



**British Columbia Transmission
CORPORATION™**

Service Plan

For Fiscal Years 2007/08 to 2009/10

January 2007

Message from Board Chair to Minister of Energy, Mines and Petroleum Resources

31 January 2007

On behalf of the Board of Directors, the management and employees of British Columbia Transmission Corporation (BCTC), I am pleased to present the Corporation's 2007/08 – 2009/10 Service Plan.

Under the *Transmission Corporation Act*, BCTC is responsible for planning, operating and managing British Columbia's high-voltage electric transmission system. BCTC is a Government-owned Crown corporation, regulated by the BC Utilities Commission (BCUC). The Minister of Energy, Mines and Petroleum Resources is the Minister Responsible for BCTC.

BCTC began operations as an independent transmission company in August 2003 in response to the Government's *Energy for our Future: A Plan for BC*. BCTC is responsible for operating, maintaining and planning for the growth of our province's electric transmission system, providing customers with open and non-discriminatory access to reliable, low-cost electricity, expanding the contribution of the electricity industry to BC's economy, encouraging private investment in generation and facilitating access to the western North American wholesale electricity market for the benefit of electricity consumers and producers.

Since inception, BCTC has achieved significant milestones and advanced its mandate by improving transmission service reliability, reducing costs, establishing strong relationships with stakeholders and First Nations, and creating an organization with highly qualified and talented individuals. During Fiscal 2006/07, BCTC achieved a series of important goals, including:

- Conducted 79 interconnection studies for Independent Power Producers in 2006, a five-fold increase from the 14 studies conducted in 2005. This will result in the production of more "BC Clean" power.
- Received BCUC approval for the Vancouver Island Transmission Reinforcement Project, ensuring that the residents of Vancouver Island will continue to be served with reliable electric power.
- Placed into service four new substations with a total cost in excess of \$80 million, improving the reliability of electricity service in Fort St. John, Maple Ridge, Whistler and Surrey.
- Signed a new agreement with Bonneville Power Administration (BPA) that enhances interconnection operations between BCTC and BPA and facilitates collaboration on long-term system planning issues to open markets for BC produced power.
- Reduced system operating costs by automating the inspection of transmission equipment. New technology monitors and reports on the condition of transmission assets, saving the cost of physical inspection of assets.
- Initiated BCTC's Aboriginal Business Development Program to increase employment and business opportunities for aboriginal peoples.
- Continued to develop BC's "Future Grid." Through the use of advanced technology, the maximum operating capacity of existing transmission assets will be increased, reducing costs.
- Improved customer service to Independent Power Producers.

New opportunities and challenges abound in the coming year. The delivery of electricity from producers to customers is a critical link in the continuing growth of British Columbia's economy. To ensure the continued reliability of electricity supply and enhance power generation and trade opportunities for British Columbia, BCTC has embarked on a major capital construction program. This program involves significant investment in British Columbia's electric transmission system, including enhancements to existing infrastructure and the construction of new assets. Along with opportunities, the program will also bring challenges relating to the siting of new infrastructure. Throughout the program, we will continue to engage our stakeholders and local communities on these issues through open and transparent planning and consultation processes.

We are proud of our accomplishments and excited about the opportunities that BCTC continues to create for our customers, our Shareholder, our economy and our employees. We look forward to making significant progress on our strategic initiatives in the coming year, implementing the recommendations of the Government's renewed Energy Plan and working with our stakeholders to plan and build for British Columbia's future.

This 2007/08 - 2009/10 Service Plan for BCTC was prepared under my direction and in accordance with the *Budget Transparency and Accountability Act*. On behalf of the Board, I am accountable for the contents of the plan including the selection of performance measures and targets. The plan is consistent with the Government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions, and identified risks, as of 31 January 2007, have been considered in preparing the plan. The performance targets within the plan have been determined based on an assessment of BCTC's operating environment, forecast conditions, risk assessment and past performance. On behalf of the Board, I am accountable for ensuring BCTC achieves its specific objectives identified in the plan and for measuring and reporting actual performance.



R.T.F (Bob) Reid
Chair of the Board
British Columbia Transmission Corporation

Table of Contents

	Page
Message from Board Chair to Minister of Energy, Mines and Petroleum Resources	i
Organizational Overview	1
Corporate Governance	3
Alignment with Government’s Strategic Plan, Energy Plan and Shareholder’s Letter of Expectations	5
Planning Context and Key Strategic issues	7
Mission	8
Vision	8
Values	8
Key Strategic Issues	8
Goals, Objectives, Strategies, Performance Measures, Targets and Benchmarks	10
Key Changes from Previous Service Plans	10
Goal 1: Reliability, costs and service	13
Goal 2: Market efficiency	15
Goal 3: Environment and safety	16
Goal 4: Relationships	18
Goal 5: Organization and people	19
Goal 6: Financial return	20
Summary Financial Outlook for the Service Plan Period	21
Key Forecast Assumptions	26
Forecast Sensitivities and Risk Factors	26
Capital Plan	30

Organizational Overview

British Columbia Transmission Corporation's mandate is to provide independent, open and non-discriminatory access to BC's electric transmission system, to facilitate private generation investment in BC and to maintain physical and commercial access to the Western North American wholesale electricity market.

Formed in 2003, BCTC is a Crown corporation created under the *Business Corporations Act* in response to the BC Government's 2002 Energy Plan. BCTC has powers and functions specified in the *Transmission Corporation Act*, which came into force in July 2003, and Key Agreements with BC Hydro designated by Order-in-Council in November 2003. The Minister of Energy, Mines and Petroleum Resources is the Minister Responsible for BCTC and BCTC is governed by a Board of Directors appointed by its Shareholder, the Province of British Columbia.

BCTC is responsible for transmission system operations, planning, asset management and maintenance, including system expansion and asset replacement. The transmission system assets continue to be owned and financed by BC Hydro. BCTC owns the control centre assets required for operating and controlling the transmission system.

A Shareholder's Letter of Expectations between the Minister of Energy, Mines and Petroleum Resources and BCTC's Board Chair sets out the corporate mandate, high level performance expectations, strategic priorities and the respective roles and responsibilities of the Shareholder and BCTC.

BCTC is regulated by the British Columbia Utilities Commission (BCUC), which approves the Corporation's revenue requirement, rates, tariffs and capital plan following open, public processes.

The transmission system receives power from approximately 60 generating stations across BC and through interties and delivers it through approximately 18,300 kilometers of transmission lines to 390 delivery points throughout the province. BCTC's primary roles, responsibilities and services include:

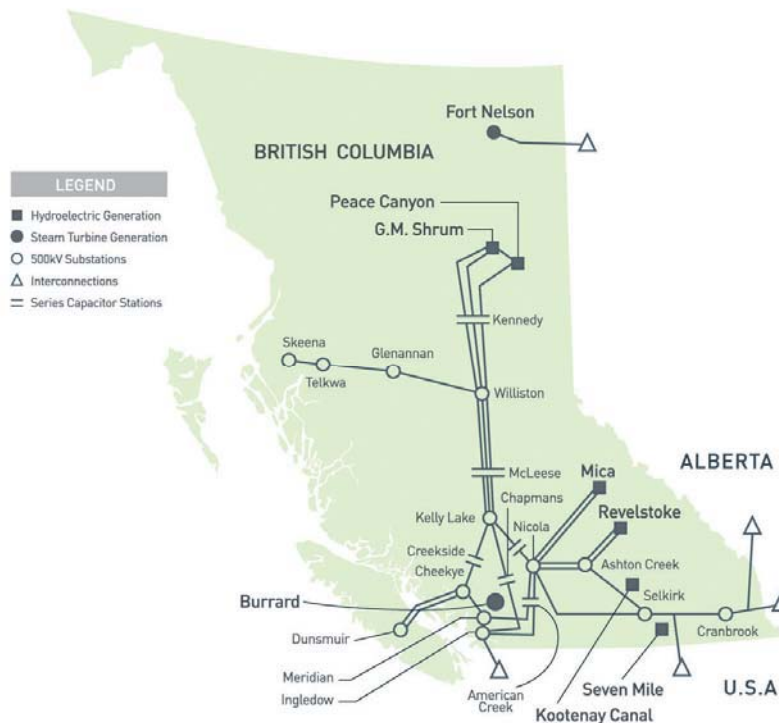
- Exclusive authority for electric transmission reliability of BC Hydro's transmission assets;
- Operation of the transmission system owned by BC Hydro, including real-time operation of transmission, generation, distribution and telecommunications systems, and transaction scheduling;
- Provision of services under the Open Access Transmission Tariff (OATT), including all aspects of the regulatory process, tariff administration and customer relations. The OATT defines the rates and terms and conditions of transmission service and interconnection to the transmission system;
- Planning of the transmission system in coordination with BC generation and distribution entities and neighbouring control areas and transmission organizations;
- Asset management and maintenance of transmission lines, substations and telecommunications systems owned by BC Hydro, as well as BCTC's control centres. The maintenance plan involves the execution of over 25,000 work orders per year, with an annual expenditure of approximately \$80 million;
- Sustaining, replacing and expanding the transmission assets owned by BC Hydro and BCTC's control centre assets, to ensure reliable service for domestic customers and for electricity trade. As the transmission asset owner, BC Hydro finances transmission capital expenditures as identified by BCTC, following BCUC approval. As owner of the control centre assets, BCTC funds capital expenditures on these assets, subject to BCUC approval. At 30

September 2006, the net book value of transmission assets owned by BC Hydro was \$2,301 million and the net book value of BCTC's capital assets was \$41.7 million; and

- Actions to assist in maintaining low electricity rates in British Columbia, including the cost-effective management of all BCTC functions.

BCTC conducts business operations from its head office in Vancouver, the System Control Centre in Burnaby, four Area Control Centres in Vancouver, Duncan, Prince George and Vernon, and the Telecommunications Control Centre in Burnaby. In addition to the 18,300 circuit kilometers of high voltage transmission lines that range from 60kV to 500kV, BCTC operates and manages an extensive network of facilities that includes 290 stations and 90 microwave stations and microwave repeater sites. BC's integrated transmission network covers much of the province's land mass and interconnects with neighboring transmission systems in Alberta and the United States.

British Columbia's Transmission System

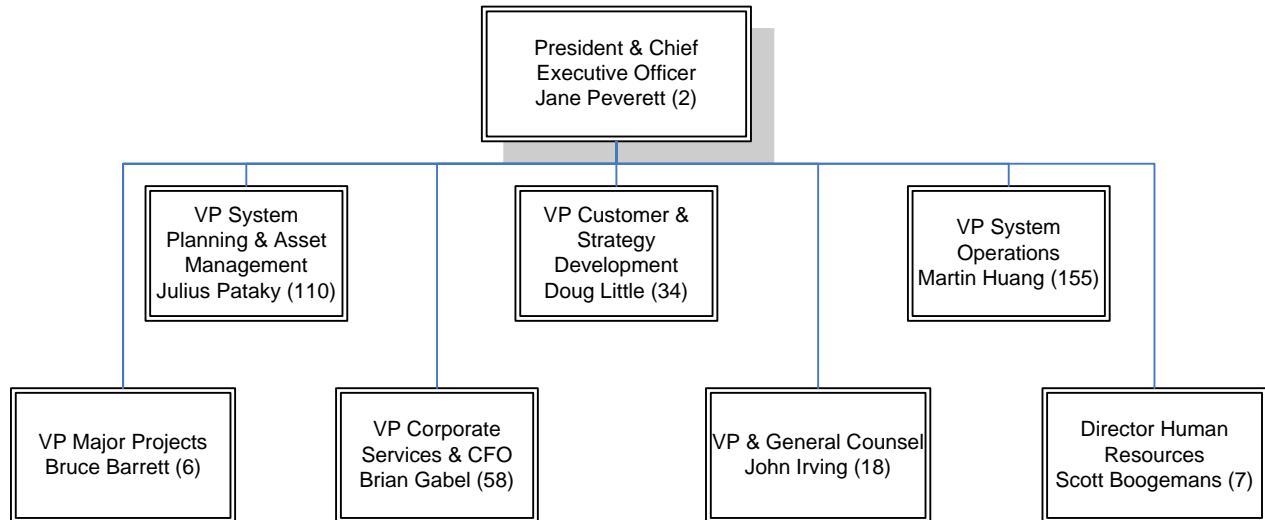


BCTC's largest transmission services customer is BC Hydro, serving the majority of domestic electricity customers in British Columbia. Point-to-point wholesale transmission services are provided to BC Hydro, Powerex and a number of energy marketers who undertake electricity trade in Western North America. BCTC also provides services to BC Hydro to operate its distribution system and dispatch its generating units. Total transmission revenues collected by BCTC from tariff services, non-tariff services and other cost recoveries exceed \$700 million per year, and recover BCTC's own operating and asset-related costs as well as approximately \$500 million for BC Hydro's asset ownership costs and allowed return.

BCTC's principal stakeholders are its transmission service customers, including BC Hydro and other utilities, independent power producers (IPPs), industrial customers directly connected to the transmission system, as well as municipalities, community and environmental groups, the BCUC and the Shareholder. BCTC has an active engagement process to ensure stakeholder and First Nations views are considered throughout the planning and execution of projects and regulatory applications.

The creation of an independent transmission company promotes a broad range of economic opportunities. Independent and open access transmission service enables generating, trading and market arrangements to be developed by all market participants, including IPPs, aggregators, large industrial customers and others.

BCTC's corporate structure and planned Fiscal 2007/08 employee headcount or complement of full-time employees (FTEs) are shown below:



A large portion of BCTC's operating and capital activities are performed by third parties under contract to BCTC. Major contractors include BC Hydro Field Operations (approximately \$80 million per annum), BC Hydro Engineering (approximately \$50 million per annum) and Accenture Business Services for Utilities (approximately \$7 million per annum).

Corporate Governance

BCTC's Board of Directors is responsible for the governance and stewardship of the Corporation. The Board's role is to set and maintain corporate direction, review and approve BCTC's strategic plan, set corporate objectives, monitor performance against those objectives and ensure processes are in place to identify, monitor and mitigate substantial business risks. The Board is responsible for full and timely disclosure of BCTC's financial and business performance, and the monitoring of material developments that could have a significant impact.

BCTC's Board has three Standing Committees: the Audit Committee (AC), Human Resources, Safety & Environment Committee (HRSEC) and Corporate Governance Committee (CGC). Terms of reference outlining respective roles and responsibilities for the Board, individual Directors, Board Committees, Board Chair, President and Corporate Secretary are available at http://www.bctc.com/about_bctc/board_executive/corp_governance/. Biographical information for Board members and BCTC's senior management team is available at http://www.bctc.com/about_bctc/board_executive/board_of_directors/.

Composition of BCTC's Board, its Committees and the organization's executive team follows:

Board & Committees

- Robert Reid, Board Chair *
- Nicole Byres (CGC Chair)
- Richard Campbell (CGC)
- John Gill (AC Chair)
- Norm Laythorpe (AC)
- Joanne McLeod (AC)
- Margot Northey (HRSEC)
- Bev Park (HRSEC)
- Gerald Wesley (CGC)
- Ralph Winter (HRSEC, Chair)

Executive Management

- Jane Peverett, President & CEO
- Bruce Barrett, VP, Major Projects
- Scott Boogemans, Director, Human Resources
- Brian Gabel, VP, Finance & CFO
- Martin Huang, VP, System Operations
- John Irving, VP & General Counsel
- Doug Little, VP, Customer & Strategy Development
- Julius Pataky, VP, System Planning & Asset Management

* *The Board Chair serves as an officer of the Corporation, and as an ex-officio member of all standing Committees.*

Governance Practices

In 2005, the British Columbia Board Resourcing & Development Office established *Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations*. These Guidelines set out governance principles and disclosure practices for public sector organizations in BC. The Board has ensured BCTC's governance framework complies with the principles set forth in the Guidelines.

In 2003, the Board established an internal governance framework consisting of guiding corporate principles and business policies. The guiding principles reflect BCTC's corporate values of *Honesty & Integrity, Innovation, Openness & Responsiveness, Accountability and Sustainability*. BCTC has in place a Code of Ethics for employees and directors, and carries out annual declaration processes to ensure employees and directors are in compliance. Results of the declaration process, and matters relating to the Code of Ethics generally, are reported to the Corporate Governance Committee of the Board. No waivers were granted under BCTC's Code of Ethics during Fiscal 2005/06. A copy of BCTC's Code of Ethics is available at http://www.bctc.com/about_bctc/board_executive/corp_governance/.

Board members take part in regular orientation and strategy sessions, and engage in an annual evaluation of Board, Committee and individual Director performance. In consultation with the Human Resources, Environment & Safety Committee, the Board evaluates corporate performance and the President's individual performance against the objectives established at the beginning of each fiscal year.

The Board and its Committees create annual work plans to track ongoing Shareholder reporting requirements, and throughout the year, the Board Chair and President engage and inform the Minister of Energy, Mines & Petroleum Resources on key developments impacting the Corporation. Board and Committee meetings are held quarterly and as required for special business, and include in-camera sessions without Management present. A summary of Board member attendance records for Fiscal 2005/06 is available at the Governance section in BCTC's 2006 Annual Report at http://www.bctc.com/about_bctc/reports_performance/.

Alignment with Government's Strategic Plan, Energy Plan and Shareholder's Letter of Expectations

BCTC's Service Plan is guided by the Provincial Government's Strategic Plan, Energy Plan and Shareholder's Letter of Expectations.

Government's Strategic Plan

BCTC directly supports two of the Five Great Goals outlined in the Government's February 2006 Strategic Plan. The goals are as follows:

- To make BC 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.
- **To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.**
- **To create more jobs per capita than anywhere else in Canada.**

BCTC's operations can have a significant impact on BC's land base and resources. For this reason, transmission system operations and asset management functions are conducted with respect for the environment and long-term sustainability of BC's natural resources and communities. BCTC's Environmental Management System provides a comprehensive framework for identifying, managing and mitigating environmental risks. Continuing initiatives include risk management of contaminated sites, reduction of sulphur hexafluoride (a greenhouse gas used in power switching equipment) and management of plant and animal species at risk that are affected by BCTC operations.

BCTC's operation, maintenance and management of the transmission system is focused on delivering reliable service in a cost effective, safe and sustainable manner. In this way, BCTC contributes to a secure, reliable and low cost supply of electricity in the province which, in turn, provides a strong foundation for economic development in the province, attracting investment and creating jobs.

Energy Plan

BCTC plays a major role in facilitating a robust electricity industry, which is essential to economic development in BC, and in maintaining a competitive advantage in the production of goods and services. BCTC's goals are strongly aligned with the Province's 2002 Energy Plan. The creation of BCTC advanced an important Energy Plan commitment to improve transmission access and planning, and to provide a more focused approach to the operation and management of BC's publicly-owned electric transmission assets.

A key commitment of the Energy Plan is to encourage increased private sector participation in meeting British Columbia's growing electricity needs. BCTC has a central role in facilitating the interconnection of new generation facilities developed by the private sector and conducted 79 interconnection studies for Independent Power Producers in calendar year 2006, compared with 14 in 2005 and 20 in 2004. BCTC's proposals for new rate designs, "open season"¹ and "clustering"² processes and new approaches to generator interconnection, approved by the

¹ "Open Season" allows BCTC to aggregate customer requests and solicit new requests to form a customer base large enough to support the financing of new transmission assets of the aggregated group.

² "Clustering" allows BCTC to simultaneously study all interconnection requests received during a 180-day period to identify potential cost savings and operating benefits associated with grouping all of the requests into a single study.

BCUC as part of the Open Access Transmission Tariff, will enhance the ability of the independent power sector to contribute to the Province's electricity needs in a cost-effective way.

In November 2005, the Government announced plans to expand the Province's 2002 energy vision. An updated Energy Plan is expected in early 2007. BCTC will adjust its strategies to implement the new Energy Plan as required.

Shareholder's Letter of Expectations

The June 28, 2006 Shareholder's Letter of Expectations describes the respective roles and responsibilities of the Shareholder and BCTC and serves as the basis of agreement on BCTC's mandate, high-level performance expectations, public policy issues and strategic priorities. The Shareholder's Letter is available at http://www.bctc.com/about_bctc/reports_performance/.

Following is a summary of BCTC's significant responsibilities as presented in the Letter and BCTC's actions.

Shareholder's Direction

Ensure that there is adequate transmission capacity available to reliably serve domestic and electricity trade needs, and that all eligible electricity suppliers and buyers have non-discriminatory access to this capacity, subject to approval by the BC Utilities Commission.

Implement actions necessary to maintain low electricity rates in British Columbia.

Establish and implement corporate strategies, policies, programs, plans and financial outcomes that are consistent with the Shareholder's general direction and principles of efficiency, effectiveness, consumer choice and customer service.

Develop and implement strategies to manage risks identified in the Service Plan.

Implement open access transmission tariffs (OATT) that promote private sector electricity supply opportunities.

Implement wholesale transmission rates that promote maximum use of the grid.

BCTC's Actions

- Negotiated a settlement with customers and other stakeholders to amend the transmission service (Network Economy) tariff.
- Received BCUC approval for the replacement transmission line to Vancouver Island.
- Plans to invest \$145 million in the transmission system in F2006/07.
- Steadily improved corporate cost effectiveness since 2004.
- Implemented customer service plans throughout F2006/07.
- As part of the implementation of BCTC's enterprise risk management program, completed the substation security risk assessment project in September.
- Implemented a standard generator connection tariff in March which provides generators with an improved process for interconnecting to the transmission system.
- Explored new rate design alternatives and delivered a report on these alternatives to the BCUC in December.

Shareholder's Direction

Continue to work with neighbouring transmission companies to enhance trade opportunities and ensure continued access to markets for BC-produced electricity.

Continue to utilize public planning processes with BCTC's stakeholders to promote openness and transparency in overall planning objectives.

Fully participate in various regulatory processes under the direction of the BCUC related to planning and capital projects by both BCTC and BC Hydro

Advise and consult with the Shareholder in advance of any anticipated or desired BCTC initiatives that could have public policy implications.

Continue to enhance access to markets for BC produced electricity.

BCTC's Actions

- Established a new service, "Dynamic Scheduling" to increase electricity trade with California.
- Initiated a bi-provincial study of intertie expansion with Alberta.
- Held over 60 consultations over the past twelve months and attended numerous business, Government and association meetings to discuss capital plans.
- Filed our F2008/F2017 Transmission System Capital Plan for BCUC approval in December.
- Participated in BC Hydro's 2006 Integrated Electricity Plan by providing input data and participating in the BCUC hearing.
- Worked with the Shareholder regarding ways to address the North America-wide initiative to have consistent mandatory transmission reliability standards
- Advised the Shareholder on the potential Northwest Transmission Line (north of Meziadin Junction).
- Signed agreement with Bonneville Power Administration to enhance operations and system planning.
- Participated in Pacific Gas & Electric's study of expanded transmission between British Columbia and California.
- Jointly studied intertie expansion with the Alberta Electric System Operator.

Planning Context and Key Strategic Issues

This section describes BCTC's mission, vision, values, planning context and key strategic issues as articulated in the corporate strategy developed by executive management and the Board of Directors. The corporate strategy reflects a number of business drivers fundamental to the role of BCTC and identifies risks that could affect performance.

Mission

BCTC's mission describes our business purpose, the business we are in and how we serve and provide value to customers and stakeholders.

“We are BC’s independent electric transmission company, ensuring fair and open access to the grid and creating value and new opportunities for our customers and stakeholders by providing safe, reliable and cost-effective transmission services.”

Vision

Our vision describes the future to which we aspire.

“As an independent electric transmission company, we are globally recognized for our innovative and sustainable approach to serving our customers.”

Values

In pursuing its activities, BCTC’s corporate and individual behaviors are guided by the values of honesty and integrity, innovation, openness and responsiveness, accountability, and sustainability.

Honesty and Integrity: We say what we mean; we do what we say; we treat all parties fairly and with respect.

Innovation: We continuously seek ways to improve; we value creativity; we set high performance objectives; we understand and effectively manage risk.

Openness and Responsiveness: We share information proactively; we seek and respond to feedback; we invest in understanding the needs of our customers and stakeholders.

Accountability: We take responsibility for our actions; we encourage diverse opinions and support decisions once made; we set clear objectives and accept responsibility for their achievement; we pursue opportunities to increase our individual knowledge of our business.

Sustainability: We manage the business with both today and tomorrow in mind; we employ the best people, respecting their diverse skills, experience and background, and invest in their future with us; we respect the natural environment; we work safely; we encourage balance among home life, work and community involvement.

Employee demonstration of corporate values is an important aspect of the annual performance review process. An employee’s overall performance assessment takes account of achievement of objectives and demonstration of corporate values.

Planning Context

As part of its strategic planning process, BCTC produces a situation analysis that examines the current economic, social and political environment and BCTC’s internal environment, including employee engagement and capabilities. The situation analysis is reviewed by executive management and the Board of Directors. It provides background and context for the corporate strategic plan.

BCTC has in place an enterprise risk management framework to ensure the ongoing identification, assessment, monitoring and mitigation of key business risks. BCTC’s enterprise risk management efforts are overseen by a corporate Risk Management Committee that reports to executive management and the Audit Committee of the Board.

Key Strategic Issues

BCTC’s situation analysis sets the stage for a review of strategic issues as described below. The review of strategic issues supports BCTC’s development of corporate goals, objectives, initiatives, and performance measures and targets.

Energy Plan Renewal

In November 2005, the BC Government announced its intention to update and renew its 2002 Energy Plan. While the new Energy Plan has yet to be released, in the February 2006 Throne Speech, Government signaled that a core element is expected to be a return of British Columbia to electricity self-sufficiency. BCTC will work actively with Government and stakeholders to execute the provisions of the new Energy Plan and ensure the goals arising from the new Energy Plan are achieved.

Market Access

BCTC's strategic direction approved by the Board in late 2005 called for BCTC, through actions and policies, to improve access for BC-produced electricity to out-of-province markets. Over the course of this year, management has taken numerous steps to do this.

The majority of BCTC's transmission system investments will continue to be guided by our Open Access Transmission Tariff. The OATT allows any customer to initiate upgrades needed for service, provided the customer pays for the new investment. The BCTC Transmission Expansion Policy enables the assessment and recommendation of transmission system expansion projects that are not fully supported by current customer contracts, provided such projects are expected to recover costs and provide benefits to BC's ratepayers over the longer term.

During 2006, work on Grid West concluded without success. However, the objectives of establishing Grid West, namely, enhancing access to the regional transmission system, including the removal of tariff and non-tariff barriers to trade and improving inter-regional planning, remain central to BCTC's strategy. BCTC will now pursue further initiatives by working directly with other utilities in the region. In pursuit of these objectives and consistent with the principles of the April 2006 Trade, Investment and Labour Mobility Agreement between British Columbia and Alberta, BCTC has joined the Alberta Electric System Operator (AESO) in a joint study of the feasibility of expanding the transmission intertie connecting Alberta and British Columbia. BCTC is also participating in Pacific Gas & Electric's study of expanded transmission between British Columbia and California.

Ensuring Organizational Capacity

Similar to other organizations in the electric utility industry, BCTC is at risk of losing critical skills due to our aging workforce. The highest vulnerabilities are in engineering and system operations. These are special technical skills requiring several years of experience to acquire basic proficiency and additional years to gain senior technical and management expertise.

BCTC must ensure it has sufficient capacity to execute its mandate now and into the future. To achieve this objective, BCTC has adopted a four-part strategy:

- **Plan** – Monitor current and anticipated workloads and ensure resources are available to meet objectives.
- **Source** – Expand the pool of available resources and increase our effectiveness in bringing new highly skilled people into the organization.
- **Develop** – Actively support employee efforts to improve skills and knowledge, and provide individual growth opportunities.
- **Engage** – Build and engage workforce by supporting alignment, capability, resources, and motivation.

First Nations Strategy

Under the Key Agreements in place between BCTC and BC Hydro, BC Hydro has the primary responsibility for First Nations matters, including responsibility for First Nations policies and general interfaces with First Nations relating to the transmission system. The First Nations Protocol Agreement between BC Hydro and BCTC gives BCTC responsibility for day-to-day communications and information sharing between BCTC and First Nations during the course of BCTC's operations or planning preparations and implementation.

BCTC continues to develop important initiatives within its scope under the First Nations Protocol Agreement. In 2006, BCTC implemented an Aboriginal Business Development Program and Policy to increase employment and business opportunities. In F2006/07, we are commencing a measurement of First Nations' satisfaction with their relationship with BCTC.

Increases in Capital Investments

Years of relatively low investment in transmission infrastructure, coupled with the fact that some transmission components are now reaching the end of their useful lives and BC's demand for electricity continues to grow, mean that BC now faces significant increases in the scale of transmission investment requirements. BCTC is responsible for the execution of this large capital program, which will result in the largest capital expansion of the transmission system in 30 years.

Major projects currently underway include the Vancouver Island Transmission Project and the System Control Centre Modernization Project. Significant projects under preliminary analysis include the Interior to Lower Mainland Reinforcement Project and the Northwest Transmission Project. In recognition of the increase in capital investments, BCTC created a Major Projects Division in F2006/07 dedicated to managing its largest capital investments.

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

BCTC's corporate goals articulate the direction that the Corporation will take over a three-year planning horizon. BCTC has set its overall plan to support the Government's 2002 Energy Plan "*Energy for Our Future: a Plan for BC.*" The corporate goals are supported by a set of corresponding actions, performance measures and targets. Definitions and the rationale for each performance measure are provided, as well as internal/external benchmarking measures that will allow a comparison of performance over time. The measures track BCTC's progress in delivering on its key priorities and will be reported in its annual report.

Key Changes from Previous Service Plans

BCTC's goals are unchanged from the F2006/07 – 2008/09 Service Plan. The strategies associated with the goals and performance targets have been updated.

The following table outlines BCTC's performance measures for Fiscal 2007/08. As noted in BCTC's 2006 Annual Report, the measures first reported in last year's Service Plan for F2006/07 were further refined, approved by the Board of Directors in May 2006, and remain in effect for F2007/08. Following is a summary of the F2007/08 performance measures and changes from last year's Service Plan.

F2007/08 Measure	Explanation
Reliability: BCTC SAIDI	Unchanged from the F2006/07-2008/09 Service Plan.
Efficiency: OMA/GWh-km (cents)	Unchanged from the F2006/07-2008/09 Service Plan.
Safety: Lost time safety accidents (BCTC and contractors)	<p>BCTC will measure the number of incidents that result in lost time for BCTC employees and for its contractors. It will include direct contractors to BCTC and BC Hydro Field Operations personnel who conduct work on BCTC transmission projects including, for the first time in Fiscal 2007/08, BC Hydro's subcontractors.</p> <p>The two safety measures are consolidated into a single measure with two parts.</p>
Environment: Reportable environmental incidents	Unchanged from the F2006/07-2008/09 Service Plan.
Customer Satisfaction: Stakeholder Response – neutral, positive, very positive	Unchanged from the F2006/07-2008/09 Service Plan.
Employee Engagement: Employee Engagement Index	Unchanged from the F2006/07-2008/09 Service Plan.
<i>Congestion</i>	<p>In the F2006/07-2008/09 Service Plan, BCTC proposed adding a measure for Congestion. This measure was intended to reflect BCTC's capability to operate the transmission system in a manner that provided more transmission capacity for customers when they need it most.</p> <p>In May 2006, the Board of Directors approved this as an informational measure that will be tracked and reported internally. This will allow the collection of additional historical data and refinement prior to consideration as a public corporate performance measure.</p>
<i>Net Income</i>	<p>In the F2006/07-2008/09 Service Plan, BCTC proposed adding a measure for Net Income. In May 2006, the Board of Directors made this an informational measure. BCTC has relatively little control over the revenue effects on net income because of the regulatory and tariff structure it operates within. Expense control objectives already are captured by the OMA/GWh-km measure.</p>

Ensuring the Accuracy and Reliability of Performance Information

BCTC is diligent in ensuring the accuracy and reliability of performance information. Before a measure is chosen, a review of historic data relating to the measure is made to confirm the availability, thoroughness and accuracy of source data. In late 2004, BCTC hired an outside firm, Grant Thornton, to review the data collection process and integrity of BCTC's key performance indicators. In F2006/07, Grant Thornton revisited the process and BCTC's conformity with earlier recommendations.

Financial information is provided through BCTC's audited financial results, while environmental and safety results are captured through BCTC's reporting procedures in these areas. Reliability data are gathered in BCTC's operational databases and analyzed for the purpose of internal and external reporting. The employee and stakeholder surveys are conducted by third parties.

Internal reporting of results, including data collection and review of monthly performance, is done by staff trained in performance measurement. Monthly results are subject to executive management review.

Wherever possible, BCTC seeks independent validation of performance results. Sources of independent validation include the Human Resources Committee of the Board of Directors, which reviews performance results quarterly. As noted in the following section, benchmarking is used wherever feasible. However, benchmarking is not always possible, given BCTC's unique business model. As a result, BCTC is working with industry trade groups and consulting firms to identify appropriate benchmarks and gather data.

Measures and Targets at a Glance

The following table summarizes BCTC's corporate performance measures and targets:

CORPORATE MEASURE	F2006/07 Targets	F2007/08 Targets	F2008/09 Targets	F2009/10 Targets
Reliability:				
BCTC SAIDI (hours) *	2.09 hrs	2.07	2.04	2.03
Efficiency:				
OMA (cents) per GWh-km	18.7 cents	18.7	18.3	18.3
Customer Satisfaction:				
% of Stakeholders Positive or Neutral	88%	88%	88%	89%
Safety: Lost Time Accidents:				
BCTC	0	0	0	0
Contractors	23	22	21	20
Environment:				
Reportable Incidents	7	7	7	7
Employee Engagement:				
Work Canada Index	3.40	3.42	3.43	3.45

* Detailed descriptions of performance measures are included in the next section

Goals, Objectives, Strategies and Corporate Performance Measures

Following is a presentation of BCTC's F2007/08 goals, actions, performance measures and targets, as well as benchmark information for each performance measure.

Goal 1: RELIABILITY, COSTS AND SERVICE

Achieve reliability improvements while lowering costs and delivering outstanding service

Objectives: Pursue incremental improvements in overall reliability performance trends. Manage overall operating cost levels to offset annual inflationary increases. Define and measure service levels to customers.

STRATEGIES

Reliability:

- 1a. Work with Government and the BC Utilities Commission to develop a consultative process and implementation plan to introduce in British Columbia the North America wide initiative to have consistent and mandatory transmission reliability standards.
- 1b. Work with BC Hydro to identify delivery / receiving point reliability expectations and factor these into our decisions on OMA and capital reliability investments and reporting.
- 1c. Meet progress milestones for the System Control Modernization Project, including completion of control centre facilities in Langley and Vernon and completion of telecommunication infrastructure upgrades.
- 1d. Adopt innovative economic new power technologies to increase the efficiency and reliability of the system and reduce life-cycle costs (develop a Power Technology Roadmap).

Cost Management:

- 1e. Meet Vancouver Island Transmission Reinforcement Project on-time/on-budget milestones.
- 1f. Meet project milestones for all other capital projects.
- 1g. Review procurement policies and procedures to optimize cost effectiveness.
- 1h. Establish systems to identify ongoing commitments and responsibilities associated with construction projects, contracts and stakeholder relationships to ensure that follow-up actions are completed in a timely and efficient manner.

Customer Service:

- 1i. Provide exemplary operational services to BC Hydro's generation and distribution lines of business under the respective Service Agreements.
- 1j. Implement the Transmission Scheduling System replacement project to better assist customers when scheduling transmission system services.
- 1k. Complete all studies required to connect IPPs within committed timelines.

Rationale for this goal

Ensuring safe, reliable and cost-effective transmission service is at the centre of BCTC's responsibilities. BCTC recognizes that to significantly increase the reliability of the system could require substantial increases in both operating costs and capital investments. At the same time, our costs will be under scrutiny by our customers. Therefore, our efforts are on providing service at lower cost, while improving reliability without substantial cost, where possible. The goal recognizes that BCTC's primary value drivers are through its cost structure, its service to its customers and its ability to deliver reliable service. Linking these drivers in a single goal recognizes the need to balance all three.

The goal directly addresses two of the four goals of the 2002 Energy Plan – low electricity rates (through lower transmission costs) and secure reliable supply.

Performance Measures:

There are two performance measures for this goal: BCTC SAIDI for transmission system reliability and OMA/GWh-km to measure operating efficiency. In addition, BCTC's Stakeholder Survey performance measure assesses overall stakeholder satisfaction, including that of customers. Details of the stakeholder survey measure are provided in the discussion of Goal Four below.

BCTC SAIDI (System Average Interruption Duration Index) –This measure is the **average number of hours across all transmission delivery points that service is interrupted in a year**. It includes both planned and unplanned outages, but excludes interruptions due to generators, as these are not within BCTC's responsibility. The measure assesses BCTC's effectiveness in providing high service reliability from the point of receipt for transmission service to the point of delivery.

Transmission system outages stem from a variety of causes, including weather, animals and motor vehicle accidents. The frequency and duration of outages due to some causes can vary widely from year-to-year. In establishing SAIDI performance targets, BCTC averages previous years' performances and applies an annual improvement factor.

Historical Results and Performance Targets

Targets:	Actual			Target			
	F04	F05	F06	F07	F08	F09	F10
BCTC SAIDI (hours per delivery point)	2.74*	2.33*	2.07	2.09	2.07	2.04	2.03

* Historical results for F2003/04 and F2004/05 have been corrected to reflect data collection variances caused by conversion from manual to automated systems.

Benchmark Information for SAIDI

Reliability statistics for independent transmission companies have a limited history. The SAIDI measure is often tailored by transmission organizations to meet their specific needs, based on the configuration of their transmission system network and their climate and terrain. As a result, the range of reported results is large. Currently, the best benchmark for Canadian transmission reliability can be found in the Canadian Electricity Association's (CEA) annual study of the Bulk Electricity System.

The CEA's SAIDI calculation differs from BCTC SAIDI in three respects: the CEA uses a calendar year versus BCTC's fiscal year, the CEA includes generation source outages whereas BCTC does not, and within the CEA's 2004 calculation, only unplanned outages were included while BCTC SAIDI included both planned and unplanned outages.

The latest year for which benchmark data is available is 2004. BCTC's SAIDI performance for the fiscal year ending 31 March 2005 was 2.33 hours per delivery point. Adjusting BCTC SAIDI results to conform to the CEA study calculation results in 1.8 hours, compared to the composite CEA result of 1.4 hours (information on the extent of CEA reported generation outages is not available, and therefore an adjustment could not be made). Through CEA initiatives, BCTC and other member utilities are in the process of ensuring consistency in definitions and data quality to provide better benchmarking opportunities in future.

OMA (cents) / GWh-km - This measure tracks cost efficiency in operating and managing the transmission assets based on transmission system throughput (volume of energy delivered to domestic customers which is measured in gigawatt hours or GWh) and the length of the transmission system (measured in kilometers). Operating, Maintenance and Administrative (OMA) costs include annual costs relating to system operation, asset management, asset maintenance, general and administration costs, and BC Hydro corporate costs allocated to the transmission assets.

Historical Results and Performance Targets

Targets:	Actual			Target			
	F04	F05	F06	F07	F08	F09	F10
OMA/GWh-km (cents)	20.5	18.9	19.0	18.7	18.7	18.3	18.3

Benchmarking Data for OMA/GWH-km

BCTC participates in the CEA/COPE (Committee on Corporate Performance and Productivity Evaluation) study. The CEA/COPE definition of energy transmitted, or system throughput, includes both domestic load and trade volumes. In comparison, BCTC's definition of energy transmitted excludes transmission system use for purposes other than serving domestic customer requirements. BCTC excludes trade volumes because of their high volatility and because they do not materially affect operating costs. When BCTC's figures are adjusted to conform to the CEA method, the result for Fiscal 2004/05 is 16.5 cents per GWh-km. This is almost 25% higher than the CEA peer group average of 13.5 cents.

A number of factors can contribute to the difference in performance across companies, including geography, climate, growth rate, system age, or the impact of significant events such as weather. The multiple of five to one between the highest and lowest F2004/05 results suggests a lack of consistency of data among survey participants. These differences can often make peer-to-peer benchmarking comparison challenging. Through the CEA, BCTC continues to actively work with other utilities in establishing performance metrics more conducive to benchmarking analysis. Importantly, BCTC investigates the work practices of the benchmark leaders to identify and adapt best practices.

Goal 2: MARKET EFFICIENCY

Ensure efficient use and development of the transmission system

Objectives: Proactively seek ways to enhance electricity industry activity on BC's transmission system - resulting in increased services used and new transmission service customers. Make the system available to allow expanded access to market opportunities, limiting congestion and curtailment on the system.

STRATEGIES

- 2a. Implement actions flowing from BC's new Energy Plan.
- 2b. Reduce or eliminate transmission constraints through better operational and planned outage coordination with neighbouring utilities and operation cooperation.
- 2c. Through regional and intertie studies, uncover opportunities to increase regional transmission capacity most efficiently. Identify opportunities with Alberta, Alaska and the Pacific Northwest for intertie reinforcement and development.
- 2d. Implement BCTC's updated tariff, including options for customer-supplied, non-wires transmission solutions (such as generation re-dispatch or shedding), and expand dynamic scheduling (or similar services) to Alberta.

- 2e. Complete study with Pacific Gas & Electric of expanded transmission between British Columbia and California. Identify and initiate opportunities for improving IPP and general market access to California and other markets.

Rationale for this goal

BCTC is responsible for managing British Columbia's transmission infrastructure and expanding that infrastructure to meet future needs. The benefits of this infrastructure go well beyond meeting basic reliability needs of domestic electricity consumers. Access to BC's transmission system can give rise to many potential economic benefits, and it is BCTC's objective to ensure the system is used and developed in an efficient manner that will best capture those benefits.

This goal is intended to extend BCTC's service beyond providing open access in a sufficient and reactive manner by becoming better aware of customers' requirements in advance of requests for service. This acknowledges the different timeframes for developing transmission compared to generation, and anticipates the growth of transmission to realize electricity market opportunities.

This goal supports two of the 2002 Energy Plan goals – more private sector opportunities and low electricity rates.

Measures

In F2007/08, BCTC will continue to track and analyze transmission congestion at the US and Alberta interties as an informational measure. The informational measure is reported monthly to BCTC's executive management.

Goal 3: ENVIRONMENT AND SAFETY

Continually improve our environmental and safety management performance

Objective: Continually focus on enhancing our performance in these areas - ensuring that we maintain our excellent safety results for BCTC and work with our contractors on their safety management, and minimizing the number of environmental incidents, recognizing the risks inherent in our operations.

STRATEGIES

- 3a. Ensure our Safety and Environment Management Systems are continuously reviewed for improvement opportunities.
- 3b. Ensure contractors meet BCTC's environmental and safety standards.
- 3c. With BC Hydro, implement the Joint Safety Review Committee and related management processes to ensure safety is assured as the two companies work together.
- 3d. Develop and implement plans to increase emphasis on environmental management controls, such as the replacement of aged SF6 Gas Insulated Switchgear with newer technology to mitigate releases of this greenhouse gas to the environment.

Rationale for this goal

BCTC takes its responsibilities for safety and the environment seriously. This goal signals our desire to highlight these areas in our corporate strategy – to ensure the organization maintains a strong focus on safety and environmental performance.

This goal supports the environmental responsibility goal in the 2002 Energy Plan.

Safety Performance Measures:

BCTC's safety measure has two equally weighted components to determine overall safety performance; the number of lost-time accidents involving BCTC employees and the number of

contractor lost-time accidents. A lost-time accident occurs when at least one day of work is missed after the date of an accident.

Number of BCTC Lost-Time Accidents – This measures all lost-time accidents, whether preventable or not, affecting BCTC employees. The measure supports the fundamental BCTC objective of employee safety.

Number of Contractor Lost-Time Accidents – This measures lost-time accidents for BCTC direct contractors and BC Hydro Field Operations personnel who work on BCTC transmission projects. Starting in F2007/08, subcontractors to BC Hydro will be included in this measure. Targets for F2007/08 and beyond may be revised based on information gathered in F2006/07. This measure also supports the fundamental BCTC objective of safety.

Historical Results and Performance Targets

Targets:	Actual			Target			
	F04	F05	F06	F07	F08	F09	F10
Lost time safety accidents:							
BCTC	0	0	0	0	0	0	0
Contractors	25	27	18	23	22	21	20

Benchmarking Data for Safety Measures

The Canadian Electricity Association (CEA) tracks safety performance metrics. BCTC submits annual performance results to the CEA on the following industry wide metrics: all injury frequency rate, lost time injury frequency rate and lost time injury severity rate. BCTC's metrics are not directly comparable to the CEA's because BCTC reports the number of events, whereas the CEA reports injury rates in relation to hours worked. BCTC's performance based on the CEA's measures and the electrical industry member composite performance are shown below for 2005. The frequency rate in the table below is per 200,000 hours of work time. As a reference, BCTC's employees cumulatively work approximately 600,000 hours per year.

	All Injury Frequency Rate	Lost Time Injury Frequency Rate	Lost Time Injury Severity Rate
BCTC (employees only)	0.34	0.00	0.00
CEA Composite	2.76	0.80	17.67

Environment Performance Measure:

Number of Reportable Environmental Incidents – This measure tracks BCTC's environmental performance against the environmental standards and regulations set by various regulatory agencies. BCTC's performance target for F2006/07 was determined prior to the completion of F2005/06 and was maintained in order to focus the organization on minimizing environmental incidents and support BCTC's guiding principles for environmental responsibility. Performance targets for F007/8 through F2009/10 will be reviewed based on actual results, including F2006/07.

Historical Results and Performance Targets

Targets:	Actual			Target			
	F04	F05	F06	F07	F08	F09	F10
Reportable environmental incidents	3	10	12	7	7	7	7

Benchmark Information for environmental measure

The Canadian Electricity Association's environmental benchmarking studies measure the volume of spills, not the frequency of reportable incidents, which makes a direct comparison challenging. In addition, standards for reporting environmental incidents can vary by province, adding to the difficulty of benchmarking. As a result, BCTC uses historical performance data to determine areas for improvement.

Goal 4: RELATIONSHIPS

Build open and constructive relationships with stakeholders and First Nations

Objective: Continue to develop our relationships with stakeholders and First Nations so that our consultations on our plans and proposals are productive and we maintain the current high level of positive and neutral responses from stakeholders.

STRATEGIES

- 4a. Build in First Nations and stakeholder considerations as early as possible in our planning, and engage First Nations and stakeholders early as part of our consultation activities.
- 4b. Expand First Nations working involvement in BCTC projects and programs.
- 4c. Sustain a positive, open and cooperative relationship with the BCUC, customer and stakeholder groups.
- 4d. Ensure BCTC's outreach program reaches those communities where existing and future transmission system impacts are greatest.
- 4e. Maintain effective communications with the Shareholder on BCTC's business objectives and operations.

Rationale for this goal

BCTC values its relationships with stakeholders highly and considers the health of those relationships to be critical to its success, both in the short and long-term. As a publicly-owned BC utility, there is much interest and focus on BCTC, our performance and the benefits BCTC brings. This goal recognizes the importance of establishing the organization's credibility and position in the industry, both within BC and regionally.

This goal, in the long run, is aimed at ensuring BCTC maintains its consent to operate and successfully provides its customers with reliable service and timely access to markets. The goal is aligned with the 2002 Energy Plan goal of secure and reliable supply.

Performance Measure:

Stakeholder Survey Results – This measure is derived from an annual stakeholder survey which includes customers who buy wholesale transmission services or interconnection services (for example, BC Hydro, energy marketers, IPPs), industrial electricity users, municipal governments and Provincial Government agencies. The survey assesses awareness,

impressions and satisfaction with BCTC. The measure is based on the percentage of stakeholders who have a very positive, somewhat positive or neutral impression of BCTC. Results assist BCTC in refining corporate goals and future actions in light of the needs of customers and stakeholders.

Targets for F2007/08 through F2009/10 remain steady and statistically consistent with previous results. BCTC believes that even with its extensive construction plans and the expected public concerns over the siting of transmission infrastructure, we should work to maintain the current high stakeholder satisfaction level.

Historical Results and Performance Targets

Targets:	Actual			Target			
	F04	F05	F06	F07	F08	F09	F10
Stakeholder Response – neutral, positive, very positive	88%	87%	91%	88%	88%	88%	89%

Benchmark Information for stakeholder response measure

Comparable industry statistics are not available; therefore results will be compared to historical BCTC performance. After three years of operation, BCTC now has the historical data to determine trends in performance, and will pursue ways of comparing our performance to standards across a variety of industries.

Goal 5: ORGANIZATION AND PEOPLE

Build an engaged and highly skilled workforce

Objective: Develop an organization with employees who understand the business objectives, know how they are counted on to contribute, and who have the motivation and capabilities to achieve the results.

STRATEGIES

- 5a. Monitor current and anticipated workloads to ensure they are balanced against sufficient resources through a rigorous approach to business and strategic workforce planning.
- 5b. Expand the pool of available resources and increase effectiveness in sourcing those resources through better connections with post-secondary institutions and students, geographically expanding recruitment, utilizing contingent resources and maximizing employment brand value.
- 5c. Develop internal resources to maintain BCTC's knowledge capital by providing individual growth opportunity via development planning, rotational assignments, mentorship program, succession planning, structured training for apprentices, engineers, and leaders, and cross-departmental communications.
- 5d. Maximize effectiveness of available resources by focusing on engagement (alignment, capability, resources, and motivation), emphasizing employee involvement and two-way communication, committing to development activities, addressing resource issues, effectively executing performance management processes, and increasing awareness of compensation package value.

Rationale for this goal

To execute BCTC's mandate effectively, we need to invest in the recruitment, renewal, development and growth of staff capabilities. The intent of this goal is to continually take BCTC to a higher level of performance – setting high goals, being driven to achieve them, taking accountability for actions and results. The continual renewal and development of a technically expert workforce contributes directly to the Energy Plan goal of secure and reliable supply. It is not just the infrastructure and resources that provide security and reliability, it is also the skilled people operating, managing and planning the system. A high performance organization contributes to the achievement of all BCTC's other objectives, and hence to a number of other goals under the Energy Plan.

Measures

Employee Engagement Index – This measure is the result of an annual employee survey, which measures perceptions on motivation, resource availability, capability and alignment. It is a leading indicator of progress in developing a highly productive and engaged workforce. The measure will be compared to BCTC's historical performance and benchmarked against the Watson Wyatt "Work Canada" national survey.

Based on actual results in F2005/06 and subsequent to the publication of BCTC's 2006 Annual Report, BCTC adjusted the F2007/08 and subsequent targets to reflect a more realistic timeframe in which to meet and exceed the Watson Wyatt average.

Historical Results and Performance Targets

Targets:	Actual			Target			
	F04	F05	F06	F07	F08	F09	F10
Employee Engagement Index (max. score 5.0)	3.36	3.37	3.35	3.40	3.42	3.43	3.45

Benchmark Information: BCTC's Fiscal 2006 Employee Engagement result of 3.35 is lower than the 3.43 average in the Watson Wyatt Work Canada 2004/05 study

Goal 6: FINANCIAL RETURN

Manage costs and revenues to meet service obligations.

Objective: Ensure that actual net income results (after deferral accounts) are as planned each year.

STRATEGIES

- 6a. Ensure annual risk management plans are effective in managing variability of costs.
- 6b. Gain regulatory approvals of transmission revenue requirements.
- 6c. Cost management actions noted in Goal One.

Rationale for this goal

BCTC's financial objective is not to maximize revenues but to maximize use of the system. It is not to maximize net income but to effectively complete all planned work while managing costs and risks. Even with the deferral accounts that BCTC has to cover unexpected annual revenue

and cost fluctuations outside of the organization's control, BCTC has a need to be disciplined in budgeting and controlling actual expenditures, so that it can meet its service obligations.

Measures: Expense control is a component of the OMA/GWh-km measure (Objective 1).

Summary Financial Outlook for the Service Plan Period

This financial summary reflects the revenues and expenses attributable to BCTC's own operations. Revenues and expenses attributable to BC Hydro for transmission asset ownership are forecast by BCTC but included in the BC Hydro's Service Plan.

BCTC Financial Summary

(in \$ millions)	Actual 2005/06	2006/07 Forecast	2007/08 Budget	2008/09 Forecast	2009/10 Forecast
Revenues	205.3	187.2	195.1	201.4	211.1
Expenses					
Operating Costs	(161.8)	(168.3)	(175.1)	(174.7)	(176.4)
Asset Related Costs	(22.0)	(15.3)	(14.4)	(19.5)	(27.4)
Total Expenses	(183.8)	(183.6)	(189.5)	(194.2)	(203.8)
Net Income before Deferral Accounts	21.5	3.6	5.6	7.2	7.3
Deferral Accounts	(8.1)	0.3	-	-	-
Net Income	13.4	3.9	5.6	7.2	7.3
Retained Earnings	17.8	20.3	25.9	33.1	40.4
BCTC capital (Note 1)	21.4	62.4	67.8	21.0	8.5
Debt (including Capital Leases)	37.2	46.8	94.7	93.6	76.5
Debt to equity ratio	55:45	52:48	62:38	66:34	60:40
Total Full-time Employees (FTE's)	321	374	390	380	365

Note 1: The capital budget for transmission assets owned by BC Hydro is shown in the capital budget section.

Since F2005/06, BCTC has earned transmission services revenue directly from its customers under its own Open Access Transmission Tariff (OATT). Under Special Direction No.9, the BCUC must ensure that BCTC's tariff rates allow the collection of sufficient revenue to generate an annual allowed rate of return on deemed equity.

With the establishment of commercial Service Level Agreements with BC Hydro service providers, BCTC's cost structure includes all asset management and system operation charges for the transmission system, including charges from BC Hydro Engineering and Field Operations. This enables BCTC to more effectively manage the costs associated with the management, operation and maintenance of the system.

Revenues

(\$ millions)	F2005/06 Actual	F2006/07 Forecast	F2007/08 Budget	F2008/09 Forecast	F2009/10 Forecast
Transmission Tariff Services	169.4	156.0	163.6	171.4	181.5
Non-Tariff Services	35.9	31.2	31.5	30.0	29.6
Total Revenues	205.3	187.2	195.1	201.4	211.1

Revenue comprises transmission tariff revenues and non-tariff revenues. Tariff revenue is BCTC's share of the amount collected for network services, point-to-point and ancillary services revenues. The tariff is adjusted each year to recover the allowed net income and expenses less revenue for non-tariff services. The tariff is reviewed and approved by the BCUC annually.

Tariff Revenue: F2006/07 tariff revenue will be \$13.4 million lower than the F2005/06 tariff revenue due to the following:

- Charges to transmission customers will be reduced as a result of lower operating and asset related costs; and
- Charges for asset management and maintenance services will be reduced as a result of improved maintenance practices and maintenance program cost savings.

The F2007/08 to F2009/10 tariff revenue projections increase to recover higher operating costs and asset related costs, and higher allowed net income due to the growth in capital assets.

Non-tariff Revenue: Non-tariff revenue comprises amounts earned providing services to BC Hydro for Substation Distribution Asset Management, Distribution Operations, and Generation Control, BCUC approved revenue assignment of Generation Related Transmission Asset Maintenance and other miscellaneous revenues.

For F2006/07 forecast, non-tariff revenue is expected to be \$4.7 million lower than the prior year largely due to the following:

- Charges for Generation Related Transmission Assets are lower as a result of improved maintenance processes and reduced maintenance program costs;
- Absence of the one-time bonus payment for wage settlement from the Province of BC in F2005/06; and
- Service charges for BC Hydro's voice and data use of the microwave system were reduced to reflect lower market-based pricing.

Operating Costs

(\$ millions)	F2005/06 Actual	F2006/07 Forecast	F2007/08 Budget	F2008/09 Forecast	F2009/10 Forecast
Operations, Maintenance & Administration	157.3	163.5	170.3	169.9	171.6
Cost of Market	4.5	4.8	4.8	4.8	4.8
Total Operating Costs	161.8	168.3	175.1	174.7	176.4

Operations, Maintenance and Administration (OMA): OMA expenses consist primarily of labour for BCTC's own staff plus the charges for outsourced services provided by service providers including BC Hydro, Accenture Business Services for Utilities and others.

For the purposes of the financial forecast included in the Service Plan, only approved salary and wage increases are included. Given the extremely tight labour market in the power industry and staffing requirements following from BCTC's aging workforce and increasing activity, BCTC anticipates that there will be continued upward pressure on salaries and wages. This represents a risk to the financial forecast. The sensitivity of a 1% increase in salaries and wages is about \$400,000.

The OMA forecast for F2006/07 is \$6.2 million higher than F2005/06, due to increased activity associated with capital planning, interconnection studies, regulatory proceedings and stakeholder consultations. Also included in the forecast is \$1.1 million for the new System Control Modernization Project (SCMP) for process design and documentation.

The F2007/08 OMA budget is \$6.8 million higher than the F2006/07 forecast. The increases are due to higher labour costs for additional headcount to address increased activity, increased costs of compliance with reliability and security standards as well as increased consultation and regulatory costs. BCTC expects to eliminate some of the additional positions through retirement over time. In F2007/08 the forecast also includes \$1.1 million for the tri-annual Asset Baseline Study.

The F2008/09 OMA budget decreases \$0.4 million over F2007/08. This is due to reduced expenses after the completion of the Asset Baseline Study, partially offset by relocation and severance costs associated with the System Control Modernization Project

The increase of \$1.7 million from F2008/09 to F2009/10 reflects labour cost increases.

The increase for inflation on non-labour expenses is 2.0% for F2007/08 and 2.1% for subsequent years. The impact of inflation on non-labour expenses other than BC Hydro and Accenture Business Services for Utilities is assumed to be offset by cost reductions from productivity improvements.

Cost of Market: This category includes costs for congestion management and ancillary services. Congestion management expense includes costs of operating reserves, transmission locational credits, unscheduled flow mitigation and operating agreements between control areas. It also includes the cost of all generation-based ancillary services that BCTC, in turn, sells to customers on a cost flow-through basis.

Asset Related Costs

(\$ millions)	F2005/06 Actual	F2006/07 Forecast	F2007/08 Budget	F2008/09 Forecast	F2009/10 Forecast
Depreciation and Amortization	19.7	13.8	13.6	16.3	21.0
Taxes and Grants	0.3	0.3	0.3	1.5	2.0
Finance Charges	2.0	1.2	0.5	1.7	4.4
Total Asset Related Costs	22.0	15.3	14.4	19.5	27.4

BCTC's asset related costs include depreciation, school taxes, grants in lieu of taxes, and finance charges associated with the assets owned by BCTC.

Depreciation and Amortization

F2006/07 depreciation and amortization expense is forecast to decrease \$5.9 million from F2005/06. A reduction of \$6.4 million is due to a decrease in the asset base as several business system assets became fully depreciated at 31 March 2006. The reduction is offset in part by an increase of \$0.5 million from new assets placed in service.

Depreciation and amortization in F2007/08 is forecast to decrease by \$0.2 million from F2006/07. A reduction of \$1.9 million, due to several control centre assets becoming fully depreciated, is partially offset by an increase of \$1.7 million primarily for new business systems placed in service. Depreciation and amortization in F2008/09 is forecast to increase by \$2.7 million from F2007/08. An increase of \$1.7 is due to number of business systems and information technology assets placed in service. A further increase of \$7 million is due to the new Control Centre Modernization Project (\$5.3 million for the new assets placed in service and \$1.7 million for reconfiguring the

existing area control centres). These increases are partially offset by a \$6.0 million reduction in depreciation as a result of other control centre assets becoming fully depreciated.

Depreciation and amortization in F2009/10 is forecast to increase by \$4.7 million from F2008/09. An increase of \$7.1 million reflects the full year's depreciation on SCMP, business systems and IT assets placed in service in the previous year. These increases are partially offset by a \$0.7 million reduction in depreciation due to assets becoming fully depreciated; and a \$1.7 million reduction as the one-time reconfiguration costs incurred in the previous year are not repeated.

Grants and Taxes

Grants-in-lieu of property taxes and school taxes are forecast to remain stable at \$0.3 million until F2008/09, at which time grants and taxes will increase by \$1.2 million due to the higher property taxes relating to the new control centres.

Finance Charges

BCTC borrows through facilities established with the Ministry of Finance. BCTC's short-term borrowings are commercial paper, which are limited to a \$25 million outstanding balance. BCTC has one outstanding long-term issue with a \$30 million face value, a coupon rate of 4.3%, and an effective interest rate of 4.1%, which matures in 2008. The proceeds from the debt issue were used to purchase the control system assets from BC Hydro in 2003.

Future BCTC capital projects will be funded from operating income, supplemented by short-term commercial paper borrowings. When the \$25 million limit on short-term borrowings is reached, the short-term debt will be refinanced with long-term debt.

Long-term Debt forecast

<i>Series</i>	<i>Rate</i>	<i>Maturity</i>	<i>F2006/07</i>	<i>F2007/08</i>	<i>F2008/09</i>	<i>F2009/10</i>
BCTR-CD-6(1)	4.30%	December 2008	30.0	30.0	-	-
#2	4.89%	July 2017	-	40.0	40.0	40.0
#3	5.83%	Dec 2018	-	-	30.0	30.0
Total			30.0	70.0	70.0	70.0

Finance charges reflect the interest on borrowings for capital expenditures less capitalized interest during construction (IDC). The interest rate forecast is provided by the Ministry of Finance. Higher borrowing commencing in F2007/08 is expected to result in higher gross finance charges offset by higher capitalized interest during construction, primarily for the System Control Modernization Project. The capitalized interest calculation is based on the capital work in progress (WIP) balance but the amount capitalized is capped at the amount of short and long-term finance charges.

<i>Finance Charges</i>	<i>F2006/07</i>	<i>F2007/08</i>	<i>F2008/09</i>	<i>F2009/10</i>
Short-term borrowing cost	0.0	0.7	0.9	0.4
Long-term borrowing	1.3	2.8	3.5	3.7
Capital leases	0.5	0.5	0.5	0.5
Deferral accounts	0.7			
Sub-total	2.5	4.0	4.9	4.6
<i>Less Interest Capitalized:</i>				
Total IDC based on WIP	1.6	5.9	3.2	0.2
Interest capitalized	(1.3)	(3.5)	(3.2)	(0.2)
Finance charges	1.2	0.5	1.7	4.4

Deferral Accounts

BCTC has deferral accounts approved by the BCUC to mitigate the financial risks associated with revenue and cost variances from forecast. A deferral account is a mechanism used by rate-regulated entities to accumulate the difference between the BCUC approved amounts and the actual revenues and costs for recovery or refund through future rates. Deferral accounts are commonly applied to costs or revenues that are either uncertain or volatile in nature, and generally beyond the control of the utility. The use of deferral accounts may provide rate stability for customers and may reduce risk for the rate-regulated entity, Shareholders and/or its customers. BCUC has approved BCTC's deferral accounts and their use was contemplated in the Master Agreement between BCTC and BC Hydro, dated 12 November 2003. There are currently four deferral accounts:

Revenue Deferral Account – captures the annual variances between forecast and actual OATT revenues.

Emergency Maintenance Deferral Account – captures non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires or similar events.

Cost of Market Deferral Account – captures the annual variances between forecast and actual Cost of Market expenditures.

Regulatory Expense Deferral Account – captures the variances between forecast and actual regulatory costs. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications and intervenor costs as approved by the BCUC.

BCTC is forecasting a net balance of \$0.3 million for two of the deferral accounts at 31 March 2007 as follows:

- Revenue Deferral Account is forecast to be \$2.3 million as BCTC's share of actual OATT revenues are expected to be \$2.3 million lower than the forecast. The balance is composed of \$1.1 million point-to-point revenue shortfall, \$2.0 million of other ancillary services shortfall, offset by \$0.8 million scheduling fee surplus.
- Cost of Market Deferral Account is forecast to be \$2.0 million as actual cost of market expenditures are lower than forecast costs.

BCTC's F2005/06 deferral account balance of \$8.1 million, together with \$14.9 million pertaining to BC Hydro's Revenue Requirement for transmission services and interest based on BCTC's weighted average cost of debt, will be refunded to customers in early 2007.

Net Income

The forecast net income for F2007/08 – F2009/10 is based on earning an allowed rate of return on the deemed equity balance at the end of the year. The actual equity balance is composed of retained earnings and a \$20 million equity injection from the Province of British Columbia. The net income forecast is based on BCTC's deemed equity structure, as defined in Special Direction No. 9. BCTC may collect its interest expense on its deemed debt and an allowed rate of return on its deemed equity structure in the rates it charges its customers. Actual interest expense is reflected in the annual operating accounts of the Company to arrive at BCTC's actual net income. The forecast reflects the amended Special Direction No. 9 to establish BCTC's deemed equity component at 40.7% of its total capitalization. The F2006/07 allowed rate of return of 13.1% is used as the estimate of the return for F2007/08 – F2009/10.

In order to build its equity level to an amount required to assume the risks inherent in its business model, the Shareholder has approved BCTC retaining all earnings until F2008/09. Retained earnings are forecast to be \$33.1 million at the end of fiscal F2008/09 and will result in an actual

equity component of 34%. In consultation with the Shareholder, BCTC is currently developing the dividend policy for F2009/10.

Full Time Employees

Full Time Employees (FTEs) are defined as the number of approved full-time employee positions. Over the past three years, BCTC adjusted its organizational structure, redeployed existing resources and added headcount to address its strategic objectives and growing workload associated with OATT tariffs, capital expansion, regulatory proceedings and public/stakeholder consultation.

In F2005/06, BCTC relied heavily on higher-cost temporary and contractor resources and on excessive overtime. The annual Employee Engagement Survey results strongly suggested that resource levels within parts of the organization were inadequate. In F2006/07, BCTC conducted a critical review of resource capability to ensure it has the capacity to deliver on corporate goals and objectives. A primary driver of increased resource needs is BCTC's 10 year capital plan, which anticipates a significantly higher level of investment in the transmission system to meet growing demands and to sustain existing system capacity. F2006/07 capital expenditures are forecast at \$260 million, which is 84% higher than in the previous year. The higher level of study requests from IPPs and generators and increasing regulatory and stakeholder expectations are also straining the capability of existing resources.

In fall 2006, 41 new positions were approved over a two year period – 25 in F2006/07 and 16 in F2007/08. Of the 41 positions, 11 are temporary increases to address business transitional requirements associated with BCTC's aging workforce and the System Control Modernization Project. BCTC expects to eliminate these temporary positions through retirement over time. A further 9 positions are for replacement of temporary or contract staff performing core work functions, and the net increase of this additional headcount will be largely offset by savings in reduced payments for contracted services. The overall cost of BCTC's headcount increases will be partly offset by efficiency gains in the area of non-maintenance spending.

Key Forecast Assumptions and Risk Factors Relating to the Financial Forecast

Key Assumptions used in preparing the financial outlook include:

- BCTC rates are regulated by BCUC. Rates and revenue requirement are set based on forecast of costs plus a return on equity.
- Return on equity maintained at the currently approved level of 13.1%.
- 40.7% deemed equity component for all years.
- Debt costs based on November 2006 Economic Assumptions provided by the Ministry of Finance.

Risk Factors

BCTC uses an Enterprise Risk Management framework to identify, evaluate, manage, and monitor the uncertainties the organization faces. The framework ensures that effective strategies are in place to mitigate critical risks. The following key risks are those that may influence financial and performance expectations during the current year and the three-year budget planning period. The various mitigation strategies are described below.

Labour Risk

BCTC relies on a relatively small, highly skilled workforce within an increasingly competitive labour market. The average age of BCTC's employees is 46 years. Voluntary attrition, inclusive of retirement, was 6.5% in F2005/06 and is expected to escalate to 7 to 9% commencing in F2006/07, principally due to increased retirements.

In order to manage this risk BCTC has increased the emphasis on succession and workforce planning, recruitment strategies and active management of other key attraction and retention factors. In addition, staffing levels within the organization have increased to accommodate workload considerations, including increased knowledge transfer requirements and training considerations.

Regulatory Risk

BCTC manages this risk through prudent planning, seeking approvals as early as they can be obtained and by minimizing any capital activity in advance of the necessary approvals. BCTC has received approval from the BCUC for certain deferral accounts in which to record the differences between forecast and actual revenues or costs. BCTC is subject to the same deferral account clearance risks as other regulated companies. BCTC manages this risk by ensuring deferred costs and revenues are prudent and by demonstrating BCTC's prudent action to the BCUC.

Project and Program Risk

BCTC mitigates program execution risks through the application of policies, processes and standards. Each capital or maintenance project is evaluated for regulatory, cost, schedule, scope, performance, utilization, functionality, environmental and safety risks. The Risk Management Committee reviews the risk mitigation strategies in place for BCTC's major capital projects.

Operational Risk

BCTC operates, plans, and manages the assets of BC Hydro's transmission system and is responsible for electric transmission reliability for that system. In the execution of this mandate, BCTC manages risks that could potentially impact the reliability, capacity, sustainment, safety or environmental performance of the transmission system. Monitoring asset health and performance allows risk reduction programs to be initiated. A comprehensive system of operating policy and local and system operating orders safeguard against worker and public endangerment, equipment damage, loss of reliability, and loss of public support.

Environmental, Health and Safety Risk

Environmental, Health and Safety risks are managed by the use of International Organization of Standards consistent management systems. BCTC uses the management systems it has developed to identify, assess, and control environmental, health and safety risk. All lines of business are annually reviewed for policies, standards, and compliance with Government regulations and industry standards. The Human Resources, Safety & Environment Committee of the Board of Directors has oversight responsibility for environment, health and safety.

Security Risk

Security risks are managed through an enterprise Security Management Program that encompasses physical security and cyber security. The security program ensures that our personnel, assets, information systems, and operations are resistant to security threats and potential business disruptive events. Regular reporting is provided to the Risk Management Committee and the Audit Committee of the Board respecting management's enterprise risk assessment and business continuity planning.

Credit Risk

Credit risk is the risk of loss in the event a counterparty fails to fulfill its payment obligations. A counterparty may be a customer under the Open Access Transmission Services Tariffs or other commercial counterparty, debtor or guarantor. BCTC has a low tolerance for credit risk and has established stringent credit policies and procedures for the day-to-day management of credit risk exposure. Transmission services are provided only to those customers whose debt, as

determined by debt rating agencies, meets BCTC creditworthiness criteria or upon receipt of acceptable security. The management of credit risk is centralized under the Chief Financial Officer from a strategic and operational perspective. Credit risk is measured on an ongoing basis and a monthly credit review and exposure report is provided to management for review. In Fiscal 2006, BCTC did not experience any credit loss from customer accounts.

Market Risk

Market risk is the risk of loss resulting from changes in interest rates, foreign exchange rates and commodity prices. BCTC is exposed to interest rate risk which could negatively affect its finance charges and the cost of its pension and other employee benefit plans. As at March 31, 2006, BCTC had a \$30 million debenture, at a coupon rate of 4.3% and maturing in December 2008. Therefore there is a low interest rate risk associated with debt cost. The interest rate risk on the cost of BCTC pension and other employee benefit plans is more significant due to the sensitivity of the liability to the discount rate used in valuing pension plan liabilities. The discount rate is based on yields at the financial statement date of high quality corporate bonds matching the timing and amount of the expected benefit payments under the plans. The discount rate has declined from 6% at March 31, 2005 to 5.40% at March 31, 2006 and this contributes to higher actuarial liabilities and current service costs for future periods. BCTC periodically undertakes an Asset/Liability study to address interest and investment risk associated with its pension plan. BCTC foreign currency risk is currently insignificant as most of its exposure pertains to its trade receivables and payables. BCTC does not have any commodity risk.

Key assumptions and sensitivities for the F2007/08 budget and forecast to F2009/10 are as follows:

Financial Assumptions	Sensitivities
<p>1. Regulatory</p> <ul style="list-style-type: none"> • BCTC earns 13.1% allowed return on equity through the period F2007/08 to F2009/10. • To recover costs and allowed return on equity over the forecast period F2007/08 to F2009/10, Open Access Transmission Tariff (OATT) revenues are forecast to increase between 5% to 6% per annum over the forecast period. Revenue Requirement changes are subject to review and approval by the BCUC. 	<ul style="list-style-type: none"> • A 1% change in the allowed return on equity will change net income of future years by \$0.4 million in F2007/08, \$0.6 million in F2008/09 and \$0.5 million in F2009/10. • BCTC's costs and allowed return on equity would have to change by approximately \$1.5 million to effect a 1% change in transmission tariff revenues.
<p>2. Costs:</p> <ul style="list-style-type: none"> ▪ The F2007/08 budget includes approved Collective Agreement increases and other Board approved allowances for salary and wage increases. No additional labour cost increases are included in F2008/09 and F2009/10. The IBEW/BCTC Collective Agreement expires 31 March 2007. 	<ul style="list-style-type: none"> ▪ A 1% change in labour costs will change expenses by \$0.4 million in each year, of which \$0.1 million pertains to IBEW labour costs.

Financial Assumptions	Sensitivities
<ul style="list-style-type: none"> ▪ 2% annual inflation on non-labour expenses other than BC Hydro and ABS during the forecast period is offset by productivity improvements. 	<ul style="list-style-type: none"> ▪ A 1% change in inflation on non-labour expenses will change expenses by \$0.5 million.
<ul style="list-style-type: none"> ▪ The SCMP facility is in-service October 2008. ▪ Short-term and long-term debt interest rates reflect rates published by the Ministry of Finance for the forecast period. ▪ Cash flows assume that all deferral accounts are cleared in the following year, no changes are made to the capital structure of the company and dividends are not paid during the forecast period. 	<ul style="list-style-type: none"> ▪ Beginning F2008/09, an in-service delay of one month will decrease depreciation by \$0.9 million and increase interest capitalization \$0.6 million. ▪ Each 1% change in interest rate will change the gross finance charge of new debt by \$0.5 million in F2007/08, \$0.7 million in F2008/09 and \$0.7 million in F2009/10. ▪ An increase of \$10 million in long-term debt requirements will increase finance charges between \$0.5-0.7 million per year.
<ul style="list-style-type: none"> ▪ BCTC is currently assessing the impact of the SCMP facility on the control center operating lease arrangements. 	<ul style="list-style-type: none"> ▪ Operating costs include \$0.2 million/year for operating lease payments and depreciation expense and finance charges for capital leases are \$0.3 million/year and \$0.5 million/year respectively.
<p data-bbox="203 1199 394 1230">3. Capital Plan</p> <ul style="list-style-type: none"> ▪ Customer Load Projects are included in the Plan only if there is a signed Facilities Agreement. ▪ IPP Expenditures are based on BC Hydro's ongoing and planned Call for Tender (CFTs). 	<ul style="list-style-type: none"> ▪ Capital expenditures for customer load connections could change rapidly with economic conditions. ▪ Planned expenditures will be impacted if IPPs do not develop as anticipated.
<ul style="list-style-type: none"> ▪ Projects are planned based on BC Hydro's preliminary load forecast and amended resource plan. ▪ The Northwest Transmission project is not included in the Plan. The project is under consideration by the Provincial Government and, if it proceeds, may require Board and BCUC approval during the planning horizon. 	<ul style="list-style-type: none"> ▪ Deviations from the forecast could affect the timing of system reinforcements and the in-service date of the reinforcements. ▪ If the project proceeds, capital funding and staffing will need to be increased.

Capital Plan

BCTC is accountable for investments in the transmission system assets that continue to be owned and financed by BC Hydro. BCTC owns and finances capital assets that are required to operate the transmission system. Investments in both the BC Hydro-owned assets and the BCTC-owned assets are presented in the Transmission System Capital Plan which is subject to review and approval by the BCUC. BCTC's capital plan filings and BCUC Decisions are available on the BCTC website at <http://www.bctc.com/regulatory/>. For individual capital projects exceeding \$50 million, BCTC prepares capital project plans for public disclosure pursuant to the *Budget Transparency and Accountability Act*. A summary of all Transmission capital expenditures is presented below:

Transmission Capital Expenditure Forecasts					
\$ millions	F2005/06 Actual	F2006/07 Forecast	F2007/08 Budget	F2008/09 Forecast	F2009/10 Forecast
Transmission Assets Owned by BC Hydro					
Sustaining Capital	86.6	92.3	90.2	96.1	98.8
Growth Capital	41.1	114.0	122.5	280.1	223.5
Contributions In Aid of Construction	(4.9)	(8.0)	(8.0)	(21.0)	(27.0)
Total – Transmission Assets Owned by BC Hydro	122.8	198.3	204.7	355.2	295.3
Assets Owned by BCTC	21.4	62.4	67.8	21.0	8.5
Total Transmission System Capital Expenditures	144.2	260.7	272.5	376.2	303.8

Capital Expenditures – Transmission Assets Owned by BC Hydro

There are two main drivers for capital investment in the transmission assets owned by BC Hydro: sustaining performance capability; and growth to meet load increases and customer interconnection requests.

Sustaining Capital

Investments under the Sustaining Portfolio are designed to maintain an appropriate level of asset health and system performance. These investments typically involve refurbishment or replacement of existing equipment, with the objective of extending life or preserving functionality. In addition, some Sustaining Portfolio investments are made to reduce risks, such as those associated with safety and environmental issues, and meet industry standards in programs such as seismic upgrades, spill containment, and fire risk reduction.

The key drivers in the development of the Sustaining Portfolio align with BCTC's Corporate Goals.

Corporate Goal No. 1 - Reliability, Cost and Service - Corporate Goal No. 1

- a) Asset performance: actual asset performance is compared to required performance levels to identify needs. Asset criticality is the main factor in determining required performance levels and is based on load, number and type of customers served and network configuration.

- b) Asset condition: a leading indicator of asset performance and reliability, asset condition is affected by the equipment's physical environment and its operating and maintenance history.
- c) Maintainability: if there is a lack of replacement parts, repairs may be very expensive or even impossible. This can put the transmission system at risk since the failure of one of these items could cause extended service outages until spare parts are found or new equipment is acquired and installed.
- d) Risk Exposure: the main risks associated with the Sustaining Portfolio include seismic events, severe weather and fire, which could have considerable impact on system reliability and result in higher remediation costs.
- e) Life Cycle Cost: an asset can reach its end-of-life when it is no longer economically justifiable to continue maintaining the equipment. Financial end-of-life is reached when the net present value of on-going maintenance costs exceeds the net present value of a capital investment in the asset and the, typically lower, maintenance costs following the investment.

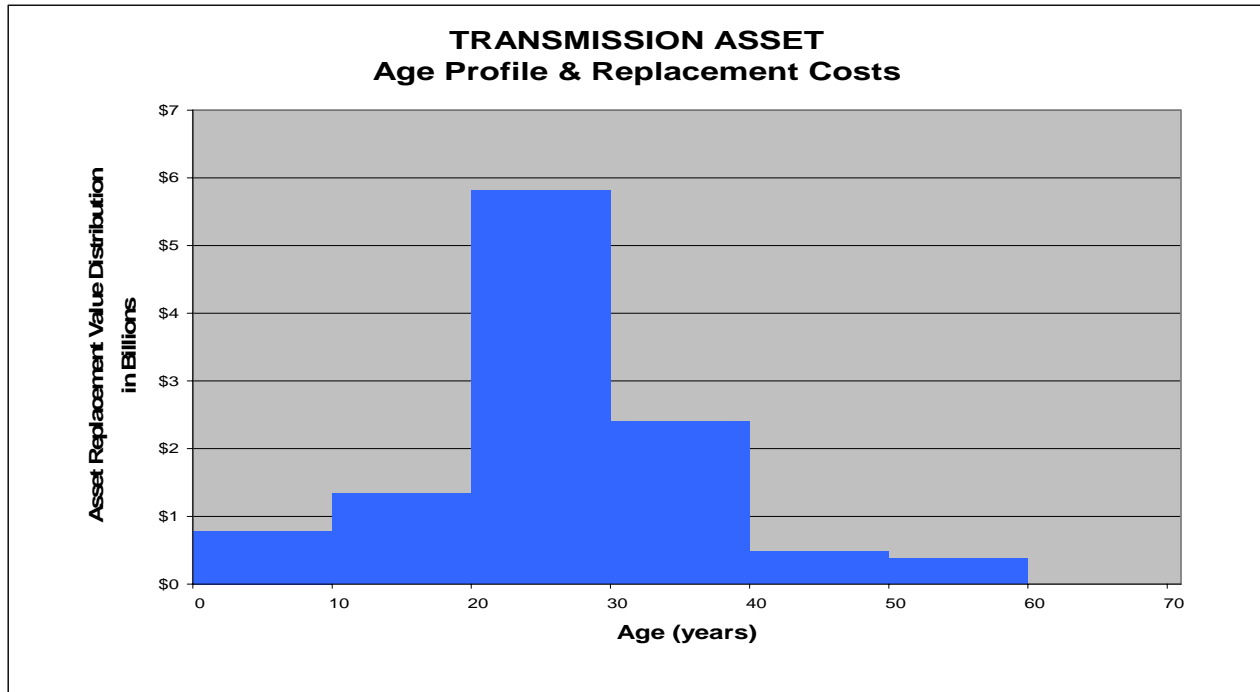
Corporate Goal No. 3 - Safety and Environment

- a) Risk exposures in the areas of safety and impact to the environment are monitored and evaluated on an on-going basis to ensure they comply with BCTC's Corporate Goals, standards set by regulatory bodies and legal requirements.
- b) Safety and environmental requirements are considered throughout the program and project development and execution processes as well as during on-going maintenance practices.
- c) Safeguarding personnel, the public, property, equipment, and other assets through the implementation of appropriate security measures to mitigate inadvertent or fraudulent access to facilities, which may result in theft or damage to assets, disruption of power supply, damage to the environment, and harm to the public or personnel.

BCTC's planning process now includes the use of an improved prioritization methodology and tool which facilitate the comparison of all projects across the Sustaining Portfolio to focus investment on those providing the most value and with the greatest risk from deferral. This has resulted in some shifts of emphasis on programs within the Sustaining Portfolio. Significant changes include increased work in station security to address escalating risks from break-ins; and a reduction in work on cable sustainment, reflecting the improved condition of these assets.

Additionally, BCTC is in the process of developing a new tool to forecast the long-term level of Sustaining Capital investments required to ensure the system continues to provide safe, reliable service. A large part of the transmission system's asset base, installed between 20 and 40 years ago, will reach end of life in the next several decades. BCTC is developing methods and plans to manage the forecasted replacement investment profile, to reduce the predicted costs and smooth the investment requirements.

Transmission Asset Age Profile & Replacement Costs



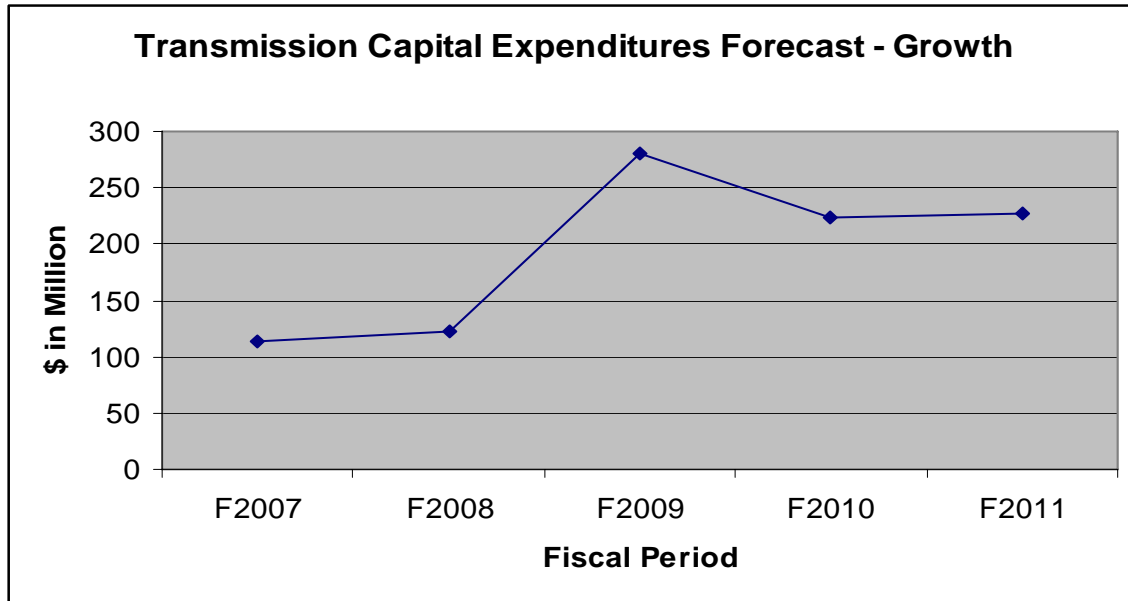
Growth Capital

Growth Capital includes the investments required to extend and enhance the system to meet growth in load and use of the system, and to accommodate transmission customer and IPP requests. The key business drivers of growth capital are:

- Open Access Transmission Tariff (OATT) service requests for new generation and domestic load growth pursuant to the Network Integrated Transmission Service (NITS) Agreement between BC Hydro and BCTC.
- OATT Point-to-Point Transmission Service requests from BC Hydro and other customers.
- Transmission interconnections requested by Independent Power Producers and other customers.

Growth capital increases sharply in F2008/09 and remains high for the following five years to address the rapid load and generation growth in the province due to customer demand, IPP interconnections and BC Hydro resource additions. Where these investments are made pursuant to transmission tariff requests for service, the process for determining investments and the sharing of costs is in accordance with the OATT tariff.

Following is a table depicting current and planned growth capital expenditures:



There are two growth capital projects in progress for which expenditures are forecast to be greater than \$50 million:

Vancouver Island Reinforcement Project - \$249 million (F2005/06 – F2008/09)

The high voltage direct current (HVDC) system between Lower Mainland and Vancouver Island is reaching the end of its useful life. The rated transfer capacity has been reduced to 240 MW and will be rated zero for planning purposes in 2007. With the de-rating of the HVDC system and load growth on the Island, the existing firm supply capacity will be unable to meet the peak demand on the Island by the end of 2007. In order to meet demands and load growth on Vancouver Island and the Southern Gulf Islands, this project will install a new 230 kV circuit between Arnott Substation in Delta on the mainland and Vancouver Island Terminal station.

BCUC granted BCTC a Certificate of Public Convenience and Necessity (CPCN) in July 2006. Various intervenors have applied to the BCUC for reconsideration of its decision and such applications have to date been dismissed. Certain intervenors also applied for leave to appeal to the British Columbia Court of Appeal, which has granted leave on one ground of appeal. The hearing on the merits of the appeal is expected in early 2007. An application for US federal approval was filed with the US Army Corps of Engineers at the end of May for the portion of the project in US waters. US State and County permit applications were filed in August. The project is also under review by the BC Environmental Assessment Office and Canadian Federal Agencies (DFO and Environment Canada). BCTC expects to receive a BC Environmental Assessment Certificate (EAC) by February 2007. The project remains on track for an in-service date in the fall of 2008.

Interior to Lower Mainland Reinforcement - \$349 million (F2005/06 to F2014/15)

The project would reinforce the Interior to Lower Mainland bulk transmission system to meet load growth in the Lower Mainland, ensure existing transmission commitments are met and to transport increased generation resulting from new generation capacity planned in the South Interior. A new series compensated 250 km, 500 kV transmission line between Nicola substation (near Merritt) and Meridian substation (in Coquitlam) is one of the options being considered. A

second transmission option being evaluated, upgrading of existing circuits, is a package of 16 upgrade projects for existing lines and station facilities.

The project is in the Definition Phase and the project team has completed initial project planning activities. Preliminary First Nations and agencies engagement and meetings with municipal planners have started. BCTC has filed a project description for the Nicola-Meridian new line option with the BC Environmental Assessment Office. More formal First Nations and Public Consultation will begin in 2007. Project scope, schedule and estimated costs will be defined in more detail once public consultation is complete and the preferred option selected.

The conceptual in service date is fall 2013 or 2014. A Certificate of Public Convenience and Necessity Application will probably be filed in F2007/08.

Capital Expenditures – Assets Owned by BCTC

Capital expenditures for assets owned by BCTC include investments in control centre technologies, information technology and other BCTC assets and facilities. These expenditures are required for the operation of the transmission system and for business support. The main business drivers are:

- Protecting and maintaining the health of applications and infrastructures;
- Increasing personal efficiency and effectiveness;
- Improving decision support; and
- Regulatory compliance, contractual and legislative requirements.

BCTC has one capital project greater than \$50 million, the System Control Modernization Project, totaling \$132.5 million, with an in-service date of 2008. This project will provide information, communication systems and automated systems to operate the integrated transmission system and to facilitate integrated market access to Alberta and the United States. The current Energy Management System and Supervisory Control and Data Acquisition systems are based on 1960's operating models and are at the end of their useful lives. The existing systems are antiquated and do not have the features and functionality required for an open access and evolving regulatory and business environment. In February 2005, BCTC received a CPCN from the BCUC to proceed with the project.

The project is in the Implementation phase. Property was purchased in Langley for the new Fraser Valley Office (main control centre). The existing control centre property in Vernon was selected for the new Southern Interior Office (backup control centre). Telecommunications upgrade design work is complete, several contracts have been awarded, and construction is in process. The Energy Management System (EMS) contract has been awarded, design work is substantially complete, and software development is underway. Portions of the EMS system hardware and software have been delivered primarily for system development, training, and testing. Building design is complete and construction is underway at both sites. Both buildings will be under-roof and weather enclosed early in 2007. The buildings are scheduled for occupancy in the summer of 2007. The overall project is on budget and schedule for a 2008 in-service date.

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