

COLUMBIA POWER CORPORATION

SERVICE PLAN 2009/10–2011/12

February 2009



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Honourable Blair Lekstrom
Minister of Energy, Mines and Petroleum Resources

Dear Minister Lekstrom:

I am pleased to submit Columbia Power Corporation's 2009/10–2011/12 Service Plan.

Columbia Power Corporation ("CPC" or the "Corporation") is wholly owned and controlled by the Province of British Columbia. As an agent of the Province, the Corporation develops and operates power projects in the Columbia Basin, on a joint venture basis with the Columbia Basin Trust ("CBT"). Columbia Power Corporation is the joint venture manager

CPC oversees the operations and management of the Brilliant dam, powerplant and terminal station, the Arrow Lakes Generating Station and the Brilliant Expansion on behalf of the Joint Ventures of CPC and CBT, which own these assets. The Brilliant and Arrow Lakes facilities continue to perform at a high level, with earnings from these assets maintaining their upward trend. The Brilliant Expansion has recommenced operations after the completion of in-stream work to improve water flows.

CPC manages the development activities of the Waneta Expansion on behalf of the CPC/CBT Joint Venture which owns all of the development assets of the Waneta Expansion. Development phase activities for the Waneta Expansion during 2008/09 have focused on issuing the project's request for proposals from contractors, determining the project's entitlement, negotiating a power sales price and preparing a financing plan.

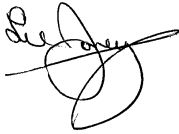
CPC has received a *Shareholder's Letter of Expectations* from the Province, defining primary responsibilities and setting out the expectations of government and the Minister of Energy, Mines and Petroleum Resources. During the year, CPC also tracked the goals set out in last year's Service Plan. Net Income is \$3.5 million above the projected target for the year due to CPC's 50% share of Brilliant Expansion net income. Brilliant Expansion's net income exceeded its forecast by \$9.1 million, of which approximately \$6.8 million was due to a federal EcoEnergy grant. The insurance claim for Arrow Lakes and the contractor claim for Brilliant Expansion, that were identified as significant issues in the previous Service Plan, have been resolved.

The key risks to CPC's development activities include the costs of construction, the availability of labour, the price of power and the cost of financing – all of which could affect the commercial viability of the Waneta Expansion. The Corporation's short-term goals include: attracting and retaining staff to ensure continued advancement of the Corporation's key objectives; finalizing activities related to improving expected energy of the Brilliant Expansion project; and completing the project development of the Waneta Expansion sufficiently to allow a decision to be made on project construction.

Over the period 2009/10 to 2011/12, the CPC/CBT power projects are expected to generate \$130 million in net income and pay an additional \$44 million in grants-in-lieu of property taxes and water rentals.

CPC's 2009/10–2011/12 Service Plan has been prepared under my direction and in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with government's strategic priorities and Fiscal Plan. The Board is accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with the *Shareholder's Letter of Expectations* and the Province's Goals. All significant assumptions, policy decisions, and identified risks as of January 23, 2009 have been considered in preparing the plan. The performance measures are consistent with CPC's mandate and goals, and focus on aspects critical to the organization's performance. The performance targets in this plan have been determined based upon an assessment of CPC's operating environment in its capacity as the manager of all Joint Venture assets of CPC and CBT, forecast conditions, risk assessment and past performance. I am accountable for ensuring that CPC achieves the specific objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,

A handwritten signature in black ink, appearing to read "Lee Doney", with a large, stylized flourish underneath.

Lee Doney
Board Chair

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COLUMBIA POWER CORPORATION

SERVICE PLAN 2008/09–2010/11

1.0 Organizational Overview

1.1 Introduction

Columbia Power Corporation (“CPC”) is a Crown corporation wholly owned and controlled by the Province of British Columbia, existing under the *Business Corporations Act* and reporting to the Minister of Energy, Mines and Petroleum Resources. Under the terms of its Agency Agreement with the Province, CPC is confirmed as an agent of the government while reserving for Treasury Board as defined in a newly modified Agency Agreement between the Province and CPC, the ultimate decision-making authority for new power project investment and significant financial restructuring. CPC’s mission is to efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin. In making power project investments, CPC’s goal is to support the employment, economic development and resource management objectives of the Province, within the constraints of a commercial enterprise.

CPC undertakes power projects through joint ventures with subsidiaries of the Columbia Basin Trust (“CBT”) and manages all of the joint ventures. CPC is a small organization, with 52 full-time equivalent positions, located in Castlegar. CPC focuses on asset management activities while engaging private-sector firms to provide construction, plant operation and specialist consulting services. Through its joint ventures, CPC is one of the larger producers of electricity in British Columbia.

CPC oversees the operations of the Brilliant dam, powerplant and terminal station, the Arrow Lakes Generating Station and the Brilliant Expansion and the development activities of the Waneta Expansion. The Waneta Expansion Project received its provincial Environmental Assessment Certificate on October 13, 2007 with the federal environmental permit expected shortly. A provincial water licence, delayed by flow issues with regards to white sturgeon, was issued on January 22, 2008.

Most of the power generated at the current operating projects (Brilliant, Arrow Lakes Generating Station and Brilliant Expansion) is committed under long-term sales contracts to two utilities, FortisBC Inc. ,BC Hydro and to Powerex, a subsidiary of BC Hydro.

Returns from CPC’s 50 percent equity share of the power projects are available to be distributed to the Province.

1.2 Mandate, Vision and Values

The *Shareholder's Letter of Expectations* from the Province confirms the mandate of CPC, as the manager of power project joint ventures with the CBT, to efficiently plan, develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin.

The mandate, vision and values of CPC are presented below.

Mandate

- Develop core hydroelectric projects and other qualifying generation, transmission and distribution projects in the Columbia Basin.
- Earn an acceptable rate of return given the risks.
- Finance power projects using the government's equity contributions, retained earnings and limited-recourse project debt, without government debt guarantees.
- Promote employment, economic development and new industry through environmentally sound, cost-competitive power project investment.

Vision

To be a respected, continually improving company that maximizes shareholder value by developing and operating power projects in a socially and environmentally responsible manner, achieving the development objectives of the Province and the Columbia Basin.

Values

- Efficiency in the use of scarce resources.
- Good value for money for the Province and the Columbia Basin.
- Socially responsible decision-making, to the extent possible, guided by the market.
- Proactive and economically responsible environmental management.
- Respectful employment practices.

1.3 Business Model

The business of CPC is to plan, develop and operate commercially viable, environmentally sound and safe power projects in the Columbia Basin. In carrying out its business, CPC relies, to a great extent, on the private sector. Project planning, design, financing, construction, operation and power sales involve private-sector firms, either wholly or in part. As a Crown corporation, CPC follows a model consistent with various P3 structures for the design, procurement and operation of the joint venture power projects, however, differing with some P3 structures in that CPC/CBT retain ownership of the joint venture assets. This allows CPC to properly allocate and manage risks and realize innovation and efficiency through competition. The model has five distinct components: design, evaluate, build, operate and manage.

Design

The design component involves the assessment of overall engineering, financial, economic and environmental feasibility. This includes the base engineering design, capital cost estimates, market price forecasts, stakeholder consultations, regulatory submissions and solicitation of contractor interest. It concludes with an initial go/no-go feasibility decision followed by a design-build competition. This component is carried out by CPC with its consultants.

Evaluate

In this component, all of the design-build bids are assessed, along with power sales agreements and environmental permits, to determine if a project can proceed and if a design-build contract can and should be executed. CPC, on behalf of the joint venture, is responsible for this evaluation and due diligence.

Build

With the signing of a design-build contract, many responsibilities are transferred to the design-build contractor. CPC, however, engages an “Owner’s Consultant” to ensure compliance with contract terms, including monitoring of quality control and environmental permit requirements in addition to its own resources which oversee all activities at the highest level.

Operate

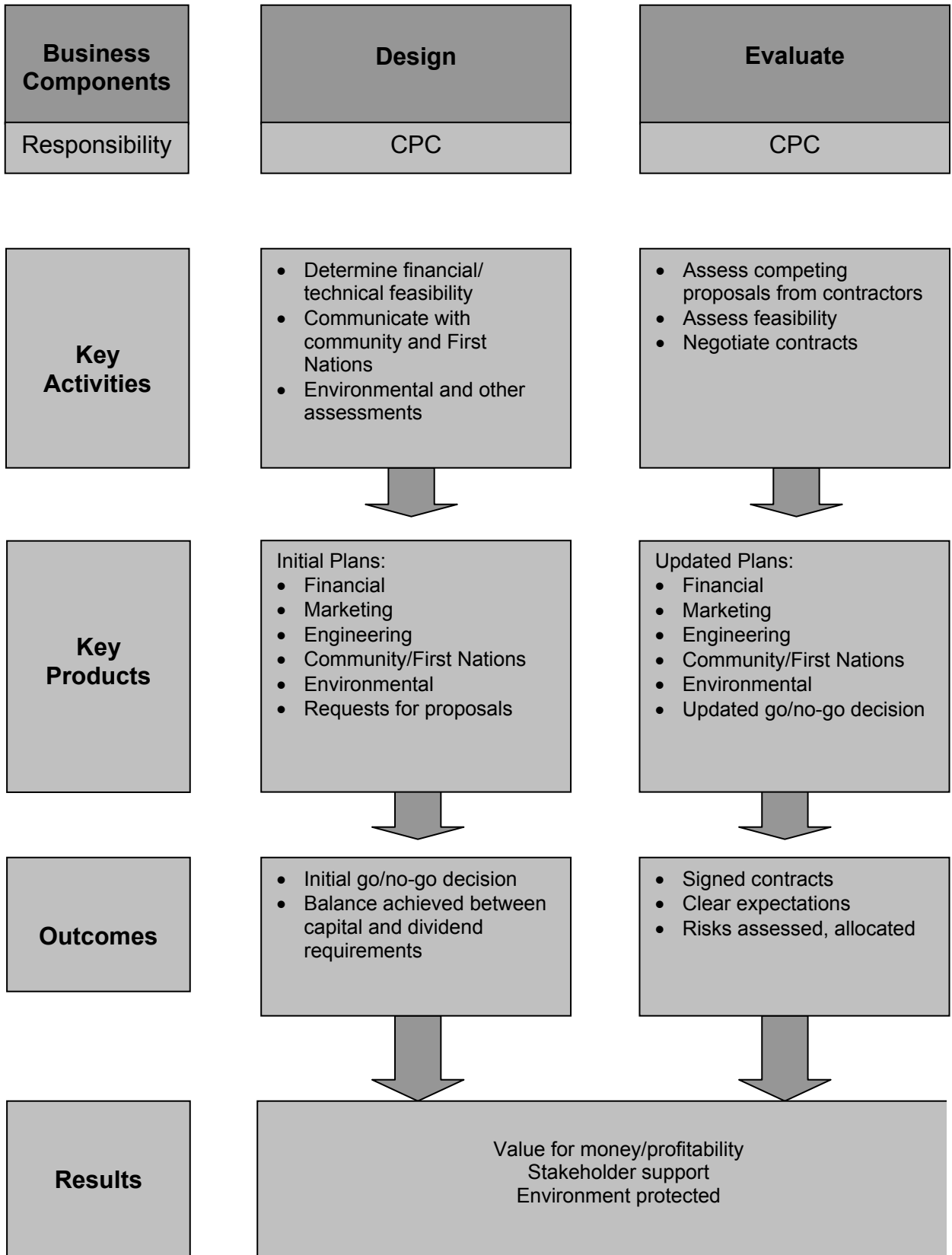
Once a project has been completed and commissioned, operations and power sales begin and further due diligence is undertaken to ensure all deficiencies are resolved and the facility is “fit for purpose.” CPC has in-house engineers knowledgeable in plant operations and maintenance, but, to date has chosen to engage a contractor to operate and maintain the joint venture’s plants, with oversight by CPC. The contractor is responsible for a number of activities.

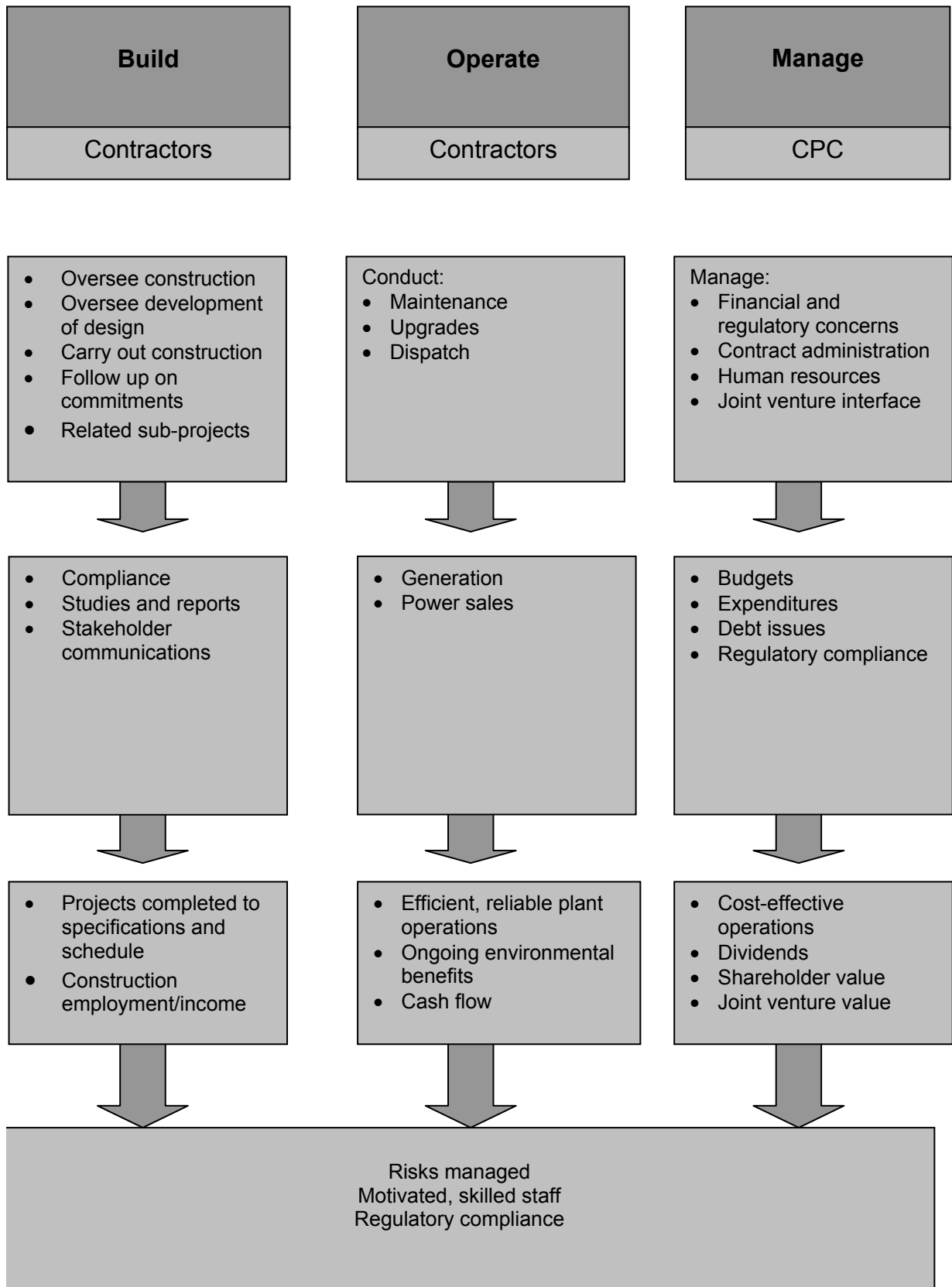
Manage

CPC, the manager for the joint ventures, is responsible for all activities in the business model components: negotiating and administering agreements; raising financing; paying lenders; paying taxes; complying with approvals; employing qualified staff and advisors; and, managing all finance, operations, oversight activities and associated risks..

The CPC business model is shown in Figure 1.

Figure 1: Columbia Power Corporation Business Model





In carrying out its business model, CPC has two roles:

- It is an owner with a 50 percent equity interest, along with the CBT, in joint venture power projects and project(s) in development. Power projects are owned in separate corporations for the purpose of securing limited-recourse commercial project financing without provincial debt guarantees. For a number of reasons, this structure will be reviewed as part of the corporate re-financing necessary to secure adequate funding to finance the Waneta Expansion.
- It is the manager for the joint ventures including those in operation, construction and development. The corporate structure of the joint ventures is shown in Figure 2.

1.4 Key Relationships

The joint venture power project companies owned by CPC and the CBT are wholesalers of power, primarily under long-term purchase agreements with regulated utilities. A 12 year power purchase agreement (expiring in 2015) is in place with BC Hydro for the output of the Arrow Lakes Generating Station; a 60 year power purchase agreement (expiring in 2056) is in place with FortisBC Inc. for most of the output of the Brilliant powerplant; and two 20 year purchase agreements (expiring in 2027 and 2030) are in place with BC Hydro and Powerex of the output of the Brilliant Expansion.

The joint venture hydroelectric projects have power “entitlement agreements” with BC Hydro. These agreements provide the power projects with predetermined monthly energy and capacity quantities based on historic stream flows and the flow-versus-output characteristics of each plant. The entitlement agreements remove most hydrology risk, making the projects more attractive to power purchasers and lenders. BC Hydro controls the overall hydroelectric system in the Columbia-Kootenay region, allowing it to optimize power production for the system as a whole and ensure compliance with various Canada/US agreements. BC Hydro is also compensated for the assumption of hydrology risk by being entitled to keep a small share of the average annual energy produced. BC Hydro has similar arrangements with FortisBC Inc. and Teck Cominco Metals Ltd.

The Arrow Lakes Generating Station was constructed by Peter Kiewit Sons Co. under a fixed-price design-build contract.

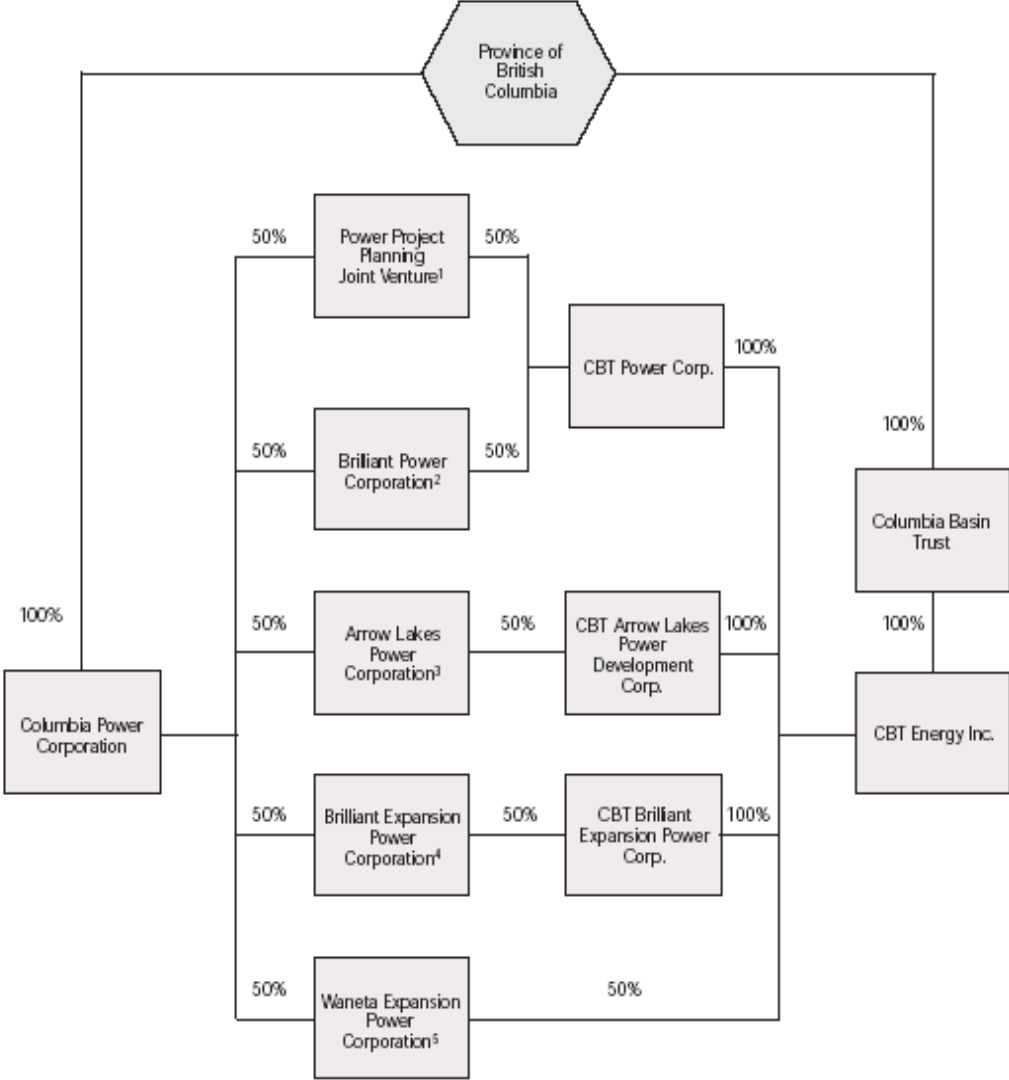
The Brilliant Expansion was constructed by the Brilliant Expansion Consortium, composed of Skanska-Chant and SNC-Lavalin Inc., under a fixed-price design-build contract. Commercial operation was achieved in September 2007. Final acceptance will occur after a number of precedent conditions have been achieved. The contractual milestone date for Final acceptance is 07 September 2010.

The Brilliant dam, powerplant and terminal station, the Arrow Lakes Generating Station, and the Brilliant Expansion are operated and maintained by FortisBC Inc. or a related entity under contract. FortisBC Inc. is an integrated electric utility with approximately 570 employees. It generates, transmits and distributes electricity throughout south-central British Columbia, serving approximately 150,000 customers.

The British Columbia Utilities Commission (“BCUC” or the “Commission”) is a regulatory agency of the provincial government, operating under and administering the *Utilities Commission Act*. The Commission regulates public utilities. While CPC/CBT power project joint venture companies meet the definition of public utilities under the Act, they are exempt from BCUC regulation pursuant to a Minister’s Order. This Minister’s Order also exempts purchasers of joint venture power service in respect of the energy supply contracts for the

purchase of that service. CPC interacts with a number of public utilities regulated by the Commission (including BC Hydro, British Columbia Transmission Corporation and FortisBC Inc.) and intervenes in Commission proceedings as needed to ensure joint venture interests are appropriately addressed.

Figure 2: Corporate Structure of the Joint Ventures



Notes:

- 1 carries out early stage planning of Power Projects
- 2 owns Brilliant Plant
- 3 owns Arrow Lakes Generating Station
- 4 owns Brilliant Expansion
- 5 owns Waneta Expansion Rights

2.0 Corporate Governance

CPC is a corporation governed by the British Columbia *Business Corporations Act*. It is owned and controlled by and is an agent of the Province of British Columbia. Its directors are appointed annually by the Province. All are independent from Management. The Board considers its current size of six Directors as an appropriate and effective Board size for the Corporation. In the event of a vacancy on the Board, the Human Resources and Governance Committee identifies the required experiences and skills for potential directors, taking into consideration the Board's short-term needs and long-term succession plans, and in consultation with the Board Chair recommends to the Board for submission to the Government, the criteria and potential candidates.

To assist the Board in carrying out its responsibilities, in addition to the Human Resources and Governance Committee, mentioned above, the Board has a Finance and Audit Committee, and a Major Capital Projects Committee. The terms of reference for the Board and each Committee, detailed information about the Directors, the Committees and Senior Management, and position descriptions for the Board Chair, the Chief Executive Officer and the Corporate Secretary, are set out on the Corporation's website: <http://www.columbiapower.org>. The Corporation also has Guidelines to assist the Board in fulfilling its duties of stewardship and accountability. The Board and the Committees allot time during each regular meeting for the Directors to meet without members of Management in attendance. The Board does not currently have a task force or working group.

The Shareholder's Letter of Expectations between the Minister of Energy, Mines and Petroleum Resources and the Board Chair (a copy of which is posted on the Corporation's website) sets out the corporate mandate, including high-level performance expectations, public policy issues and strategic priorities. Pursuant to the Shareholder's Letter of Expectations, the Board Chair and the Corporation's Chief Executive Officer communicate regularly with the Minister of Energy, Mines and Petroleum Resources or with representatives of the Ministry, to report on implementation of the Letter. The Letter directs the Corporation to conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by government. As required by the Letter and the *British Columbia Financial Administration Act*, the Corporation posts on its website its Annual Report, its Annual Financial Information Act Report and interim financial reports on a quarterly basis. The Auditor General of British Columbia is the external auditor for CPC.

Orientation and education of Board members go hand in hand, and are a continuous process. New Directors are provided with access to material from a Board Manual that includes all the governance documents of the Corporation, as well as current financial information, descriptions of the Corporation's business and assets and significant relationships, and are provided an early opportunity to meet with employees and to tour the operations. Each new Director is provided with materials for and invited to attend a number of meetings of all Committees to gain an understanding of their respective roles and functions, before being appointed to a specific Committee. The Corporation from time to time engages outside advisers or consultants to brief the Directors on matters of general interest or related to the Corporation's business or a specific project. The Board Terms of Reference require an annual assessment of the Board, each Committee and the Directors. In 2008, the assessment process involved a general Board questionnaire prepared and collated by an independent governance consultant, as well as individual Director self assessment questionnaires.

The Corporation's Standards of Ethical Conduct for Directors are published on the Corporation's web site. The Directors are required to review the Standards and declare compliance annually. The Standards of Ethical Conduct do not explicitly allow the Board to grant waivers from any of its provisions. The Corporation also has Standards of Conduct applicable to all employees as part of its Human Resources Guidelines & Policies.

The power projects undertaken by joint ventures with subsidiaries of the CBT are owned by British Columbia corporations, 50% of the shares of which are owned by CPC. The Boards of Directors of these jointly owned corporations are comprised of six directors, three nominated by CPC and three nominated by the CBT.

The Corporation is substantially in compliance with the Board Resourcing and Development Office's board disclosure requirements for Crown Corporations.

Board of Directors and Officers

Board of Directors

Lee Doney
Chair

Tim Stanley

Ron Miles

Gregory Deck

Officers

Barry Chuddy
President and Chief Executive Officer

Giulio Ambrosone
Vice President, Project Implementation

Amy Stevenson
Vice President, Operations, Environment,
Health & Safety Affairs

Don Rose
Acting General Counsel and Corporate
Secretary

Victor Jmaeff
Vice President, Sales & Development

Debbie Martin
Vice President, Human Resources &
Corporate Services

David de Git
Corporate Controller

Board Committees

Finance and Audit Committee

Human Resources and
Governance Committee

Major Capital Projects
Committee

3.0 Planning Context and Key Strategic Issues

CPC has a mandate to develop and operate powerplants at existing dams on the Columbia, Kootenay and Pend d'Oreille Rivers using water that would otherwise be spilled. The “core” power projects (the Arrow Lakes Generating Station; Brilliant Expansion, and Waneta Expansion) rely on upstream flow regulation. While these core power projects create significant net environmental benefits in the form of increased greenhouse gas offsets and reduced dissolved gases harmful to fish, it can be difficult to translate these benefits (particularly benefits to fish) into higher power prices. The joint venture power projects operate in a domestic power market where there is a single dominant wholesale purchaser and constrained long-term firm transmission capacity to adjacent power markets in Alberta and the U.S. Pacific Northwest. Accordingly, CPC, as joint venture manager, must be efficient and innovative to achieve its goals and objectives and direct its power sales activities so as to limit this risk.

The expertise of CPC staff and their relationships with private-sector engineering, environmental, financial and legal advisors are critical to the success of the Corporation. Maintaining these relationships with the consolidation of operations in Castlegar is vital for the success of future projects.

The Brilliant dam, powerplant and terminal station, the Arrow Lakes Generating Station and Brilliant Expansion are operated and maintained under agreement by FortisBC Inc. or its related company Fortis Pacific Holdings Inc., under the direction of CPC staff.

CPC develops and operates the joint venture power projects using limited-recourse project debt without a provincial debt guarantee. Like independent power producers, the power project joint venture companies sell into the wholesale power market, primarily under long-term purchase agreements with regulated utilities. Most of the power from the Brilliant facility is sold to FortisBC Inc. under a 60 year purchase agreement that expires in 2056. This agreement provides for approved capital and operating costs, including reasonable increases in those costs over the term of the agreement, to be passed through to FortisBC Inc. with approved capital expenditures earning a pre-determined rate of return on equity. There is also a provision for market-based price adjustments beginning in the 30th year of the agreement. Power from the Arrow Lakes Generating Station is committed to BC Hydro under a 12 year purchase agreement that expires in 2015, and about 90 percent of the power from the Brilliant Expansion is sold to BC Hydro under two 20 year purchase agreements that expire in 2027 and 2030 with the balance being sold under a short-term agreement to Powerex. These agreements have provisions for the contract price to escalate, but otherwise are fixed-priced.

The key strategic issues facing CPC include:

- Obtaining federal and provincial approvals, permits and licences to develop and operate power projects on international rivers within a complex environmental regulatory system, which includes federal and provincial regulators, an international treaty and local, regional, United States and First Nations stakeholders.

- Developing regional support for the joint venture power projects through consultation with local and regional community stakeholders, negotiating land issues with owners and addressing First Nations issues related to the power projects.
- Securing power sales contracts in a domestic market where the joint venture power projects represent a relatively low-cost source of new power supply, where there is one dominant wholesale buyer and where retail access to large (“transmission voltage”) customers is being developed but not yet a practical reality.
- Managing the major hydroelectric facility owner risks of life safety, dam safety, equipment availability and the environment.
- A fluctuating Canadian dollar, which has impacted the value of power sales to Powerex;
- Volatile construction, machinery and equipment costs, which have been impacted in response to fluctuating labour rates and global prices for commodities such as concrete, steel, copper and fuel.
- Developing a plan to finance the construction of Waneta Expansion utilizing the substantial borrowing capacity of the existing projects, managing the uncertainty of future interest rates (thus the cost of debt financing), and determining the appropriate capital structure.
- Implementing a human resource strategy to ensure appropriate compensation, succession planning, recruitment and staff retention for CPC with an aging population and in a labour market that is highly competitive.
- Determining the appropriate long-term strategic direction for CPC beyond the development of the Arrow Lakes Generating Station, Brilliant Expansion and Waneta Expansion.
- Supporting the provincial government’s climate change objective of making public sector operations carbon neutral by 2010.
- Developing and managing power assets in support of the BC Energy Plan policy to achieve electricity self-sufficiency by 2016.

4.0 Performance Measures

4.1 Goals/Objectives, Strategies, Measures and Targets

Performance Measures Framework

CPC's performance measures framework follows the *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks and targets linked to specific goals, objectives and strategies. The framework also reflects CPC's dual functions as a development company and an operating company. The framework provides broad goals and underlying objectives, aligns specific corporate strategies to each objective, incorporates ongoing research regarding suitable benchmarks and targets, and comments on the significance of results.

Given CPC's role as joint venture manager and the extent to which it contracts out, finding suitable industry benchmarks remains a challenge, as the industry is still largely dominated by vertically integrated regulated utilities. These challenges are described more fully in Appendix A.

CPC believes the performance measures used highlight the most crucial aspects of its performance, but are also subject to refinement and evolution as the organization matures. In the future, CPC plans to provide more precise measures by disaggregating the current measure for "operations, maintenance and administration" (currently a corporate measure) into its key functional components of plant operations, plant maintenance, renovations/major improvements, and on-site and off-site support functions (see Appendix B).

Source of Data and Reliability

CPC believes its performance measures are reliable and valid. Current and historical performance measures are not audited; however, they are largely based on audited information, information that is subject to third-party verification or information independently provided.

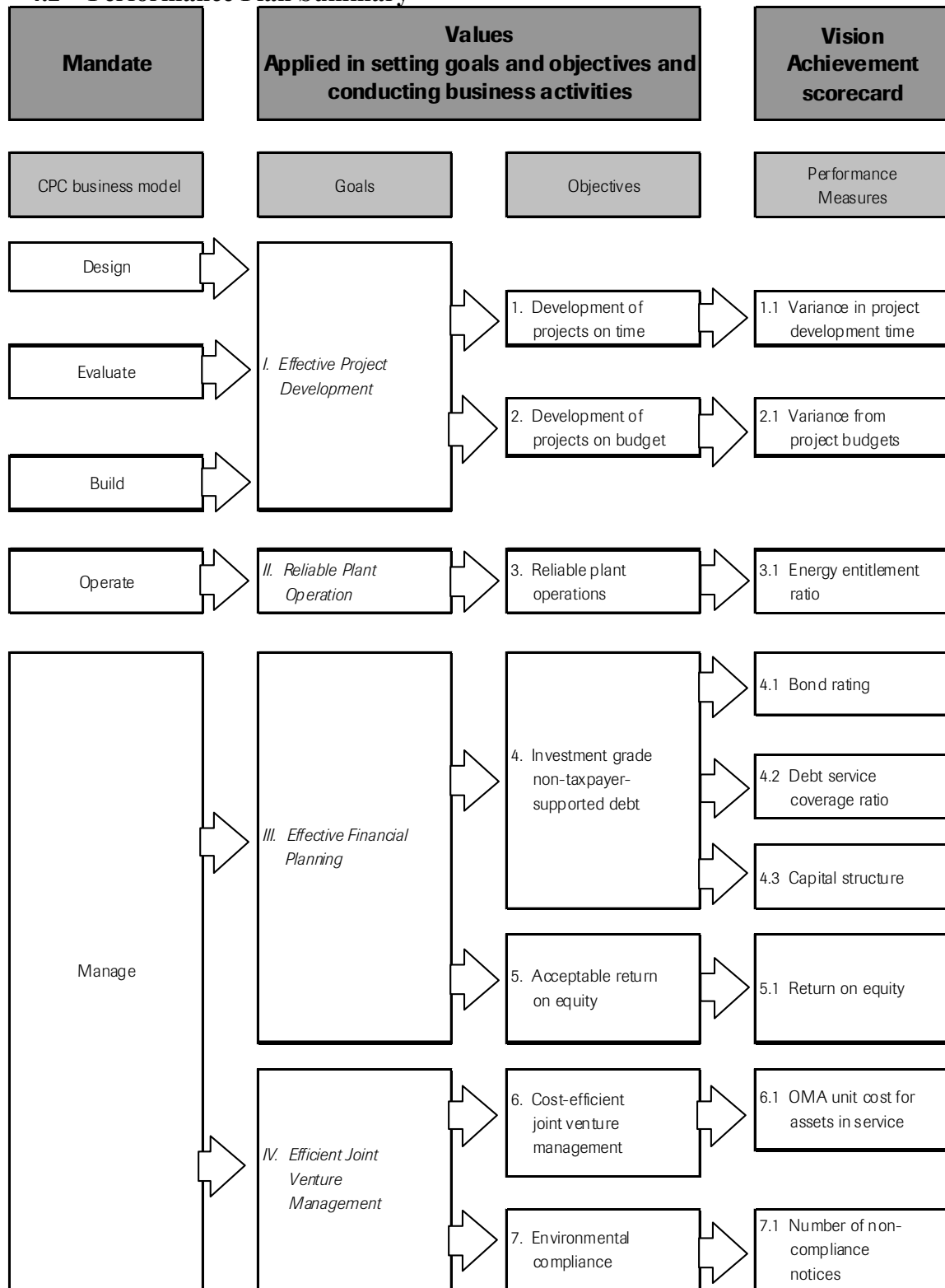
A number of CPC's performance targets are based on forecasts of future events. They were estimated using assumptions that reflect CPC's planned courses of action, and judgments as to the most probable set of economic conditions. Due to the nature of forecasting future events, users of this information are cautioned that actual results will vary from the information presented.

Forecasts and targets for 2009/10 to 2011/12 reflect the following:

- Waneta Expansion construction commences in 2009/10 and takes four years to complete. Due to commercial sensitivity, capital cost budgets for the Waneta Expansion are not included in this Service Plan.
- Price forecasts have been adjusted to reflect BC Hydro's 2006 Call for Tenders.

Overall financial and efficiency measures have improved from the previous Service Plan.

4.2 Performance Plan Summary



4.3 Performance Measures at a Glance

	BENCHMARK	07/08 Actual	08/09 Target	09/10 Target	10/11 Target	11/12 Target
1.1 Variance in project development time	ALGS: 7 Months Early BTS: On Time	BRX: September 2007	Monitor WAX Schedule	Monitor WAX Schedule	Monitor WAX Schedule	Monitor WAX Schedule
2.1 Variance from project budgets	ALGS: On Budget BTS: On Budget	Claims settled with BRX contractor	WAX: On Budget	WAX: On Budget	WAX: On Budget	WAX: On Budget
3.1 Plant Availability	1st Quartile: See Benchmarking Appendix	ALGS: 99% BRD: 99% BRX: 78%	ALGS: >95% BRD: >95% BRX: >90%	ALGS: >95% BRD: >95% BRX: >92%	ALGS: >95% BRD: >95% BRX: >95%	ALGS: >95% BRD: >95% BRX: >95%
4.1 Bond rating	Investment Grade Bond Ratings	Maintained All Bond Ratings	Maintain or Improve Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds
4.2 Debt service coverage ratio	Greater Than or Equal to 1.3	ALGS: 2.9 BRD: 1.8	ALGS: 2.1 BRD: 1.7	ALGS: 2.3 BRD: 1.7	ALGS: 2.4 BRD: 1.8	ALGS: 2.5 BRD: 1.8
4.3 Capital structure	CEA Composite Performance Measure for 2006 = 77:23	27:73	24:76	22:78	19:81	16:84
5.1 Return on equity	Over the Life of a Project, Comparable to Regulated Utilities	4.7%	4.1%	5.2%	6.1%	6.0%
6.1 OMA unit cost for assets in service	1st Quartile: See Benchmarking Appendix B	ALGS: \$4.02 BRD: \$2.23 BRX: \$9.71	ALGS: \$4.03 BRD: \$2.34 BRX: \$7.41	ALGS: \$5.26 BRD: \$2.26 BRX: \$9.86	ALGS: \$4.39 BRD: \$3.02 BRX: \$6.36	ALGS: \$5.03 BRD: \$3.09 BRX: \$6.05
7.1 Environmental compliance	Baseline Information to be Developed	Dead sturgeon at Brilliant Expansion	Zero Material Non- Compliance Notices	Zero Material Non- compliance Notices	Zero Material Non- compliance Notices	Zero Material Non- compliance Notices

¹ ALGS - Arrow Lakes Generating Station; BRD - Brilliant Dam; BRX - Brilliant Expansion; BTS - Brilliant Terminal Station; CEA - Canadian Electricity Association; OMA - operations, maintenance and administration

5. Shareholder’s Letter of Expectations

Among other things the *Shareholder’s Letter of Expectations* directs CPC to conduct its affairs to achieve the objectives of the Shareholder in a manner consistent with the Shareholder’s general and specific directions. The Shareholder’s general directions include that CPC achieve its mandate consistent with the principles of integrity, efficiency, effectiveness and accountability, and conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by government.

Shareholder’s Letter of Expectations	CPC Alignment
Climate Change	
Contribute to the BC Provincial Government’s climate action objectives and comply with requirement for Crown agencies to achieve carbon neutrality by 2010	On January 5, 2009 CPC submitted a Carbon Neutral Plan to the Climate Action Secretariat. Specific actions are to: <ul style="list-style-type: none"> ○ Identify and measure GHG emissions from stationary, mobile, fugitive and indirect sources. ○ Develop specific plans to reduce GHG emissions, such as, completing its head office renovations in accordance with the LEED Gold standard
Waneta Expansion	
Develop and bring forward by March 31, 2008, for consideration and review by the Shareholder, an update on the status of the Waneta Expansion Project.	CPC is advancing the Waneta Expansion Project to a final Go/No Go decision by finalizing power sales, entitlement and financing arrangements and by obtaining and evaluating proposals from construction contractors.
Columbia Basin Trust	
Continue to work with Columbia Basin Trust to increase efficiency and reduce the cost of power development and management activities	CPC has: <ul style="list-style-type: none"> ○ Adopted a shared reception position with CBT; ○ Shared CBT IT resources; ○ Utilized CBT’s surplus building space; ○ Started to explore revisions to existing management agreements with CBT.

6.0 Summary Financial Outlook

6.1 Consolidated Statement of Income Forecast

\$ in thousands

	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual				
REVENUES					
Sale of power and transmission revenue	\$ 38,896	47,174	48,605	52,663	53,662
Interest	2,154	325	280	281	282
Management fee	752	779	857	943	1,037
	<u>41,802</u>	<u>48,278</u>	<u>49,742</u>	<u>53,887</u>	<u>54,980</u>
EXPENSES					
Water rentals	4,696	4,764	5,730	6,041	6,162
Amortization of capital assets in service	6,752	8,052	8,396	8,475	8,573
Amortization of rights	1,176	1,208	1,207	1,207	1,207
Property tax	1,357	1,429	1,358	1,385	1,412
Operations and maintenance	1,778	2,762	2,731	2,709	2,913
Administration and management	3,120	3,150	3,664	2,953	3,067
Insurance	527	838	837	853	870
Community sponsorship	85	85	85	85	85
Other	2,244	16	-	-	-
	<u>21,735</u>	<u>22,302</u>	<u>24,007</u>	<u>23,707</u>	<u>24,288</u>
INCOME FROM OPERATIONS	<u>20,067</u>	<u>25,976</u>	<u>25,735</u>	<u>30,180</u>	<u>30,693</u>
FINANCE CHARGES					
Interest expense	7,982	8,641	7,280	6,960	6,609
Amortization of deferred debt issue costs	289	360	341	366	366
	<u>8,270</u>	<u>9,001</u>	<u>7,621</u>	<u>7,326</u>	<u>6,975</u>
NET INCOME BEFORE CHANNEL REPAIR COSTS	11,797	16,975	18,114	22,854	23,718
CHANNEL REPAIR COSTS	(416)	-	-	-	-
RECOVERY OF REPAIR COSTS AND LOSSES	4,291	-	-	-	-
NET INCOME	<u>\$ 15,672</u>	<u>16,975</u>	<u>18,114</u>	<u>22,854</u>	<u>23,718</u>
Full Time Equivalents	51	52	58	59	59

Notes:

- All dollar amounts represent CPC's 50 per cent share of joint venture amounts.

6.2 Key Assumptions

Key assumptions affecting the forecasts performance measures targets are as follows:

- Operating cost inflation, including water rental increases, is 2 percent per year.
- Columbia Power Corporation has participated in the government's budget management process to achieve at least 3% administrative cost savings.
- Construction of the Waneta Expansion Project commences in 2009/10 based on securing an economic design-build bid, acceptable financing arrangements, and energy entitlement and power purchase agreements.
- Waneta Expansion will be exempt from property tax and pay grants-in-lieu consistent with government policy for the Arrow Lakes Generating Station and Brilliant Expansion.
- The long-term investment grade interest rate is 6 percent or interest rate hedging is used.
- The financing cost for the Waneta Expansion is capitalized as construction interest.
- The exchange rate is \$1.00 Canadian equals \$0.925 U.S.
- CPC's dividends to the Province remain at current levels until after the completion of Waneta Expansion.
- Employee retention and succession plans are developed to maintain CPC compensation competitive in relation to private sector and other stakeholders.

6.3 Risk Factors and Sensitivities

CPC's net income and return on equity will increase over time as projects under development achieve commercial operation and begin to generate stable streams of power and revenue. Factors that could affect the future rate of return include: power market developments, interest and exchange rate movements, payments to government, capital and operating needs of the assets under management, and subsequent regulatory and/or legislative changes imposed on existing pre-approved assets.

The BC Energy Plan includes the following key policy actions: ensure self-sufficiency to meet electricity needs by 2016; all new electricity generation projects will have zero net greenhouse gas emissions; ensure clean or renewable electricity generation continues to account for at least 90 percent of total generation; and ensure adequate transmission system capacity. These key policy actions increase the attractiveness and viability of CPC's projects, including the development of Waneta Expansion.

Future dividends will be determined based on annual cash earnings, working capital requirements, reserves for future sustaining capital requirements, and new power project investment opportunities.

While approximately 90 percent of the Brilliant Expansion plant output is committed under two long-term contracts with BC Hydro, Brilliant Expansion Power Corporation has negotiated a

short term sales agreement with Powerex for the remaining output and a shorter term “bridging” contract for some of the output until the second of the BC Hydro long term contracts comes into effect. CPC has recently finalized a Memorandum of Intent (“MOI”) with a credit worthy purchaser for all of the power and related products from the Waneta Expansion.

The following table presents an analysis of the primary risks that CPC faces and the strategies being undertaken to address these risks.

Risk	Issue/Impact	How Managed
Waneta Expansion Construction Decision	Construction of Waneta Expansion is subject to: design-build bids, entitlement negotiations, power marketing and long-term borrowing costs. Each could affect project timing, cost, scale and viability.	<p>The Waneta Expansion is awaiting responses from the design-build competition that are expected in March 2009. Final bid evaluation is planned for early in 2009/10.</p> <p>CPC has signed a <i>Waneta Co-operation Agreement</i> and a <i>Transmission Rights Agreement</i> with Teck Cominco Metals Ltd.</p> <p>CPC is discussing an entitlement agreement with BC Hydro. <i>The Canal Plant Agreement</i> has provisions for the Waneta Expansion Project. When an entitlement amount has been finalized, CPC will pursue power sales agreements pursuant to its MOI.</p>

¹ CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

Risk	Issue/Impact	How Managed
Waneta Expansion Entitlement / Canal Plant Agreement Renegotiations	The renewed and extended <i>Canal Plant Agreement</i> , among BC Hydro, CPC, FortisBC Inc. and Teck Cominco Metals Ltd., which came into effect in April 2006, provides for the Waneta Expansion. The Agreement runs until at least December 31, 2035.	Negotiations are continuing with BC Hydro for an entitlement agreement for the Waneta Expansion, which may entail amendments to the <i>Canal Plant Agreement</i> .
Availability of Funds	Further leveraging of the joint venture power assets is required for completion of the Waneta Expansion and future projects.	Key project agreements are structured to achieve financeable projects with a high credit rating. CPC/CBT may retain cash from operations to lessen the borrowing burden for Waneta Expansion, which may allow more flexible Waneta Expansion power marketing. A Financial Advisor has been retained through an RFQ to develop a financing plan for Waneta Expansion and provide a recommendation on the optimum capital structure for the CPC/CBT power projects.
Brilliant Expansion and Waneta Expansion Power Marketing	90 percent of the Brilliant Expansion output has been marketed to BC Hydro under two 20 year contracts. One of the contracts does not begin until 2010. A short-term sales agreement has been negotiated with Powerex that ends in 2009/2010. The nature and term of future power sales arrangements could affect availability of funds for Waneta Expansion.	CPC has signed an MOI for the sale of all of the output from Waneta Expansion. Waneta Expansion is recognized as an attractive project with “Resource Smart” characteristics.

¹ CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

Risk	Issue/Impact	How Managed
Plant Reliability	<p>If the Arrow Lakes Generating Station plant outage factor were to increase by 1 percentage point, revenues and net income would decline by \$324,000 in 2009/10.</p> <p>If the Brilliant Expansion plant outage factor were to increase by 1 percentage point, revenues and net income would decline by \$320,000 in 2009/10</p>	<p>Plant outage risk for the Brilliant facility is transferred to FortisBC Inc. as the power purchaser/plant operator. Machinery and equipment at BRX have 2 years remaining on manufacturer warranties. All power projects also carry business interruption, property and liability insurance.</p> <p>Optimal plant operations and maintenance is overseen by CPC.</p>
Attracting and Maintaining Key Staff	CPC requires the organizational capacity to effectively manage all existing and new facilities.	<p>CPC is working at establishing HR strategies and compensation plans to keep and attract key staff to its consolidated head office in Castlegar. CPC will be evaluating its long-term plant operational philosophy as a part of its restructuring.</p> <p>The restructuring plans include the clear accountability and objectives of key staff.</p> <p>A succession plan is being developed.</p>
Transmission and Market Access	CPC/CBT power projects are located in a region with limited long-term firm transmission capacity to access adjacent markets in Alberta and the U.S.	<p>CPC has signed a long-term <i>Transmission Rights Agreement</i> with Teck Cominco Metals Ltd.</p> <p>CPC monitors British Columbia Utilities Commission hearings and intervenes in British Columbia Transmission Corporation tariff and capital plan hearings. CPC also pursues sales contract opportunities, with delivery at CPC/CBT points of interconnection.</p> <p>CPC's agreements shift the transmission access responsibility to the power purchaser.</p>

¹ CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

Risk	Issue/Impact	How Managed
Regulatory Risk	<p>CPC/CBT subsidiaries owning power projects come under the <i>Utilities Commission Act</i> definition of public utilities.</p> <p>Fisheries and Oceans Canada is considering many changes which may be applied retroactively to hydro-electric assets.</p>	<p>CPC has obtained a Minister's Order exempting CPC/CBT power project joint ventures from Utilities Commission Act regulation, as well as purchasers of CPC/CBT power services in respect of the energy supply contracts for those services. The renewed and extended <i>Canal Plant Agreement</i> has also been exempted from the provisions of the <i>Utilities Commission Act</i>. CPC intervenes in the regulatory proceedings of BC Hydro, British Columbia Transmission Corporation and FortisBC Inc. as needed to ensure joint venture interests are appropriately addressed. CPC is involved in industry association and policy groups to proactively manage regulatory risks such as Fisheries Act, Species at Risk legislation and dam safety.</p>
Property Taxation	<p>CPC began paying grants-in-lieu of property taxation on behalf of the Arrow Lakes Generating Station and the Brilliant Expansion in the 2007/08 fiscal year. Grants-in-lieu are paid based on announced provincial government policy.</p>	<p>CPC has obtained Orders in Council exempting Arrow Lakes Generating Station and the Brilliant Expansion from property tax. CPC will seek a similar tax exemption for the Waneta Expansion. CPC will continue to pay grants-in-lieu on behalf of Arrow Lakes Generating Station and Brilliant Expansion in accordance with government policy.</p>
Water Use Planning and Columbia River Treaty Operations Risk	<p>Constraints imposed as a result of BC Hydro water use planning and changes in upstream flow regulation associated with the Columbia River Treaty could adversely affect powerplant operations and project revenues, unless CPC/CBT are saved harmless.</p>	<p>CPC has obtained an indemnity from BC Hydro saving harmless CPC/CBT power projects from the effects of BC Hydro water use planning. CPC is also monitoring potential changes to U.S. regulation of the Libby dam and has registered CPC/CBT interests with the U.S. Army Corps of Engineers and BC Hydro (respectively, the designated U.S. and Canadian Entities under the Columbia River Treaty).</p> <p>CPC is monitoring relicensing developments at Boundary Dam on the Pend d'Oreille river.</p>

¹ CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

Risk	Issue/Impact	How Managed
First Nations	Potential treaty claims and settlements could impose additional costs or restrictions on joint venture power projects.	As with BC Hydro Water Use Planning, CPC will pursue measures to indemnify or otherwise save joint venture projects harmless. CPC works closely with First Nations in both project development and construction and maintains an active involvement with communities and First Nations.
Foreign Exchange Risk	A 1¢ change in the Canadian dollar relative to the U.S. dollar represents about \$120,000 per year for the Brilliant Expansion power entitlement currently sold to Powerex.	Sales to BC Hydro and FortisBC Inc. are in Canadian dollars. 10 percent of Brilliant Expansion and all of Waneta Expansion power may be subject to this risk. The second contract with BC Hydro for BRX, beginning in 2009/10, reduces this risk as the contract is in Canadian dollars. The risk for WAX may be mitigated if CPC secures a long-term power sales agreement with a domestic purchaser.
Counter-party Credit Risks	Bond ratings and interest costs for CPC/CBT project debt are affected by the credit-worthiness of the power purchasers. Power purchasers may also require CPC to post security.	CPC's marketing efforts are directed at selling power to purchasers with high credit ratings and entering backstop arrangements as appropriate. CPC will negotiate with purchasers to minimize or, if possible, eliminate the requirement to post security.
Interest Rate Risk	Higher interest rates could negatively affect the cost of new project debt, project net income and the economics of and ability to finance the Waneta Expansion. A percentage point interest rate rise could reduce annual net income by up to \$7 million.	CPC continues to pursue debt management strategies and use interest rate hedges to manage risk to acceptable levels, as appropriate. The Owners have retained a Financial Advisor to develop a financing plan for Waneta Expansion and provide a recommendation on the optimum capital structure for the CPC/CBT power projects.

¹ CPC – Columbia Power Corporation; CBT – Columbia Basin Trust; BRX – Brilliant Expansion; WAX – Waneta Expansion

7.0 Capital Plan

The Waneta Expansion is not yet an approved Major Capital Project. Construction estimates for the Waneta Expansion have been withheld from this table so as to not influence proposals from construction contractors expected in March 2009.

7.1 Consolidated Capital Spending Forecast

\$ in thousands

	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual				
BRILLIANT POWER CORPORATION	926	1,533	2,275	2,205	2,043
ARROW LAKES POWER CORPORATION	103	384	701	318	350
BRILLIANT EXPANSION POWER CORPORATION	11,277	9,739	763	330	320
POWER PROJECT PLANNING					
Waneta Expansion	2,263	5,916	4,479		
General Power Project Planning		25	265	265	265
	2,263	5,941	4,744	265	265
CPC CORPORATE	425	961	400	440	484
TOTAL	\$ 14,994	18,558	8,883	3,558	3,462

Note:

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

7.2 Liquidity and Sources of Capital

CPC has set aside cash and temporary investment reserves to complete the Brilliant Expansion, finish the Brilliant life extension program, and partially fund the development of the Waneta Expansion.

Future operational cash is earmarked to fund sustaining capital for operating plants and, subject to the dividend requirements of the Province and the CBT, provide equity for the Waneta Expansion. Any equity provided for the Waneta Expansion would lower future long-term borrowing requirements and allow increased power marketing flexibility.

CPC may have access to the Province's fiscal agency loan program, which can potentially be used to finance part of the Waneta Expansion during construction. Subject to the creditworthiness of future power sales contracts, considerable long-term and short-term borrowing capacity is also available from the existing power projects to finance the Waneta Expansion, other projects and a future optimal capital structure. A financial advisor has been retained to develop a financing plan for Waneta Expansion and to provide a recommendation on the optimum capital structure for the CPC/CBT power projects.

8.0 Power Sales Activities

The sale of generation from the Arrow Lakes Generating Station is fully subscribed under a long-term sales agreement with BC Hydro. Under a 60 year power purchase agreement, most of the power from the Brilliant powerplant is sold to FortisBC Inc.

Markets reflect a willingness for long-term sales (10 to 30+ year) as evidenced by BC Hydro's F2006 Call for Tenders, and its pending Clean Power Call.

For CPC, a high priority in 2009/10 is to finalize a power purchase agreement for Waneta Expansion, provided terms and conditions are acceptable, consistent with the MOI finalized with a credit worthy purchaser. Along with other opportunities, Columbia Power Corporation is negotiating an entitlement agreement with BC Hydro.

Since Brilliant Expansion achieved commercial operation in September 2007, CPC has sold 40 percent of the power to BC Hydro under the F2002/03 Green Power Generation Electricity Purchase Agreement. CPC has entered into a long-term sales agreement with BC Hydro for an additional 50 percent of the output of the plant under a F2006 Electricity Purchase Agreement, commencing in 2009/10. Until 2009/10, all of the Brilliant Expansion residual and the Brilliant Upgrade Regulated energy have been sold on a short-term, unit contingent basis to Powerex.

During this service plan period, CPC will continue to monitor market energy prices and market developments.

Glossary

Benchmarking

A measured, “best-in-class” achievement that is used as a reference or measurement standard for comparison and is recognized as the standard of excellence for a specific business process.

Bond rating

A rating assigned to bonds based on the probability of the issuing firm’s default. Those bonds with the lowest default probability have the highest rating and generally carry the lowest interest rates.

Canal Plant Agreement

An agreement between BC Hydro, FortisBC Inc., Teck Cominco Metals Ltd., Brilliant Power Corporation, Brilliant Expansion Power Corporation and Waneta Expansion Power Corporation that provides for the coordination of hydro facilities on the lower Kootenay and Pend d’Oreille Rivers.

Capacity

The maximum power that a generating station can supply, usually expressed in megawatts.

Columbia River Treaty

An agreement ratified by the United States and Canada in 1964, which led to the construction of three storage dams in the Columbia River Basin (Duncan, Keenleyside and Mica dams) and one in Montana (Libby dam). The purpose of these dams was flood control and power production in both countries.

Comptroller of Water Rights

The statutory decision-maker under the *Water Act*, responsible for water licences and the safety of water-retaining structures.

Debt service coverage ratio

Earnings before interest, depreciation and taxes, divided by debt service payments during the year (debt principal and interest payments).

Debt-to-equity ratio

Ratio of money borrowed to money invested in the capital structure of a firm.

Design-build contract

A contract between the owner and a contractor/consortium for the design, construction and commissioning of a power project, in accordance with the owner’s technical specifications.

Entitlement agreement

An agreement to include a hydro project in the larger hydro system for the purposes of optimizing system power generation, whereby the project owner receives a fixed amount of power.

Environmental approval

Approval under the *British Columbia Environmental Assessment Act (BCEAA)* and the *Canadian Environmental Assessment Act (CEAA)*, following environmental review and consultation with government agencies, First Nations and the general public. Once *BCEAA* and *CEAA* approval is obtained, further permits, licences and approvals must be acquired from federal, provincial and municipal authorities under applicable environmental legislation for the various aspects of the construction and/or operation of hydroelectric projects and associated transmission lines.

Environmental management system

The part of the overall management system that includes organizational structures, planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental policy.

Final acceptance

When a joint venture takes over responsibility for a project's commercial operation, there is a three year period within which the design-build contractor must resolve all material deficiencies and project performance issues documented before 'final acceptance'.

Final acceptance date

The date on which the owner's consultant certifies that everything required to be performed or done by the design-build contractor under the contract has been completed, subject only to warranties under the contract that continue past final acceptance.

First quartile

Measured performance within the top 25 percent of a study, group or class.

Green power

Power and associated green rights produced from generating facilities that meet specific low environmental impact and social responsibility criteria.

Investment grade bond rating

A credit (bond) rating sufficiently high to be considered worthy of low-risk institutional investors such as pension funds.

ISO 14001 standard

The international standard for environmental management, introduced by the International Standards Organization (ISO) in 1996 and updated in 2004.

Limited-recourse project debt

Debt that limits the security available to debt holders in the event of default to only those assets of the debt issuer. The debt is not guaranteed by another party.

Megawatt (MW)

1 million watts; 1,000 kilowatts. A unit commonly used to measure both the capacity of generating stations and the rate at which energy can be delivered.

Megawatt-hour (MWH)

1,000 kilowatt-hours. An average household in British Columbia uses about 10,000 KWH (10 MWH) of electricity per year.

Operation, maintenance and administration (OMA)

The cost of operating and maintaining powerplants and related administration costs. OMA does not include amortization, taxes, interest or insurance.

Public-private partnership (P3)

A cooperative venture for the provision of infrastructure or services, built on the expertise of each partner, and designed to best meet clearly defined public needs through the most appropriate allocation of resources, risks and rewards. In a public-private partnership, the public sector maintains an oversight and quality assessment role, while the private sector focuses on actual delivery of the service or project.

Return on investment

Income available to shareholders as a percentage of their investment.

Water rental

A royalty collected by the Province of British Columbia for use of water.

[Appendix A Performance Measures Framework](#)

[Appendix B Benchmarking, Operating, Maintenance and Administration](#)



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APPENDIX A – Performance Measures Framework

Background

Columbia Power Corporation’s performance measures framework follows the *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks and targets linked to specific goals, objectives and strategies. The framework also reflects Columbia Power Corporation’s dual functions as a development company and an operating company. The framework: provides broad goals and underlying objectives; aligns specific corporate strategies to each objective; links each objective to one or more performance measures; incorporates ongoing research regarding suitable benchmarks and targets; and provides comments on the significance of results.

Columbia Power Corporation has four broad goals, which flow from its mandate as a power project developer and operator and its role as joint venture manager:

- Goal I: Effective Project Development
- Goal II: Reliable Plant Operations
- Goal III: Effective Financial Planning
- Goal IV: Efficient Joint Venture Management

Given Columbia Power Corporation’s role as joint venture manager and the extent to which it contracts out, finding suitable industry benchmarks remains a challenge because the industry is still largely dominated by large, vertically integrated utilities such as Hydro Québec and BC Hydro. The nature of this challenge is described more fully in the individual performance measures. Where suitable industry benchmarks are not available, internal benchmarks developed by Columbia Power Corporation have been used.

Outlook

Columbia Power Corporation believes the performance measures it uses highlight the most crucial aspects of its performance, but are also subject to refinement and evolution as the organization matures. Columbia Power Corporation has further disaggregated the operations, maintenance and administration (OMA) performance measure (which is a joint venture cost-efficiency measure) into its key functional components of plant operations, plant maintenance, renovations/major improvements, and on-site and off-site support functions (see Appendix B). Two measures previously utilized have been dropped in 2009; unresolved deficiency ratio and revenue per employee. Neither measure was felt to provide significant insight into the performance of the organization.

Source of Data and Reliability

Columbia Power Corporation believes its performance measures are reliable and valid.

- Current and historical performance measures are not audited; however, they are based largely on audited information, information subject to third-party verification and information that is obtained from independent sources.
- Project development and construction effectiveness measures are based on information from project tracking systems and monthly status reports prepared by design-build contractors and consultants employed by Columbia Power Corporation.
- The reliable plant operations measure is based on plant outage and power entitlement data that are reconciled with BC Hydro, FortisBC Inc. and third parties during the power entitlement confirmation and power sales settlement process.
- The financial measures are derived from Columbia Power Corporation's audited consolidated financial statements and other reliable sources such as the Canadian Electricity Association.
- Bond ratings and environmental compliance measures are independently verifiable.

A number of Columbia Power Corporation's performance measure targets are based on forecasts that reflect the Corporation's current plans and judgments as to the most probable set of economic conditions. Because of the uncertainties associated with forecasting future events, users of this information are cautioned that actual results will vary from the forecasts presented.

Key assumptions affecting forecast performance targets are as follows:

- Operating cost inflation, including water rental increases, is 2 percent per year.
- Construction of the Waneta Expansion Project commences in 2009/10 based on securing an economic design-build bid, acceptable financing arrangements, and energy entitlement and power purchase agreements.
- Waneta Expansion will be exempt from property tax and pay grants-in-lieu consistent with government policy for the Arrow Lakes Generating Station and Brilliant Expansion.
- Borrowing capacity from Waneta Expansion and existing projects is sufficient to fund the construction of the Waneta Expansion.
- The long-term investment grade interest rate is 6 percent or interest rate hedging is used.
- The exchange rate is \$1.00 Canadian equals \$0.925 U.S.
- Columbia Power Corporation's dividends to the Province remain at current levels until after the completion of Waneta Expansion.

- Employee retention and succession plans are developed to maintain Columbia Power Corporation compensation in relation to private sector and other stakeholders.
- The recruitment process begun in 2008 results in critical project positions being filled.

Goal I – Effective Project Development

Columbia Power Corporation’s mandate as manager of the joint ventures with the Columbia Basin Trust is to plan, develop and operate power projects. To develop power projects, the Corporation relies on design-build contracts with private-sector construction engineering firms. By using design-build contracts, Columbia Power Corporation gives up a measure of design and procurement control, and accepts greater complexity in environmental permitting, contract specification and contract management. In return, the Corporation expects to realize design innovation, cost savings through the competitive design-build bidding process, and increased opportunities to manage and allocate risk. Columbia Power Corporation also manages and allocates risk through the use of insurance and hedging where appropriate.

Columbia Power Corporation’s first broad goal of “Effective Project Development” focuses on project development from the date a design-build contract is signed with the successful design-build bidder. The goal is linked to two objectives: development of projects on time and development of projects on budget.

Objective #1 – Development of projects on time

Strategy

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

Performance measure, benchmark and target

1.1 This measure reports any variance between expected and actual project start-up dates. The benchmarks for this measure are Arrow Lakes Generating Station (ALGS), which was developed seven months early, and Brilliant Terminal Station (BTS), which was developed on time. The target is to achieve a variance of less than or equal to zero, indicating that an approved project has achieved commercial operation either on time or early.

GOAL/OBJECTIVE 1. Development of projects on time	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 1.1 Variance in project development time		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2009/10 – 2011/12 Service Plan	ALGS: 7 Months Early BTS: On Time	BRX: September 2007	Monitor WAX Schedule	Monitor WAX Schedule	Monitor WAX Schedule	Monitor WAX Schedule

Significance of results

Power sales revenues start with commercial operation of a project, when power is delivered to a purchaser. Although Columbia Power Corporation uses fixed-price design-build contracts to provide as much construction price certainty as possible, project delays push back the receipt of revenues and increase costs associated with project finance and construction monitoring. While design-build contracts include penalties for late completion, these penalties may not be sufficient to fully offset forgone market opportunities.

The objective of developing projects on time was not met for Brilliant Expansion. Commercial operation was achieved on September 7, 2007, one year late.

Waneta Expansion construction is expected to commence in 2009/10 and take four years to complete.

Objective #2 – Development of projects on budget

Strategy

Columbia Power Corporation’s strategy is to transfer construction cost risk to the design-build contractor. Design-build contracts are fixed-price and contain detailed project specifications (including performance specifications) to minimize change orders and to ensure that a project is “fit for purpose”. Design-build contracts also provide performance-based penalties and incentives. However, despite contracts being fixed-price, unanticipated costs can result in claims by the design-build contractor, which must be managed.

Performance measure, benchmark and target

2.1 This measure reports on variance between project development costs incurred and the approved budget. The benchmarks for this measure are the Arrow Lakes Generating Station and the Brilliant Terminal Station, which were both developed on budget. The target is to achieve a variance of less than or equal to zero, indicating an approved project has achieved commercial operation either on or under budget.

GOAL/OBJECTIVE 2. Development of Projects on Budget	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 2.1 Variance from project budgets		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2009/10 – 2011/12 Service Plan	ALGS: On Budget BTS: On Budget	Claims settled with BRX contractor	WAX: On Budget	WAX: On Budget	WAX: On Budget	WAX: On Budget

Significance of results

The target was not achieved for the Brilliant Expansion. Brilliant Expansion settled construction claims with the design-build contractor. The settlement terms, together with the cost of work performed by the Corporation, required an increase to the construction budget of \$30 million.

Goal II – Reliable Plant Operations

This goal is linked to the objective of reliable plant operations, which, in turn, is linked to a performance measure that tracks the impact of plant outages on a project’s annual energy entitlements.

The joint venture power projects receive monthly contractual power entitlements from BC Hydro, the operator of the Columbia-Kootenay hydroelectric system. These power entitlements are based on long-term average stream flows, plant capabilities (both energy and capacity) and plant availability. Plant availability can be reduced by planned and unplanned outages. Planned outages result from scheduled maintenance, repairs, replacements or upgrades. Unplanned outages can result from design or construction errors, equipment failures or acts of nature (such as lightning strikes). Unplanned outages can also involve or be caused by projects or facilities to which joint venture power projects are interconnected. Unplanned outages due to design or construction errors and equipment failures tend to be higher during a plant’s period of initial operation, then decrease to a “normal” operating level, and eventually increase as a plant ages. The joint venture power projects are either newly constructed (Arrow Lakes Generating Station and Brilliant Expansion) or have been completely refurbished (Brilliant Dam).

Objective #3 – Reliable plant operations

Strategy

Columbia Power Corporation attempts to minimize the impact of planned outages by scheduling plant maintenance, repairs and replacements or upgrades during low water flow (and thus low entitlement) months (primarily February through April).

Design-build contracts specify plant performance and reliability measures. In addition, machinery and equipment have manufacturer warranties. Columbia Power Corporation retains independent engineers to conduct studies and investigations to help ensure that a plant’s design performance and reliability criteria are being met and a project is “fit for purpose”. Each power project joint venture company also carries business interruption insurance.

The power projects are operated and maintained by FortisBC Inc. or its affiliate, Fortis Pacific Holdings Inc. FortisBC Inc. staff are experienced in plant operations and maintenance and have been specifically trained for each power project.

Performance measure, benchmark and target

3.1 This measure reports the ratio of a powerplant’s actual availability for operations to its planned availability for operations. The measure thus calculates the impact of unplanned outages on plant reliability. The benchmark is the Canadian Electricity Association key performance indicator, Hydraulic Weighted Capability Factor, which had a value of 91 percent for the five-year period 1999–2003. The target is to achieve a value greater than or equal to 95 percent, indicating unplanned outages do not result in more than a 5 percent reduction in energy entitlements for the year.

GOAL/OBJECTIVE 3. Reliable Plant Operations	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 3.1 Plant availability		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2009/10 – 2011/12 Service Plan	1st Quartile: See Benchmarking Appendix	ALGS: 99% BRD: 99% BRX: 78%	ALGS: >95% BRD: >95% BRX: >90%	ALGS: >95% BRD: >95% BRX: >92%	ALGS: >95% BRD: >95% BRX: >95%	ALGS: >95% BRD: >95% BRX: >95%

Significance of results

To the extent possible, planned outages are scheduled to occur during low entitlement periods to minimize loss of revenue. Unplanned outages can occur during low or high entitlement periods. Depending on the duration of an outage and prevailing market conditions, unplanned outages can cause significant revenue loss.

The objective of reliable plant operations has generally been achieved. The Arrow Lakes Generating Station has maintained reliable performance after permanent channel repairs were completed in May 2006. The lower targets for 2008/09 and 2009/10 for Brilliant Expansion reflect an expectation that initial challenges will be encountered during the first two years of commercial operations however a diminishing level of unplanned outages will occur through to the project's final acceptance date in September 2010.

Goal III – Effective Financial Planning

This broad goal is linked to two objectives: Investment Grade non-taxpayer-supported debt, and an acceptable return on equity.

The power project joint ventures received a fixed \$500 million government equity endowment from the Province under the 1995 Financial Agreement. To have sufficient capital to develop all three mandated core projects, the joint venture companies raise long-term debt in the commercial bond market on a limited-recourse project basis, without a government debt guarantee. The electricity industry is dominated by large utilities, such as BC Hydro, which typically do not finance debt on a limited-recourse basis against individual projects. Rather, they finance debt at an overall corporate (or “enterprise”) level based on their status as regulated utilities and on the strength of their consolidated income statement and balance sheet. Furthermore, the debt of BC Hydro and most other Crown corporations is guaranteed by the Province.

While the average economic life of a hydroelectric power project can be 60 years or more, limited-recourse project debt is typically for terms of 30 years or less. Thus, the power project joint ventures must defer receiving a significant portion of their equity returns until after project debt is retired. With joint venture equity returns “back-end loaded”, Columbia Power Corporation has an objective to earn an acceptable return on equity over the life of a project. Regulated utilities, on the other hand, have their tariff rates set by utilities commissions so as to enable them to earn an allowed rate of return on equity in each year.

Objective #4 – Investment Grade, non-tax-supported debt

As noted, to have sufficient capital to develop all three mandated core projects, long-term debt is raised in the commercial bond market on a limited-recourse project basis, without a government debt guarantee. It is, therefore, essential to maintain Investment Grade credit ratings.

Strategy

Columbia Power Corporation uses equity resources and short-term credit facilities during project development. Once a project has been constructed and a long-term power sales agreement has been put in place, long-term project debt is raised from the bond market as required. This long-term project debt frees up equity to be used to develop the next mandated core power project.

Before going to the bond market, the Corporation obtains a project bond rating from one or more bond rating agencies, such as Dominion Bond Rating Service (DBRS) and Moody's Investor Service (Moody's). Bond ratings provide an independent, objective and credible third-party evaluation of the risks associated with a project bond issue. The objective of maintaining Investment Grade project bond ratings requires Columbia Power Corporation to be able to assure rating agencies that a power project can sustain a debt service coverage ratio of 1.3 or greater. In order to fulfill its project development mandate, Columbia Power Corporation must also maintain a capital structure with sufficient borrowing capacity to finance all three mandated core power projects.

Accordingly, the financial objective of Investment Grade, non-tax-supported debt is linked to three performance measures: bond rating, debt service coverage ratio and capital structure.

Performance measures, benchmarks and targets

4.1 This measure reports a project's bond ratings by DBRS and/or Moody's. The benchmark is an Investment Grade bond rating. Columbia Power Corporation's target is to establish an initial Investment Grade project bond rating, and to maintain or improve that rating over time.

GOAL/OBJECTIVE 4. Investment Grade, Non-Tax Supported, Credit Rating	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 4.1 Bond rating		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2008/09 – 2010/11 Service Plan	Investment Grade Bond Ratings	Maintained All Bond Ratings	Maintain or Improve Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds

Significance of results

The bonds of the power project joint ventures are held primarily by institutional investors, such as insurance companies. To meet the creditworthiness tests of institutional investors, a bond series must have an Investment Grade bond rating from one or more bond rating agency. Bonds with a rating below the Investment Grade level are generally not held by institutional investors.

The lower the bond rating, the greater the risk premium over long-term Government of Canada bonds that must be paid to make a bond attractive to a potential institutional investor. Thus, a lower initial bond rating will increase a project's long-term cost of debt and ongoing interest expense (reducing a project's net income and the return on equity). Maintaining or improving bond ratings over time provides a positive track record that increases the ability to successfully issue additional bond issues, as needed, to fund future power project capital requirements.

To date, the target of maintaining or improving current Investment Grade bond ratings has been met.

4.2 The second measure of creditworthiness reports on a project's debt service coverage ratio, measured as net income before interest and amortization of assets, divided by interest plus debt principal repayment, for projects with a bond rating. The benchmark used by rating agencies to establish an Investment Grade bond rating is a debt service coverage ratio of 1.3 or greater. Columbia Power Corporation has established a target debt service coverage ratio of 1.5 for each project with a bond rating, subject to its capital spending needs and the availability of equity. High debt service coverage ratios reflect an ability to raise additional limited-recourse project debt in the commercial bond market on favourable terms. Accordingly, high debt service coverage ratios affect the Corporation's ability to fulfill its project development mandate in the absence of a government debt guarantee.

GOAL/OBJECTIVE 4. Investment Grade, Non-Tax Supported, Credit Rating	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 4.2 Debt service coverage ratio		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2008/09 – 2010/11 Service Plan	Greater Than or Equal to 1.3	ALGS: 2.9 BRD: 1.8	ALGS: 2.1 BRD: 1.7	ALGS: 2.3 BRD: 1.7	ALGS: 2.4 BRD: 1.8	ALGS: 2.5 BRD: 1.8

Significance of results

The higher debt service coverage ratio for Arrow Lakes Generating Station in 2007/08 reflects insurance recoveries. The decline in 2009/10 and the addition of a debt service coverage ratio for Brilliant Expansion reflect additional long term borrowing to fund the construction of Waneta Expansion.

4.3 The third measure of creditworthiness reports on Columbia Power Corporation's capital structure, measured as consolidated debt and consolidated equity, each divided by consolidated debt plus equity, expressed as a ratio. Along with power project debt service coverage ratios, Columbia Power Corporation's debt-to-equity ratio is a key measure of the ability to raise additional long-term debt to fund the development of all three mandated core projects.

Finding a suitable industry benchmark is difficult. Although the ratio of debt to equity is a standard industry measure, the electricity industry average is a composite that reflects the dominance of large government-backed regulated utilities such as Hydro Québec and BC Hydro, which do not engage in limited-recourse project finance. Columbia Power Corporation's low debt-to-equity targets are consistent with its capital plan and its investment strategy of using equity to construct projects. Once Waneta Expansion has been constructed, Columbia Power Corporation's debt-to-

equity ratio will more closely track the Canadian Electricity Association industry average.

GOAL/OBJECTIVE 4. Investment Grade, Non-Tax Supported, Credit Rating	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 4.3 Capital structure		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2008/09 – 2010/11 Service Plan	CEA Composite Performance Measure for 2006 = 77.23	27.73	24.76	22.78	19.81	16.84

Significance of results

Columbia Power Corporation's low debt-to-equity measure, when compared with the electricity industry average, indicates that the joint ventures have significant further capacity to raise debt. The Corporation will not reach a comparable capital structure to the industry until all three mandated core power projects have been completed. CIBC World Markets has been retained as Financial Advisor to develop a financing plan for Waneta Expansion and provide a recommendation on the optimum capital structure for the power projects. The decline in the ratio from 2006/07 to 2008/09 reflects the pay down of the Arrow Lakes Generating Station debt over the remaining term of its power sales agreement (which extends to 2015). The rise in 2009/10 reflects long-term borrowing against Brilliant Expansion to help fund the construction of Waneta Expansion.

Objective #5 – Acceptable return on equity

Strategy

As noted, Columbia Power Corporation pursues the objective of an acceptable long-term return on equity over the life of a project. In order to balance market opportunities with the ability to raise limited-recourse project debt, the Corporation has put in place a portfolio of power sales contracts with varying terms (60 years for the output of the Brilliant powerplant with market price adjustments after year 30; 12 years for Arrow Lakes Generating Station; and 20 years for the 90 percent of the Brilliant Expansion output currently under contract). Columbia Power Corporation also pursues a strategy of managing project risks by: employing competitively bid fixed-price design-build contracts; passing hydrology risk to BC Hydro in exchange for predetermined monthly energy and capacity entitlements; entering into long-term power sales agreements supported by third-party backstop agreements; and carrying business interruption, property and liability insurance.

Performance measure, benchmark and target

5.1 This measure reports return on equity, calculated as consolidated net income divided by consolidated equity (contributed surplus plus retained earnings). Suitable industry benchmarks are not readily available. As noted, while annual return on equity is a standard industry measure, the power project joint ventures must “back-end load” their return on equity. Regulated utilities such as BC Hydro and FortisBC Inc. have their tariff rates set by the British Columbia Utilities Commission so as to enable them to earn an allowed rate of return on equity in each year. Earning an acceptable return on equity is therefore a long-term objective, and will depend on long-term power markets and Columbia Power Corporation’s ability to secure power sales contracts that provide an appropriate balance between risk and return. The benchmark is to achieve, over a project’s life, a return on equity comparable with that earned by regulated utilities.

The target annual return on equity will be low in a project’s early years and will rise over time, particularly once debt is retired.

GOAL/OBJECTIVE 5. Acceptable Return on Equity	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 5.1 Return on equity		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2008/09 – 2010/11 Service Plan	Over the Life of a Project, Comparable to Regulated Utilities	4.7%	4.1%	5.2%	6.1%	6.0%

Significance of results

The higher actual rate of return for 2006/07 reflects both the return to normal operations at Arrow Lakes Generating Station and recoveries from the insurer. The lower levels in 2007/08 are due to the delay in commercial operation of Brilliant Expansion and the cost of corporate restructuring. The rise in annual Return of Equity of 2008/09 and beyond reflects the commercial operations, albeit one year late, of Brilliant Expansion and rising overall sales revenues.

Goal IV – Efficient Joint Venture Management

This goal is linked to two objectives: cost-efficient joint venture management and environmental compliance.

Objective #6 – Cost-efficient joint venture management

Strategy

The power project joint ventures are not regulated utilities, able to pass cost increases through to rate payers and earn a target annual allowed rate of return on equity. As independent power producers, the joint ventures must sell into the competitive wholesale power market, usually under long term fixed-price contracts that have a limited ability to adjust the contract price for cost inflation. Accordingly, Columbia Power Corporation must provide cost-efficient joint venture management.

To be cost-efficient, the Corporation relies on the use of external contractors, both through its competitive design-build development strategy and through the contracting out of plant operations and maintenance, and corporate functions such as legal, payroll, pension administration, benefits administration and information technology. Columbia Power Corporation maintains a small staff of professionals who perform: project and corporate planning, project permitting, risk management, commercial negotiations, power marketing, project and corporate accounting, contract administration, treasury, land management, community relations, environmental management, and related due diligence functions.

The cost-efficient joint venture management objective is linked to two performance measures: operations, maintenance and administration unit cost for assets in-service, and revenue per employee.

Performance measures, benchmarks and targets

- 6.1 A key industry measure of efficiency is the operations, maintenance and administration (OMA) unit cost for assets in-service, measured as OMA costs divided by net energy entitlement, in dollars per megawatt-hour. Given the scale and type of joint venture power projects (small- to medium-scale hydro) and Columbia Power Corporation's reliance on external contractors, this measure may not be comparable to industry standards.

To provide meaningful benchmarks against which to manage the joint ventures, the OMA performance measure must be disaggregated by function and by project. As noted, detailed OMA performance measures, disaggregated into the key functional components of plant operations, plant maintenance, renovations/major improvements, and on-site and off-site support, have been developed in conjunction with a hydro-performance study prepared by Navigant Consulting, Inc. (formerly Haddon Jackson Associates, Inc.). These measures are presented and described in more detail in Appendix B.

GOAL/OBJECTIVE 6. Cost Efficient Joint Venture Management	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 6.1 OMA unit cost for assets in service		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2008/09 – 2010/11 Service Plan	1st Quartile: See Benchmarking Appendix B	ALGS: \$4.02 BRD: \$2.23 BRX: \$9.71	ALGS: \$4.03 BRD: \$2.34 BRX: \$7.41	ALGS: \$5.26 BRD: \$2.26 BRX: \$9.86	ALGS: \$4.39 BRD: \$3.02 BRX: \$6.36	ALGS: \$5.03 BRD: \$3.09 BRX: \$6.05

Significance of results

Arrow Lakes Generating Station OMA costs are expected to increase in 2008/09 due to increased environmental management costs and a number of small projects to improve operating efficiency. The Brilliant Dam continues to rank in the first quartile for this measure according to the hydro-performance study prepared by Navigant Consulting, Inc. The relatively higher OMA costs for Brilliant Expansion reflect the plant’s relatively lower energy entitlement. In addition, the OMA costs for Brilliant Expansion reflect: the delayed commercial operation date in 2007/08; the anticipated three month tailrace cleanup outage in 2008/09; and the expected increase in energy entitlement ratios in 2009/10, 2010/11 and 2011/12 (see performance measure 3.1).

Objective #7 – Environmental compliance

The second objective linked to the goal of “Efficient Joint Venture Management” is environmental compliance. The performance measure for environmental compliance is the number of material non-compliance notices.

Strategy

Columbia Power Corporation is primarily an asset development and management company, with contractors performing almost all activities associated with significant environmental impact. Columbia Power Corporation builds stringent environmental compliance requirements into its design-build contracts. It puts the onus on the contractor to develop the specific means to undertake its activities in a skilled, knowledgeable and diligent manner in compliance with environmental laws, regulations and permit conditions, as well as with the practices and standard of care within the industry. In addition, Columbia Power Corporation conducts its own due diligence, primarily through independent owner’s consultant oversight and review.

In 2004/05, Columbia Power Corporation implemented an environmental management system (EMS) to guide its management of the legal, regulatory and other environmental requirements associated with its projects. The EMS was developed using the International Organization for Standards’ ISO 14001 standard (adopted by the Canadian Electricity Association) as a guide. Although Columbia Power Corporation plans to operate at this standard, it is not currently planning to apply for certification because of cost and staffing considerations. The scope of the EMS includes project planning, project construction, facility operation and maintenance, and land management. The basic objective or goal is to have Columbia Power Corporation

conform to an appropriate level of environmental due diligence, consistent with the legal standard of care established by the courts. That standard requires Columbia Power Corporation to take all reasonable steps to avoid causing prohibited environmental harm. The measure of reasonableness will change over time as industry expertise progresses. Columbia Power Corporation considers its particular circumstances, as well as the practices and standard of care within the electricity industry. Typically, the greater the potential for environmental harm, the higher the standard of care.

The EMS by itself is not sufficient to establish that Columbia Power Corporation is duly diligent. The system must be implemented, determined to be effective and monitored. It must also improve over time to meet changes in the measure of reasonableness.

Performance measure, benchmark and target

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

GOAL/OBJECTIVE 7. Environmental Compliance	BENCHMARK	TARGETS				
PERFORMANCE MEASURE 7.1 Compliance with environmental requirements		2007/08 Actual	2008/09	2009/10	2010/11	2011/12
2008/09 – 2010/11 Service Plan	Baseline Information to be Developed	Dead sturgeon at Brilliant Expansion	Zero Material Non-Compliance Notices	Zero Material Non-compliance Notices		

Significance of results

In February 2007, a dead white sturgeon, protected under the *Species at Risk Act*, was discovered by divers clearing the tailrace at the Brilliant Expansion Project. Columbia Power Corporation, its owner’s engineer and the Brilliant Expansion design-build contractor participated in a Community Justice Forum, sponsored by the Department of Fisheries and Oceans, as a means to resolve this incident. In August 2007, a second dead white sturgeon was found in the Brilliant Expansion draft tube. A third injured white sturgeon was observed after a Brilliant Expansion start-up in September 2007. The Department of Fisheries and Oceans has initiated investigations into the second and third incidents. The investigations have been completed resulting in changes to procedures for unit startup and investigation of potential capital investment for sturgeon exclusion.



APPENDIX B | Benchmarking

Introduction

In 2006 and 2007, Columbia Power Corporation engaged the services of Navigant Consulting, Inc. (formerly Haddon Jackson Associates, Inc.) to provide benchmarking services to compare the performance of the Brilliant dam and powerplant (Brilliant) and the Arrow Lakes Generating Station (Arrow Lakes) against performance data from more than 300 hydroelectric plants across North America.

The study assessed the following functions:

- operations
- plant maintenance
- waterways and dam maintenance
- buildings and grounds maintenance
- investment
- support
- public affairs and regulatory
- engineering services

Plant cost data was segmented into sub-groupings to allow comparisons based on such factors as a powerplant's size, number of generating units and age. In the study, Brilliant and Arrow Lakes were classified as "Medium Hydro" operations, with parameters being set to reflect valid comparisons for each function.

All costs are stated in U.S. dollars and data from previous years is adjusted for inflation. Study participants included major utilities such as BC Hydro, Ontario Power Generation and the New York Power Authority.

The overall results are positive. In all major areas, Brilliant and Arrow Lakes performed well compared to their peers, and Brilliant was awarded "leading performer" status for plant maintenance. Results for Arrow Lakes were negatively affected by required channel repair work. It is anticipated that there will be significant improvements in future years as Arrow Lakes operations return to normal.

Study Methodology

Each participating powerplant provided Navigant Consulting, Inc. with a standardized set of data. Over 40 plants participated in Hydro 2006 and approximately 30 participated in Hydro 2007. The remaining data was from inflation adjusted information for plants benchmarked in prior years.

Navigant Consulting, Inc. compiled and analyzed the data, held field interviews to challenge and validate the data, and developed a report. An overview conference for participants was held in November 2006 and November 2007. Final reports, which provide Columbia Power Corporation with its customized study results, were received in January 2007 and January 2008. The data presented below are from the customized study results.

In addition to providing comparative data, the study identifies leading practitioners who have achieved the highest level of success for their group and for particular functions. This is intended to enable participants to learn from the success of others.

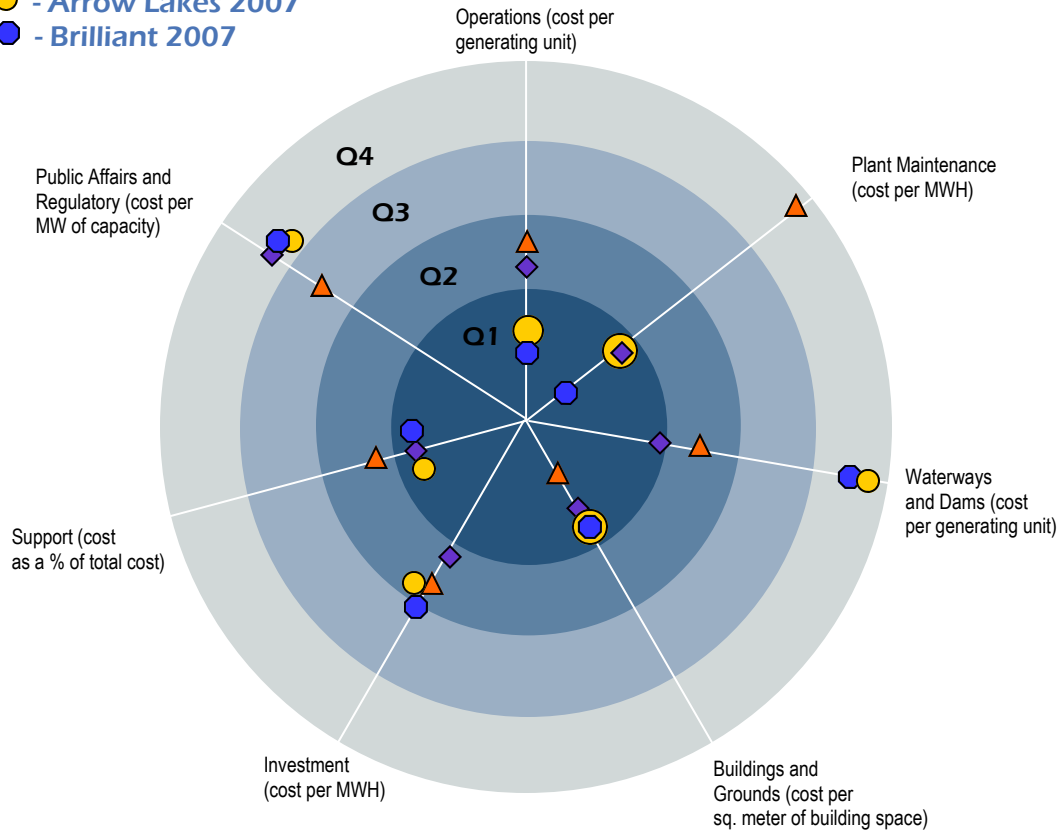
Overall

The following diagram provides a summary of how Brilliant and Arrow Lakes performed in Navigant Consulting, Inc.'s Hydro 2006 and Hydro 2007 studies. Each axis on the diagram reports quartiles with Q1 representing the lowest cost quartile.

More detailed cost information is provided in the charts that follow. Detailed charts are not provided where the cost function is relatively insignificant (Waterways and Dams, Building and Grounds, Support), or where the data are either not truly comparable or not controllable (Public Affairs and Regulatory - see the discussion in Section 2 below).

Quartile performance by power plant cost function

- ▲ - Arrow Lakes 2006
- ◆ - Brilliant 2006
- - Arrow Lakes 2007
- - Brilliant 2007

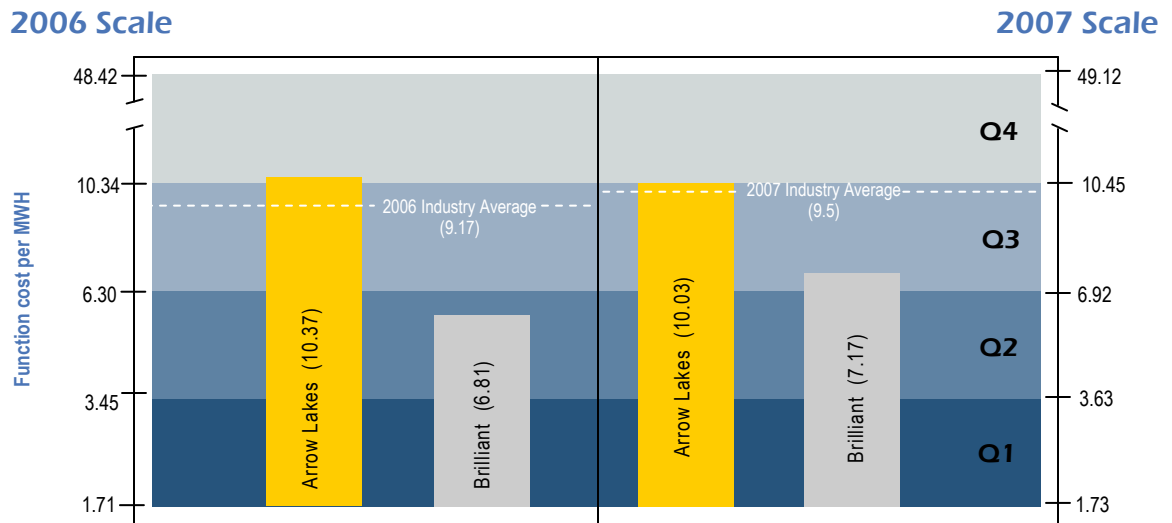


**Stated in U.S. Dollars. Salary Costs Adjusted for Regional Differences.*

Key Indicators

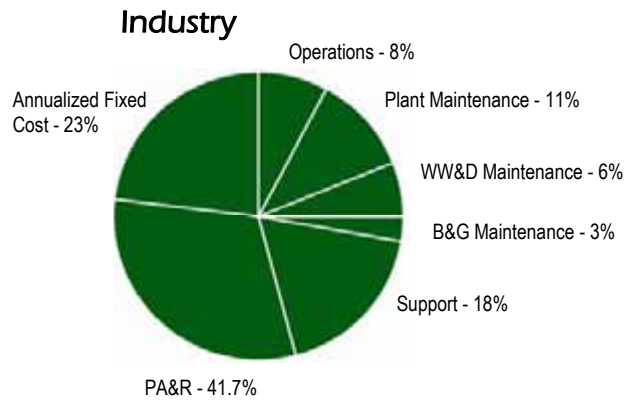
1. Function Cost / MWH - Medium Hydro

This is a broad-based measure of overall efficiency. It includes costs for operations, plant maintenance, waterway and dam maintenance, building and ground maintenance and support. It excludes capital expenditures.

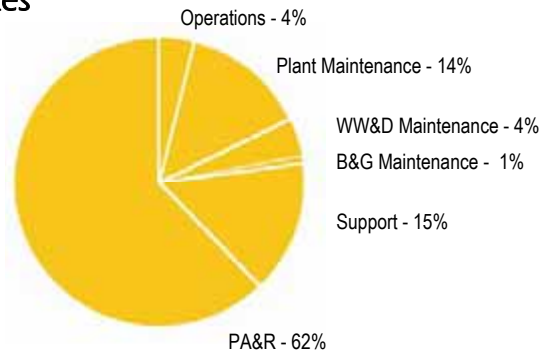


2. Total Cost Distribution - Medium Hydro

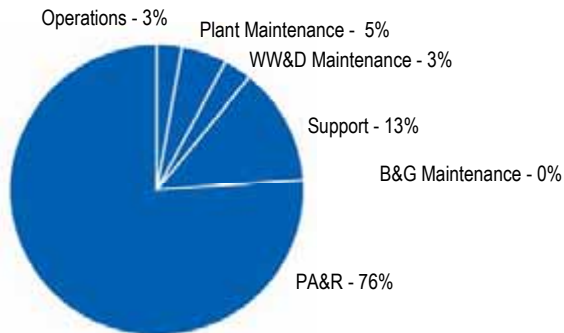
This compares the distribution of costs for Brilliant and Arrow Lakes to the industry averages. It can help identify areas of potential over or under spending. It is important in interpreting this data, however, to remember that plants in British Columbia generally face much higher Public Affairs and Regulatory costs than other jurisdictions. In large measure this is because the Public Affairs and Regulatory function includes the cost of any royalties and taxes. Brilliant and Arrow Lakes pay significant water rentals (a provincial royalty) and property taxes.



Arrow Lakes



Brilliant

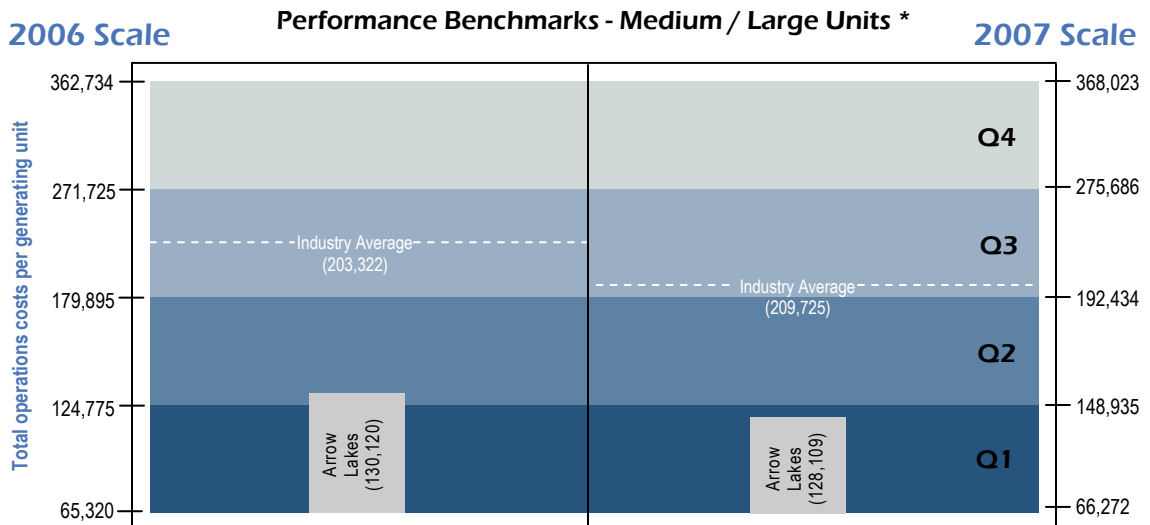
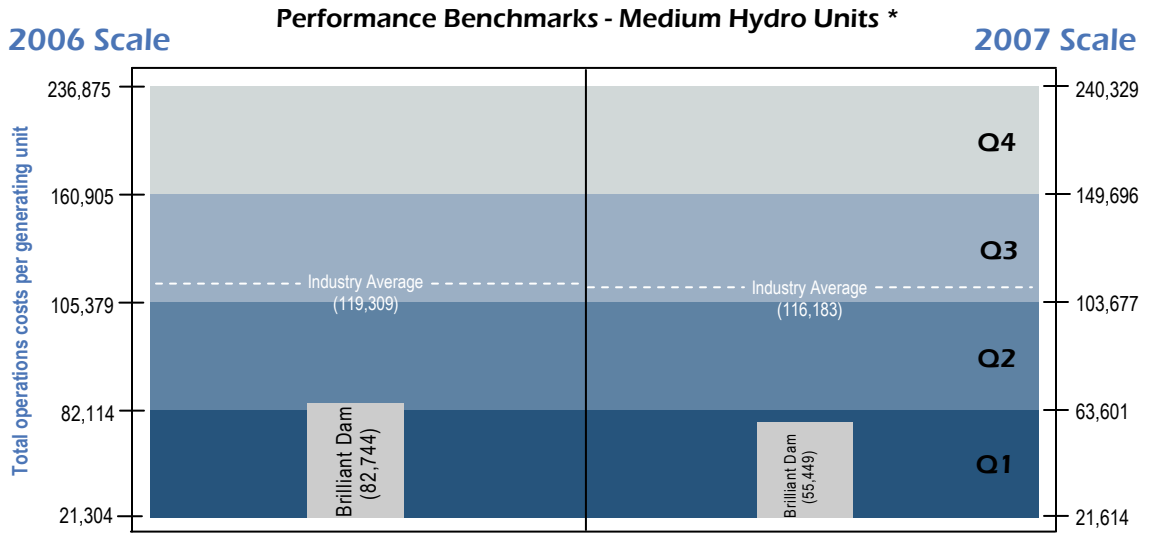


PA&R - Public Affairs and Regulatory
WW&D - Waterways and Dams
B&G - Buildings and Grounds

**Stated in U.S. Dollars. Salary Costs Adjusted for Regional Differences.*

3. Total Operations Cost per Generating Unit

This is a key indicator of operations efficiency. It focuses on direct operations expenses related to the running of plant generating units.



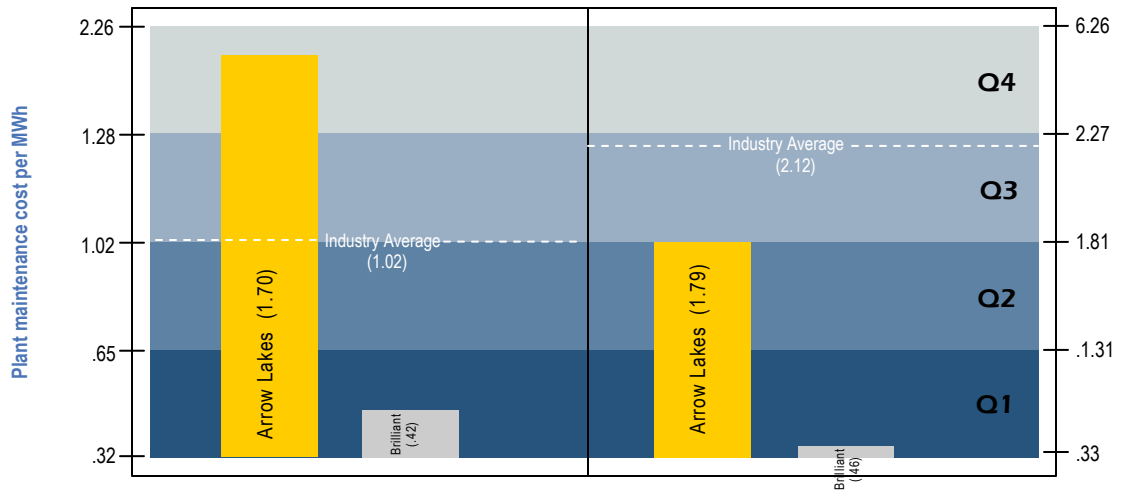
*Stated in U.S. Dollars. Salary Costs Adjusted for Regional Differences.

4. Plant Maintenance Cost per Unit of Output

This indicator provides an overview of the efficiency of plant maintenance, expressed as plant maintenance costs incurred to produce 1 MWh of electricity.

2006 Scale

2007 Scale



*Stated in U.S. Dollars. Salary Costs Adjusted for Regional Differences.

5. Investment Cost per MWh

This indicator reflects the level of capital spending (such as sustaining capital expenditures). Ongoing high levels of capital spending may indicate inefficiency, while low levels of capital spending may indicate under-investment and the potential for future problems. The chart compares Brilliant and Arrow Lakes capital spending to the industry average for powerplants less than 15 years old. Age is a critical factor affecting sustaining capital expenditure levels; sustaining capital expenditures tend to increase as a plant ages.

2006 Scale

2007 Scale

