



**COLUMBIA BASIN TRUST**

*a legacy  
for the people*

**Columbia Basin Trust  
2005/06-2007/08  
Service Plan Update**

September 2005

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The Honourable Colin Hansen  
Minister of Economic Development  
Province of British Columbia

Minister:

On behalf of the Board of Directors and staff of the Columbia Basin Trust (CBT), I have the honour to submit our updated Service Plan for the years 2005/06 through 2007/08.

As mandated by the *Columbia Basin Trust Act* and the *Columbia Basin Management Plan*, the primary business of CBT is to invest the funds received through the *Columbia Basin Trust Act* and the subsequent *Financial Agreement* dated July 27<sup>th</sup>, 1995. There are four core business areas through which investments and expenditures are made, and activities carried out, namely:

- Investment of the Basin Fund to (a) protect the capital and (b) provide income to deliver benefits to the people of the region.
- Investment of the Legacy Fund in power projects in the region as part of a joint venture partnership with the Province of British Columbia.
- Delivery of benefits to the people of the region to foster social, environmental and economic well-being.
- Corporate services that provide for effective and efficient operations.

In early July 2005, CBT held its tenth anniversary symposium and annual general meeting. Attended by over 200 Columbia Basin residents, the event was an opportunity to celebrate the efforts made in the last decade by CBT, its partners and Basin residents. During the symposium, Basin residents provided input on CBT's future direction, its investment portfolio and delivery of benefits programs. Basin residents emphasized the importance of CBT consultation and communication with residents, including through events like the symposium. As CBT reflects on the first ten years of its existence and charts its future direction, it will consider all of the comments Basin residents provided at the symposium.

CBT's subsidiary, CBT Energy Inc., holds an option, expiring November 30, 2005, to purchase Columbia Power Corporation. After discussion with Basin residents at the symposium and, at its subsequent annual general meeting, the CBT Board approved facilitating, in partnership with Basin regional districts and the Ktunaxa Kinbasket Tribal Council, an independent review of the option and its implications. The CBT Board also approved seeking input from the residents of the Basin through community meetings before any decision is made regarding exercise of the option. These community meetings will likely be held in fall 2005.

CBT has also revised the ***Columbia Basin Management Plan*** (the Plan). CBT consulted with its public in a series of community meetings held in June 2004. The Plan was also discussed at CBT's 10-year anniversary symposium. After the Board has reviewed the feedback received at the symposium from Basin residents, it will consider the status of the revised Plan.

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

On behalf of the Board of Directors and staff, I thank you for your consideration of CBT's updated 2005/06-2007/08 Service Plan.

Yours sincerely,



Josh Smienk  
Chair, Board of Directors  
Columbia Basin Trust

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# CORPORATE HISTORY AND OVERVIEW

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Canada and the United States were facing two major challenges in the Columbia Basin after the Second World War – the “untamed” Columbia River was causing periodic and sometimes devastating flooding, and an upswing in the economy increased the need for energy sources.

In 1964, Canada and the U.S. ratified the *Columbia River Treaty* (CRT). The purpose of the CRT is to coordinate flood control and optimize potential electrical energy production in the Columbia River Basin in the United States and Canada. Under the CRT, Canada agreed to build three storage dams – Duncan (1968), Hugh Keenleyside (1969) and Mica (1975) – in the Canadian Columbia Basin. The CRT allowed for a fourth dam – Libby (1973) – to be built in the United States with a large portion of its reservoir in southeastern British Columbia.

In return for the storage of water, Canada is entitled to one half of the additional potential power generated at the American power plants on the Columbia River. The Province of B.C., which owns this “Canadian Entitlement of Downstream Benefits” sold the first 30 years of these benefits to a group of U.S. utilities for \$254M U.S. The Province is now receiving the Canadian Entitlement for the remaining 30 years of the CRT.

As a result of the CRT:

- 2,300 people along the Arrow Lakes and the Koocanusa, Duncan and Kinbasket reservoirs were displaced.
- Sixty thousand hectares (500 square kilometers) of high-value, valley-bottom land was flooded.
- Numerous First Nations’ archaeological and burial sites were submerged or buried.
- Areas that were critical to the cultural, economic and environmental well-being of the region were lost.

The region is still dealing with the ongoing impacts from the rise and fall of water levels:

- Recreation on reservoirs is limited because of the large seasonal fluctuations of the water levels, thereby limiting potential economic development through tourism.
- Fish and wildlife species and populations are impacted by the loss of key habitat and this increases pressures on residual low elevation areas.
- Dust storms around reservoirs impact human health at times of low water.
- Transportation infrastructure in the region is more complex and difficult to maintain.
- Agriculture and forestry activities are limited due to the loss of fertile, low-elevation land.

By the early 1990’s, people of the Columbia Basin became aware that an opportunity for public involvement might present itself. The sale of the first 30 years of B.C.’s share of the downstream benefits through the CRT was about to expire. Residents of the region felt local people should be given more say in matters concerning environmental, economic and social health.

Leaders from First Nations, local communities and the Province of B.C. worked together on an agreement that recognizes the continuing impacts from the historical management of water in this region. In 1995, the CBT was formed with a unique mandate to support the efforts of the people of the Basin to create a legacy of social, economic and environmental well-being in the region most affected by the CRT.

Through a financial agreement with the Province of B.C., the CBT was endowed with \$295M, approximately five per cent of the downstream benefits owned by the Province of B.C. \$250M of the capital is to be invested in joint venture power projects with the Province of B.C., with an additional \$45M as endowment capital. Under the Financial Agreement, the CBT also receives \$2M/year from the Province for operating costs for the years 1996 through 2010 (FY2011).

## GOVERNANCE

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The CBT is a regionally based Crown corporation operating in the southeast corner of BC. A Board of twelve (12) Directors governs the CBT, with regional governments (i.e. five regional districts and the Ktunaxa Kinbasket Tribal Council) each nominating a minimum of one and a maximum of four directors and the Provincial government nominating six directors to the Lieutenant Governor for final decision and appointment. All directors must be Columbia Basin residents. These directors provide policy direction, in accordance with both the *Columbia Basin Trust Act* and the *Columbia Basin Management Plan*, the latter developed through broad public consultation with Basin residents. The Chief Executive Officer, in turn, is responsible for operational matters, performance review, and evaluation.

Appendix A includes an organization chart that highlights the functional areas and lines of responsibilities of CBT.

## CORE BUSINESS AREAS AND ACTIVITIES

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The primary business of the CBT is to invest the funds granted to it through the *Columbia Basin Trust Act* and the subsequent *Financial Agreement* dated July 27<sup>th</sup>, 1995. The Province of B.C. endowed CBT with capital of \$45M (the Basin Fund), and another \$250M (the Legacy Fund), payable in \$50M annual installments, which concluded April 1, 2005, to be invested in power projects in the region. An additional \$32M in sixteen annual installments of \$2M is provided for operating costs in the developmental years, the final payment to be made in FY2011.

There are four core business areas through which investments and expenditures are made, and activities carried out, namely:

- Investment of the Basin Fund to (a) protect the capital and (b) provide income to deliver benefits to the people of the region.

- Investment of the Legacy Fund in power projects in the region as part of a joint venture partnership with the Province of B.C.
- Delivery of benefits to the people of the region to foster social, environmental and economic well-being.
- Corporate services that provide for effective and efficient operations through planning, monitoring, accounting and evaluation activities as well as the provision of ongoing administration, information technology, communications and human resource services.

In each of these core business areas, the CBT performs a stewardship role protecting the public interest and ensuring due diligence and accountability of public funds.

The two core functions of the CBT according to the original *Columbia Basin Management Plan* are:

- To invest the capital and manage the assets of the CBT and
- To spend the income earned from the CBT's investments to deliver benefits to the region.

These two functions are carried out through its two major programs:

- The Investment program and
- The Delivery of Benefits program which supports Basin residents' social, environmental and economic initiatives.

Both programs are frequently delivered in partnership with other organizations and agencies in the Basin which have similar interests in the region. This means that CBT has a large number of regional organizations as partners and delivery agents who administer on behalf of CBT a significant number of its programs and initiatives. For example, in the Delivery of Benefits program, literacy needs in the Basin are being addressed through funding to community literacy programs like Mother Goose delivered through a partnership arrangement with the Columbia Basin Alliance for Literacy. This approach to program delivery was undertaken for three major reasons:

- to live up to our corporate value of collaboration,
- to deliver programs with experienced partners and in a cost effective manner and
- to build community and organizational capacity in the Basin.

Table A provides an overview of this year's current staffing and funding for each of CBT's business areas.

**Table A: Business Overview**

<b>Funding</b>	<b>Core Business Areas</b>	<b>Service Allocation</b>
Provincial government, investment in power projects \$250M in \$50M annual payments (final payment received April 1, 2005) \$26M paid in 2000 (half the book value of expansion rights for the Brilliant and Waneta dams)	Management of joint venture power investment activities (2 FTEs)	\$50M per annum invested in power projects. CBTE currently has investments in the Brilliant Dam, the completed Arrow Lakes Generating Station, the Brilliant Expansion project (under construction) and rights to develop an expansion project at Waneta Dam.
\$45M endowment capital	Management of non-power investments (1 FTE)	\$45M invested in region to industry standards Capital increased to \$53M to match inflation
Income from power and non-power investments	Delivery of benefits to region (9 FTEs)	FY06 allocation \$5M per annum delivered in benefits to region
Provincial government contribution of \$2M for operations support Income from investment	Corporate Services: Administration, Planning, Information Technology, Monitoring and Evaluation, Communications, Accounting (16 FTEs)	CBT and CBTE corporate operations \$4.1M

## **LOCATION OF OPERATIONS**

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Columbia Basin Trust serves the southeast corner of B.C., which is the region most affected by the dams built under the Columbia River Treaty. Its boundaries are generally defined by those watersheds of the Columbia River which flow into the Columbia River within Canada, as outlined in Figure 1. The topography is characterized by four north-south mountain ranges, making transportation and communication infrastructure challenging. The CBT has 28 FTEs in its four office locations: Nakusp, Golden, Cranbrook and the corporate head office in Castlegar located at Suite 300 445-13 Ave. Castlegar, B.C. V1N 1G1. See map on the next page.

# COLUMBIA BASIN TRUST REGION



Figure 1

## **PRINCIPLE MARKETS AND CLIENTS SERVED**

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Columbia Basin Trust serves residents of the Columbia Basin by:

1. Management of CBT's assets, through the Basin Fund and including monies allocated by the Province for joint venture power projects in the Legacy Fund.
2. Using the income earned from CBT's investments, deliver benefits to the region in the areas of economic development, social well-being, and preservation, protection and enhancement of the environment, without relieving governments of their obligations.

## **PUBLIC PURPOSE SERVED**

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CBT was created through the *Columbia Basin Trust Act* to support the efforts of the people most affected by the *Columbia River Treaty* to create a legacy of social, economic and environmental well-being and to achieve greater self-sufficiency for present and future generations through its investments in the regional power projects, its non-power investments and through its delivery of benefits from the income earned from these investments. Its unique mandate and its decade of experience in regional development work have sparked interest in its operations outside its borders. As a result its Board members and staff have been invited to speak about its purpose, efficacy and operations to a wide variety of Canadian and international audiences.

## **STRATEGIC CONTEXT**

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### **VISION**

The Columbia Basin is a place where social, environmental and economic well-being is fostered, where collaborative relationships and partnerships exist among stakeholders and form the basis for social and economic activities, and where the economy is diverse, resilient and energized.

### **MISSION**

The CBT supports efforts by the people of the Basin to create a legacy of social, economic and environmental well-being and to achieve greater self-sufficiency for present and future generations.

### **VALUES**

A set of values governs the management and operations of CBT and consists of:

**Inclusiveness:**

- Include the people of the Basin in planning and decision-making.

**Collaboration:**

- Work with the public and other agencies and organizations.

**Respect for diversity:**

- Respect the history and diversity of the people and communities of the Basin.

**Responsibility:**

- Taking into account the Basin residents' economic, environmental, social and sustainability values, the CBT will openly and explicitly balance maximizing benefits and minimizing negative impacts.

## **PLANNING AND OPERATIONS CONTEXT AND KEY STRATEGIC ISSUES \_\_\_\_\_**

The Columbia Basin region, along with the rest of the province and the country, as well as globally, has been subject to forces of change. These changes have created both opportunities and challenges for the CBT that impact upon its ability to achieve the vision, goals and objectives as identified in this plan. The following outlines the external and internal forces and influences that affect the region and the work of the CBT.

**External Environment**

The external challenges and opportunities with which CBT is faced, and that need to be accounted for in the formulation of strategies, can be categorized as follows:

- Economy
- Infrastructure
- Finance
- Communicating with Basin residents
- Basin residents' perceptions and challenging expectations
- Balancing capacity building with fairness

**Economy**

The economy of the Basin region like rural economies elsewhere has been facing the challenge of moving away from its traditional reliance on primary industries in forestry and mining. Tourism is playing a greater role in the region's economy but many external factors affect the economic benefit coming to the region from tourism. These external economic forces continue to present challenges and risks that affect the planning context in which the CBT operates. The CBT is working with Basin businesses to seek

opportunities to diversify Basin economies from the traditional reliance on primary industries.

### **Infrastructure**

In the rural, mountainous area that defines the Columbia Basin, communication technology infrastructure is expensive and the lack of it within the region acts as a barrier to the establishment of high technology industries. Difficult winter driving conditions, high passes and narrow roads also act as a barrier to business location and investment. Air transportation in the West Kootenays is often unreliable. The geography of the region has also been changed by the reservoirs behind the dams which have disrupted regional transportation. This geography while presenting these transportation and communication challenges also provides the region with a natural setting and lifestyle which is attracting many to the region.

### **Finance**

There remains a general reluctance on the part of traditional commercial lending institutions to lend money to new and expanding businesses in rural southeastern B.C. which affords the CBT with the opportunity to offset this reality somewhat by making capital available to businesses in the Basin in cooperation with local financial institutions.

### **Communicating with Basin Residents**

At CBT's 10-year anniversary symposium, Basin residents stressed the importance of clear and ongoing consultation and communication with CBT. CBT will work to more effectively communicate with Basin residents.

### **Basin Residents' Perceptions and Challenging Expectations**

Basin residents have become aware of the CBT and as that awareness has grown so too have their perceptions and expectations of the CBT. The CBT has a history of working to include Basin residents in its decisions and this leads to a high sense of ownership of the organization with many and often contradictory opinions about the organization's operational and policy decisions. The CBT is working to ensure Basin residents have a clear understanding of its abilities, resources and limitations.

### **Balancing Capacity Building with Fairness**

The Basin is made up of different geographic communities; urban, unincorporated and rural areas as well as many different communities of interest. As such the region is very heterogeneous. The implications of this diversity are substantial in the context of the CBT moving toward a capacity building approach to program and service delivery. The residents of the different communities have expectations that they will receive a fair share of the CBT funding compared to the other communities and the idea of sharing among communities equally may conflict with a capacity building approach. The CBT is

changing the organizational focus from strategic program delivery to working with communities to build capacity and identify community priorities and projects in which the CBT can participate.

### **Internal Environment**

The key challenges and opportunities within the CBT's internal environment that influence planning include:

- Successfully managing change
- Basin Fund tensions
- Meeting challenges inherent in our delivery model, mandate and working in a rural region

### **Successfully Manage Change**

While change is a necessary part of all organizations, the CBT's mandate and mission make change particularly characteristic of the organization. As such it is often facing significant changes over the time period of its service plans. One of its key challenges will be to successfully manage these changes. Its success in meeting its mandate will come from the degree to which it understands and responds to these changes.

### **Basin Fund Tensions**

The investment of the Basin Fund has to combine safeguarding the capital while investing in the Basin, with the side effect of stimulating the economy while providing an income for the Delivery of Benefits program. The limited viable investment opportunities in a small rural region make this challenging but at the same time create for the organization an opportunity to be an alternate vehicle of investment for businesses in the Basin.

### **Meeting challenges inherent in our delivery model, mandate and working in a rural region**

The Columbia Basin is a rural region with many small communities. There is a limited amount of accessible information about these communities to assist the CBT in identifying and addressing regional and community priorities. The CBT has a very broad mandate and operates with an intentionally small staff contingent, increasing its challenges with respect to setting and meeting priorities. It also conducts many of its activities by contracting and/or partnering with a large number of local organizations and agencies, increasing the challenge around accountability.

# GOALS, OBJECTIVES, STRATEGIES, MEASURES AND TARGETS

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The following outlines the goals, objectives, strategies, performance measures and targets for the CBT for the period FY2006-FY2008. These planning components will guide the core business areas of the organization, specifically the Investment Program, Delivery of Benefits, and Corporate Services. The plan reflects statements of policy, procedure and direction as adopted by the CBT's Board of Directors.

CORE BUSINESS AREA	STRATEGIC GOALS
<b>INVESTMENT PROGRAM</b>	<p><b>Basin Fund Goals:</b></p> <ol style="list-style-type: none"> <li>1. Maximize the expected return of the assets, subject to preserving the real value of the capital over the long-term with an acceptable degree of risk.</li> <li>2. Enhance economic self-sufficiency in the Basin.</li> </ol> <p><b>Legacy Fund Goal:</b></p> <ol style="list-style-type: none"> <li>1. Maximize the expected return of assets, subject to preserving the real value of the legacy capital with a relatively high degree of certainty to generate income to fund the Delivery of Benefits program.</li> </ol>
<b>DELIVERY OF BENEFITS</b>	<ol style="list-style-type: none"> <li>1. To deliver benefits which serve to strengthen the social, economic and environmental well-being of the Basin, its residents and communities and promote self-sufficiency.</li> </ol>
<b>CORPORATE SERVICES</b>	<ol style="list-style-type: none"> <li>1. Support and enable CBT Board and staff to deliver the investment and delivery of benefits programs effectively.</li> </ol>

# **CORE BUSINESS AREA 1 – INVESTMENT PROGRAM**

The CBT is a “government corporation” under both the *Financial Administration Act* and the *Budget Transparency and Accountability Act*. CBT has mandated the governance and management of power related investments through its subsidiary CBT Energy Inc. (CBTE). The strategic direction including the goals, objectives, strategies and performance measures for CBTE (included in Appendix B: CBTE Service Plan) will be affected over the period covered by this service plan by the outcome of the review of the option to purchase Columbia Power Corporation.

This section outlines only the non-power investment goals and objectives. The non-power strategic direction may be affected by the CBT Board’s current review of its experience and approach to date with non-power investments and by the review of the input from the symposium. If the strategic direction is affected, the goals and strategies for the non-power investments could be revised in a future service plan.

<b>GOALS/OBJECTIVES</b>
<ol style="list-style-type: none"> <li>1. To maximize the expected return of the assets, subject to preserving the real value of the capital over the long-term with an acceptable degree of risk.</li> <li>2. Enhance economic self-sufficiency in the Basin (subject to maintaining the real value of the capital over the long-term).</li> </ol>
<b>STRATEGIES</b>
<p><b>Risk Parameters:</b>            The Board recognizes the greater inherent risk associated with the Basin Fund. Greater risk is expected to come from one or more of the following expected characteristics of the investment opportunities within the Basin Fund at any one point in time:</p> <ul style="list-style-type: none"> <li>• Higher operating risks.</li> <li>• Higher financial risks.</li> <li>• Greater investment structure complexity.</li> <li>• Greater liquidity risk.</li> <li>• Reduced ability to diversify unsystematic risks.</li> </ul> <p>(It is recognized that not all investment opportunities will exhibit the above characteristics.)</p>
<p><b>Investment Guidelines</b></p> <ol style="list-style-type: none"> <li>1. Given that economic conditions and investment opportunities within the Basin region will primarily drive investment within the Basin Fund, CBT will seek to diversify investments within the region by asset class, geography (within the Basin), industry and company.</li> <li>2. Investments made within the Basin will have the secondary objective of creating and stimulating economic value and activity over the long term for the benefit of the Basin and its residents.</li> <li>3. CBT will consider secondary benefits as part of the investment evaluation process only after the investment is considered appropriate based upon the financial due diligence.</li> </ol>
<b>RISK MANAGEMENT STRATEGIES</b>

1. Performance will be calculated in accordance with Chartered Financial Analyst (CFA) Institute standards as amended from time to time.
2. Investments placed in accordance with Board-adopted investment policies and procedures to mitigate risk.
3. Watson Wyatt World Wide will be contracted on an as needed basis to work with CBT's Investment and Audit Committees to provide advice and guidance for their decision-making processes and to assist in ensuring consistency with CBT's investment policy.
4. CBT will work to enhance the economic self-sufficiency of the Basin by strengthening and diversifying the regional economy so long as in the longer term, the real value of the capital (original value of the capital protected against inflation) is maintained. Making this goal subject to meeting the financial goal mitigates the risks in the Basin Fund tensions.

PERFORMANCE MEASURES	TARGETS			
	04/05 ACTUALS	YEAR 1 05/06	YEAR 2 06/07	YEAR 3 07/08
Current Annual Return on Investment (ROI).	(1.1%)	6%	6%	6%
Average Annual Return on Investment (ROI) since inception.	0.9%	2%	3%	3%

Note: The performance measure has been revised to include both Current Annual ROI and Average Annual ROI for better and more detailed disclosure of results. The targets for Average Annual ROI for Years 1, 2 and 3 have been lowered from the 2004/2005 Annual Report to more accurately reflect the amount of time it will take to bring the compound rate of return up to 6%.

The result of negative 1.1 per cent for Current Annual ROI in 04/05 reflects the write-off of two venture capital investments, Heatwave Drying Systems and KPS Materials Technologies Inc. Investments in venture capital companies are under review by the CBT Board in its examination of its approach to placing non-power investments.

## **CORE BUSINESS AREA 2 - DELIVERY OF BENEFITS**

<b>GOAL/OBJECTIVES</b>
To deliver benefits which serve to strengthen the social, economic and environmental well-being of the Basin, its residents and communities.
<b>STRATEGIES</b>
<ol style="list-style-type: none"> <li>1. Consolidate changes to the program delivery model and ensure consistency between the delivery model and the goals and objectives of the Delivery of Benefits program.</li> <li>2. Gather information and indicators to determine social, economic and environmental well-being in the Basin required to support the Delivery of Benefits program.</li> <li>3. Work with staff and sector committees to generate information to support addressing community, regional and cross-sectoral priorities and issues.</li> <li>4. Build effective relationships with individuals, communities, groups and organizations in the Basin.</li> <li>5. Develop delivery processes to ensure that CBT is effectively engaged in Basin</li> </ol>

- communities and the issues of the residents of the Basin.
6. Refine application, decision-making and reporting processes and procedures to increase efficiency and meet the needs of grantees.
  7. Develop and implement processes and procedures to increase the ability of grantees to determine and report on the results of their projects.

**RISK MANAGEMENT STRATEGIES**

1. Provide staff training to increase the effectiveness of CBT’s facilitation role and in balancing residents’ expectations with constraints of funding levels and addressing the issue of fairness within a capacity building model.
2. Inform and educate Basin residents to increase knowledge and awareness of CBT’s funding limitations and the benefits of a community capacity building model of delivery.
3. Inform and educate Basin residents to increase knowledge and awareness of CBT’s capacity building model of delivery, which will provide benefits beyond funding.
4. Review organizational resources to assist in meeting internal and external demands on CBT.

<b>PERFORMANCE MEASURES</b>	<b>TARGETS</b>			
	<b>04/05 ACTUALS</b>	<b>YEAR 1 05/06</b>	<b>YEAR 2 06/07</b>	<b>YEAR 3 07/08</b>
<p>1. Residents rate the consistency between CBT delivery of benefits funding decisions and <i>Columbia Basin Management Plan</i>, and Board priorities as measured by:</p> <ul style="list-style-type: none"> <li>▪ annual response to staff from community forums/focus groups</li> <li>▪ analysis of responses from: <ul style="list-style-type: none"> <li>-comment section of website</li> <li>-feedback from <i>Report to Residents</i></li> </ul> </li> <li>▪ evaluation information from initiatives</li> </ul>	<p>Community focus groups identify priorities. Research done on other data collection methods (comment section on website/feedback form on <i>Report to Residents</i>). Evaluation information reported on.</p>	<p>1. Baseline rate of consistency established. 2. Changes made to future priorities and/or funding decisions based on information coming out of performance measures and reported publicly.</p>	<p>1. Rate increased by 2% from baseline. 2. Changes made to future priorities and/or funding decisions based on information coming from performance measures.</p>	<p>1. Rate increased by 2% from baseline. 2. Changes made to future priorities and/or funding decisions based on information coming from performance measures.</p>
<p>2. Effectiveness rating on CBT’s delivery processes by those CBT works with through the delivery of benefits program.</p>	<p>Pilot projects undertaken in two program areas.<sup>1</sup></p>	<p>Conduct two additional evaluations, of delivery processes, using appropriate data collection tools.</p>	<p>Conduct two additional evaluations of delivery processes.</p>	<p>Conduct two additional evaluations of delivery processes.</p>

3. Rating of perceptions of grantees on survey.	Initial research undertaken. <sup>2</sup>	Average rating compared other Foundations' performance as measured by Center for Effective Philanthropy (CEP) Grantee Perception Report (CEP Grantee Perception Report Average Rating).	1. Changes made as a result of information coming out of the grantee survey. 2. Develop ways to undertake periodic evaluations of grantees perceptions.	Implement process for periodic evaluations of grantee perceptions.
4. Percentage of funds granted through programs consistent with CBT's new monitoring and evaluation policies and procedures.	In progress	25%	40%	50%

<sup>1</sup> The target reported in the 2005-2007 Service Plan was to develop a survey instrument to measure effectiveness; however, as the work began it was discovered that given the variety of delivery processes used, a single survey or methodology will not capture the range of delivery methods used. Therefore, two pilot projects, one which measured the effectiveness of the application and support processes in place for the environmental granting programs and another examining the effectiveness of the delivery of our water initiatives, were undertaken. The targets for subsequent years are to increase the number of these evaluations until the entire range of delivery methods is reviewed.

<sup>2</sup> CBT remains committed to this measure, but the targets in this Service Plan have been decreased from those reported in the 2005-2007 Service Plan and 2004 Annual Report. The targets established in the 2005-2007 Service Plan were found to be overly optimistic of organizational capacity at that time and there was also a reduction of staff available to implement the policies and procedures. This is being addressed in two ways: first in creating a new position of Planning Coordinator to assist in all CBT's planning activities and second by continuing to put performance measurement system in place by contracting this work to the former Manager of Monitoring and Evaluation in the short term.

## **CORE BUSINESS AREA 3 - CORPORATE SERVICES**

<b>GOAL/OBJECTIVES</b>
To support and enable CBT Board and staff to deliver the Investment and Delivery of Benefits programs effectively.
<b>STRATEGIES</b>
1. Develop service area reviews and implement annually. 2. Make changes to the provision of services based on information coming out of the reviews.
<b>RISK MANAGEMENT STRATEGIES</b>

1. Develop effective change management strategies by:
  - planning sessions to ensure strong and consistent strategic direction.
  - developing strong internal communications processes.
  - developing effective information gathering and dissemination processes.
  - maintaining strong relationships with Basin residents, organizations and agencies.
2. Adhere to investment policy to ensure sound investment management and review policy on accounting for write-downs or losses to ensure transparency and accurate reporting.
3. Provide effective staff training particularly around capacity building and sound contract management.
4. Develop a communications strategy to consult with Basin residents on the option to purchase Columbia Power Corporation.

<b>PERFORMANCE MEASURES</b>	<b>TARGETS</b>			
	<b>04/05 ACTUALS</b>	<b>YEAR 1 05/06</b>	<b>YEAR 2 06/07</b>	<b>YEAR 3 07/08</b>
Proportion of staff rating each service area service provision as effective.	Data collection methods for service area reviews established was targeted but not met. <sup>1</sup>	Data collection methods for service area reviews established	1. Overall baseline established.  2. Baseline for service areas established.  3. Report changes made based on information coming out of the service area review for each service area.	1. Increase of 2% on overall and each service area baseline.  2. Report changes made based on information coming out of the service area review for each service area.

<sup>1</sup> CBT remains committed to this measure, but was unable to meet the 04/05 target. The target was found to be overly optimistic given the organizational capacity at that time. Since then there has been a reduction in the staff available to implement the policies and procedures but this is presently being addressed.

## ALIGNMENT WITH GOVERNMENT'S STRATEGIC PLAN

CBT is accountable to residents of the Columbia Basin who help set CBT's regional priorities. As a Crown corporation, CBT is also accountable for demonstrating how it supports the Province's five goals for all British Columbians. In the following table, CBT provides examples of its activities that support the Province's goals in cases where such support is also consistent with CBT's regional priorities.

For more information on the following CBT activities, or any other CBT programs, visit [www.cbt.org](http://www.cbt.org).

PROVINCIAL GOAL	EXAMPLES OF CBT ACTIVITIES
Make B.C. the best educated, most literate jurisdiction on the continent.	CBT supports a number of education and literacy initiatives in the Basin through its Delivery of Benefits Program, including the Resources for Family Literacy Program, Training Fee Support Program and Youth Community Service Award.
To lead the way in North America in healthy living and physical fitness.	CBT makes a positive contribution to the health of Basin residents, through initiatives like its Peer Sexual Education Program for Basin youth.
To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.	CBT helps support the diverse needs of Columbia Basin residents, including through investments in congregate care facilities for Basin seniors.
To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.	<p>CBT is committed to working with Basin residents to increase understanding, and build collective wisdom around water resources in the Basin. CBT is a leader in representing Basin residents' interests and values in water initiatives in the Basin.</p> <p>CBTE also contributes to sustainable environmental management through its investments in renewable power projects, which reduce spill at existing dams and improve fish habitat downstream from the dams. More information on how CBTE helps the Province realize this goal is available in Appendix B: CBTE Service Plan.</p>
To create more jobs per capita than anywhere else in Canada.	CBT's power and non-power investments employ Basin residents.

# SUMMARY FINANCIAL OUTLOOK

**Table 1: Summary Financial Outlook 2004/05 - 2007/08**

	2004/05	2005/06	2006/07	2007/08
	Actuals	Forecast	Forecast	Forecast
<b>REVENUES</b>				
Deposits and Securities	467,000	450,000	520,000	500,000
Business Loans	1,112,000	1,200,000	1,400,000	1,620,000
Real Estate	33,000	320,000	520,000	620,000
Power Project	5,672,000	8,090,000	14,256,000	16,334,000
Provincial government contribution to operations	2,000,000	2,000,000	2,000,000	2,000,000
<b>Total Revenues</b>	<b>9,284,000</b>	<b>12,060,000</b>	<b>18,696,000</b>	<b>21,074,000</b>
<b>EXPENDITURES</b>				
Corporate operations	3,012,000	4,100,000	4,200,000	4,200,000
Investment write-downs	3,778,000	-	-	-
Delivery of Benefits	4,276,000	5,000,000	7,000,000	12,000,000
<b>Total Expenditures</b>	<b>11,066,000</b>	<b>9,100,000</b>	<b>11,200,000</b>	<b>16,200,000</b>
<b>NET INCOME</b>	<b>(1,782,000)</b>	<b>2,960,000</b>	<b>7,496,000</b>	<b>4,874,000</b>

Note: Forecasted power project net income for 2006/07 and 2007/08 is higher in comparison to the original Service Plan submitted in February 2005, due to lower expected operating costs for the Brilliant Expansion project in its first two years of operation.

<b>Key Assumptions</b>	<b>Forecast Risks and Sensitivities</b>
1. Deposits and securities income: 3% per annum on year end balance	Fluctuating interest rates have a direct effect on the income of deposits and securities, business loan income, and power project income. A 1% rate change would have an impact of \$250,000 to CBT's bottom line.
2. Business loan income: 6.5% per annum after providing for a capital maintenance provision of 2%	A 1% rate change would have an impact of \$100,000 to CBT's bottom line.
3. Power project short-term borrowing rate is 5.3%.	Power project borrowing rate is affected by fluctuations in interest rates. An increase or decrease in power project rates could increase or reduce power project revenues. A 1% rate change would mean a change of Waneta Expansion net income of \$4 million.
4. Power projects:	Depending on the timing of the recovery of costs

Cost of permanent repairs on the ALGS approach channel	of permanent repairs on the ALGS approach channel, net income may decrease in 05/06 and 06/07.
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## Capital Expenditure Schedule

*Fiscal 2005-2008*

**Consolidated**

**Capital Spending**

**(Unaudited, in thousands)**

Please note that the figures in the Capital Expenditure Schedule reflect CBT's 50 per cent share in the joint venture power projects, and are subject to periodic review and approval by the Power Project Planning Joint Venture Committee of CBTE and CPC.

	<b>Actuals FY2005</b>	<b>Forecast FY2006</b>	<b>Forecast FY2007</b>	<b>Forecast FY2008</b>
<b>ARROW LAKES POWER CORPORATION</b>				
Arrow Lakes Generating Station	2,446	476	276	246
<b>BRILLIANT EXPANSION POWER CORPORATION</b>				
Brilliant Expansion	74,328	13,168	9,572	260
<b>POWER PROJECT PLANNING</b>				
Waneta Expansion	3,160	3,029	3,725	68,204
Other Projects	-	65	65	65
General Power Project Planning	-	200	200	200
<b>BRILLIANT POWER CORPORATION</b>				
Brilliant Sustaining Capital/Upgrades	910	1,939	2,384	1,894
Brilliant Terminal Station (BTS)	3,012	250	36	36
<b>COLUMBIA BASIN TRUST CORPORATE</b>				
Computers, furniture, equipment	65	200	200	100
<b>TOTAL</b>	<b>83,921</b>	<b>19,327</b>	<b>16,458</b>	<b>71,005</b>

### Power Investments

Columbia Basin Trust and the Province of B.C. through its agent, Columbia Power Corporation (CPC), are in a joint venture partnership investing in power assets in the Columbia Basin. This is an equal partnership and income from the power sales is shared 50-50 between CBT and CPC.

### Arrow Lakes Generating Station

The Arrow Lakes Generating Station is a powerplant that consists of two generating units with a capacity of approximately 185 megawatts that will deliver approximately 760 gigawatt hours of electricity annually. Water enters the power plant via a 1,400 metre approach channel

bypassing the existing Hugh Keenleyside dam. The project also consists of a 49 km 230 kv transmission line that extends from the power plant to the BC Hydro substation at Selkirk.

In May 2004, damage occurred to a portion of the concrete lining at the bottom of the intake channel of the Arrow Lakes power plant, resulting in the temporary shut down of both generating units. Emergency repairs and contingency measures were undertaken in order to ensure the integrity of the channel was maintained. The design-build contractor is currently preparing a detailed engineering work plan on permanent repairs. CBTE and CPC are pursuing recovery of costs incurred in repairing the channel from insurance policies and performance guarantees and securities provided for in the construction contract.

### **Brilliant Expansion**

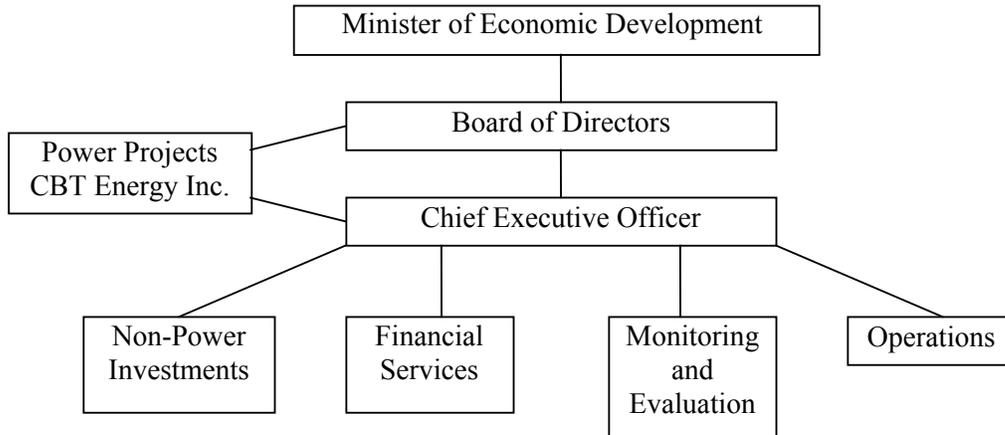
The Brilliant Expansion project features the construction of a second power plant, with a capacity of 120 megawatts, adjacent to the Brilliant dam. Construction work commenced in April 2003 and it is expected that this project will be substantially complete in September 2006. The Brilliant Expansion Consortium, consisting of the Skanska-Chant Joint Venture, SNC-Lavalin and Skanska International Civil Engineering, is constructing this project under the terms of a design-build contract.

### **Waneta Expansion**

The Waneta Expansion project is a proposal to install an additional power generation facility with a capacity of up to 380 megawatts at the existing Waneta dam. Teck Cominco, from whom CPC purchased the rights in 1994 to undertake an expansion, owns the Waneta dam. One half of the rights were transferred to CBT in 2000. It is projected that construction of the Waneta Expansion project will take place over a four-year period with the construction costs estimated to be approximately \$300 million dollars.

**Appendix A:**

**Organization Structure**



<b>Financial Services</b>	<b>Non-Power Investments</b>	<b>Power Projects (CBTE)</b>	<b>Monitoring and Evaluation</b>	<b>Operations</b>
<ul style="list-style-type: none"> <li>• Financial management and reporting</li> <li>• Oversees accounting, budgeting and payroll</li> <li>• Risk management and assessment</li> <li>• Compliance with legal and tax regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Basin Fund of \$53M endowment capital invested in region to best of private practice standards</li> <li>• Basin Fund kept intact</li> <li>• Income provided to delivery of benefits program</li> </ul>	<ul style="list-style-type: none"> <li>• Works in joint venture partnership with Columbia Power Corporation to build, upgrade and expand and maintain power projects owned by the joint venture</li> <li>• Provides income to delivery of benefits program</li> </ul>	<ul style="list-style-type: none"> <li>• Design and build planning frameworks and establish and carry out monitoring and evaluation processes for delivery of benefits and corporate areas of responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Oversees delivery of benefits program to the region to enhance social, environmental and economic well-being in the Basin</li> <li>• Provides administrative services, staff recruitment, compensation, job evaluation, occupational health and safety</li> <li>• Oversees corporate communications and information technology functions</li> </ul>

## **Appendix B - CBT Energy Inc. Service Plan 2005/06 –2007/08**

### **OVERVIEW**

CBT Energy Inc. (CBTE) is a wholly owned subsidiary of Columbia Basin Trust (CBT). CBTE was incorporated on September 7, 2000 under the *Canada Business Corporations Act* and was continued in the BC jurisdiction as a corporation on April 30, 2004. According to the 1995 Financial Agreement with the Province, both the CBT and Columbia Power Corporation (CPC) would each receive \$250M over ten years and the Brilliant and Waneta Expansion Rights (\$26M each), to invest in the Keenleyside (now Arrow Lakes Generating Station), Brilliant Expansion and Waneta Expansion power projects. The CBT and CPC (a Crown Corporation and agent of the Province) became joint venture partners in 1996, with CPC contracted to act as the Manager. Since then, the joint venturers have purchased the Brilliant Dam from Teck Cominco and have completed significant upgrades to the Brilliant Dam facility. The joint venture partners have also completed construction of the Arrow Lakes Generating Station (“ALGS”), have constructed a new substation and have commenced construction on the Brilliant Expansion.

In order to effectively manage CBT’s fifty per cent interests in the joint venture power projects, in part by securing the appropriate expertise to participate in the energy industry, CBT incorporated CBTE in 2000. Section 4 of the *Columbia Basin Trust Act* states that CBT is “to invest, spend and otherwise manage the regional allocation and the corporation's other assets, including any assets that may be transferred to it, for the ongoing economic, environmental and social benefit of the region.” CBTE represents the mission and vision of the CBT in the energy area. Through CBTE’s oversight of the Manager, CBT is assured that income will be returned from its assets to fund the benefits described in its enabling legislation.

A Board of four Directors currently governs CBTE and oversees its operations. The Board is composed of CBT representatives and energy industry experts, who ensure that rapidly evolving market conditions are taken into account when business planning. In addition, the CBTE Board of Directors guarantees that CBT uses diverse views to evaluate the opportunities and risks associated with power project development, investment and management. The CBT Board annually confirms the membership of the CBTE Board. The CBTE CEO, appointed by the CBTE Board, is responsible for the execution of the Board’s directives.

Representatives of CBTE, appointed by the CBTE Board, account for half of the membership of the joint venture management committees that manage the joint venture power projects. CPC appoints the remaining half of the joint venture management committees.

In January 2004, the Ministry of Energy and Mines announced changes to the existing joint venture power project delivery structure, which would combine CBT’s power project activities and CPC into a CBT subsidiary. These changes were not implemented. In September 2004, CBT announced that it would investigate a potential sale of its power projects to BC Hydro. As is the case in any such investigation, CBT also announced it would

consult with Basin residents on the potential sale. Through a series of public meetings held by CBT in November 2004, Basin residents strongly indicated to the CBT that they did not wish to pursue the potential sale due to their connection to and the importance of the power projects. As a result of residents' input, CBT ceased to investigate the sale. In January 2005, the Minister of Energy and Mines directed that CBT and CPC should continue as separate corporations under the status quo.

CBTE holds an option, expiring at the end of November 2005, to purchase all of CPC's shares. Following discussion with Basin residents at the recent CBT symposium, CBT committed to working with the regional districts of the Basin and the Ktunaxa Kinbasket Tribal Council to facilitate an independent review of the option and report back to residents through community meetings before making any final decision. CBTE will support CBT in the process of working with Basin residents to review the option.

### **Vision**

Given the recent completion of ALGS and the ongoing construction on the Brilliant Expansion, CBTE is preparing to shift its focus from the dominant power project development to include operations, management and balancing its power sales portfolio. In the future, CBTE may pursue development options in the energy industry complementary to its joint venture power projects, including the provision of support services to large energy users, other utilities, and other independent power producers.

### **Mission**

In order to return stable long-term income to the CBT, CBTE invests in energy and power related projects with its joint venture partner, CPC, and oversees CPC's management of the development, construction and operation of these investments. These investments are the core of CBT's Legacy Fund, and CBT uses the income earned through CBTE's investments to create a legacy of social, economic and environmental well-being in the Basin.

### **Values**

The following values guide CBTE's operations:

- Adherence to the best of private sector practices.
- Accountability for its actions and its results to CBT.
- Adherence to the mission, vision, goals and objectives of CBT in any actions undertaken.
- Dynamic and inclusive planning processes, taking market trends and developments into account.
- Open avenues of communication with partners and associates.

## **PLANNING CONTEXT AND KEY STRATEGIC ISSUES**

In the *Columbia Basin Trust Service Plan 2005 - 2007*, CBTE cited several potential risks and opportunities to its investments. Some of these same risks and opportunities still exist and CBTE shall continue to work independently and with its joint venture partner to address these risks and opportunities in a timely manner.

CBTE's planning context may be significantly affected on the outcome of the review of the option to purchase CPC. Since no decision has been made on whether or not to proceed with the purchase of CPC, this service plan projects a future business direction within a context that assumes the status quo.

The Office of the Comptroller General completed its review of issues related to CBTE and identified ways for CBTE to improve operational policies and practices using guidelines from the Province. CBTE has responded to all of the recommendations resulting from the review.

### **Market and Regulatory**

External factors such as climate, oil and gas prices, availability of transmission and demand for electricity all affect the environment in which power from the joint venture projects is produced and sold. CBTE therefore regularly analyzes the overall energy market and factors its analyses into its oversight of CBT's interests in the joint venture power projects.

The implementation of the provincial energy policy continues to shape the energy market in B.C., including CBTE's access to transmission and therefore its ability to sell the energy produced at its facilities. In order to allow CBTE to sell its power in an optimal environment, the CBTE Board assesses whether or not participation in regulatory proceedings is necessary.

Analysis and participation in the energy market is particularly important in the context of this Service Plan, as the Brilliant Expansion will begin producing power in 2006, and only 40% of the output has been committed under long-term contract. In the next few months, CBTE will analyze the opportunities for the remaining 60 per cent of the output from the Brilliant Expansion, such as bidding it into the upcoming BC Hydro Call for Tenders or selling the output using a portfolio approach to the marketing of this energy.

### **Financial**

Together with CPC, its joint venture partner, CBTE must, on occasion, raise financing for the construction of its joint venture generating assets. In order to maintain its ability to distribute income to CBT, CBTE performs due diligence on all possible financial transactions and works with CPC to secure financing in the long-term interests of the joint venture partners.

### **Outages**

Outages at the joint venture power projects could disrupt the distribution of accrual of income to CBT. In spring 2004, the floor of the approach channel to ALGS was damaged and operations at ALGS were shut down while repairs were undertaken. Operations resumed in August 2004. Long-term repairs at ALGS may be required and such work might entail another shut down at ALGS.

**GOALS, OBJECTIVES, STRATEGIES, MEASURES AND TARGETS**

<b>GOAL</b>				
Increase the amount of net income accruing to CBT. <sup>1</sup>				
<b>OBJECTIVES</b>				
1. Earn increasing levels of income through power sales from the existing joint venture power projects. 2. Preserve the real value of the joint venture power projects.				
<b>STRATEGIES</b>				
<ul style="list-style-type: none"> <li>• Ensure CPC fulfills its duties and responsibilities as Manager of the joint venture power projects.</li> <li>• Liaise with the Board of Directors of CBT and staff members of CBT when necessary on issues encompassing common interest areas.</li> <li>• Monitor energy industry developments in B.C. and North America and participate in the development of the energy industry when deemed necessary by the CBTE Board.</li> <li>• Retain sufficient access to energy expertise for CBTE Board of Directors. (Expertise in areas of power project investment and management, electricity trade and natural gas markets.)</li> <li>• CBTE will: <ul style="list-style-type: none"> <li>○ Review and analyze market conditions on an ongoing basis.</li> <li>○ Recalibrate CBTE forward electricity price curve on a regular basis.</li> <li>○ Ensure CBTE Board is aware of all energy industry developments and assesses the significance of such developments in the context of the joint venture power projects.</li> <li>○ Intervene in regulatory proceedings as directed by the CBTE Board.</li> <li>○ Monitor the viability of alternate energy resources for possible development/investment if such resources are cost competitive.</li> </ul> </li> </ul>				
<b>LINK TO THE CBT</b>				
Objective 1 allows CBT to attain its goals of maximizing the expected return of the Legacy Fund assets (which are composed of CBT’s interests in the joint venture power projects) and of funding the Basin Fund and the Delivery of Benefits program. As outlined in the Planning Context and Key Strategic Issues section, CBTE faces numerous risks as an owner and developer of power projects in the energy industry. In order for the CBT to preserve the real value of the Legacy Fund capital with a relatively high degree of certainty, CBTE must monitor and participate in the evolution of the industry within which that same capital is held and must maintain industry expertise on its Board of Directors.				
<b>PERFORMANCE MEASURES</b>		<b>TARGETS</b>		
		<b>04/05 ACTUALS</b>	<b>YEAR 1 05/06</b>	<b>YEAR 2 06/07</b>
			<b>YEAR 3 07/08</b>	

<sup>1</sup> The wording of CBTE’s goal has changed from previous service plans to more accurately capture the link between the goal and the performance measure.

Net income from joint venture power projects <sup>2</sup>	\$5.67 million	\$8.09 million	\$14.256 million	\$16.334 million
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**ALIGNMENT WITH PROVINCE’S GOALS**

CBTE, through its interests in the joint venture power projects, is helping the Province attain its goal of leading the world in sustainable environmental management, with the best air and water quality, and the best fisheries management.

Because the water going through ALGS is no longer spilled at the original Hugh Keenleyside Dam facility, total gas pressure is reduced downstream and fish habitat is thereby improved. The Brilliant Expansion will also make use of water currently spilled at the original facility and is therefore expected to have a similarly positive effect on fish habitat downstream. Furthermore, CBTE produces electricity using a renewable resource – water – rather than a non-renewable resource. The completion of the Brilliant Expansion and the ongoing operations of ALGS and Brilliant Dam will therefore aid the Province in meeting its target of securing new electricity supply from environmentally responsible sources. In fact, the joint venture entered into a 20-year sales agreement for 40 per cent of the Brilliant Expansion output through the BC Hydro green power generation call for tenders.

CBTE helps the Province attain its other four goals by generating income for CBT, funding the delivery of social, environmental and economic benefits to Basin residents.

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<sup>2</sup> The targets for Years 1, 2 and 3 have changed from previous service plans and annual reports as a result of periodic updates to financial forecasts. Forecasted power project net income for Years 2 and 3 is higher in comparison to the original Service Plan submitted in February 2005 due to lower expected operating costs for the Brilliant Expansion project in its first two years of operation. Also, the wording of the performance measure has been changed from net income in power sales as the performance measure refers to net income from the joint venture power projects i.e. expenses subtracted from revenues to arrive at a net income figure.