMANCE MEASURE **1.1 Variance in project development time to start-up**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	ALGS: 7 months early		N/A	N/A	BRX: Sept. 2006	
2005/06 – 2007/08 Service Plan		BTS: On time	N/A	N/A	BRX: Sept. 2006	N/A

Goal/Objective #2 – Development of projects on budget

Strategy:

CPC's strategy is to transfer most construction risk on to the design-build contractor. Design-build contracts are fixed-price and contain detailed project specifications, including performance specifications, in order to minimize change orders and ensure that a project is "fit for purpose". Design-build contracts also provide performance-based penalties and incentives.

Performance measure, benchmark and target

2.1 Variance from project budgets, measured as the variance between project development costs incurred and approved budget. The benchmark for this measure is ALGS, which was developed on budget. The target is to achieve a variance of less than or equal to zero, indicating an approved project has achieved commercial start-up on or under budget.

GOAL/OBJECTIVE 2. Development of Projects on Budget	BENCHMARK	TARGETS				
PERFORMANCE MEASURE **2.1 Variance from project budgets**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	ALGS: On budget		N/A	N/A	BRX: On Budget	
2005/06 – 2007/08 Service Plan		BTS: On Budget	N/A	N/A	BRX: On Budget	N/A

Goal/Objective #3 – Effective construction management

Strategy:

As noted, CPC's design-build contracts specify a project completion date, key milestones, with performance incentives and non-performance penalties. In addition, design-build contracts are secured by: performance and labour and materials bonds; either cash holdbacks or letters of credit; plus parent company guarantees. CPC retains independent engineers to oversee contractor performance against the design-build contract specifications and milestones. Once CPC takes over responsibility for a project's commercial operation, there is a three-year period prior to final acceptance within which the design-build contractor must resolve all material deficiencies and project performance issues. At the end of this three-year period, at a project's Final Acceptance Date, the design-build contract allows for "liquidated damages" for any unresolved materials deficiencies. Liquidated damages can be recovered against any securities or holdbacks under the contract. CPC maintains sufficient security to cover potential deficiencies.

Performance measure, benchmark and target

3.1 Unresolved deficiency ratio, measured as the ratio of the value of unresolved material deficiencies (under a project's design build contract) to the value of contractual holdbacks for liquidated damages at the Final Acceptance Date. The target is to achieve a ratio with a value less than or equal to one, indicating that the value of any unresolved material deficiencies is offset by the value of CPC security for liquidated damages.

GOAL/OBJECTIVE **3. Effective Construction Management**	**BENCHMARK**	**TARGETS**				
PERFORMANCE MEASURE **3.1 Unresolved deficiency ratio**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	Baseline to be developed		N/A	ALGS: Less than or equal to 1	N/A	
2005/06 – 2007/08 Service Plan		BTS: No unresolved deficiencies	N/A	ALGS: Less than or equal to 1	N/A	N/A

Goal/Objective #4 – Reliable plant operations

Strategy:

CPC/CBT power projects 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). Plant availability can be reduced by both planned and unplanned outages. CPC attempts to minimize the impact of planned outages by scheduling plant maintenance, repairs and upgrades during low flow, and thus low entitlement, months (primarily February through April). Unplanned outages tend to be higher during a new plant's period of initial operation, decrease to a "normal" operating level, and eventually increase as a plant ages. CPC/CBT projects are either newly constructed (ALGS) or have been completely refurbished (BRD). CPC design-build contracts specify plant performance and reliability measures. In addition, machinery and equipment have manufacturer warranties. CPC's independent owner's engineers conduct independent studies and investigations to help ensure that a plant's performance and reliability criteria are met and a project is fit for purpose.

Performance measure, benchmark and target

4.1 Energy entitlement ratio, measured as actual energy entitlements divided by maximum energy entitlements, by project. The benchmark is the Canadian Electricity Association ("CEA") key performance indicator: Hydraulic Weighted Capability Factor, which has a value of 91 per cent in both 2003 and over the five-year period 1999 – 2003. The target is to achieve a value greater than or equal to 95 per cent, indicating that planned and unplanned outages do not result in more than a 5 per cent reduction in energy entitlements for the year. The lower targets for ALGS in 2004/05 and 2006/07 reflect channel repairs.

GOAL/OBJECTIVE **4. Reliable Plant Operations**	**BENCHMARK**	**TARGETS**				
PERFORMANCE MEASURE **4.1 Energy entitlement ratio**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	CEA: Hydraulic Weighted Capability Factor 2003=91%		Greater or equal to 95%	Greater or equal to 95%	Greater or equal to 95%	
2005/06 – 2007/08 Service Plan		ALGS: 94% BRD: 98%	ALGS: >75% BRD: >95%	ALGS: >95% BRD: >95%	ALGS: >91% BRD: >95% BRX: >90%	ALGS: >95% BRD: >95% BRX: >92%

Goal/Objective #5 – Investment Grade, non-tax supported, credit ratings

Strategy:

CPC/CBT have a fixed government equity endowment (as noted, the final $50 million equity payment from the Province pursuant to the 1995 Financial Agreement is scheduled for April 1, 2005). To have sufficient capital to develop all three mandated core projects, CPC must raise long-term debt in the commercial bond market on a limited-recourse project basis (as noted, CPC/CBT do not have a government debt guarantee). To minimize overall interest costs while enabling it to pursue CPC/CBT project development goals, CPC uses equity resources and short-term credit facilities to reduce interest costs during project development. Once a project has been constructed and a long-term power sales agreement has been put in place, CPC raises long-term project debt from the bond market as required. Prior to going to the bond market, CPC obtains a project bond rating from one or more bond rating agencies, such as Dominion Bond Rating Service ("DBRS") and Moody's Investor Service ("Moody's"). Bond ratings provide an independent, objective and credible third party evaluation of the risks associated with a project bond issue (commercial debt). CPC's objective is to maintain Investment Grade project bond ratings, which requires CPC to be able to assure rating agencies that a power project can sustain a debt coverage ratio of 1.3 or greater.

Performance measure, benchmark and target

5.1 Bond rating, as established for a project bond issue by DBRS and/or Moody's. The benchmark is an Investment Grade bond rating. CPC's target is to establish an initial Investment Grade project bond rating, and to maintain or improve that rating over time.

Note: The electricity industry is dominated by regulated utilities, such as BC Hydro, which typically do not finance debt on a limited-recourse project basis. Further, the debt of BC Hydro and most other Crown corporations is guaranteed by the provincial government. CPC/CBT project debt is not guaranteed by the government and thus is not tax supported.

<table>
<tr><td>GOAL/OBJECTIVE
5. Investment Grade, Non-Tax Supported, Credit Rating</td><td rowspan="2">BENCHMARK</td><td colspan="5">TARGETS</td></tr>
<tr><td>PERFORMANCE MEASURE
5.1 Bond rating</td><td>03/04 Actual</td><td>04/05</td><td>05/06</td><td>06/07</td><td>07/08</td></tr>
<tr><td>2004/05 – 2006/07 Service Plan</td><td rowspan="2">Investment Grade bond ratings for CPC/CBT project debt</td><td></td><td colspan="4" rowspan="2">Maintain or improve current Investment Grade bond ratings for CPC/CBT project debt:

ALGS: DBRS A (high)
BRD: DBRS A (high), Moody's A1
BRX: Investment Grade bond rating in 07/08</td></tr>
<tr><td>2005/06 – 2007/08 Service Plan</td><td>Maintained ratings for all bonds</td></tr>
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5.2 Debt service coverage ratio, measured as net income before interest and amortization of assets, divided by interest plus debt principal repayment, for projects with a bond rating. The benchmark used by rating agencies to establish an Investment Grade bond rating is an interest coverage ratio of greater than or equal to 1.3. CPC has established a target debt service ratio of 1.5 for each project with a bond rating, subject to CPC's capital spending needs and the availability of equity. High debt service coverage ratios reflect a relatively low debt to equity ratio, and imply an ability to raise additional limited-recourse project debt in the commercial bond market.

GOAL/OBJECTIVE **5. Investment Grade, Non-Tax Supported, Credit Rating**	**BENCHMARK**	**TARGETS**				
PERFORMANCE MEASURE **5.2 Debt service coverage ratio**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan[1]	Greater than or equal to 1.3		ALGS: 1.8 BRD: 1.7	ALGS: 1.9 BRD: 1.7	ALGS: 2.0 BRD: 1.8	
2005/06 – 2007/08 Service Plan		ALGS: 5.2 BRD: 1.7	ALGS: 1.7 BRD: 1.6	ALGS: 2.0 BRD: 1.6	ALGS: 2.0 BRD: 1.6	ALGS: 2.1 BRD: 1.7 BRX: 1.7

[1] **2004/05 - 2006-07 Service Plan values have been restated to correct an error identified after publishing**

5.3 Capital structure, measured as consolidated debt and consolidated equity, each divided by consolidated debt plus equity, expressed as a ratio. Along with a project's debt service ratio, a project's debt to equity ratio is a key measure of CPC's ability to raise additional long term debt to develop all three of its mandated core projects. However, finding a suitable industry benchmark is difficult. The electricity industry average is a composite that reflects the dominance of large government-backed regulated utilities such as Hydro Quebec and BC Hydro, which do not engage in limited-recourse project finance. The ratio of debt to equity is a standard industry measure that is reported on a consolidated basis, not on a project basis. CPC's low debt-to-equity targets are consistent with CPC's Capital Plan and investment strategy of using equity to construct projects. Once BRX and WAX have been constructed, CPC's debt to equity ratio will more closely track the CEA industry average.

GOAL/OBJECTIVE **5. Investment Grade, Non-Tax Supported, Credit Rating**	**BENCHMARK**	**TARGETS**				
PERFORMANCE MEASURE **5.3 Capital structure**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	CEA composite performance measure for 2003 = 72:28		30:70	29:71	27:73	
2005/06 – 2007/08 Service Plan		26:74	30:70	28:72	27:73	36:64

Goal/Objective #6 – Acceptable return on equity

Strategy:

As noted, CPC's project mandate is to develop and operate ALGS, BRX and WAX on a commercial basis with a fixed amount of equity from the Province, without a provincial government debt guarantee and without a built-in customer base (i.e. as a wholesale, independent power producer). CPC/CBT power projects are capital intensive but, because they largely harness spring run-off water, have low capacity utilization factors (of about 50 per cent). Further, while the economic life of a CPC/CBT hydroelectric power projects can be 70 years or more, limited-recourse project debt is typically for terms of 30 years or less. Thus, CPC/CBT must defer receiving a significant portion of its equity returns until after project debt is retired. In view of these constraints, CPC pursues the objective of an acceptable long-term return on equity over the life of a project. In order to balance market opportunities with the ability to raise limited-recourse project debt, CPC has put in place a portfolio of power sales contracts with varying terms (60 years for BRD with market price adjustments after year 30, 12 years for ALGS and 20 years for the 40 per cent of BRX output currently under contract). CPC also pursues a strategy of managing project risks through: competitive, fixed-price design-build contracts; long term entitlement, power sales, and third party backstop agreements; and by carrying business interruption, property and liability insurance.

Performance measure, benchmark and target

6.1 Return on equity, measured as consolidated net income divided by equity (contributed surplus plus retained earnings). Suitable industry benchmarks are not readily available. While return on equity is a standard industry measure, unlike regulated utilities, which dominate the industry, CPC/CBT power projects do not earn an annual regulated rate of return in each year from a built-in customer base. As noted, CPC/CBT earn a return on equity over the life of a project investment. This return will depend on market conditions and CPC's ability to manage trade-offs between risk and return. The benchmark is to achieve, over a project's life, a return on equity comparable to that earned by regulated utilities. The target annual return on equity will be low in a project's early years and will rise over time, particularly once debt is retired.

GOAL/OBJECTIVE **6. Acceptable Return on Equity**	**BENCHMARK**	**TARGETS**				
PERFORMANCE MEASURE **6.1 Return on equity**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	Over the life of a project, comparable to regulated utilities		2.1%	2.3%	3.6%	
2005/06 – 2007/08 Service Plan		2.8%	2.0%	2.5%	3.6%	4.0%

Goal/Objective #7 – Cost efficient joint venture management

Strategy:

In order to be cost efficient, CPC relies on the use of external contractors, through both its competitive design-build development strategy and the contracting out of project operation and maintenance, legal, payroll, pension administration, benefits administration and IT functions. CPC maintains a regular staff of highly-qualified professionals, who perform project and corporate planning, project permitting, risk management, commercial negotiation, power marketing, project and corporate accounting, treasury, land management, community relations, environmental management, contract administration and due diligence functions.

Performance measure, benchmark and target

7.1 Operations, Maintenance and Administration ("OMA") unit cost for assets in-service, measured as OMA costs divided by net electricity entitlement, in $ per megawatt hour ("MWh"). Given CPC's reliance on external contractors, this measure may not be comparable to industry standards. Further, to provide meaningful benchmarks against which to manage ongoing operations, this measure needs to be disaggregated by function and by project. As noted, CPC plans to develop disaggregated OMA performance measures in future Service Plans.

GOAL/OBJECTIVE **7. Cost Efficient Joint Venture Management**	**BENCHMARK**	**TARGETS**				
PERFORMANCE MEASURE **7.1 OMA unit cost for assets in service**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	Baseline information to be developed		ALGS: $3.80 BRD: $1.90	ALGS: $2.40 BRD: $2.00	ALGS: $2.50 BRD: $2.00 BRX: $3.40	
2005/06 – 2007/08 Service Plan		ALGS: $3.80 BRD: $1.90	ALGS: $6.00 BRD: $1.90	ALGS: $4.40 BRD: $2.30	ALGS: $3.30 BRD: $2.20 BRX: $3.70	ALGS: $3.20 BRD: $2.10 BRX: $2.70

Note: The higher target values for ALGS reflect: increased CPC due diligence related to ALGS unresolved material deficiencies prior to its Final Acceptance Date of January 1, 2006; FortisBC's plant maintenance charges at ALGS taking longer than anticipated to track BRD levels; and CPC's decision to hire engineers-in-training to develop internal CPC expertise regarding CPC/CBT power plant operations and maintenance.

7.2 Revenue per employee, measured as consolidated revenue divided by the FTEs at year-end. The benchmark is the CEA industry composite average. Given CPC's reliance on external contractors, CPC's performance measure may not be comparable to the electricity industry standard. To partially adjust for this, the target performance measure only includes the one-half share of total power project revenue that accrues to CPC.

GOAL/OBJECTIVE 7. Cost Efficient Joint Venture Management	BENCHMARK	TARGETS				
PERFORMANCE MEASURE **7.2 Revenue per employee**		**03/04 Actual**	**04/05**	**05/06**	**06/07**	**07/08**
2004/05 – 2006/07 Service Plan	CEA composite average for 2003: $464,000		$810,000	$800,000	$970,000	
2005/06 – 2007/08 Service Plan		$810,000	$770,000	$810,000	$990,000	$1,120,000

Goal/Objective #8 – Environmental compliance

Strategy:

CPC is primarily an asset development and management company, with contractors performing almost all activities associated with significant environmental impact. CPC builds stringent environmental compliance requirements into its design-build contracts, putting the onus on the contractor to develop the specific means to undertake its activities in a skilled, knowledgeable and duly diligent manner in compliance with environmental laws, regulations and permit conditions, as well as the practices and standard of care within the industry. In addition, CPC conducts its own due diligence, primarily through an independent owner's engineer. In 2004/05, CPC implemented an Environmental Management System ("EMS") to guide its management of the legal, regulatory and other environmental requirements that stem from its projects. The EMS has been developed with the International Organization for Standards ISO 14001 standard, which has been adopted by the CEA, as a guide. However, CPC is not currently planning to apply for certification. The scope of the EMS includes project planning, project construction and facility operation and maintenance, as well as land management. The basic objective or goal is to have CPC conform to an appropriate level of environmental due diligence, consistent with the legal standard of care established by the courts. That standard requires CPC to take all reasonable steps to avoid prohibited environmental harm. The measure of reasonableness will change over time as industry expertise progresses. CPC considers its particular circumstances, as well as the practices and standard of care within the industry in which CPC operates. The greater the potential for environmental harm, the higher the standard of care will be. The EMS by itself is not sufficient to establish that CPC is duly diligent. The system must be implemented, effective and monitored, and must improve over time to meet the measure of reasonableness.

Performance measure, benchmark and target

8.1 Compliance with environmental requirements, measured as the number of notices from regulatory agencies of environmental non-compliance. The industry is dominated by large utilities, including hydro producers such as BC Hydro, Hydro Quebec and Manitoba Hydro, thermal producers in Alberta and nuclear producers in Ontario. In addition to the generation facilities, many of these utilities have large transmission and distribution facilities. Accordingly, a suitable industry benchmark is not readily available. CPC has established a target of zero material non-compliance notices.

<table>
<tr><td>GOAL/OBJECTIVE
8. Environmental Compliance</td><td rowspan="2">BENCHMARK</td><td colspan="5">TARGETS</td></tr>
<tr><td>PERFORMANCE MEASURE
8.1 Compliance with environmental requirements</td><td>03/04 Actual</td><td>04/05</td><td>05/06</td><td>06/07</td><td>07/08</td></tr>
<tr><td>2004/05 – 2006/07 Service Plan</td><td rowspan="2">Baseline information to be developed</td><td></td><td colspan="4" rowspan="2">Zero material non-compliance notices</td></tr>
<tr><td>2005/06 – 2007/08 Service Plan</td><td>Zero material non-compliance notices</td></tr>
</table>

5.0 Alignment with Government's Strategic Plan

The government's Strategic Plan lists three fundamental goals:

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

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

Goal 1 – The Economy

Over the period 1999/00 through 2002/03, with the construction and commissioning 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 per cent local hires), $60 million in direct and indirect income and $20 million in regional procurement.

With construction of the $205 million BRX, which commenced in the first quarter of 2003/04, 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.

Over the period 2005/06 – 2007/08, CPC/CBT power projects are expected to generate $63 million of net income for their shareholders, the Province and CBT. CPC/CBT power projects will also contribute $35 million in taxes and water rentals.

Goal 3 – The Environment

Since 1999, CPC/CBT have provided $175,000 per year (adjusted for inflation) for the Arrow Lakes Fish Fertilization Program, to rebuild phytoplankton (algae) and kokanee levels in Arrow Lakes. There were an estimated 650,000 spawning kokanee in 28 streams feeding the lakes in 2002, compared to 395,000 spawners in 1999. Kokanee spawner size has also jumped from 21 cm to 30 cm, the largest increase in 30 years. This apparent ecosystem response has resulted in the limited re-opening of the Upper Arrow kokanee fishery. As well as conserving fish populations, fertilization also appears to be providing a better food source for wildlife predators and scavengers, such as bears and eagles, by increasing the number and size of spawning kokanee.

ALGS in combination with the BRX project will reduce by 70 per cent the number of days when total gas pressure ("TGP") in the Columbia River at the U.S. border exceeds the U.S. standard. When TGP reaches a level of 115 per cent of normal, bubbles can form in the cardio-vascular systems of fish, which can lead to death and disruption of migration and spawning. 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.

6.0 Summary Financial Outlook

6.1 CPC Consolidated Statement of Income Forecast

$ in thousands

		2003/04	2004/05	2005/06	2006/07	2007/08
		Actual				
REVENUES						
Sale of power and transmission revenue	$	28,865	29,418	32,017	40,726	47,350
Interest		584	954	538	433	278
Management fee		524	532	585	644	708
		29,973	30,904	33,140	41,803	48,336
EXPENSES						
Water rentals		3,531	3,976	3,959	4,684	5,513
Amortization of capital assets in service		5,932	6,307	6,443	8,330	9,679
Amortization of power sales right		914	738	971	971	971
Property tax		960	1,040	1,061	1,241	1,266
Operations and maintenance		1,384	1,528	1,614	1,574	1,693
Administration and management		1,655	1,769	1,979	1,897	2,049
Insurance		513	473	521	719	734
Community sponsorship		72	75	85	85	85
		14,961	15,906	16,633	19,501	21,990
INCOME FROM OPERATIONS		15,012	14,998	16,507	22,302	26,346
FINANCE CHARGES						
Interest expense		6,610	8,732	8,540	10,870	13,102
Amortization of deferred debt issue costs		140	224	258	258	258
		6,750	8,956	8,798	11,128	13,360
NET INCOME	$	8,262	6,042	7,709	11,174	12,986
Full Time Equivalents		40	40	41	42	43

Notes:

1. Revenues and expenses represent CPC's 50 per cent share of joint venture amounts.
2. Revenues include recovery of Channel Repair Outages.
3. Operations and maintenance includes channel repair costs and are offset by recoveries.

6.2 Key Assumptions

Key assumptions affecting the forecasts are as follows:

- BRX will achieve its Commercial Operation Date of September 7, 2006 within the approved development and construction budget of $205 million.

- Grants in lieu of property tax are paid by ALGS and BRX on a similar basis to BC Hydro Columbia River Treaty facilities and generation plants on the Peace, Columbia and Pend d'Oreille Rivers.

- The market price for electricity is C$55 per MWh at March 31, 2005, escalating in nominal terms at 2 per cent per year.

- Operating cost inflation, including water rental increases, is 2 per cent per year.

- A new 30-year Canal Plant Agreement ("CPA") is signed among BC Hydro, CPC/CBT, FortisBC, and Teck Cominco prior to the expiration of the current CPA in September 2005.

6.3 Risk Factors and Sensitivities

Key risk factors are discussed below.

Risk	**Issue/Impact**	**How managed**
Channel Repair Costs	The cost of permanent channel repairs could be significant, and entail additional lost revenue in 2006/07.	CPC will retain sufficient cash to fund the estimated permanent repair costs. CPC will seek to recover these costs and lost revenue from the design-build contractor and insurance, as appropriate.
WAX construction decision in 2007/08	The WAX construction decision is subject to: permitting, design-build bids, entitlement negotiations, power marketing and long term borrowing costs. Each could affect project timing, scale and viability. Significant project delays could result in a write-off of almost $36 million in development costs and expansion rights	CPC is pursuing the design-evaluate-build development strategy used to develop ALGS and BRX. CPC will not recommend proceeding to construct WAX unless it meets a hurdle rate of return. CPC has achieved a transfer of the Waneta Water Reserve to CPC/CBT. CPC has also signed a Waneta Cooperation Agreement ("WCA") and a Transmission Rights Agreement ("TRA") with Teck Cominco.
Canal Plant Agreement ("CPA") Renegotiations	The existing CPA includes BRD entitlements. Key parts of the CPA expire in September 2005. BC Hydro, CPC, FortisBC and Teck Cominco are negotiating to renew the CPA for 30 years and to include BRX and WAX. If the CPA is not extended or renewed, BRD, BRX and WAX would not have CPA entitlements. This could nullify the WCA and TRA with Teck Cominco, and would expose the power projects to water flow, power output and revenue volatility risk.	The CPA Benefits Extension Agreement between CPC/CBT, Teck Cominco and the Province provides that, if the CPA is not renewed, the Province will negotiate similar benefits for BRD (and Teck Cominco's Waneta Plant). CPC would also attempt to negotiate stand-alone entitlement agreements with BC Hydro for BRX and WAX similar to the existing ALGS entitlement agreement.
BRX – Commercial Operation Date	The contractual BRX Commercial Operation date is September 7, 2006. Missing that date would have a direct negative impact on project revenues. Estimated September revenues are estimated to be $1.8 million.	BRX design-build contract specifies a project completion date with bonuses for early completion and penalties in the form of liquidated damages for late completion.

Risk	Issue/Impact	How managed
Plant Reliability	If the ALGS plant outage factor were 5 per cent, instead of the budgeted 2.3 per cent, ALGS revenues and net income would decline by $750,000 in 2005/06, assuming no recoveries.	Plant outage risk for BRD is transferred to FortisBC, the power purchaser/plant operator. Design-build contracts are secured by: performance and labour and materials bonds; either cash holdbacks or letters of credit; plus parent company guarantees. Machinery and equipment have manufacturer warranties. All power projects also carry business interruption, property and liability insurance.
Availability of Funds	If either equity or debt funding is not available, construction of the WAX may not proceed.	The final $50 million of government equity is due April 1, 2005. Key ALGS, BRX and WAX agreements are structured to achieve financeable projects with a high credit rating. CPC/CBT plan to retain cash from operations to lessen the borrowing burden for WAX, which may allow more flexible WAX power marketing.
BRX Power Marketing	The terms of sale for the 60 per cent of BRX output not currently under contract will affect BRX revenues and net income, as well as CPC's ability to raise sufficient debt to fund WAX.	40 per cent of BRX output has been marketed to BC Hydro under a 20-year Green Power contract, the revenue from which is sufficient to recover BRX capital costs. CPC is pursuing sales contracts with BC Hydro, FortisBC, Powerex, marketers and utilities in Alberta and the U.S. for the 60 per cent BRX power remnant.
Transmission and Market Access	CPC/CBT power projects are located in a region with limited long-term firm transmission capacity to access adjacent markets in Alberta and the U.S. Without firm transmission rights, BRX and WAX power may have to be sold on a non-firm basis or marketed to domestic utilities at Kootenay interconnection points.	CPC has signed a long-term Transmission Rights Agreement with Teck Cominco. CPC is intervening in BC Transmission Corporation tariff hearings. CPC is also pursuing sales contracts with delivery at CPC/CBT points of interconnection.
Regulatory Risk	CPC/CBT and CPC/CBT power projects come under the *Utilities Commission Act* definition of public utilities. Regulation would impose considerable compliance costs.	CPC has obtained a ministerial order exempting CPC/CBT and CPC/CBT power projects from regulation under the *Utilities Commission Act*.

Risk	Issue/Impact	How managed
Property Taxation	Taxing ALGS and BRX at current regional district rates would reduce annual project net income by about $6 million and $3 million, respectively. WAX could be similarly impacted. This would affect the economic viability of the power projects and the ability to raise debt to fund WAX.	CPC has obtained Orders in Council exempting ALGS and BRX from property tax. CPC will seek a similar tax exemption for WAX. It is expected that ALGS, BRX and WAX will pay grants in lieu on a similar basis to BC Hydro Columbia River Treaty facilities and generation plants on the Peace, Columbia and Pend d'Oreille Rivers.
Water Use Planning and Columbia River Treaty Operations Risk	Constraints imposed as a result of BC Hydro Water Use Planning and changes in upstream flow regulation associated with the Columbia River Treaty could adversely affect power plant operations and project revenues, unless CPC/CBT are saved harmless.	CPC has obtained an indemnity from BC Hydro saving harmless CPC/CBT power projects from the effects of Water Use Planning. CPC is also monitoring changes to U.S. regulation of Libby Dam and has registered CPC/CBT interests with the U.S. Army Corp of Engineers and BC Hydro, the designated U.S. and Canadian Entities under the Columbia River Treaty.
Foreign Exchange Risk	A one cent change in the C$ relative to the US$ represents about $200,000 per year for the 60 per cent BRX power remnant not currently under contract.	Sales to BC Hydro and FortisBC are in C$. For export sales in US$, hedging against exchange risk can be utilized.
Counter-party Credit Risks	Bond ratings and interest costs for CPC/CBT project debt are affected by the creditworthiness of the buyer. Power purchasers may also require CPC to post security.	Sell power to purchasers with high credit ratings and enter backstop arrangements as appropriate. Negotiate with purchasers to minimize or, if possible, eliminate this requirement.
Interest Rate Risk	Higher interest rates could negatively impact the cost of new ALGS and BRX project debt, project net income and the economics of and ability to finance WAX. Depending on the size of WAX, a one-percentage point interest rate rise could reduce annual net income by up to $4 million.	Pursue existing CPC debt management strategies and use interest rate hedges to manage risk to acceptable levels, as appropriate.
Uncertainty as to the ownership and structure of CPC and CBT power project companies	Uncertainty for CPC staff, contractors, suppliers, lenders, potential BRX power purchasers, regulators and potential WAX design-build bidders could increase costs, delay project development and/or financing.	The January 2005 ministerial direction that CPC will continue to be the joint venture manager, separate from CBT and wholly owned by the Province, has substantially reduced this uncertainty. CPC will renew relationships and communicate this direction to key stakeholders.

7.0 Capital Plan

BRX is the only approved CPC/CBT Major Capital Project in the period 2005/06 to 2007/08. Treasury Board and CBT Board approval to proceed with this 120 MW, $205 million project was obtained in February 2003; a fixed-price design-build contract was signed in February 2003; and, construction commenced in April 2003. The contractual Commercial Operation Date for BRX is September 7, 2006. Forecast BRX capital spending over the period of the Service Plan totals $46 million ($159 million having been advanced from 2002/03 to 2004/05). In accordance with the *Budget Transparency and Accountability Act*, a Major Capital Project Plan was submitted for BRX to the Clerk of the BC Legislative Assembly on March 18, 2003 (which is available on CPC's web site www.columbiapower.org/content/projects.html under Brilliant Expansion). While WAX is not yet an approved project, the following capital spending table includes estimated WAX capital spending to the end of 2007/08 on the assumption that CPC receives the requisite approval to enter into a design-build contract in early 2007/08.

7.1 CPC Consolidated Capital Spending Forecast

$ in thousands

		2003/04	2004/05	2005/06	2006/07	2007/08
		Actual				
BRILLIANT POWER CORPORATION						
Brilliant Sustaining Capital / Upgrades	$	1,921	851	1,939	2,384	1,894
Brilliant Terminal Station		11,144	1,864	250	36	36
		13,065	2,715	2,189	2,420	1,930
ARROW LAKES POWER CORPORATION		1,140	1,634	476	276	246
BRILLIANT EXPANSION POWER CORPORATION		36,273	38,039	13,168	9,572	260
POWER PROJECT PLANNING						
Waneta Expansion		1,041	2,011	3,029	3,725	68,204
General Power Project Planning			265	265	265	265
		1,041	2,276	3,294	3,990	68,469
CPC CORPORATE		112	299	329	362	398
TOTAL	$	51,631	44,963	19,456	16,620	71,303

Notes:

1. With the exception of CPC Corporate (primarily furniture, office equipment and vehicles), capital spending represents CPC's 50 per cent share of joint venture amounts.