

BC Hydro Service Plan
2007/08 to 2009/10



reliable power, at low cost
for generations



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Letter from the Chair to the Minister

Larry Bell

The Honourable Richard Neufeld
Minister of Energy, Mines and Petroleum Resources

Dear Minister:

On behalf of the Board of Directors and employees of BC Hydro, I am pleased to submit BC Hydro's Service Plan for fiscal years 2007/08 to 2009/10.

This plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. The Board is accountable for the contents of the Service Plan, including the selection of performance measures and targets, and for ensuring that BC Hydro achieves the specific goals and strategies identified in it. The plan is consistent with the government's strategic priorities and Strategic Plan, and takes into account all significant assumptions, policy decisions and identified risks as of January 2007. The performance targets in this plan have been determined based on an assessment of BC Hydro's operating environment, forecast conditions, risk assessment and past performance.

A key highlight for BC Hydro over the past year was submitting our *2006 Integrated Electricity Plan* to the BC Utilities Commission in March 2006. This plan outlines how we intend to meet our customers' electricity needs over the next 20 years. It identifies an emerging gap between domestic electricity supply and demand, and outlines how BC Hydro intends to fill this gap in order to ensure electricity self-sufficiency for British Columbia within the next decade. We launched a public awareness campaign in fall 2006 to reiterate this as our long-term goal and inform British Columbians about our challenges.

Using the *2006 Integrated Electricity Plan* as the roadmap, we intend to increase our focus on conservation, invest more in our heritage assets and secure new sources of supply. These strategies and related projects are highlighted throughout this Service Plan. When the upcoming provincial Energy Plan is released, we will ensure these strategies and projects are in alignment.

Also in 2006, we filed our *Revenue Requirements Application*, which forecasts the cost of operating our business and the corresponding rate increases required for fiscal years 2007 and 2008. Together with our customer and stakeholder representatives, we achieved a major success in negotiating a settlement to this application without the need for a protracted public hearing.

As this Service Plan demonstrates, BC Hydro is dedicated to ensuring a clean, renewable, abundant and self-sufficient supply of electricity for British Columbia that will, in turn, help to support our province's long-term economic prosperity and quality of life for all British Columbians.

Yours truly,

A handwritten signature in black ink, appearing to read "L. I. Bell". The signature is stylized and cursive.

L. I. (Larry) Bell
Chair



Message from the President and Chief Executive Officer

Bob Elton

For generations, British Columbians have been able to count on BC Hydro for reliable, low cost electricity. In the 4th quarter of 2006, British Columbia experienced a series of massive storms that caused significant damage to BC Hydro's distribution and transmission system, resulting in extensive power outages to thousands of homes and businesses. Employees of BC Hydro, working together with BCTC, Accenture, and contractors worked tirelessly, without compromising safety, to ensure timely restoration of service to all our customers. We are currently conducting a complete review of our storm performance to identify improvements that will be shared with our shareholders and the public.

In last year's Service Plan, we re-aligned our performance measures and targets to reflect our key priorities. These five short-term priorities remain the same in this year's plan: to increase safety, improve reliability (both for customers and of supply), meet our financial targets, increase customer satisfaction and develop our people. This year's Service Plan also includes the specific strategies, performance measures and targets we have used to evaluate our performance for each of these priorities.

BC Hydro's recent accomplishments bode well for the future. Our focus on safety is starting to show positive results. The number and severity of incidents is on the decline, and we were able to maintain the trend despite the recent storm season that put both the public and our employees at risk. BC Hydro has also made significant progress with First Nations on agreements related to major capital projects, on negotiations related to past activities, and in introducing procurement, employment and education strategies to support Aboriginal development and participation. Through our 2006 Open Call for Power, we secured over 7,000 GWh of energy per year from the private sector and are already planning for our next call. At the same time, our aggressive conservation targets, which will enable us to reduce our energy requirements, are on track. We have succeeded in developing conservation and demand-side management programs that will play a key role in helping to close the electricity gap in the years to come.

As for the future, like other utilities, we are faced with an aging workforce in a tight labour market and must focus on attracting and retaining skilled, motivated and committed employees. We must also contend with growing customer demand and aging infrastructure. In order to meet electricity requirements and maintain our high levels of reliability, we anticipate capital spending of approximately \$1 billion or more per year to fund necessary maintenance and expansion.

Safety and security – both for the public and our employees – will continue to be of high importance and concern. Our short-term safety priority is to be a top three performer among comparable utilities in Canada. This requires us to pay intense attention to improving safety skills and behaviours both within and outside of our workplace.

We remain committed to operating BC Hydro under the principles of sustainability, and to making financial, environmental and social considerations an integral part of our decision making. As this Service Plan indicates, we will continue to work on our longer-term goals – as well as our five short-term priorities – to create the conditions required to implement our *2006 Integrated Electricity Plan* and the provincial energy policy, and to help make our province electricity self-sufficient within the next decade.

Bob Elton

President and Chief Executive Officer

Executive Summary

BC Hydro's 2007/08 – 2009/10 Service Plan is prepared in accordance with the *Budget Transparency and Accountability Act*.

The plan outlines the business environment in which our company operates and defines our short-term priorities for the next three years. It also discusses the risks we face today and in the future, and the measures and targets we – along with the public, the shareholder (the Province of British Columbia), the regulator (the British Columbia Utilities Commission or BCUC) and all other stakeholders – can use to evaluate our performance.

BC Hydro

BC Hydro's purpose is to provide "Reliable Power, at Low Cost, for Generations."

We are the largest electric utility in British Columbia, serving over 1.7 million customer accounts. Our dams and generating facilities are part of the province's heritage. British Columbia's electricity sector also includes private-sector power producers, a number of which operate in the province under contract to us and supplement the electricity generated by BC Hydro.

BC Hydro operates under the *Hydro and Power Authority Act*, the *Utilities Commission Act* and the *BC Hydro Public Power Legacy and Heritage Contract Act*. We are governed by a Board of Directors. The Board chair reports directly to the Minister of Energy, Mines and Petroleum Resources. A Shareholder's Letter of Expectations describes the working relationship and mandate direction from government, is reviewed annually and updated as required.

We have integrated the government's direction into our long-term goals and short-term priorities, strategies and plans. This includes acting on all 14 BC Hydro related items in the provincial Energy Plan, released in 2002 as *Energy for Our Future: A Plan for B.C.* We continue to act on seven of those items as part of our ongoing business activities (details were provided in last year's Service Plan). The updated Energy Plan was not available in time for BC Hydro to consider the implications of the new plan for our company. This will be addressed in next year's Service Plan.

Our Structure

BC Hydro operates as one integrated company, structured into inter-dependent business groups. On May 31, 2006, we announced organizational changes in our business structure to better align BC Hydro's business model to deliver on our five short-term priorities (see next page) and to promote improved coordination between business functions. The new structure consists of operational business groups, a corporate function and two primary operating subsidiaries, Powerex and Powertech.

Our Challenges

BC Hydro recognizes that continuing to fulfil our purpose over the next 20 years will not be easy.

By virtue of BC Hydro's heritage assets and geographical location, we have delivered predominantly clean, low-cost electricity to British Columbians for decades. However, the demand for electricity is increasing and we see an emerging gap between our domestic electricity supply and what is required by our customers. Planning now to close this gap is critical to ensuring that future generations of British Columbians can enjoy the same benefits of low-cost, reliable power that we do today.

In addition, our assets are aging and many need to be upgraded or replaced. It is also becoming increasingly difficult to find qualified and experienced employees to maintain and operate the electric system.

We need to address and improve the safety of both our employees and the public from hazards associated with our facilities and our product, and make sure we are fully prepared to deal with the threats of natural disasters, pandemics and even terrorism. Finally, we must continue to develop innovative solutions to outstanding issues and build ongoing relationships with First Nations, based on mutual respect, as well as to find new and better ways to operate that maintain our strong record of responsible and sustainable practices.

Executive Summary

Our Commitment

We are committed to working with individual British Columbians, with our customers, the British Columbia government, First Nations and all other stakeholders to come to grips with the most pressing challenges of the future.

Above all, our central objectives, in alignment with the Lieutenant Governor's February 2006 Speech from the Throne and outlined in our *2006 Integrated Electricity Plan*, filed with the BCUC in March 2006, are to ensure self-sufficiency for British Columbia within the next 10 years and to close the emerging gap between supply and demand by:

- conserving more through increased PowerSmart activities and programs such as the Conservation Research Initiative
- buying more from independent power producers (IPPs), and
- upgrading BC Hydro's existing facilities and/or investigating new options for adding generating capability.

2006 CALL FOR POWER

Under the fiscal 2006 Open Call for Power, BC Hydro awarded 38 Electricity Purchase Agreements (EPAs) to independent power producers throughout the province. As a result of a parallel tender process, BC Hydro also awarded a contract to the Brilliant Expansion Power Corporation.

These contracts represent a broad range of energy sources, including biomass, coal-biomass, run-of-river hydro, waste heat and wind. Once developed, these projects will add approximately 1,500 MW of capacity and over 7,000 GWh of energy per year to BC Hydro's integrated system.

We are now planning for the 2007 Call for Power.

Long-Term Goals and Short-Term Priorities

BC Hydro has developed 15 long-term goals to guide our business over the next 20 years and five short-term priorities. Our long-term goals are outlined in our *2006 Annual Report* (www.bchydro.com); this Service Plan provides details about our short-term priorities.

SAFETY

Over the next three years, our aim is to improve safety performance to be one of the top three performers among comparable Canadian Electricity Association electrical utilities. We will achieve this by advancing the Safety Trend initiatives already underway, identifying and utilizing best practices, streamlining and improving operational controls (safety procedures and standards), and improving safety knowledge, skills and behaviours.

RELIABILITY (CUSTOMER AND SUPPLY)

Customer reliability means that we are able to deliver an acceptable level of uninterrupted supply of electricity to our customers. To achieve this, we are focusing on three initiatives intended to build awareness and understanding of customer requirements, to identify our customers' differing reliability needs, and to develop an asset management system to monitor the health and capability of our assets. Information gathered through this work will enable us to more effectively meet the expectations of our customers.

Reliability of supply means ensuring all the infrastructure components are in place and are operating optimally to meet customer demand. To achieve our reliability targets, we will ensure our generation assets are maintained, manage our peak load supply reliability by minimizing the amount of unit outages during the winter peak period, and advance power acquisition processes to ensure incremental supply is in place as customers' requirements continue to grow. We will also build on our long-term demand-side management activities to develop a conservation culture in British Columbia, reducing energy demand, cost and environmental impacts.

Executive Summary

FINANCIAL TARGETS

Our objectives are to deliver 100 per cent of forecast net income after regulatory account transfers on an annual basis, while maintaining low costs and achieving forecasted performance levels for electricity customers in British Columbia over the long term. For more financial information, please refer to Section 6 (Financial Targets) and Section 7 (Financial Outlook Summary) and our Quarterly and Annual Reports.

We will achieve these objectives by:

- hedging foreign exchange and interest rates risks
- managing the short-term cost of energy by optimizing decisions of buy versus generate and the long-term cost of energy through implementation of the *2006 Integrated Electricity Plan*, and
- seeking productivity gains across the company and ensuring efficient allocation of capital.

REVENUE REQUIREMENTS

In 2006, we filed our *Revenue Requirements Application* with the BCUC. It forecasts the costs of managing and operating the business and the corresponding rate increases required for fiscal 2007 and 2008.

On July 1, 2006 we introduced an interim rate increase of 4.65 per cent. In November, we reached an agreement on rate increases through a negotiated settlement process with customer and stakeholder representatives. The settlement will result in a net reduction of 1 per cent from the interim rate on February 1, 2007 and a total refund of approximately \$50 million to our customers. Despite a net increase of 3.64 per cent, BC Hydro continues to provide electricity at some of the lowest rates in North America. For more details, please refer to page 10.

CUSTOMER SATISFACTION

We will improve service in high customer contact areas, including outage communication, call centre interactions, BC Hydro website content and functionality, complaint management processes and customer understanding of electricity and the services BC Hydro provides.

PEOPLE

Approximately 15 to 20 per cent of BC Hydro's current workforce is eligible to retire now and one-third is eligible to retire within the next five years. The combination of retirements and a highly competitive labour market mean that BC Hydro must work even harder to be an outstanding employer. We will implement a range of strategies to attract, train, retain and motivate the right people for the right jobs.

Financial Outlook

As our local economy and population continue to grow, the demand for electricity will rise. As a result, our revenues and return to the province are expected to increase. Our challenge and goal is to manage the related growth in costs so that we can continue to offer low-cost electricity.

Our most significant costs are the costs of energy and investments related to maintaining our aging assets and expanding our system to keep pace with rising customer demand. We anticipate capital expenditures of approximately \$1 billion in fiscal 2008, increasing to \$1.4 billion per year to increase and sustain our assets.

Financial performance focuses on the financial return to BC Hydro's shareholder and the electricity rates paid by customers. The economic value BC Hydro generates for the province will continue to benefit customers and everyone in the province.

Conclusion

BC Hydro is making significant strides in closing the emerging gap between supply and demand and in delivering a service to British Columbians that is environmentally, socially and fiscally responsible.

All British Columbians – customers, First Nations, stakeholders, the shareholder and the regulator – will play a role in BC Hydro's future and in making sure that we create a lasting legacy of reliable power, at low cost, for generations.

1. Introduction

BC Hydro's 2007/08 to 2009/10 Service Plan is prepared in accordance with the *Budget Transparency and Accountability Act*.

This plan outlines the business environment in which our company operates and defines our long-term goals and short-term priorities for the next three years. It also discusses the risks we face today and in the future, and the measures and targets we currently use to evaluate our performance. Specifically:

- Section 2 of this Service Plan provides an overview of BC Hydro's mandate, our purpose, values, operations and system.
- Section 3 describes BC Hydro's organizational structure and our recent re-organization, along with details about our subsidiaries, suppliers and governance structure.
- Section 4 sets the strategic context in which BC Hydro operates today and expects to operate in the future. This includes an overview of BC Hydro's operating environment as well as internal and external risks and opportunities that could affect our planning and performance.
- Section 5 outlines the company's long-term goals and describes our priorities for the next three years.
- Section 6 outlines BC Hydro's strategies, performance measures and targets.
- Section 7 summarizes the financial outlook and key financial assumptions made for this 2007/08 to 2009/10 Service Plan.
- Section 8 illustrates how BC Hydro is aligned with the government's Strategic Plan.
- Section 9 offers our conclusion to this plan. It is followed by an Appendix with details about our subsidiaries.

2. Business Overview

Mandate

BC Hydro, established under the *Hydro and Power Authority Act*, is a provincial Crown corporation and one of the largest electric utilities in Canada. BC Hydro's mandate is to generate, purchase, distribute and sell power.

BC Hydro is regulated by the British Columbia Utilities Commission (BCUC). The BCUC's mandate, under the *Utilities Commission Act*, is to ensure that BC Hydro operates in the best interests of our customers while providing a fair return to the shareholder, the Province of British Columbia.

Purpose

BC Hydro's purpose is to provide "Reliable Power, at Low Cost, for Generations." This purpose provides the context for all of our business decisions.

- "Reliable Power" means that BC Hydro maintains sufficient energy supply and the capability to safely deliver it to customers when it is needed.
- "Low Cost" means that our operations are at the forefront of business success. By being fiscally prudent, and always considering environmental and social costs, BC Hydro will maintain a legacy of low-cost operations over the long-term for our customers.
- "For Generations" confirms BC Hydro's commitment to sustainability in managing our business. This means making long-term decisions and, when necessary, balancing trade-offs along the environmental, social and financial bottom lines.

Values

BC Hydro has five core values that are essential to our success:

- Accountability – we are responsible for our actions and outcomes.
- Integrity – we are fair and honest, open and straightforward.
- Safety – we integrate safety into everything we do.
- Service – we serve others, both internally and externally.
- Teamwork – we work together to achieve our purpose and long-term goals.

Our Director and Employee Code of Conduct works in conjunction with these core values by providing clear guidelines to directors and employees on the standards of conduct expected of them in all business relationships.

Business Overview

Our System

BC Hydro is one of North America's leading providers of clean, renewable hydroelectric power and has been an important part of British Columbia's development. The *BC Hydro Public Power Legacy and Heritage Contract Act* preserves public ownership of our existing, low-cost electricity assets for British Columbians.

BC Hydro owns 33 generating facilities. Our 30 hydroelectric facilities are located mainly on the coast, and on the Peace and Columbia River systems and provide about 90 per cent of the total electricity BC Hydro generates each year (between 43,000 and 54,000 gigawatt hours of electricity). BC Hydro's three thermal power plants contribute the remaining 10 per cent. Together, our thermal and hydroelectric facilities provide an installed capacity of approximately 11,300 megawatts (MW).

To supplement the electricity we generate and to meet increasing customer demand, we purchase electricity from domestic independent power producers (IPPs) and wholesale markets. Market purchases are made through Powerex, our power marketing and trading business (see the Appendix for more information on Powerex).

Electricity is delivered to our customers – at some of the lowest rates in North America – through an interconnected system that includes approximately 74,000 kilometres of transmission and distribution lines, 284 switching and transformation substations and five control centres.

BC Hydro also serves 17 communities, situated in non-integrated areas (NIAs), which are not connected to our integrated system. They are typically small, remote communities, served by local generating stations owned by BC Hydro, IPPs or the communities themselves.

CAPACITY AND ENERGY DEFINED

Capacity (or peak) refers to the maximum sustainable amount of energy that can be supplied or carried at any instant. It is measured in watts. Peak demand on the electrical system, for instance, is measured in megawatts (MW), or millions of watts.

Energy is how much electricity is used or produced over a period of time. It is measured in watt-hours. As an example, the average household in BC Hydro's service area uses approximately 10,000 kWh per year.



BC Hydro has corporate offices in Vancouver (Dunsmuir) and Burnaby (Edmonds), and through regional offices has a presence in more than 50 communities throughout the province.

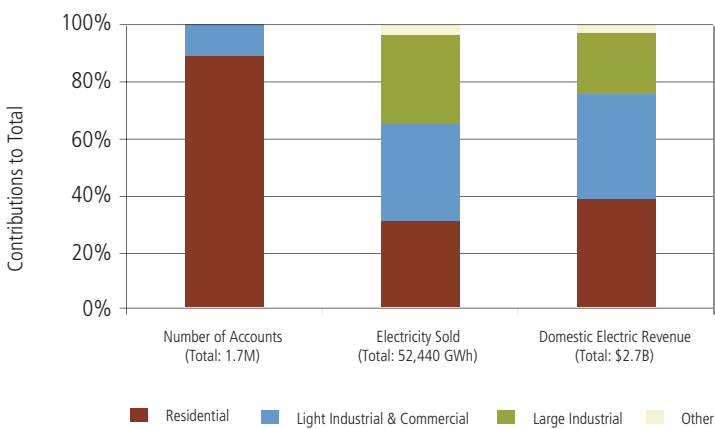
Business Overview

Customers

BC Hydro is the largest electric utility in British Columbia, operating in an area containing approximately 95 per cent of the province's population. Our employees are responsible for reliably generating and delivering electricity and providing products and services for more than 1.7 million customer accounts in British Columbia. There are other smaller, investor-owned and municipal utilities around the province that deliver electricity to local customers.

We serve a diverse domestic customer base consisting of residential, commercial and industrial customers. 89 per cent of customer accounts are on residential rates, 11 per cent of customer accounts are on general service (commercial) rates, and less than 1 per cent of customer accounts are on transmission (mostly large industrial customers) rates. Their consumption and contributions to revenue are shown below.

CUSTOMER CONTRIBUTIONS IN 2005/06



In fiscal year 2006, our domestic customers used a total of 52,440 GWh. This represented an increase of 2.4 per cent over the previous year.

Rates and Regulation

BC Hydro charges electricity rates to our domestic customers based on tariffs approved by the BCUC. Rates are set to allow us to recover all approved costs incurred in serving our customers, including earning a return on equity. Both the definition of equity and the method to determine an appropriate return on this equity are defined by a Special Direction from the British Columbia government. Our allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility. A Special Directive also requires annual dividend payments to the British Columbia government of 85 per cent of our net income, adjusted for capitalized finance charges and related amortization.

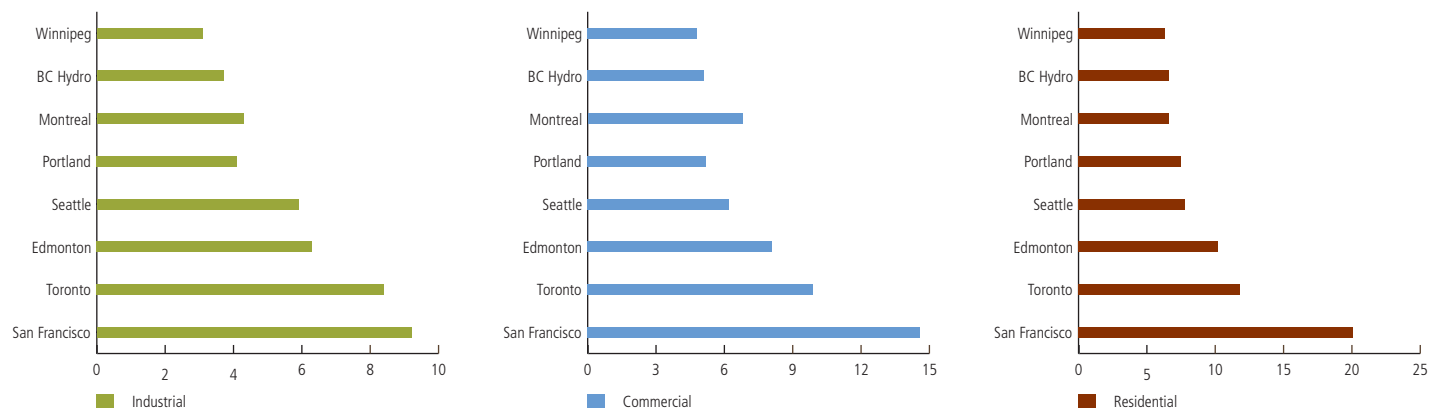
Rates are set through BC Hydro's *Revenue Requirements Applications* and *Rate Design Applications*. A *Revenue Requirements Application* provides justification for the revenues we expect we will need to serve our customers during a forecast test period. After a public review of the application, the BCUC determines the rate increase that BC Hydro is able to charge our ratepayers.

BC Hydro filed our *Revenue Requirements Application* for fiscal years 2007 and 2008 in May 2006 and received an interim rate increase of 4.65 per cent effective July 1, 2006. Following a negotiated settlement between BC Hydro, our customers and stakeholder representatives, the BCUC approved final rate increases of 1.54 per cent for July 1, 2006 to January 31, 2007 and a further 2.1 per cent effective February 1, 2007. Included in the 2.1 per cent increase is a 2 per cent rate rider that will be used to recover the accumulated deferral account balances that resulted largely from higher energy costs due to the low water inflows and higher than forecast market prices in fiscal years 2005 and 2006.

Customers will see a net 1 per cent reduction from the interim rate increase on February 1, 2007 and will receive a total refund of approximately \$50 million in early 2007 to adjust for higher interim rates that were in place from July 1, 2006 to January 31, 2007. Even with a net rate increase of 3.64 per cent, BC Hydro still provides electricity at some of the lowest rates in North America.

Business Overview

COMPARISON OF ELECTRICITY RATES (F2007)



Source: Hydro Quebec Comparison of Electricity Prices in Major North American Cities, April 2006

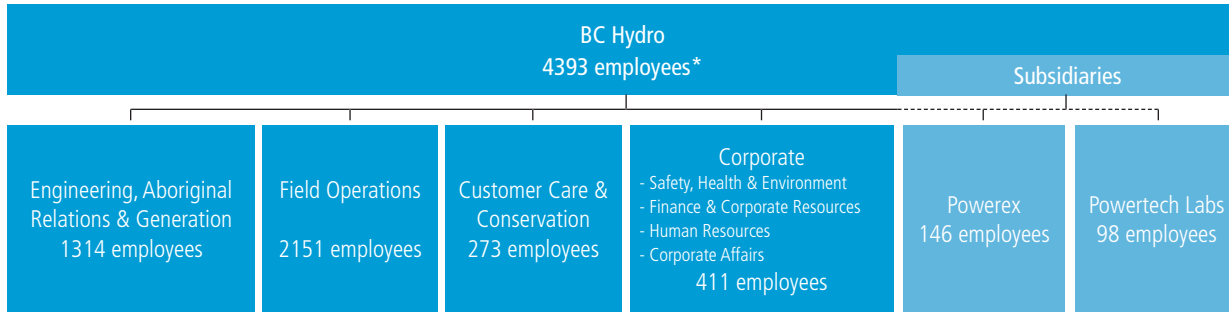
Note: BC Hydro rates adjusted to reflect net rate increase of 3.64 per cent (including a 2 per cent rate rider) effective February 1, 2007 as approved by the BCUC. Commercial rates based on 400,000 KWh consumption and 1,000 KW demand. Industrial rates based on 30,600,000 KWh consumption and 50,000 KW demand. Selection of peer comparison set based on the jurisdictions used by the BC Progress Board to assess the competitiveness of British Columbia. Winnipeg was added to this comparison because it is the only utility in the Hydro Quebec study with rates lower than those charged by BC Hydro.

We will file our next *Revenue Requirements Application* with the BCUC in late fiscal 2008.

We will file a *Rate Design Application* with the BCUC in March 2007 to ensure each customer rate class is contributing its fair share of costs. We expect the BCUC will conduct a public hearing on this application later in the year. Depending on the BCUC's final decision, certain customer rates may be affected. The implementation of any changes is proposed for April 2008.

The BCUC has agreed to a regulatory process for reviewing BC Hydro's capital plans that will require the BCUC to determine whether any project greater than \$50 million is in the public interest. This is consistent with the *Budget Transparency and Accountability Act*, which requires public disclosure of a Major Capital Project Plan report for any project over that amount.

3. Organizational Structure



*total number of employees as of December 31, 2006

BC HYDRO'S EXECUTIVE TEAM

Bob Elton, President and CEO
 Teresa Conway, President and CEO, Powerex
 Alister Cowan, Executive Vice-President and CFO
 Dawn Farrell, Executive Vice-President, Engineering, Aboriginal Relations and Generation

Gary Rodford, Senior Vice-President, Field Operations
 Bev Van Ruyven, Executive Vice-President, Customer Care and Conservation
 Ray Stewart, Chief Safety, Health and Environment Officer
 Barbara Meens Thistle, Chief Human Resources Officer
 Susan Yurkovich, Senior Vice-President, Corporate Affairs

Business Groups

On May 31, 2006, BC Hydro announced organizational changes to our business structure that included the consolidation of some business lines and a streamlined executive team. Our generation and distribution functions remain separate as stipulated in the 2002 provincial Energy Plan. We implemented these changes to better align BC Hydro's business model to deliver on our five short-term priorities (see page 23) and to promote improved coordination between business functions. The new structure consists of operational business groups, a corporate function and two primary operating subsidiaries, Powerex and Powertech (see diagram above and the Appendix for more information on our subsidiaries).

BCTC ensures non-discriminatory open access to the transmission system for all electricity producers, supporting the growth of private sector involvement in the electricity sector and increasing electricity trade opportunities. With open access to the transmission system, private power producers can also sell directly into regional wholesale markets and directly to large electricity customers.

BCTC prepares its own Service Plan and Annual Report.

Key Suppliers

BRITISH COLUMBIA TRANSMISSION CORPORATION

Established in May 2003, British Columbia Transmission Corporation (BCTC) is a Crown corporation, independent of BC Hydro, whose mandate and functions are set out in the *Transmission Corporation Act* and Key Agreements between BC Hydro and BCTC that reflect an owner-operator relationship. While BC Hydro continues to own the transmission assets, BCTC plans, manages, maintains and operates the transmission system. As with BC Hydro, BCTC is regulated by the BCUC. BCTC and BC Hydro work together to deliver reliable transmission service to our customers.

ACCENTURE BUSINESS SERVICES FOR UTILITIES

Accenture Business Services for Utilities (ABSU), based in Vancouver, was established in April 2003 through a joint-venture partnership between Accenture and BC Hydro. ABSU provides BC Hydro with services in customer care, human resources, building and office operations, information technology, payroll, accounts payable, financial systems and purchasing. The goal for the outsourcing relationship is to ensure BC Hydro and our customers receive quality service while achieving long-term cost reductions that will help keep our customers' rates low.

Organizational Structure

INDEPENDENT POWER PRODUCERS

BC Hydro contracts with Independent Power Producers (IPPs) to secure new and diversified energy resources to meet our domestic customers' needs. This approach is consistent with the objectives of the 2002 provincial Energy Plan (see page 17).

Under the fiscal 2006 Open Call for Power, BC Hydro awarded 38 Electricity Purchase Agreements (EPAs) to producers throughout the province. As a result of a parallel tender process, BC Hydro also awarded a contract to the Brilliant Expansion Power Corporation, a subsidiary of Columbia Power Corporation and Columbia Basin Trust. These contracts represent a broad range of energy sources, including biomass, coal-biomass, run-of-river hydro, waste heat and wind. Once developed, these projects will add approximately 1,500 MW of capacity and over 7,000 GWh of energy per year to BC Hydro's integrated system. Allowing for an attrition rate of 23 per cent and outage factor of 7 per cent (values represent mid-points of estimated ranges), our obligations over a 43-year period from 2009 to 2051 have a total nominal value of approximately \$16 billion.

BC Hydro had also amended and extended an existing power purchase agreement with Alcan. This agreement would have

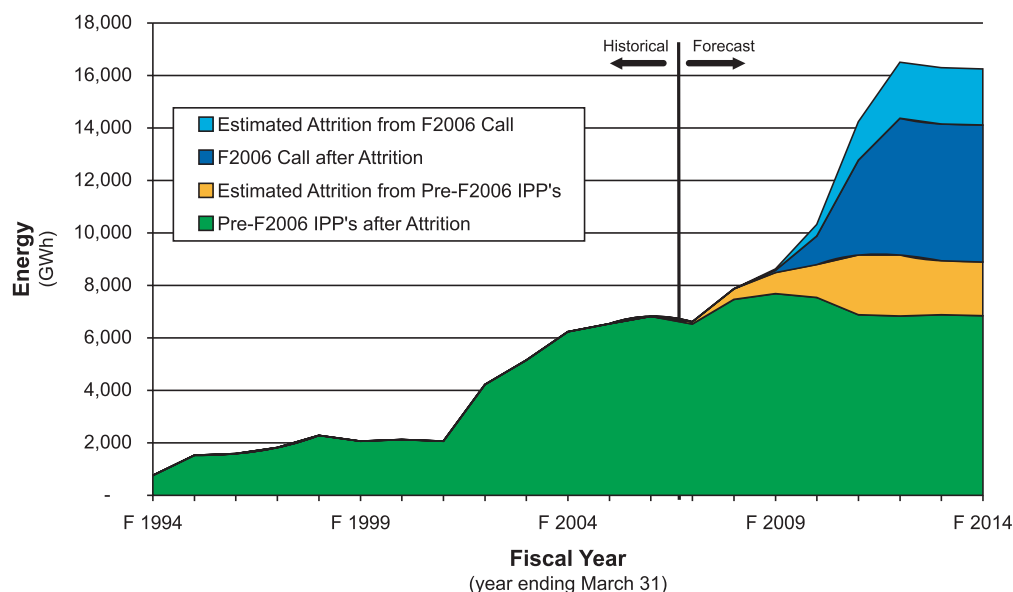
provided BC Hydro with access to surplus power – over and above the requirements for Alcan's Kitimat aluminium smelter – from Alcan's Kemano generating plant. The agreement was put forward to the BCUC for review; however, the commission did not approve the contract. We are examining potential options in light of this decision.

In addition, BC Hydro recently awarded an EPA for renewable supply in Atlin, a non-integrated area community that is currently supplied by diesel generation. The successful bidder is wholly owned by the Taku River Tlingit First Nation.

Together, the current 95 EPAs on the integrated system and four EPAs in the non-integrated areas include assets with a cumulative nameplate capacity of 3,900 MW and are expected to provide over 16,000 GWh/year of electricity if all reach commercial operation. To put this in perspective, IPPs already in service contributed 6,741 GWh in fiscal 2006. This represented approximately 13 per cent of our total domestic requirements.

Many of the projects undertaken by IPPs provide important sources of Clean Electricity. (To learn more about Clean Electricity and the role of IPPs, see the Clean Electricity box on page 17.)

ENERGY DELIVERED BY IPPs



Notes:

- IPP supply shown for domestic customers.
- Historical years show delivered energy; forecast years show contracted energy.

Organizational Structure

Governance

A Shareholder's Letter of Expectations describes the relationship between BC Hydro and the provincial government. The government and BC Hydro review the letter annually and update it as required. Directions outlined in the most recent letter, dated June 2006, focus on accountability, energy conservation, stakeholder consultation, private sector support, supply options, electricity trading and government relations. This Service Plan sets out the actions BC Hydro will undertake in response to these directions. Progress on the directions will be provided in BC Hydro's *2006/07 Annual Report*.

BC Hydro is responsible to the Minister of Energy, Mines and Petroleum Resources through the Board of Directors. The government appoints the Board to oversee business affairs, supervise management and ensure that all major issues affecting BC Hydro are addressed. The Board delegates responsibility for the day-to-day leadership and management to the Chief Executive Officer. BC Hydro's Board of Directors operates on the principle of continuous improvement, and annually assesses its own practices, policies and competencies to ensure that the Board as a whole continues to bring the appropriate balance of skills and experience to its policy oversight role.

BC Hydro is committed to best practices in corporate governance. Strong corporate governance principles provide for greater public accountability and transparency. BC Hydro meets the British Columbia government's new *Best Practice Guidelines on Governance and Disclosure for Public Sector Organizations*, issued in February 2005. BC Hydro's disclosure, which is updated annually, is available on-line at www.bchydro.com.

BC Hydro's Director and Employee Code of Conduct guides the conduct of all Board members, employees, consultants, contractors and suppliers. This code is also available on BC Hydro's website.

BC HYDRO BOARD OF DIRECTORS

Larry Bell (Chair, BC Hydro)
Stephen Bellringer
Wanda Costuros* (Chair, Powerex Corp.)
Elmer Derrick*
Brenda Eaton*
Nancy Olewiler*
Walter Saponja*
Jack Weisgerber

**also member of Powerex Board. Additional Directors on Powerex Board: Bob Elton, Peter Powell (outside Director) and Robert Fairweather (outside Director).*

Powertech Board members are Bev Van Ruyven, Bruce Sampson, Bruce Ripley, and Bill Best (outside Director).

Organizational Structure

The Board currently has three standing committees:

COMMITTEE	OVERVIEW	MEMBERS
Audit and Risk Management	Assists the Board of Directors in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the Corporation's pension plans, and various facets of risk management. In the process of overseeing the Corporation's audit procedures, the Committee has unrestricted access to the Corporation's personnel and documents as required.	Wanda Costuros (Chair), Brenda Eaton, Nancy Olewiler, and Walter Saponja
Corporate Governance	Assists the Board of Directors by ensuring that BC Hydro develops and implements an effective approach to corporate governance which enables the business and affairs of the Corporation to be carried out, directed and managed with the objective of enhancing shareholder value.	Brenda Eaton (Chair), Stephen Bellringer, Wanda Costuros and Elmer Derrick
Human Resources	Assists the Board of Directors in fulfilling its obligations relating to senior management human resource and compensation issues. The committee is also responsible for monitoring standing reports on safety performance and reviewing major safety incidents.	Nancy Olewiler (Chair), Stephen Bellringer Elmer Derrick and Jack Weisgerber

An Executive Committee holds the full power of the Board but only meets in exceptional circumstances when a quorum of the full Board is not available.

The Peace River/Williston Reservoir Advisory Committee, chaired by a Board member (Jack Weisgerber) and made up of local community representatives, reports to the Board of Directors. It provides advice and facilitates two-way communication between the Peace/Williston community and BC Hydro.

The IEP Review Committee is an ad hoc task group formed to assist the Board by providing focused resources to review options related to the *2006 Integrated Electricity Plan* (please see page 16 for more on this plan). Committee members are Jack Weisgerber (Chair), Larry Bell (ex officio), Stephen Bellringer, Wanda Costuros, Elmer Derrick, Brenda Eaton, Nancy Olewiler, and Walter Saponja.

In addition, individual directors are providing special oversight for:

a) Aboriginal Relations (Elmer Derrick)

Work includes:

- reviewing the status and progress of ongoing Aboriginal negotiations
- discussing risk, priorities and plans for risk mitigation, and
- reviewing generally the activities of the Aboriginal Relations group.

b) Dam Safety (Walter Saponja)

Work includes:

- reviewing the status of the dam safety inspection process
- discussing technical aspects related to identified deficiencies
- assessing risk and priorities for risk mitigation, and
- reviewing generally the activities of the office of the Director of Dam Safety.

Quarterly Aboriginal Relations and Dam Safety reports go forward to the Board of Directors.

4. Strategic Context

By virtue of our heritage assets and geographical location, BC Hydro has delivered predominantly clean, reliable, low-cost electricity to British Columbians for decades.

However, while our existing assets continue to provide the bulk of B.C.'s electricity, the demand for electricity is increasing – and there is an emerging gap between our domestic electricity supply and what is required by our customers. As our province continues to grow, demand will rise. BC Hydro forecasts energy demand to grow by 25 to 45 per cent over the next twenty years. Given that new supply and associated transmission require lengthy lead-times before they are operational, it is crucial that we plan and act now to address the shortfall we see in domestic resources.

This emerging gap must be considered in light of BC Hydro's operating environment. The following sections describe the state of the market in which we operate in, the direction we receive from our government shareholder and key external and internal risks and opportunities that affect our business.

BC HYDRO'S 2006 INTEGRATED ELECTRICITY PLAN (IEP)

On March 29, 2006, BC Hydro filed the 2006 IEP with the BCUC. The IEP is a long-term plan that outlines how BC Hydro will meet the anticipated electricity needs of our customers over the next 20 years.

The IEP examines how BC Hydro will work with British Columbians to fill the forecasted supply-demand gap by:

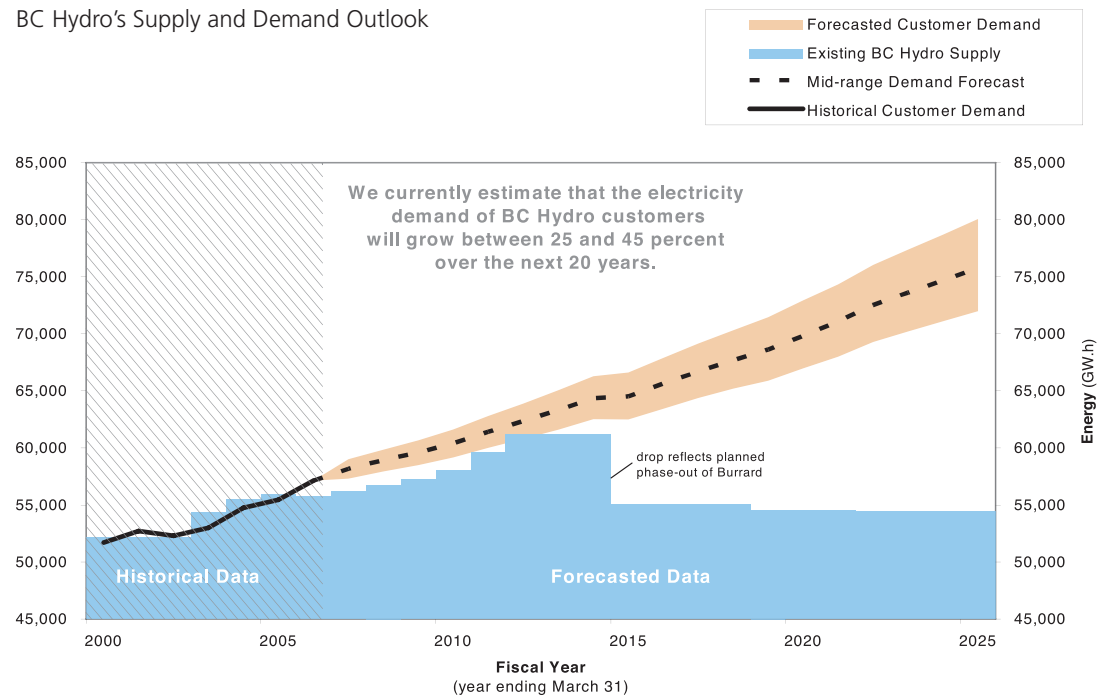
1. Conserving more through increased Power Smart activities and programs such as the Conservation Research Initiative (see page 18).
2. Buying more from independent power producers (IPPs).
3. Building more by investing in Resource Smart upgrades to BC Hydro's existing facilities and/or investigating new options for adding generating capability, such as expansion of the Mica and Revelstoke facilities.

Due to load growth in the Lower Mainland and Vancouver Island, BC Hydro will require additional transmission capacity from the Interior to the Lower Mainland (ILM). The key transmission requirement identified in the 2006 IEP is the ILM transfer capacity upgrade.

We also filed an associated *Long Term Acquisition Plan (LTAP)* as the final chapter of the IEP. The LTAP outlines a 10-year action plan to acquire the resources proposed in the IEP.

BC HYDRO'S ELECTRICITY GAP

BC Hydro's Supply and Demand Outlook



Strategic Context

RISKS AND OPPORTUNITIES

BC Hydro regularly evaluates risks and opportunities in setting the strategic direction, priorities and goals for our organization.

BC Hydro is responsible for developing a risk management framework used to identify significant risks on a timely basis, to evaluate risks on a consistent basis and to bring the risks and management strategies to the attention of senior management and the Board.

North American Electricity Sector

Over the past few years, the drive toward standard market design for electricity in North America has diminished significantly. The market today is diverse: there are various approaches to system access, entity ownership, regulation and the degree to which generation, transmission and distribution businesses have been unbundled. All players in the sector face common challenges. These include daunting requirements to site and finance new assets, capital requirements to maintain aging assets, the prospect of restrictive greenhouse gas (GHG) regulation, labour shortages, aging workforces and volatile commodity and energy prices.

The focus of utilities, legislators and regulators is now on customer reliability and the security of supply. Driven by concerns over domestic energy security and increasingly constrained and aging generation and transmission infrastructures, the U.S. government passed a significant piece of federal legislation last year: the U.S. *Energy Policy Act* of 2005. While the Act is U.S.-focused, it will necessarily affect Canadian providers due to the interconnected nature of our transmission systems and electricity supply. The Act encourages a substantial build of new generation and transmission capabilities and creates an Electric Reliability Organization to develop reliability standards. In the face of growing environmental concerns, the Act also provides incentives for the development of clean and renewable generation.

BC Hydro operates within the Western Electricity Coordinating Council (WECC), the largest and most diverse area under the North American Electricity Reliability Council (NERC). The market area extends from Canada (includes B.C. and Alberta) to Mexico and is

characterized by significant north-south transmission inter-ties between British Columbia and the United States. These allow large volumes of electricity to be moved and traded according to regional supply and demand. Collaboration between all jurisdictions in the WECC will be necessary to address transmission constraints, system reliability and load growth.

GOVERNMENT DIRECTION

The provincial Energy Plan – released in 2002 as *Energy for Our Future: A Plan for B.C.* – guides BC Hydro's long-term strategy. BC Hydro has now implemented all 14 policy action items related to BC Hydro and continues to act on seven in the ordinary course of our business. Details are found in last year's Service Plan.

CLEAN ELECTRICITY

The 2002 Energy Plan set a 50 per cent incremental B.C. Clean Electricity Target to be achieved over a 10-year period, beginning in 2002/2003 and ending in 2012/2013.

BC Hydro's 2006 *Integrated Electricity Plan* (IEP) assumes the B.C. Clean Electricity Target would extend throughout the 20-year analysis period. The majority of IEP portfolios were structured to reach the 50 per cent target and thereafter maintain a minimum of 50 per cent in each year. This work demonstrated the feasibility of meeting anticipated demand through resources that are aligned with this goal. Future Calls for Power, however, will determine what resources are selected.

Current contracted B.C. Clean Electricity resources are expected to meet 41 per cent of the incremental demand over the 10-year target period. Since November 2002, approximately 80 per cent of contracted IPP energy meets the B.C. Clean Electricity definition. We will continue to contract with additional qualifying resources to reach the Clean Electricity Target. For more information on the B.C. Clean Electricity Definition, please see BC Hydro's 2006 *Annual Report*.

Our responses to the next provincial Energy Plan will be formulated once it becomes available. We anticipate the new policy will reflect the February 14, 2006 Speech from the Throne that announced the government's intention for British Columbia to become "...self-sufficient within the decade ahead." We are planning now, through the IEP, for the domestic resources we will need to close the emerging supply/demand gap.

Strategic Context

External Risks and Opportunities

CUSTOMER DEMAND

BC Hydro plans for both peak load and annual energy demand on our electrical system in order to ensure that the resources available are adequate to meet customer electricity requirements. When planning for peak load, BC Hydro conducts studies to determine how much capacity is required to meet the peak with 90 percent confidence. In situations where our heritage assets and purchase contracts cannot provide enough capacity, we address the shortfall through approaches such as load curtailment and market purchases. We complete additional peak load forecasting on a regional basis to use in planning for our transmission and distribution assets.

Significant growth in customer demand – brought about by population growth, a rise in new housing starts, global demand for minerals, new applications for electricity (such as home electronics) and weather patterns – presents financial and reliability risks to the system.

Factors contributing to the growth in customer demand are largely outside of BC Hydro's control, but we are working toward a long-term solution to address the emerging load resource gap. BC Hydro's latest *2006 Integrated Electricity Plan* (IEP) outlines how BC Hydro proposes to meet growing customer demand (please see page 16).

THE CONSERVATION RESEARCH INITIATIVE (CRI)

BC Hydro must provide enough electricity to meet peak demand, but if we could reduce peak demand, we could also delay requirements for new facilities and make better use of our existing system capacity.

The Conservation Research Initiative (CRI) is a pilot program launched in November 2006 to examine ways to shift electricity use to off-peak hours and help us understand how adjusting the price of electricity at different times of day influences usage and conservation patterns of residential customers.

Under the program, new advanced metering automatically collects consumption data and provides participating customers with better electricity usage information, thereby enabling them to adjust their consumption habits.

SAFETY, SECURITY & EMERGENCY PLANNING

BC Hydro's long-term safety goal is to provide the safest work environment compared to the best performers in any industry with no serious injuries. (Please see our short-term priorities on page 25 for specifics of how we mitigate risks to employee safety.)

BC Hydro is committed to protecting the public from hazards associated with our facilities and our product by identifying and evaluating risks to public safety, and by developing and implementing effective plans and processes to mitigate them. We significantly mitigate risk to the public by designing, building and maintaining the electrical system "out of harms way" with overhead and underground construction, and by providing the public (including First Responders) with education and awareness programs.

The security team at BC Hydro identifies and evaluates risks to the security of employees and facilities – including terrorism, theft and vandalism – and develops and deploys effective ways to eliminate or control these risks.

BC Hydro mitigates other significant risks to BC Hydro employees and the company's ability to maintain service, such as natural disasters and pandemics, in part by developing and testing plans to ensure the effective and timely response to and recovery from emergencies. We have also put plans in place to ensure the continuation of critical business processes.

FIRST NATIONS

BC Hydro recognizes the importance of establishing long-term relationships with First Nations – built on mutual respect – that appropriately reflect the interests of First Nations in education, employment, economic development and identifying and mitigating impacts of resource use on the land and the environment.

We also recognize that BC Hydro faces business risks posed by these same First Nations' issues. These risks include grievances related to BC Hydro's generation, transmission and distribution facilities and operations, as well as land claims and regulatory approvals. However, we remain committed to developing innovative solutions to outstanding issues and building sustainable relationships with First Nations.

Strategic Context

In 2006, BC Hydro made significant progress in our negotiations with two First Nations. In particular the Tsay Keh Dene First Nation and the Kwadacha First Nation located at the northern end of the Williston Reservoir have both reached and signed Agreements in Principle jointly with the Province and BC Hydro to resolve outstanding grievances as a result of the construction and ongoing operation of the Williston Reservoir. Final Agreement is anticipated within the next 24 months. We have also made progress on a number of engagements with First Nations on major capital projects, including signing a Benefits Agreement with Blueberry River First Nation related to the Fort St. John Reinforcement project.

ABORIGINAL EDUCATION

BC Hydro is providing \$1 million toward the first-ever National Chair in Aboriginal Economic Development at the University of Victoria.

The chair, based in the faculties of business and law, will direct a program of research, relationship-building and education to advance Aboriginal economic development in Canada. The chair will offer students a supportive learning environment, which will help BC Hydro in building business partnerships and in engaging Aboriginal people in employment opportunities.

Recently, BC Hydro's Board of Directors approved a pilot procurement strategy that creates opportunities to support development and Aboriginal peoples' full participation in BC Hydro's purchases of goods and services. In addition, BC Hydro has approved a 10-year Aboriginal employment and education strategy that will focus on recruiting, training and retaining Aboriginal employees.

ENVIRONMENTAL & SOCIAL CONSIDERATIONS

BC Hydro operates in a dynamic and changing natural and social environment. An uncertainty for us is the prospect of Greenhouse Gas (GHG) regulation. BC Hydro is monitoring government policy discussions on this topic. Because such regulation may affect how we manage existing assets and plan for new resources, we are using GHG price forecasts for integrated electricity planning, utilizing risk management tools in our power acquisition processes, analysing our emissions and developing strategies to mitigate them.

We also regularly assess the risks of uncontrollable environmental factors that may affect our ability to provide reliable electricity – including lower than anticipated water inflows, changing snow-pack conditions, weather patterns, and the mountain pine beetle infestation that may cause trees to fall on our power lines. We do this by using water forecasts in our operations planning and focusing on vegetation management in pine beetle areas.

WATER USE PLANNING

The goal of BC Hydro's Water Use Planning program is to find a better balance between competing uses of water such as domestic water supply, fish and wildlife, recreation, and heritage and electrical power needs that are environmentally, socially and economically acceptable to British Columbians.

We work in consultation with representatives from all levels of government, local communities and First Nations to define water management issues, set objectives and performance measures, review operating alternatives and recommend appropriate operating plans. A desired, but not mandatory, outcome of this consultation process is to achieve consensus agreements on appropriate operations.

Over the past five years, we have together developed 23 Water Use Plans covering 29 facilities, and achieved consensus with 22 of the 23 plans. Seventeen of those plans have now been approved by the Province's Water Comptroller of Water Rights and the remaining six are under review.

These agreements help BC Hydro reduce regulatory uncertainty and provide operational stability. But perhaps even more importantly, the Water Use Planning program has helped BC Hydro engage in a constructive dialogue with all stakeholders and First Nations about the options, impacts, tradeoffs and priorities involved in operating our facilities.

In 2006, the Canadian Electricity Association (CEA) presented BC Hydro with an Environmental Conservation and Responsibility (ECR) Environmental Stewardship award for our Water Use Planning process. The ECR awards program was established in 2006 to raise awareness of the need for better environmental performance by the electrical industry, promote the environmental achievements of CEA members and demonstrate how members are addressing key environmental issues.

BC Hydro's Environmental Responsibility Policy states, in part, that the company will meet environmental requirements defined by

Strategic Context

legislation, regulation and government directives and will perform beyond environmental requirements where it makes sound business sense. To fulfill this policy, we employ an International Standards Organization-compliant environmental management system to help us meet our environmental requirements and avoid, mitigate or offset environmental impacts from the way we operate our facilities and deliver electricity to our customers.

We are also investing in compensation and restoration programs in each region, and working with First Nations, communities and government agencies on a variety of programs – such as Water Use Planning (please see box previous page) and Power Smart demand-side programs – to identify better ways to manage our water resources, close the emerging supply gap and conserve electricity.

We recognize there are challenges ahead and choices to be weighed. By engaging interested parties and providing information, we can ensure that an informed discussion occurs to help us reach the goal of domestic electricity self-sufficiency.

ECONOMIC FACTORS

A strong economy drives demand for electricity. Strong economic growth is expected to continue in British Columbia despite several risks, including cooling housing markets, the dampening of U.S. economic growth, uncertainties in the Canadian forestry sector and volatile prices for commodities such as metals, oil and gas.

Strong employment is also compounding our challenges of attracting and retaining employees and contractors.

In addition, interest rates may continue to rise and BC Hydro remains concerned about escalating costs of construction and materials. These trends will result in increased finance charges and higher costs for necessary supply-related projects that may be undertaken by BC Hydro or our suppliers.

SUPPLIER RELATIONSHIPS

To achieve cost savings, foster private sector generation opportunities and meet the requirements of the government's 2002 Energy Plan, BC Hydro's supply chain now includes several key suppliers, including ABSU, BCTC and contracted IPPs

(please see page 12 for more information on suppliers). As a result, BC Hydro's success is increasingly linked to the performance of these suppliers.

We are working to establish strong relationships with these entities and use service-level agreements where appropriate. In recent years, we have increased the performance obligations placed upon IPPs in Electricity Purchase Agreements (EPAs), reflecting our greater reliance on IPP supply.

Internal Risks and Opportunities

PEOPLE

Of BC Hydro's current workforce, approximately 15 to 20 per cent are eligible to retire now and over one third are eligible to retire in the next five years. This presents both organizational and financial risks.

The volume of pending retirements and a highly competitive external labour market are making it difficult for us to attract and retain the number of skilled employees we need to deliver on our projects and capital plans. In addition, while our public sector wage guidelines help to keep BC Hydro's costs low and we have successfully negotiated agreements consistent with the Public Sector Employer's Council's mandate, if forecasted compensation increases in the market are in excess of what we have negotiated, it may become more challenging for us to compete for people. We have put in place initiatives around recruitment, succession planning and knowledge retention to mitigate the risks outlined above. One such strategy is to recruit people into areas of the organization with the understanding that once they have gained broad experience and understanding of the business they could rotate into harder to fill roles in other areas. This rotational approach is an attraction strategy and a means for developing our talent.

We are also working (please see our short-term priorities, page 36) to re-energize our current workforce through active employee engagement and leadership development activities. These activities will, in turn, help us position our company as a Top Employer – both enhancing the retention of our current staff and increasing the attraction of external candidates and new skill sets to the business that will align with our changing requirements.

Strategic Context

CAPITAL MANAGEMENT

BC Hydro is responsible for an extensive system of generation, transmission and distribution assets.

Our investment decisions must address employee and public safety risks, and balance electric system reliability risks, costs for ratepayers, interests of stakeholders and First Nations, environmental and social impacts, availability of internal and external resources, and the impact of capital spending on debt levels and finance charges.

As a result of growth in customer demand, rising commodity and labour costs, and the maturity of our assets and civil infrastructure – which require increased maintenance to meet expected high levels of reliability – BC Hydro forecasts capital spending of approximately \$1 billion in fiscal 2008, increasing to \$1.4 billion per year.

ASSET MANAGEMENT

Aging physical assets have a significant impact on BC Hydro's reliability and operations. As asset health decreases, the potential for equipment failure increases, unless specific actions are taken.

We have developed a 10-year strategic generation asset plan to address key risks and identify strategies to mitigate these risks. At the facility level, each generation site has its own asset plan that identifies optimal investment decisions based on its unique technical, economic and environmental attributes. We have also implemented a reliability-centred focus on equipment maintenance so that, as assets age, maintenance is modified to keep equipment running at targeted performance levels.

We are also focussing on the planning, expansion and maintenance of our province-wide distribution system, which must always be capable of connecting new customers. As a result, our Field Operations group has standardized its maintenance programs to ensure consistent application throughout the province.

TECHNOLOGY

BC Hydro is examining several opportunities where technology can enhance our business and provide efficiency gains to help offset effects of the labour shortage. Examples include mobile data

connectivity that allows field staff to remotely dispatch and record work and safety information, and Advanced Metering Infrastructure (AMI).

AMI uses smart meters to provide accurate meter readings at regular intervals throughout the day that are then automatically collected and transmitted to BC Hydro. AMI supports conservation initiatives, operational improvements and enhanced customer service through more timely availability of consumption information, increased billing accuracy and more proactive and expedient distribution system management.

BC Hydro is also staying abreast of developments in Smart Energy, focussing on the application of computer technology to the electric power grid.

ELECTRICITY TRADE

Electricity trade is important to BC Hydro, our customers and British Columbia because it enables us to support domestic energy requirements and to lower rates for domestic customers.

Through our Powerex subsidiary (www.powerex.com), BC Hydro participates in electricity and natural gas trading and marketing activities throughout North America.

Although BC Hydro is a net importer of electricity, it earns a profit through Powerex's trade activities. Powerex's profits are generated from its portfolio of sales and purchases and, in part, by optimizing BC Hydro's large, flexible hydroelectric system. The system's flexibility allows BC Hydro to optimize generation to meet load. It also allows BC Hydro to extract trade benefits through exports when prices are relatively high and reduce generation through imports when prices are relatively low.

To mitigate risks associated with Powerex's trading activities, Powerex operates through defined, Board-approved limits on tradable markets, exposure to market prices, exposure to individual counterparty credit ratings, and transaction type, size, and duration. Powerex follows Standards of Conduct and the Electric Power Supply Association's Code of Ethics and Sound Trading Practices to guide its trading.

5. Long-Term Goals and Short-Term Priorities

Long-Term Goals

BC Hydro has established 15 long-term goals to guide our business over the next 20 years and ensure we continue to provide reliable power, at low cost, for generations.

These 15 goals – explained in detail in BC Hydro’s 2006 Annual Report – are:



Long-Term Goals and Short-Term Priorities

Short-Term Priorities

BC Hydro's 15 long-term goals define the low cost, sustainable and socially responsible company BC Hydro will be in 20 years. By focusing on our purpose of reliable power, at low cost, for generations, we will be able to meet these longer term goals. Our five short term priorities are intrinsic in this purpose: reliability for customers and reliability of our supply, keeping our financial costs low and offering service and value to our customers through our attention to our people, contractors, and the public, and their safety.

Right now, B.C.'s rapid economic growth is shaping our short-term priorities.

More customers require more electricity. We must find ways to expand our current system and connect more customers, while maintaining our aging facilities and continuing to provide reliable power at low cost. At the same time, we are facing a shortage of the skilled labour we need to accomplish this work.

As a result, we will focus over the next three years on:

1. Safety

Improving safety with the ultimate goal of providing the safest possible work environment.

2. Reliability (Customer and Supply)

Ensuring the reliability of our electricity supply and developing and fostering a conservation culture in British Columbia that leads to customers choosing to make a dramatic and permanent reduction in electricity use.

3. Financial

Keeping our costs among the lowest in North America and achieving 100 per cent of forecast net income.

4. Customer Satisfaction

Offering extraordinary value and service to our customers.

5. People

Being an outstanding employer.

The next section of this Service Plan provides details on strategies, performance measures and targets for each of these short-term priorities.

6. Strategies, Performance Measures and Targets

BC Hydro uses a series of measures to guide business performance and progress, evaluate whether a particular short-term priority is on track and where adjustments may need to be made. Some of these measures are tracked on a quarterly basis; others are tracked semi-annually and annually. Measures are results-based where possible and will help the company, shareholder and the public evaluate performance. In conjunction with the Auditor General's Building Better Reports initiative, BC Hydro's Audit Services group developed assurance standards for performance measures. On a periodic basis, internal audits are conducted on performance measures using these standards. All internal audits are reviewed by BC Hydro's Audit and Risk Management Committee of the Board. Additionally BC Hydro participates in a number of benchmarking studies to determine areas where improvement may be required.

BC Hydro's Executive Team and the Board of Directors have reviewed the performance measures and targets in this Service Plan to ensure that they are the right indicators to support the five short term priorities – Safety, Reliability (Customer and Supply), Financial Targets, Customer Satisfaction and People.

The performance measures and targets in this Service Plan have not changed significantly from those outlined in last year's plan. Minor changes are as follows:

- We have changed to a more specific name for our Reliability of Supply measure – “Winter Availability Factor” – but the underlying measure remains unchanged.
- DSM targets have been adjusted based on the results of studies underway to identify energy savings potential.
- Targets for net income are based on the latest forecast, and reflect rate increases required to enable BC Hydro to cover increased costs of servicing customers. Rate increases for fiscal 2007 and 2008 have been approved by the BCUC. Rate increases for fiscal 2009 and 2010 are preliminary and subject to future rate applications and BCUC approval.
- The price competitiveness metric as we proposed in last year's plan was deemed to have too many factors that were outside of BC Hydro's control; instead we have provided a chart that shows our rate comparison in Section 2 (Rates and Regulation) and will be developing a productivity measure for inclusion in next year's Service Plan.
- The Customer Satisfaction measure was adjusted after analysis showed the preliminary metric, based on response to a single “overall satisfaction with service” question had several limitations. An index measure of key drivers of customer satisfaction has been developed (i.e. providing reliable electricity, value for money, commitment to customer service, acting in the best interest of British Columbians and efforts to communicate with customers and communities).
- The Employee Engagement performance measure was not complete for release in the 2006/07 to 2008/09 Service Plan. Baseline data and targets have now been established and are included in this Plan. The results will be measured by means of an annual employee survey.
- Because the performance section is now focussed on our short-term priorities, we have moved the environmental objectives into the body of the Service Plan.

Strategies, Performance Measures and Targets

1. Safety

SAFETY – PROVIDE THE SAFEST WORK ENVIRONMENT COMPARED TO THE BEST PERFORMERS IN ANY INDUSTRY, WHERE NONE OF OUR EMPLOYEES WILL EXPERIENCE A SERIOUS SAFETY INJURY.

Our goal is to ensure that safety and health hazards are identified and either eliminated or managed and controlled so that employees, contractors and the public are free from unacceptable risk of harm. This requires an integrated approach in the design and maintenance of assets, operational controls, work procedures and equipment, employee qualifications, training and leadership. To provide a broader perspective on BC Hydro's safety approach, we recently commissioned an expert panel to examine our practices.

Safety management, in particular, is very challenging for employees working on restoration of the system. Crews are often required to travel to remote sites and erect poles, repair transformers and clear and repair lines during severe storm conditions. Focusing on safety means that all BC Hydro employees are aware of safety hazards in every situation, and place safety for themselves and others before all other priorities.

NEAR-TERM STRATEGIES:

Over the next three years, our aim is to achieve a reduction in the frequency of work-related injuries (known as All Injury Frequency or AIF – please see the definition in the following chart) to a level at or below 1.2. We will achieve this by embedding the Safety Trend initiatives already underway, identifying and utilizing best practices, streamlining and improving operational controls (safety procedures and standards), and improving safety knowledge, skills and behaviours.

Specifically, we will focus on:

- Learning from incidents and near misses to ensure timely inter-vention that prevents similar incidents from occurring in the future.
- Improving employee qualifications to reduce errors.
- Implementing “Safety by Design” concepts that integrate safety throughout the asset life cycle.
- Gathering and analyzing leading indicators and applying proven risk management principles to act in advance of any safety threat.
- Ensuring effective internal working relationships and external relationships with the BC Transmission Corporation and contractors.

Strategies, Performance Measures and Targets

Performance Measure	Actual F2005/06	Forecast F2006/07	Target 2006/07	Target 2007/08	Target 2008/09	Target 2009/10
All Injury Frequency (Number of injuries per 200,000 hrs. worked)	2.5	2.1	2.1	1.9	1.5	1.2
Severity (Number of days lost due to injury per 200,000 hrs. worked)	56	29	29	25	22	20

Description: All Injury Frequency is a standard CEA measure and is defined as the total number of employee Medical Aids and Disabling Injuries occurring in the last 12 months per 200,000 hours worked. Medical aid injuries are those where a medical practitioner has rendered services beyond the level defined as “first aid” and the employee was not absent from work after the day of the injury. Disabling injuries are those where the employee is absent beyond the day of injury. Severity is also a standard CEA measure and is defined as the number of calendar days lost due to injury, per 200,000 hours worked. These definitions have been generally harmonized with the U.S. Occupational Safety and Health Administration standards for safety statistics.

Rationale/Benchmarks: We have set these safety performance targets to move toward the safest work environment compared to the best performers in comparable industries over the next three years. Reducing AIF to a level at or below 1.2, and Severity to 20 or below, is consistent with achieving our long-term goal to reduce AIF to 0.5 and Severity to 10 by 2025. For comparison, the Canadian Electricity Association (CEA) composite AIF in 2005 was 2.76 and considered to be excellent performance across industries and North American borders. In F2005/06, BC Hydro’s severity rate was unusually high due to a small number of very serious incidents, and the Severity has already dropped to below the F2006/07 target level.

BC Hydro uses direct peer comparison against comparable CEA utilities to help us achieve “best in class” performance. In AIF, BC Hydro has consistently performed better than the CEA composite; however, at roughly half of the 2005 composite AIF of 2.76, our targeted improvement to 1.2 by 2010 will demand consistent attention to the strategies listed above. The Severity targets have been selected to progressively reduce the lost time associated with injuries.

Note: Additional performance measures may be developed to direct increased focus on specific areas of safety risk.

Strategies, Performance Measures and Targets

2. Reliability (Customer and Supply)

2A. RELIABILITY (CUSTOMER) – PROVIDE BEST IN CLASS RELIABILITY BY CUSTOMER SEGMENT

Customer reliability means that we are able to deliver an uninterrupted supply of electricity to our customers' satisfaction (recognizing that different types of customers have different expectations for outage frequency, outage duration, power quality, and outage communication).

In order to meet customer needs and expectations for reliable service, both now and in the future, we need to understand and embed customer values in all of our business processes and change from a focus on the system to a focus on the customer so we can deliver expected customer service levels within a lowest life cycle cost framework. This is also key to meeting customer satisfaction targets.

The measures below assess performance during normal operating conditions (i.e., excluding storms and other major events). Winter storms, however, are a part of our business and we have developed a safe and timely response approach. Our abilities to scale our staff appropriately and to work with our local offices and the Provincial Emergency Program are critical. Crews are mobilized to respond in priority sequence to incidents affecting major infrastructure (transmission lines, substations and major distribution lines), priority customers including hospitals, and problems where the greatest numbers of customers are impacted. Reports that describe BC Hydro's storm response activities are now available on our website shortly after each major event. We continue to analyze the impacts of major storm events, such as those experienced in November and December 2006, to refine our strategies, practices and communications, and improve restoration times.

NEAR-TERM STRATEGIES:

Over the next three years, we will focus on three initiatives:

- The Stakeholder Engagement initiative to build and enhance employee (and customer) awareness and understanding of customer needs and expectations.
- The Customer Based Reliability (CBR) initiative to identify differing reliability needs for various customer segments and how best to align our asset management processes to focus on those needs. We will continue to monitor the measures below at a more granular level to identify customer areas experiencing unusually frequent or prolonged outages. This information, combined with the output of the CBR and targeted performance requirements at the substation and transmission level, will help us prioritize our investments in a way that best meets the reliability needs and expectations of our customers.
- The Asset Management Framework initiative to develop an asset management system to monitor the health and capability of each asset class (such as wires, poles and cables), calculate asset lifecycle costs and support effective maintenance practices to help deliver consistently reliable power.

Strategies, Performance Measures and Targets

Performance Measure		Actual F2005/06	Forecast F2006/07	Target 2006/07	Target 2007/08	Target 2008/09	Target 2009/10
Reliability - Customer (excluding major events)	CAIDI	1.82	2.15	2.26	2.15	2.15	2.15
	ASAI	99.969	99.970	99.970	99.970	99.970	99.970
	CEMI-4	14%	11%	11%	10%	9%	8%
	CELID-6	17%	17%	17%	16%	14%	13%

Definitions:

CAIDI (Customer Average Interruption Duration Index) – The average interruption hours per interrupted customer.

ASAI (Average Service Availability Index) – The percentage of time power is available.

CEMI (Customers Experiencing Multiple Interruptions) – Percentage of customers experiencing 4 or more outage interruptions per year, excluding major events.

CELID (Customers Experiencing Longest Interruption Duration) – Percentage of customers experiencing longest interruption duration of six or more hours, excluding major events.

Rationale/Benchmarks: BC Hydro has a high level of customer satisfaction with overall system reliability. CAIDI and ASAI reflect the reliability of the overall distribution system, and targets have been set to achieve a level of performance that will maintain a high level of customer satisfaction. While these measures are industry standards, they do not reflect that, in some areas of British Columbia, the frequency and duration of outages is consistently higher than the system average. CEMI and CELID are customer reliability measures that address this issue. We have set the initial targets based on fiscal 2006 performance on these measures.

BC Hydro participates in an annual transmission and distribution benchmarking study conducted by PA Consulting. In fiscal 2006, BC Hydro's reliability performance, namely ASAI and CAIDI, ranked in the third quartile relative to a panel of leading Canadian and U.S. utilities participating in the study. While we benchmark our performance, we recognize the need to account for the impact of our vast service territory, terrain and vegetation challenges on our end user reliability performance. BC Hydro has three times as many trees per overhead pole mile as the North American average and 86 per cent of our distribution system is overhead, making us more susceptible to major weather events such as wind and snow storms.

Strategies, Performance Measures and Targets

2B. RELIABILITY (SUPPLY) – MEET ALL DOMESTIC NEEDS

Reliability of supply means ensuring all the infrastructure components are in place – and are operating optimally – to deliver energy to our customers. These components include generating facilities, the transmission network and the distribution network. Generating facilities include BC Hydro's heritage assets, IPPs and other contracted generators. We can also access supply from external energy markets, including Alberta, the Western United States and the Canadian Entitlement under the Columbia River Treaty.

We achieve transmission reliability by requesting adequate transmission service from BCTC to ensure the network is capable of delivering supply to the load centres. We achieve distribution reliability by ensuring new customer requests are met and the existing assets provide the targeted level of service.

The current system is moving to a point where its existing capability is no longer sufficient to meet increasing load. This means we must plan for and acquire resources that complement the existing system, and bring them into operation a timely manner.

Our reliability planning is outlined in our *2006 Integrated Electricity Plan (IEP)*, which includes, as its final chapter, the *Long-Term Acquisition Plan (LTAP)*. The IEP and LTAP lay out how BC Hydro will:

- build on our successful demand-side management (DSM) programs (see next section on Electricity Conservation and Efficiency)
- implement the 2006 Call for Power, which acquired 4,200 GWh/yr of firm energy (net of anticipated attrition and outages, including the Brilliant Expansion contract)
- finish bringing energy from prior Calls for Power on-stream
- execute the 2007 Call for Power¹ for 5000 GWh/yr of firm energy
- prepare for a future fiscal 2009 Call for Power², and
- execute on capital spending plans to enhance and maintain our generation heritage assets.

NEAR-TERM STRATEGIES:

Over the next three years, we will work to:

- Ensure generation heritage assets maintain threshold reliability targets.
- Manage our peak load supply reliability by minimizing the amount of unit outages during the winter peak period, coordinating with Powerex to secure firm market energy options for domestic peaks and expanding our firm and non-firm load curtailment programs with customers as contingencies for winter capacity supply.
- Advance sequential power acquisition processes and steps to ensure incremental supply is in place to meet future needs.

Notes:

¹ Pending BCUC approval of the LTAP

² Pending BCUC approval of the LTAP

Strategies, Performance Measures and Targets

Performance Measure	Actual F2005/06	Forecast F2006/07	Target 2006/07	Target 2007/08	Target 2008/09	Target 2009/10
Winter Availability Factor (The percentage of time that units are available for service.)	96.77%	95.75%	97.50%	96.20%	96.40%	96.60%
<p>Description: The measure is a percentage rate of units in the system available to generate electricity (hours available for service/total hours) during the critical peaking period of November 15th – February 15th. We changed the title to Winter Availability Factor from Availability Factor for clarity.</p> <p>Rationale/Benchmarks: The reliability measure provides a means to gauge BC Hydro's performance on the reliability of our hydro generation fleet over the critical four-month winter peak period when demand is greatest due to adverse weather. Units become unavailable during this time primarily due to unexpected forced outages as well as scheduled outages required to maintain them. This measure drives the need for us to complete all major maintenance in the non-critical period and to minimize the duration of outages during the critical peak periods. Although we have done very well in keeping the units availability levels high in the past two years, the next three year targets reflect the expectation that as peak customer demand continues to increase, and generation equipment is being utilized more fully and continues to age, there is a higher probability that additional unexpected outages will occur. Over time, as the current maintenance plan for the units is completed, and as more generating capacity is added in the system, we expect to increase our performance targets.</p> <p>BC Hydro is not currently aware of any external benchmarks which are suitable for comparison with the Winter Availability Factor.</p> <p><i>Note: BC Hydro will develop an overall supply measure and targets, pending the establishment of government policy through the renewal of the 2002 Energy Plan and the BCUC's decision on our Long-Term Acquisition Plan.</i></p>						

Strategies, Performance Measures and Targets

2C. ELECTRICITY CONSERVATION AND EFFICIENCY – DEVELOP AND FOSTER A CONSERVATION CULTURE IN B.C. THAT LEADS TO CUSTOMERS CHOOSING TO MAKE A DRAMATIC AND PERMANENT REDUCTION IN ELECTRICITY INTENSITY.

Long-term demand-side management (DSM) is a critical part of our strategy to address supply and demand issues and reduce energy costs and environmental impacts. Our 2006 Integrated Electricity Plan (IEP) found that DSM is the lowest cost available resource to meet growing electricity demand, and imposes the least environmental impact. Pursuing DSM will increase customer satisfaction, lower energy bills and support a more sustainable future for British Columbia.

NEAR-TERM STRATEGIES:

Over the next three years, we will:

- Lead by example, by ensuring BC Hydro facilities and employees take advantage of all possible DSM practices.
- Encourage an energy conservation ethic through a broad foundation of awareness and support and appropriate price signals with new rates and rate structures to encourage efficiency and conservation and continue to evolve and launch new DSM programs where rates are ineffective in overcoming market barriers to energy efficiency improvements.
- Stimulate innovation by establishing BC Hydro as a leader in the advancement of new energy efficiency technologies and practices and by supporting research into technological advances that could save electricity, such as advanced pulp screen technology and improved lighting and building designs.
- Promote a utility regulatory environment that is conducive to DSM, through dialogue with stakeholders and government and support strong government policy and regulation to drive changes in the energy efficiency of products and buildings

Performance Measure	Actual F2005/06	Forecast F2006/07	Target 2006/07	Target 2007/08	Target 2008/09	Target 2009/10
Demand Side Management (DSM) (GWh/Year, rounded)	2,000	2,500	2,500	2,800	3,300	3,800
<p>Description: The DSM measure reflects the cumulative annual rate of electricity savings resulting from DSM activities (conservation, energy efficiency and load displacement) since fiscal 2001/02.</p> <p>Rationale/Benchmarks: The DSM measure reflects the cumulative annual rate of electricity savings resulting from DSM activities since fiscal 2002. It gauges the contribution of DSM to closing BC Hydro's demand-supply gap. For example, targets in fiscal 2009 and 2010 reflect a reduction in forecast load growth of about 0.8 per cent. Without incremental DSM, forecast load growth would be 2.3 per cent, compared to 1.5 per cent with incremental DSM. Targets reflect the 2006 Integrated Electricity Plan's recommended DSM target of 10,000 GWh by fiscal 2025.</p> <p><i>Note: Targets are subject to change based on the results of studies underway to identify energy savings potential and the development of a new DSM plan.</i></p>						

Strategies, Performance Measures and Targets

3. Financial Targets

FINANCIAL TARGETS – MAINTAIN LOW COSTS FOR ELECTRICITY CUSTOMERS IN BC OVER THE LONG TERM, WHILE CONSISTENTLY DELIVERING 100 PER CENT OF FORECAST NET INCOME.

We want to deliver key financial targets from both the shareholder and customer perspectives while achieving our other performance targets. The shareholder's interest is in achieving a stable and predictable return on its investment in BC Hydro. The customers' interest lies in maintaining the low electricity rates they currently enjoy without compromising safety, reliability or environmental performance, which provide a competitive advantage to industry and help to drive economic activity in British Columbia.

For the shareholder, our objective is to consistently deliver 100 per cent of forecast net income; for our customers, our objective is to maintain and build on the low-cost position that British Columbian electricity customers currently enjoy.

NEAR-TERM STRATEGIES:

Over the next three years, we will work to:

- Hedge foreign exchange and interest rate risks.
- Manage the short-term cost of energy by optimizing decisions of buy versus generate.
- Optimize the long-term cost of energy through implementation of the *2006 Integrated Electricity Plan* (IEP) and the *Long-Term Acquisition Plan* (LTAP), including conducting future competitive calls for energy from IPPs.
- Enhance prioritization, reporting and execution of capital spending across BC Hydro while upgrading and maintaining our heritage assets.
- Implement productivity projects focusing on rationalizing IT systems, the procurement process and the work management process.

Over the long-term, these strategies will result in a sustained cost advantage created by:

- making good business decisions that enhance productivity
- delivering an effective capital investment program
- procuring new supply at low total cost, and
- optimizing BC Hydro's balance sheet and cost of capital.

Strategies, Performance Measures and Targets

Performance Measure	Actual F2005/06	Forecast F2006/07	Target 2006/07	Target 2007/08	Target 2008/09	Target 2009/10
Net Income (Millions)	266	400	395	365	396	416

Description: Net income is defined as total revenue less total expenses after regulatory account transfers, and represents the net impact of key economic and business factors that affect BC Hydro's performance. Regulatory account transfers reflect the financial impact of the factors beyond BC Hydro's control (such as water volatility, market prices, etc.)

Rationale/Benchmarks: The targets are based on the latest forecast and reflect rate increases required to enable BC Hydro to earn its allowed return on equity. Rate increases for fiscal 2007 and 2008 have been approved by the BCUC. Rate increases for fiscal 2009 and 2010 are preliminary and subject to future rate applications and BCUC approvals.

Note: In the 2005/2006 to 2007-2008 Service Plan, BC Hydro contemplated the introduction of an additional Financial Targets metric to assess price competitiveness. This metric, which was still under development at the time, was to have captured the relative price advantage for BC Hydro customers relative to the average electricity prices paid by customers in six jurisdictions used by the BC Progress Board to assess the competitiveness of British Columbia (Edmonton, Montreal, Portland, San Francisco, Seattle, and Toronto). Upon further review, it has proved impractical to manage against and report on the proposed metric since factors beyond BC Hydro's control such as exchange rate movements and volatile energy prices in partially deregulated markets have been the primary drivers of annual changes in comparative pricing.

Consistent with our energy planning and capital investment philosophy, BC Hydro seeks to minimize costs for ratepayers over the long-term. The BCUC, through the Revenue Requirements Application process, provides oversight to ensure that BC Hydro is prudent in managing costs and continually strives to improve productivity. The table on page 11 compares BC Hydro's fiscal 2007 rates to those charged by utilities in the six jurisdictions identified by the BC Progress Board.

As a replacement for the price competitiveness metric, we are developing a productivity measure for inclusion in next year's Service Plan.

Strategies, Performance Measures and Targets

4. Customer Satisfaction

CUSTOMER SATISFACTION – LEAD OTHER COMPANIES IN OFFERING EXTRAORDINARY VALUE AND SERVICE

BC Hydro's aim is to offer extraordinary value and service to our customers, thereby retaining the trust and support of our customers, shareholder and regulator and ensuring a continued consent to operate.

Customer satisfaction level is a key indicator of how well our customers feel we are doing. Since customers' needs and expectations change over time, we must continually focus on improvement to ensure that customer satisfaction does not slip.

In addition, because BC Hydro is operating in a changing business environment – and is facing such challenges as an increasing gap between supply and demand, labour pressures, and the need to invest in our aging infrastructure – we will need strong customer support for the strategies required to meet these challenges and continue to deliver reliable power, at low cost, for generations.

NEAR-TERM STRATEGIES:

The near-term strategies required to ensure we deliver consistently excellent performance include:

- Maintaining our focus on the aspects of our service that matter most to customers, such as reliability.
- Improving service in high customer contact areas. This will include improving outage communication, call centre interactions, BC Hydro website content and functionality, complaint management processes and customer understanding of electricity and the services BC Hydro provides.
- Building upon our understanding of what customers need and expect and are currently experiencing. We will do this through increased customer research and by integrating such feedback mechanisms as inquiries and complaints, best practice reviews and comprehensive benchmarking.
- Using communications and other tools to ensure employees understand the customer experience and how their actions create optimal customer value and satisfaction.

Strategies, Performance Measures and Targets

Performance Measure	Actual F2005/06	Forecast F2006/07	Target 2006/07	Target 2007/08	Target 2008/09	Target 2009/10
Percentage of Customers scoring 8–10 out of 10	71	76	76	–	–	–
CSAT Index (Percentage of Customers Satisfied and Very Satisfied)	–	–	–	80	80	80
<p>Description: The preliminary metric was based on the percentage of customers who scored BC Hydro 8, 9, or 10 out of 10 in response to a single “overall satisfaction with service” question. The new metric is an equally weighted index of the key drivers of customers’ satisfaction with BC Hydro. These drivers include providing reliable electricity, value for money, commitment to customer service, acting in the best interest of British Columbians and efforts to communicate with customers and communities.</p> <p>Rationale/Benchmarks: Analysis has shown that the preliminary metric had several limitations. As a result, BC Hydro prepared an “index” measure of customer satisfaction. Targets are intended to align with sustaining current customer satisfaction levels in order to retain trust and support of our customers and are based on total satisfaction (per cent of customers who are satisfied or very satisfied on a 4 point verbal scale). Although customer satisfaction levels have historically been strong it is anticipated that it will take focused effort to ensure this continues in our new challenging business environment. The targets are based upon preliminary baseline research and will require further confirmation.</p> <p>BC Hydro has benchmarked our customer satisfaction level against both electric utilities and a group of non-electric companies with which our customers are familiar. Preliminary results suggest that BC Hydro’s current satisfaction level compares favourably, with results generally in the top quartile.</p>						

Strategies, Performance Measures and Targets

5. People

WORKPLACE – TOP EMPLOYER FOR GENERATIONS

In order to successfully provide reliable power, at low cost, for generations, BC Hydro has to ensure it has the right people, with the right skills/values/motivation, in the right jobs at the right time doing the right work.

This is an increasing challenge due to tough labour markets as a result of aging demographics (provincial, national and global), strong BC and Alberta economies and a shortage of skilled trades in our industry. Utilities across North America face the same demand for labour, placing increasing pressure on a tight labour market. The cost of living in many BC locations also poses a challenge to recruitment, as does the geographic isolation of some locations. Also a challenge is that fact that, of BC Hydro's current workforce, over 700 employees are eligible to retire now and nearly one third will be eligible to retire in the next five years. Retirement eligibility is defined as the first date that an employee would be eligible to receive an unreduced pension.

As a result, we are focusing on enhancing how we attract, train, motivate and retain the best people and on supporting a positive workplace environment and increasing employee engagement to support the achievement of our long-term goals and short-term priorities.

NEAR-TERM STRATEGIES:

Over the next three years, we will:

- Utilize centralized, discipline-specific recruiters and further leverage the ABSU partnership to enhance the effectiveness of the end-to-end recruitment process in order to hire better and faster and increase the diversity of our workforce.
- Implement a targeted retention strategy that provides incentives for eligible retirees to remain at BC Hydro through a period of knowledge transfer and resource replacement.
- Continue strengthening our leadership team through specific development opportunities for high potential leaders and a focus on diversity, as well as through leadership training both for existing leaders and those on the frontline in their first leadership roles.
- Focus on meaningful employee engagement with emphasis on conservation and safety initiatives.
- Continue to build effective two-way communications between all levels of the organization.

Strategies, Performance Measures and Targets

Performance Measure	Actual F2005/06	Forecast F2006/07	Target 2006/07	Target 2007/08	Target 2008/09	Target 2009/10
Employee Engagement (Index score out of five on an employee survey)	3.33	N/A*	N/A*	3.5	3.7	3.9
<p>Description: Mean score (out of five) of all 47 survey questions.</p> <p>Rationale/Benchmarks: Employee Engagement is a consistent element of all the working definitions of Best Employer we have reviewed. The level of employee engagement is indicative of both employee satisfaction and productivity across the company, and can be measured by means of an employee survey. We selected this measure as indicative of a Top Employer. The Employee Engagement targets are consistent with moving BC Hydro towards being a Top Employer.</p> <p>BC Hydro compares the employee engagement scores to those published by Work Canada. For comparison, the Employee Engagement score for 2006 Work Canada was 3.50 Overall, while Energy and Utility was 3.49. Companies in the 2005 top 25 in B.C. on the BC Business <i>The Best Companies to Work for in B.C.</i> survey scored 4.3; companies in the top 10 scored 4.46.</p> <p><i>* BC Hydro moved the annual employee survey from February to November of each year to better align the timing with other work demands. We did not conduct a survey in November 2006 as there was not enough time to take action to demonstrate meaningful results since the February 2006 survey. As a result, no targets were included in last year's Service Plan and we will not report results for fiscal 2007.</i></p>						

7. Financial Outlook Summary

This section includes high-level financial forecasts for BC Hydro's revenues and expenses, the key assumptions and risks considered in setting these projections, and the major capital expenditures that support the business.

Financial performance focuses on the financial return to BC Hydro's shareholder (the Province of British Columbia) and the electricity rates paid by customers. The economic value BC Hydro generates for British Columbia directly benefits customers and British Columbian residents.

In fiscal 2006, BC Hydro provided \$642 million in cash transfers to the Province. This amount includes water rental fees (royalties paid for the use of provincial water resources), taxes and grants-in-lieu of taxes to the province and local governments, and BC Hydro's annual dividend to the British Columbia government.

Cost Drivers

BC Hydro's most significant costs for supplying domestic needs include the cost of energy and the capital investment costs of maintaining and expanding assets. The single largest cost is the cost of energy – which includes the cost of market energy purchases, natural gas costs, Independent Power Producer (IPP) purchases, water rental fees and transmission costs – to meet customer demand. On average, the cost of energy makes up between 40 and 45 per cent of BC Hydro's overall domestic costs. Pressure on this cost driver comes from the new resources required to meet the growth in customer demand; these new supplies – whether through BC Hydro's Power Smart or Resource Smart or contracts with IPPs – are significantly more expensive than electricity from our heritage assets.

BC Hydro's amortization costs and finance charges, derived from the capital investment needed to ensure the ongoing reliability of our assets, account for around one third of all domestic costs. The main pressures on these cost drivers are BC Hydro's aging assets, system expansion due to increasing customer demand, and increasing market interest rates.

More specifically:

1. GROWTH

BC Hydro expects that, if the province's strong economy and population growth continue as forecast, this growth will result in:

- further increases in energy demand
- increased cost of new energy to meet the demand compared to energy from existing heritage assets
- increased capital expenditures and operating costs for heritage assets on the Peace and Columbia River systems and to maintain and expand the capacity of the transmission, distribution and generation systems, and
- increased spending on demand-side management programs to increase the efficient use of electricity.

Financial Outlook Summary

2. RELIABILITY

BC Hydro's assets are aging and many components of the system are nearing the end of their useful lives. Half of BC Hydro's generation capacity is over 30 years old. BC Hydro is therefore exposed to increased risk of equipment failure and reduced service reliability to our customers. To maintain existing assets operating effectively as and when required, BC Hydro expects to:

- increase capital expenditures to refurbish aging assets, resulting in higher amortization and finance charges
- increase maintenance expenditures to minimize equipment outages, and
- increase our vegetation management costs in response to the risk posed by the Mountain Pine Beetle within the distribution system.

3. ECONOMIC FACTORS

Short-term interest rates are expected to increase over the next few years; with 36 per cent of the debt subject to short-term rates, this will have an adverse impact on finance charges.

Due to construction market pressures, BC Hydro is already experiencing significant increases in labour and contractor rates and equipment costs, and we expect this to continue in the medium term.

Financial Performance and Key Assumptions

BC Hydro's operations are subject to a range of risks and uncertainties; actual financial results may differ materially from those described in this Service Plan. It is also important to consider the following when assessing BC Hydro's financial performance:

1. RATE STRATEGY

BC Hydro filed a *Revenue Requirements Application* with the BCUC in May of 2006 covering fiscal years 2007 and 2008. An interim increase of 4.65 per cent was granted effective July 1, 2006.

We filed an Evidentiary Update on August 31, 2006, which formed the basis of a proposed negotiated settlement. Under the negotiated settlement, BC Hydro's approved rate increase is 1.54 per cent for the period from July 1, 2006 to January 31, 2007. A further 2.1 per cent increase (including a 2 per cent rate rider to recover BC Hydro's accumulated deferral accounts) will take effect on February 1, 2007.

Customers will see a decrease of 1 per cent on their bills between the interim rate and the final rate increase of 3.64 per cent from February 1, 2007. They will also receive refunds from us of the approximately \$50 million we collected over the interim rate period of July 1, 2006 to January 31, 2007.

The current forecast also includes further rate increases in fiscal 2009 and fiscal 2010 needed to cover BC Hydro's costs and earn our allowed return on equity. These rate increases are indicative only and could significantly change given economic and operating conditions, such as water inflows and reservoir levels that may be present at the time. These future increases are also subject to BCUC approval.

In March 2007, BC Hydro will file a *Rate Design Application* with the BCUC, which essentially updates our Terms and Conditions and costs assigned to customer classes since the last application was filed in 1991. The result of this application will not affect BC Hydro's total revenue.

Financial Outlook Summary

2. REGULATORY DEFERRAL ACCOUNTS

BC Hydro has four regulatory deferral accounts, approved by the BC Utilities Commission (BCUC) on October 29, 2004:

- Heritage Payment Obligation Deferral Account
- Trade Income Deferral Account
- Non-Heritage Deferral Account, and
- BCTC Deferral Account.

These accounts – similar to those used by most regulated utilities – are used to capture specific differences between forecast costs and actual costs and are intended to smooth the overall effect on ratepayers of cost impacts out of BC Hydro's control. BC Hydro is subject to periodic reporting of changes in the regulatory deferral accounts. The ability to utilize any accumulated balances in future rate applications is subject to determination and approval by the BCUC.

Based on the terms of the approved negotiated settlement agreement described above, a rate rider of 2 per cent will be put in place effective February 1, 2007 for the purpose of recovering the current balances in the deferral accounts. Recovery of \$50 million in fiscal 2007 and \$55 million in fiscal 2008 is estimated. The total balance of the four regulatory deferral account balances at the end of fiscal 2006 amounted to \$257 million.

3. FINANCING STRATEGY

BC Hydro forecasts the overall borrowing requirement to be approximately \$770 million in fiscal 2007, \$525 million of which will be used to refinance retired debt for a net requirement of \$245 million. BC Hydro expects to borrow \$300 million of the \$770 million through long-term debt, with the remainder through available revolving borrowing capacity. During fiscal 2006, BC Hydro borrowed \$400 million of new long-term debt.

As a Crown corporation, BC Hydro borrows all funds through the Province of British Columbia, and all of BC Hydro's debt is either held or guaranteed by the Province, resulting in a credit rating on our long-term debt similar to the Province's own rating of Aaa by Moody's and AA+ by Standards and Pools.

We forecast debt net of sinking funds as of March 31, 2007 to be \$6.9 billion and will increase to \$7.6 billion at the end of fiscal 2008. We forecast finance charges to be approximately \$450 million in fiscal 2007, compared to actual finance charges of \$436 million for fiscal 2006.

4. CHANGE IN ACCOUNTING PRESENTATION FOR REGULATORY DEFERRAL ACCOUNTS TO CONFORM WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

In our fiscal 2006 year-end financial statements, we changed the presentation of financial information to comply with new GAAP requirements. The change required that all items with regulatory accounting treatment be presented on a gross basis in the income statement, with all transfers to regulatory accounts being shown on one line on the statement of operations. This had no impact on net income.

As a result of this change, the British Columbia government also changed its reporting of BC Hydro's financial results. It now records BC Hydro's net income as opposed to net income before regulatory account transfers. The forecast years are presented on a consistent basis as the audited financial statements.

Financial Outlook Summary

Revenues and Expenses – Financial Projections

BC Hydro's financial projections for revenues and expenses through fiscal 2010 were calculated based on our information as at December 2006.

CONSOLIDATED STATEMENT OF OPERATIONS

(\$ millions)	ACTUAL	FORECAST			
	F2006	F2007	F2008	F2009	F2010
Revenues					
Domestic	2,765	2,815	2,948	3,162	3,330
Trade	1,546	1,373	1,591	1,692	1,783
	4,311	4,189	4,539	4,854	5,113
Expenses					
Energy costs	2,488	2,218	2,503	2,663	2,817
Domestic	1,328	1,186	1,198	1,255	1,325
Trade	1,160	1,032	1,305	1,408	1,492
Operating costs	805	678	704	722	725
Operation	373	249	300	310	303
Maintenance	268	281	257	262	268
General and Administration	165	148	146	150	153
Taxes	147	147	154	157	160
Amortization	411	382	374	412	466
	3,851	3,425	3,735	3,954	4,168
Income Before Finance Charges and Regulatory Account Transfers:					
	460	764	803	900	944
Finance charges	436	451	480	501	531
Net Income Before Regulatory Account Transfers	25	312	324	398	414
Regulatory Account Transfers	242	88	41	(2)	2
NET INCOME	266	400	365	396	416
Debt ¹	6,651	6,942	7,593	8,289	9,032
Equity ²	2,876	3,022	3,165	3,327	3,499
Capital Spending	610	843	995	1,296	1,373
Full Time Equivalents ³	4,615	4,930	4,990	5,000	5,000

Notes:

¹ Debt figures are net of sinking funds.

² Includes Retained Earnings, Contributions arising from the Columbia River Treaty, Contributions in aid of Construction and Deferred Revenue.

³ FTE levels are subject to adjustment based on detailed resourcing plans, including strategies to address succession and knowledge transfer related to retirement-eligible employees.

⁴ Table may not add due to minor rounding.

Financial Outlook Summary

Key Assumptions

We used the following key assumptions in preparing BC Hydro's financial projections:

KEY ASSUMPTIONS	Actual	Forecast			
	F2006	F2007	F2008	F2009	F2010
Growth and Load:					
B.C. real Gross Domestic Product growth (%) ²	3.80%	3.00%	3.00%	3.10%	3.10%
Domestic Load growth (%) ¹	2.41%	1.21%	1.88%	1.61%	1.53%
Residential Customer Load growth (%) ¹	2.83%	2.91%	2.52%	2.28%	1.85%
Light Industrial and Commercial Customer Load growth (%) ¹	2.60%	1.82%	1.78%	1.46%	1.70%
Large Industrial Customer Load growth (%) ¹	1.55%	(1.33%)	0.96%	0.97%	0.91%
Domestic Load (GWh):					
Domestic Sales Volume (GWh)	52,440	53,073	54,071	54,940	55,780
Line Loss and system use (GWh)	5,318	4,982	5,402	5,492	5,575
Total Domestic Load (GWh)	57,758	58,055	59,473	60,433	61,355
Energy Generation:					
Total System Water Inflows (% of average) ³	99%	87%	100%	100%	100%
Sources of Supply to meet Domestic Load:					
Net Hydro Generation (GWh) ⁴	44,851	44,394	45,972	46,300	47,178
Market Electricity purchases (GWh)	5,853	6,603	5,657	5,980	5,202
Independent Power Producers & long-term purchases (GWh)	6,741	6,084	7,485	7,796	8,651
BC Hydro Thermal Generation (GWh)	313	975	360	357	324
Sources of Supply for Domestic Load (GWh)	57,758	58,056	59,474	60,433	61,355
Electricity Trade Sales Volumes (GWh)					
Average Mid-C price (\$US/MWh)	\$59.01	\$45.17	\$60.00	\$61.67	\$59.80
Average Natural Gas price at Sumas (US\$/MMBTU)	\$7.66	\$ 6.13	\$ 7.44	\$ 7.61	\$ 7.47
Financial:					
Canadian short-term interest rates ²	4.32%	4.41%	4.24%	4.40%	4.81%
Canadian long-term interest rates ²	3.18%	4.88%	4.84%	5.41%	6.01%
Foreign exchange rate (US\$:Cdn\$) ²	0.8408	0.8821	0.8710	0.8828	0.8850
Rate Increases (%) ⁵	0.00%	1.54%	0.10%	5.86%	3.74%
Rate Rider (%) ⁵	0.00%	2.00%	2.00%	2.00%	2.00%

Notes:

¹ Includes the impact of PowerSmart programs.

² Economic assumptions from Ministry of Finance dated January 4, 2007.

³ Water inflows for F2007 reflect the low water inflows experienced during the year. Future year inflows are assumed to be at average levels. The impact of a change in water inflows is shown on page 43.

⁴ Includes Exchange Net.

⁵ Rate increases for F2007 and F2008 have been approved by the BCUC. Increases for F2009 and F2010 are indicative only and are based on the increases needed to cover BC Hydro's costs and earn our allowed return on equity. These rate increases could significantly change given economic and operating conditions such as water inflows and reservoir levels that may be present at the time.

Various legal and regulatory matters are pending. Owing to the size, complexity and nature of BC Hydro's operations, it is not possible at this time to predict with any certainty the outcome of such matters. BC Hydro's annual and quarterly reports describe the most significant legal and regulatory matters (see www.bchydro.com).

Financial Outlook Summary

Sensitivity Analysis

The following table illustrates the impact that key drivers – such as water inflows and gas prices – can have on BC Hydro's earnings. The combined effect of these drivers, which are largely beyond BC Hydro's control, is an income before regulatory transfer's range of as much as \$200 to \$800 million in each year.

The volatility between BC Hydro's plan and actual results will be partly mitigated through the use of regulatory deferral accounts as have been approved by the BCUC and addressed earlier in this document.

	2006/07		2007/08		2008/09		2009/10	
(\$ millions)	Low	High	Low	High	Low	High	Low	High
Range of Income subject to deferral account transfers:								
Inflows / Gas Prices ¹	(90)	35	(200)	315	(365)	255	(375)	250
Total Range of Ratepayer Risk	(90)	35	(200)	315	(365)	255	(375)	250

	2006/07		2007/08		2008/09		2009/10	
(\$ millions)	Low	High	Low	High	Low	High	Low	High
Weather ²	(5)	5	(5)	5	(5)	5	(5)	5
Customer Load ³	(10)	10	(25)	25	(25)	25	(25)	25
Pension Costs ⁴	0	0	(5)	10	(10)	15	(20)	20
Foreign Exchange ⁵	(0)	5	(5)	5	(5)	5	(5)	5
Interest Rates ⁶	(10)	10	(25)	25	(25)	25	(25)	25
Total Range of Shareholder Risk	(25)	25	(65)	70	(70)	75	(80)	80

The Inflows/Gas Prices sensitivity noted above would be eligible for regulatory deferral account treatment in fiscal 2007 and fiscal 2008 (i.e., variances from the Plan approved by the BCUC would flow into the regulatory deferral accounts and impact rates in future periods). As a result, these items would be considered ratepayer risk. The other items on the table are considered shareholder risk, as these items have either not been approved by the BCUC for fiscal 2009 and 2010, or are not eligible for deferral account treatment.

Notes:

- ¹ High and low ranges are based on being within an 80 per cent probability band. The ranges fluctuate from year to year due to the impact inflow levels and market prices have on optimization decisions including reservoir levels. Water inflows are subject to transfers to regulatory deferral accounts for variations from the Plan approved by the BCUC as part of the Negotiated Settlement Agreement for fiscal 2007 and fiscal 2008.
- ² Assumes weather will be 5 per cent warmer or colder than normal and fall within this range approximately 80 per cent of the time. Weather is subject to transfers to regulatory deferral accounts for variations from Service Plan for fiscal 2007 and fiscal 2008.
- ³ The customer load high and low ranges are based on being within an 80 per cent probability band. The range is smaller for fiscal 2007, as the range only reflects the uncertainty for the remainder of the year. Assumes change in customer load is met by market purchases at current forecast average purchase prices.
- ⁴ Probable forecast assumes return on pension plan assets is 7 per cent, low forecast assumes return of 5 per cent and high forecast assumes rate of 10 per cent. There is no high/low range for fiscal 2007 as the main driver of BC Hydro's pension costs is based on the previous year's actual returns. Impacts on changes to the actuarial valuation are not reliably estimable at this time and the range of possibilities can be large.
- ⁵ High and low are based on being within the 80 per cent probability band (translates to +/- 1 cent from expected). The impact of a change in the dollar exchange rate includes the impact on Powerex net cash flows, interest payments on U.S. dollar denominated debt, U.S. dollar sinking fund income and the BCUC-approved deferral and amortization method of accounting for foreign-exchange gains and losses on foreign denominated monetary items such as debt.
- ⁶ A change of one percentage point in short-term interest rates changes finance charges by approximately \$35 million. High and low are based on being within the 80 per cent probability band (translates to +/- 70 basis points from expected).

BC Hydro reports on actual performance in our Quarterly and Annual Reports, and provides updated forecasts each year in our Service Plan.

Financial Outlook Summary

Capital Expenditures and Capital Expenditure Process

BC Hydro classifies capital expenditures as either sustaining capital or growth capital.

- Sustaining capital is required to meet targeted levels of customer and supply reliability. It includes expenditures to ensure the continued availability and reliability of our generation and distribution facilities. It also includes expenditures to support the business, such as vehicles and information technology.
- Growth capital is required to meet customer load growth and other business investments. It includes Resource Smart projects for the expansion of existing generation assets and expansion and reinforcement of our distribution system. The scope and timing of growth projects are uncertain as it is dependent on economic activity and customer demand.

BC Hydro, as the owner of the transmission system operated by the British Columbia Transmission Corporation (BCTC), funds the capital expenditures incurred by BCTC and these costs are included in BC Hydro's capital expenditures. Transmission capital projects are discussed in BCTC's Service Plan and are also subject to BCUC approval.

The table below shows actual and forecast capital expenditures for the sustaining and growth classifications:

CAPITAL EXPENDITURES

	Actual	Actual	Forecast			
(\$ millions)	F2005	F2006	F2007	F2008	F2009	F2010
BCH Excluding Transmission:						
Sustaining	220	276	355	420	547	668
Growth	163	206	282	363	373	383
BCH Total Excluding Transmission	383	482	637	783	920	1,051
Transmission:						
Sustaining	111	87	92	90	96	99
Growth	34	41	114	123	280	224
Total Transmission	145	128	206	213	376	323
Total BCH	528	610	843	996	1,296	1,374

BC Hydro's long-term goals and short-term priorities provide the basis to ensure that specific projects are aligned with our overall strategic direction. We then evaluate projects based on their ability to mitigate risk and/or enhance value to BC Hydro's operations. The risk factors considered for this purpose are financial, environmental, technological, timing, reliability, safety and supply.

Financial Outlook Summary

In addition, we consider each capital expenditure based on the following key drivers:

- Reliability – projects that prevent any loss of existing capability and/or protect existing equipment, systems and system capability.
- Consent to Operate – projects that protect BC Hydro's consent to operate today and over the long-term (primarily environmental and social).
- Regulatory – projects that facilitate regulatory compliance.
- Risk Management – projects that identify and manage a variety of anticipated risks as good business practice.
- Cost Efficiency – projects that help reduce costs and/or protect existing revenues.
- Employee Safety – projects that identify and manage a variety of workplace risks/hazards in order to protect employees.
- Supply Expansion – projects that ensure BC Hydro responds effectively to requirements to meet load or customer growth.

BC Hydro follows both a bottom-up and top-down approach in our capital planning. We have procedures in place that oversee the capital planning process across the company and ensure that there is appropriate integration and trade-off among capital plans proposed by our various lines of business. This ensures that individual capital plans do not exceed the overall BC Hydro capacity for capital expenditures, and that all the necessary capital expenditures are undertaken to meet performance targets.

Approved Projects over \$50 Million

BC Hydro has planned for the following projects, each with capital costs expected to exceed \$50 million. These projects have been approved by our Board of Directors and costs are based on expected cost of completion based on current estimates of scope and market conditions.

MICA GENERATOR STATOR REPLACEMENT (UNITS 1-4)

BC Hydro is replacing the four stators at the Mica Generating plant with new stators to reduce the risk of forced outages and ensure reliability of supply. We installed Unit 4 in 2006; we will install the other three new stators over the next four years.

Scheduled completion: 2011

Total cost: \$78 million (includes dismantling cost \$1.4 million and retirement cost \$1.4 million)

PEACE CANYON GENERATOR STATOR REPLACEMENT AND ROTOR MODIFICATION

BC Hydro is installing new stators and modifying existing rotors at the Peace Canyon Generating plant to reduce the risk of forced outages and make the plant safer for our employees. The project began in 2006.

Scheduled completion: 2009

Total cost: \$69 million (includes dismantling cost \$0.9 million and retirement cost \$0.9 million)

Financial Outlook Summary

ABERFELDIE REDEVELOPMENT

BC Hydro shut down the 80-year-old Aberfeldie facility in November 2006 for public safety concerns related to possible penstock failure. We have filed a proposal for replacing the current facility, which has a generating capacity of 5 MW, with a plant sized at approximately 24 MW with the British Columbia Utilities Commission BCUC. The BCUC will determine whether the project is in the interests of ratepayers.

Scheduled completion: 2008

Total cost: \$95 million (includes dismantling cost \$1.0 million and retirement cost \$1.8 million)

COQUITLAM DAM SEISMIC IMPROVEMENT PROJECT

We received BCUC approval in 2003 to construct a new dam downstream of the existing Coquitlam Dam, which would be unsafe under a moderate to large earthquake. At that time, the estimated total cost was \$40 million. The cost today has increased (and we have extended the schedule) for two reasons: the project now also includes relocating the Greater Vancouver Water District's consumptive water works (\$14 million), and bids from contractors to complete the civil work were higher than estimated.

Scheduled completion: 2007

Total cost: \$58 million (dismantling and retirement costs not applicable)

GORDON M. SHRUM UNITS 2 TO 4 STATOR REPLACEMENT

BC Hydro is replacing three stators at the Gordon M. Shrum facility that are at or near the end of life, and where rewinding is not technically feasible due to the condition of the cores. Alstrom Canada will supply and install the new stators over the next four years.

Scheduled completion: 2011

Total cost: \$68 million (includes retirement cost \$2.0 million)

PEACE CANYON G1 – G4 TURBINE OVERHAUL

We initially intended to overhaul only one turbine at Peace Canyon and use the results to assess the overhaul requirements on the remaining three units. The results of the first overhaul confirmed that components of the turbine were worn and damaged, we therefore made the decision to overhaul the turbines of the other three units as well in conjunction with the stator replacement and rotor modification project noted above. Further wear and damage would eventually have affected both reliability and availability of supply.

Scheduled completion: 2009

Total cost: \$55 million (dismantling and retirement costs not applicable)

Financial Outlook Summary

Contemplated Projects over \$50 Million

The following projects over \$50 million are being contemplated but are not yet approved and costs are based on current estimates of scope and market conditions. The range of costs represent the estimated probability band between the 50th and 90th percentile.

REVELSTOKE UNIT 5

The Revelstoke Generating Station was originally designed to be a six-unit generation station, but two bays were left empty. Approval has been received for \$15.2 million for design work, regulatory approvals and consents, including work with First Nations, before starting construction on a fifth generating unit. This project is currently in the Definition phase.

Targeted completion: 2011

Total cost: \$300 - 350 million

THE FOLLOWING PROJECTS ARE IN THE IDENTIFICATION PHASE:

JOHN HART REDEVELOPMENT

Key components of the John Hart generating facility, built in 1947, are at end of life and in poor condition. The facility also poses an earthquake risk, while forced outages could cause damage to local fisheries. Options at John Hart include rehabilitation or redevelopment, and constructing a bypass to protect fisheries.

Targeted completion: 2013

Total cost: \$230 - 410 million

RUSKIN DAM SEISMIC IMPROVEMENT PROJECT

By today's seismic standards, the main body and gates of the Ruskin Dam – built in 1930 – are vulnerable to earthquakes. This project will mitigate earthquake risk and protect public safety. As an interim measure, we have lowered the reservoir by approximately 2 meters.

Targeted completion: 2011

Total cost: \$100 - 165 million

RUSKIN REHABILITATION

The Ruskin Generating Station (commissioned in 1930) requires significant capital expenditures to support safe and reliable operation. We are completing a feasibility study to evaluate alternatives and estimate the cost of rehabilitating or replacing the powerhouse to meet current seismic standards and replace major generating equipment.

Targeted completion: 2014

Total cost: \$160 - 270 million

Financial Outlook Summary

ADVANCED METERING INFRASTRUCTURE (AMI)

The Advanced Metering Infrastructure (AMI) program will install multi-function smart meters that will collect accurate meter readings automatically and regularly transmit them to BC Hydro. This will support conservation initiatives, operational improvements and enhanced customer service by providing timely consumption information, increased billing accuracy, and more proactive and expedient distribution system management.

Preparation of a preliminary business case based on conceptual designs and potential benefits has been completed. The business case validation and approvals are now in progress.

Targeted completion: 2012

Total cost: \$480 - \$530 million

STRATHCONA SEISMIC AND SEEPAGE *NEW*

BC Hydro is studying how to best mitigate piping and seismic risks at the Strathcona Dam. The dam may have experienced internal erosion and degradation since construction ended in the mid-1950s. In addition, the concrete intake structure, the adjoining conduit through the base of the dam, the embankment dam and the spillway may be at significant risk in an earthquake.

Targeted completion: 2010

Total cost: \$50 - 70 million

CAMPBELL RIVER FLOOD RISK CONTROL

Our options to address flood risks on the Campbell River System (the Strathcona, Ladore and John Hart dams) include re-evaluating flood safety requirements and providing flood passage enhancements as required. In the meantime, we have started work to upgrade the Campbell River gate systems to ensure the spillway gates are reliable and will operate as needed.

Targeted completion: 2011

Total cost: \$100 - 150 million

TRANSMISSION PROJECTS

Transmission projects over \$50 million – which, if approved by the BCUC, will be financed by BC Hydro – are disclosed in BCTC's Service Plan.

8. Alignment with the Government's Strategic Plan

BC Hydro is aligned with the British Columbia government's Strategic Plan and Goals:

GOVERNMENT GOALS	BC HYDRO ALIGNS WITH THESE GOALS BY:
<ul style="list-style-type: none"> • To make British Columbia the best educated, most literate jurisdiction on the continent. • To lead the way in North America in healthy living and physical fitness. • To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors 	<p>Providing significant revenues to government, through various means such as the dividend and water rentals, to fund priority services such as health care and education.</p> <p>Supporting charities and community organizations, as well as scholarships through direct monetary contributions both corporately and from current and retired employee organizations.</p> <p>Providing employment and educational programs to recruit and retain Aboriginal employees and \$1 million toward the first ever National Chair in Aboriginal Economic Development at the University of Victoria.</p> <p>Maintaining a wide range of recreational areas including swimming, canoeing, fishing, hiking and mountain biking.</p>
<ul style="list-style-type: none"> • To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none. 	<p>Operating with a long-term, triple-bottom-line business approach that values social, environmental and financial factors.</p> <p>Investing in clean electricity sources to meet growing demand.</p> <p>Promoting energy conservation and efficiency programs.</p> <p>Engaging with First Nations, governments and communities in provincial water management (Water Use Planning).</p>
<ul style="list-style-type: none"> • To create more jobs per capita than anywhere else in Canada. 	<p>Providing low-cost, reliable electricity to maintain and enhance competitiveness of B.C. industries and businesses.</p> <p>Involving independent power producers in order to diversify energy supply, generate economic wealth and create jobs.</p> <p>Promoting energy conservation and efficiency programs which will create employment opportunities as products and services are developed.</p> <p>Recruiting a workforce more representative of B.C.'s diverse population, including a targeted employment strategy that will focus on training, recruiting and retaining Aboriginal employees.</p>

9. Conclusion

BC Hydro's purpose is to provide reliable power, at low cost, for generations. There will be challenges ahead, but we are confident that, by focussing on our carefully delineated long-term goals and short-term priorities, we will be able to manage the sometimes delicate balance between environmental, social and financial bottom lines.

This Service Plan presents our assessment of the current business environment, both external and internal, as well as the risks and opportunities we see ahead. It also outlines the strategies we have put in place that enable us to quickly and efficiently evaluate our performance, report on our progress, and make any necessary improvements.

Challenges and choices will be inherent in making new, long-term supply decisions. Any new generation resources and transmission required to meet our future electricity needs will require significant lead-times for development. Given this, it is critical that we are acting now to address the emerging gap between supply and demand and to ensure energy self-sufficiency for British Columbia.

All British Columbians – customers, First Nations, stakeholders, our shareholder and regulator – will play a role in BC Hydro's future and in ensuring we create a lasting legacy of reliable power, at low cost, for generations.

Appendix – Subsidiaries

Powerex

Powerex Corp., BC Hydro's wholly-owned energy marketing subsidiary, is a leading marketer of wholesale energy products and services in western Canada and the western United States, and a growing niche player in other markets across North America. Powerex customers include utilities, power pools, municipalities, large industrials and energy marketers. Its energy marketing and trade activities help optimize BC Hydro's electric system resources and provides significant economic benefits to the people of British Columbia.

In recent years, Powerex has increasingly been purchasing electricity from outside the BC Hydro system to support BC Hydro's domestic needs and to meet its own trade commitments. These purchases are made from entities in British Columbia, western Canada and the United States. Powerex also markets, on behalf of the Province, the Canadian Entitlement to the Downstream Benefits of the Columbia River Treaty.

Powertech Labs

Powertech Labs Inc. operates on a commercial basis, providing consulting, analysis, testing and certification services and analytic tools and products to the electric and natural gas industries, their customers and suppliers worldwide. Powertech is a leader in high pressure gas storage and fuelling technology, alternative energy and analytic software for the design and secure operation of integrated electric power systems.

Powertech provides a centre for the innovative use of a wide array of technology including high voltage, high power, high current, mechanical, materials, coatings, chemical and civil technologies. What sets Powertech apart is the ability to combine expertise from different disciplines to provide optimum solutions for complex problems.

Powertech is registered for its Environmental (ISO 14001:2004) and Quality (ISO 9001:2000) Management Systems.

Other Subsidiaries

BC Hydro has created a number of other subsidiaries to help us manage risk in developing projects and/or contracting with third parties. The Boards and management of these subsidiaries are made up of BC Hydro employees, who perform these duties without incremental remuneration.

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