



BC HYDRO  
SERVICE PLAN  
2011/12–2013/14

**BChydro**   
FOR GENERATIONS

  
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# LETTER FROM THE CHAIR TO THE MINISTER

## TO: THE HONOURABLE STEVE THOMSON, MINISTER OF ENERGY

On behalf of the Board of Directors, management and employees of BC Hydro, I am pleased to submit BC Hydro's Service Plan for fiscal years 2011/12–2013/14. This Service Plan was prepared under the Board's and management's direction in accordance with the *Budget Transparency and Accountability Act* and the B.C. Reporting Principles. It has been developed to be consistent with the Government's strategic priorities and Fiscal Plan. The Board and management are accountable for the contents of the plan, including the selection of performance measures and targets.

We have considered all significant assumptions, policy decisions and identified risks as of January 28, 2011 in preparing this Service Plan. The performance measures presented are consistent with BC Hydro's revised mandate and strategic objectives, and focus on aspects critical to the organization's performance.

## CELEBRATING 50 YEARS OF CLEAN, RELIABLE ELECTRICITY...

2011 will be a milestone year for BC Hydro, as we celebrate our 50th Anniversary as a Crown corporation and continue to meet the electricity needs of British Columbians and plan for another 50 years and beyond.

The introduction of the *Clean Energy Act* (CEA) last spring was significant for BC Hydro, the Province and its citizens. Among other important objectives, the Act reunited BC Hydro and the BC Transmission Corporation and will move our integrated company forward into an exciting new age of economic growth and job creation driven by clean energy. It sets the foundation for British Columbia to unleash its full potential for clean energy development in every region across the province, while also ensuring that we all benefit from a safe, secure and reliable supply of power for generations to come through a continuous reinvestment in BC Hydro's Heritage Assets.

To carry this bold vision forward, BC Hydro has been revisiting the organization's Vision and Strategic Objectives. As a result, BC Hydro's updated Vision is "Powering BC with Clean, Reliable Electricity for Generations." While BC Hydro's core Values of teamwork, accountability, integrity, safety and service remain the same, we now have six streamlined Strategic Objectives to guide us forward: to safely keep the lights on, succeed through relationships, mind our footprint, foster economic development, maintain competitive rates, and engage a safe and empowered team.

The role of relationships in achieving these objectives is critical. Every BC Hydro employee will play a role in our safety goal and every British Columbian has a part to play in supporting energy conservation. Our partnerships with First Nations, businesses, independent power producers and communities are all pivotal to our strategy, as is our relationship with the Province.



Dan Doyle  
Chair, BC Hydro



Ruskin Dam

## ...WHILE PLANNING FOR THE NEXT 50 YEARS AND BEYOND

We are developing an Integrated Resource Plan that will set BC Hydro's course for meeting future demand, achieving self-sufficiency and reaching our clean electricity generations targets.

Energy conservation and efficiency continue to be our first and best method to meeting the province's rising electricity demand and achieve the provincial target of meeting 66 per cent of the province's future electricity needs through conservation by 2020. Our customers will be further empowered to help us meet this goal as we equip their homes with smart meters, enabling them to better track their electricity consumption and find opportunities to conserve.

While conservation is a cornerstone of our energy planning, we know that more supply will be necessary in the longer term if we are to become electricity self-sufficient using clean, renewable power. That's why BC Hydro is investing \$6 billion in the system over the next three years. Currently, there are hundreds of capital projects underway that, together, make up one of the largest expansions of electrical infrastructure in B.C.'s history. Projects at Mica and GM Shrum, dams and generating stations, and transmission line projects, including lines in the Northwest, Interior to Lower Mainland, Vancouver City Central and Dawson Creek-Chetwynd areas will serve to meet demand, improve reliability and support economic development.

In support of these major initiatives, BC Hydro will be filing a three-year Revenue Requirements Application in early 2011 with the British Columbia Utilities Commission. This application will allow BC Hydro to continue reinvesting in our aging infrastructure, enhance our clean energy system and continue to promote a conservation culture throughout the province. The rate application will also demonstrate BC Hydro's commitment to improve the efficiency of our operations while doing everything we can to keep rates affordable for our customers.

Today the province is growing and evolving. It is BC Hydro's responsibility to ensure that we continue to have an electricity system that we can all count on to power our economy, create jobs in every region, and keep the lights on. That's why we are building, renewing, and conserving together to meet today's needs and those of future generations, just as our predecessors did 50 years ago.

Dan Doyle, Chair

# STRATEGIC CONTEXT

Almost 50 years ago BC Hydro was created to plan, build and deliver a clean, reliable supply of electricity to homes and businesses throughout our growing province. Investments in dams, generating stations and transmission and distribution networks ensured a stable supply of electricity for the generations of British Columbians that followed.

Thanks to this visionary planning and investment, we have been reliably meeting our province's energy needs for the past 50 years. However, a substantial part of our electricity system infrastructure is reaching an age when significant investment is required.

Our province and population continues to grow and so has our need for more electricity. As we look to the future, new technologies, new industry and growing populations are increasing demand for energy. At the same time, demand is growing for electricity that is generated by clean sources such as hydro and wind.

As our province's energy needs grow, BC Hydro must invest in our generation and transmission assets and adopt new technologies that prepare us for the future. By upgrading our existing facilities, securing new supplies of clean energy, building new transmission and distribution infrastructure, and encouraging conservation and energy efficiency, BC Hydro will keep meeting the electricity needs of B.C.'s future generations.

## SAFETY IS THE TOP PRIORITY

Public and employee safety is the top priority at BC Hydro and must be an integral part of how we operate. Producing and delivering electricity safely involves keeping our system well-maintained, including safety in the design of our operating systems and facilities, and building a safety culture throughout the company.

For example, BC Hydro owns, operates and maintains over 70 dams at 41 sites across British Columbia and manages risks to public and employee safety through a comprehensive and world-class dam safety program.

To meet the requirements of the B.C. Dam Safety Regulation, BC Hydro's dam safety program conducts inspections, independent expert reviews, and monitors instrumentation data from the dams. Potential deficiencies are identified for further study, and when dam safety improvements are found to be necessary, the projects are prioritized and brought into BC Hydro's capital planning process.

BC HYDRO SERVICE PLAN 2011/12–2013/14



Enhancing employee safety remains an urgent priority of the company. BC Hydro recently created a Safety Task Force of operations-based employees in high-risk fields who will look at the underlying causes of incidents and recommend measures to improve worker safety.

## DEMAND FOR ELECTRICITY IS GROWING

Meeting current and future demand for electricity in B.C. is the foundation of our planning activities. We are now forecasting that the province's electricity needs will grow by as much as 40 per cent over the next 20 years, due to industrial activity and general economic and population growth.

Since the late 1990s, BC Hydro has depended on electricity imports to augment our domestic supply in order to meet the demand for power. The Province has established a goal of achieving electricity self-sufficiency by 2016 – meaning that BC Hydro must be able to supply British Columbia's electricity needs through domestic sources of power.

To meet B.C.'s future electricity needs, there is a need to renew, replace and expand BC Hydro's aging generating, transmission and distribution infrastructure, which was built mostly in the 1960s, 70s and 80s.

In addition to the growing demand for electricity that is the result of economic growth and rising population, the *Clean Energy Act* encourages greater use of the electricity system in order to decrease greenhouse gas emissions, which could result in a further increase in electricity use.

The magnitude and timing of future increases in demand will challenge BC Hydro as we determine how and when to secure generation and transmission resources to meet our customers' growing needs.

## PLANNING TO MEET FUTURE DEMAND

To ensure we meet British Columbia's future electricity needs, BC Hydro is preparing an Integrated Resource Plan (IRP) for submission to the Ministry of Energy by November 2011.

BC Hydro's core strategy is to 'conserve, build and buy'. Conservation is the first priority, and is targeted to meet approximately two-thirds of B.C.'s future electricity needs, as described in the *Clean Energy Act*. Building a sustainable future also includes reinvesting in heritage hydroelectric assets, exploring new clean energy infrastructure projects such as Site C, and acquiring renewable energy from independent clean energy producers.

The Integrated Resource Plan will set BC Hydro's course for achieving self-sufficiency, ensuring that 93 per cent of the generation in the province comes from clean or renewable resources to help meet provincial greenhouse gas reduction targets, as directed by the *Clean Energy Act*. As well, given long transmission construction lead times, the plan will contain an assessment of transmission requirements looking 30 years out.

## CONSERVATION AND ENERGY EFFICIENCY REMAINS FIRST CHOICE FOR MEETING DEMAND

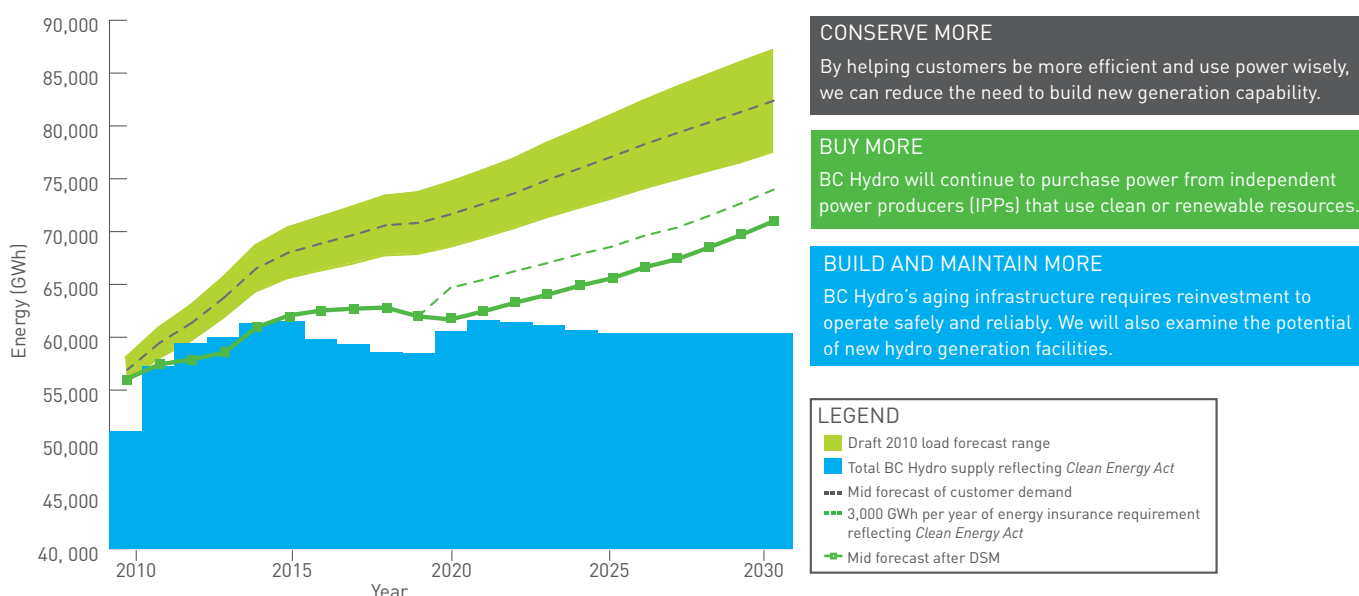
BC Hydro has a long history of encouraging customers to be Power Smart, providing customer information and education programs, and offering incentives and rebates to promote energy efficiency. The BC Hydro Power Smart program is a world leader in the promotion of conservation and energy efficiency, and this has seen us achieve our Demand Side Management (DSM) energy savings targets, which in turn reduces the amount of new energy we have to secure.

BC Hydro's leadership in creating a permanent conservation culture in B.C. will continue, as the *Clean Energy Act* calls for BC Hydro to meet 66 per cent of future incremental power demand from conservation and energy efficiency by 2020.

In order for BC Hydro's conservation initiatives to continue filling a large part of the gap between energy demand and supply, we will work with the Province to implement new programs, codes and standards. At the same time, with electrification playing a role in reducing the province's GHG emissions, the scope of BC Hydro's DSM activities may expand to include initiatives that increase load in order to reduce overall GHG emissions.

## BC HYDRO'S ELECTRICITY GAP

### BC Hydro's Supply and Demand Outlook



\* Special Direction 10 (SD 10) to BCUC requires BC Hydro to achieve electricity self-sufficiency by 2016 and each year thereafter solely from electricity generating facilities within B.C. As a result, BC Hydro has removed the 2,500 GWh/yr of non-firm energy/market allowance from its resource stack effective F2017.

## BC HYDRO IS INVESTING TO ENSURE RELIABILITY

British Columbia's economy depends on the supply of reliable electricity. In order to meet the needs of our customers both now and in the future, we must invest in our vast network of dams, turbines, generators, substations, transformers, high voltage transmission lines, power lines and meters.

Since much of BC Hydro's generating, transmission and distribution system was built in the 1960's, 1970's and 1980's, as the assets age they need to be renewed and upgraded.

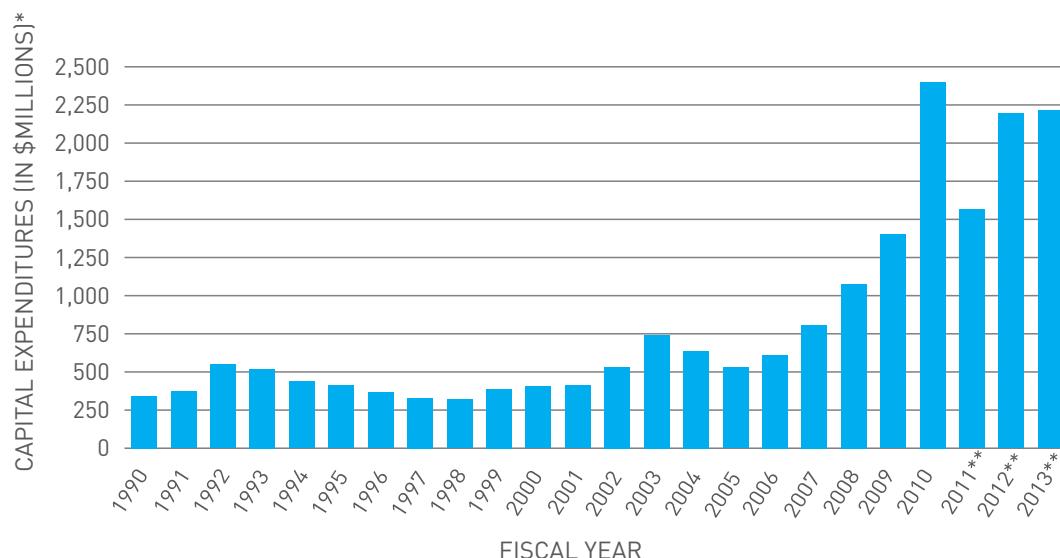
That's why BC Hydro is investing \$6 billion in the system over the next three years alone. Currently, there are hundreds of capital projects underway that, together, make up one of the largest expansions of electrical infrastructure in B.C.'s history.

BC Hydro's planned capital investments span the range of generation, transmission, and distribution projects. For example, over the next several years, we will:

- Install two additional 500 MW generating units into existing turbine bays at the Mica Generating Station.
- Replace the turbines for Units 1 to 5 at the Gordon M. Shrum generating facility to reduce the risk of runner failure.
- Build a 340 km Northwest Transmission Line between Terrace and Bob Quinn Lake to ensure a reliable supply of clean power to potential industrial developments in northwest B.C.
- Build a 255 km Interior-to-Lower Mainland Transmission Line between Merritt and Coquitlam to help meet growing demand for electricity in the Lower Mainland.
- Install 1.8 million smart meters for BC Hydro customers to enhance safety, reliability and improve customer service, while providing customers with new conservation tools to help them manage their own energy use.
- Build a substation and two new underground transmission lines as part of the Vancouver City Central Transmission project to serve the growing population of the Mt. Pleasant/False Creek neighbourhood and improve reliability in other parts of central Vancouver.

The chart below gives an example of the extent of BC Hydro's investment over the past 20 years.

### BC HYDRO CAPITAL EXPENDITURES (1990–2013)



\* Excluding Demand-Side Management (DSM).

\*\* Forecast.

Source: BC Hydro Service Plans (F2005-F2011), BC Hydro Annual Reports (F1990-F2005).



Cheakamus Project

## SECURING POWER FROM CLEAN, RENEWABLE SOURCES

In addition to ensuring adequate resources through an aggressive conservation program and an ambitious capital investment plan, BC Hydro is securing power from clean and renewable energy producers across the province.

Power procurement processes now underway or planned to acquire additional clean or renewable energy in the future include:

- Standing Offer Program for small, clean projects with a maximum size of 15 MW
- Community-Based Biomass Call for innovative, community-level energy supply solutions (5 MW or less) using carbon-neutral biomass fuel sources
- Bioenergy Phase 2 Call for larger-scale biomass projects (minimum of 5 MW), including forest-based biomass in six designated areas of the province
- Integrated Power Offer for industrial and commercial customers that combine energy efficiency savings with electricity generation opportunities.

## MANAGING THE IMPACT ON RATES

The challenge facing BC Hydro will be to balance our many objectives and requirements with the need to carefully manage our costs and keep customer rates affordable.

To this end, later this spring, BC Hydro will be filing a three-year Revenue Requirements Application with the British Columbia Utilities Commission (BCUC). BC Hydro is currently forecasting proposed rate increases of 9.7 per cent per year for each of the next three years. This proposed increase equates to a monthly increase of approximately \$7 to the average monthly residential bill for each of the next three years. This means the average monthly bill will rise from approximately \$71 per month to approximately \$92 by Fiscal 2014, assuming customers take no additional conservation actions. For further details on specific annual and cumulative rate increases from F2012 to F2014, see the Financial Outlook Summary on page 26.

If approved, this application will allow BC Hydro to continue reinvesting in our aging infrastructure, enhance our clean energy system and continue to promote a conservation culture



WAC Bennett Dam

throughout the province. Besides cost pressures arising from maintaining system reliability, BC Hydro is also committed to increasing public and worker safety, and addressing ongoing customer growth, which is estimated at 1.5 per cent per year.

The Province has also taken steps to ease the rate burden for BC Hydro customers. As of January 1, 2011, water rental increases that BC Hydro pays for water that flows through our generating stations will now be tied to inflation (CPI) instead of being tied to BC Hydro's rate increases. In addition, the Province has authorized BC Hydro to move to an assets-in-service rate base as opposed to debt plus equity, which puts BC Hydro in line with most utilities in Canada and is seen as a fairer way to calculate the government's return on its investment. These actions will help mitigate our F2012 rate increase application by approximately 3 per cent and a further 1.5 per cent in each of F2013 and F2014.

To further assist our customers mitigate some of the rate impact of these additional investments in our system, BC Hydro has developed extensive consumer programs, including information, incentives and rebates, to enable the purchase of energy-efficient appliances and promote conservation-oriented behaviour. For example, more than 30,000 energy saving kits will be distributed free of charge to low income customers, which include energy-efficient light bulbs, low-flow showerheads and weatherization products. Our Energy Conservation Assistance Program will also provide eligible low-income BC Hydro customers to receive free home energy evaluations and retrofits.

## REVENUE REQUIRED TO DELIVER ELECTRICITY

The rate application will demonstrate BC Hydro's commitment to improve the efficiency of our operations while doing everything we can to keep rates affordable for our customers.

As BC Hydro operates on a cost recovery basis, the rates we charge our customers are a reflection of the cost of service. Our total estimated revenue requirement for F2012 is \$3.8 Billion. This consists of the following:

### AMORTIZATION & FINANCE CHARGES —\$1.2 BILLION

Amortization & finance charges account for 32 per cent of the total revenue requirement for F2012. The main pressures on these costs are capital spending on BC Hydro's aging assets, system expansion due to increasing customer demand and the interest we pay on our long-term debt. This portion of spending also includes the amortization of demand side management costs.

### RETURNS TO BRITISH COLUMBIANS —\$1.1 BILLION

Returns to British Columbians via the government account for 30 per cent of the total revenue requirement for F2012

Cost items within this category include a return on equity, water rentals and taxes.

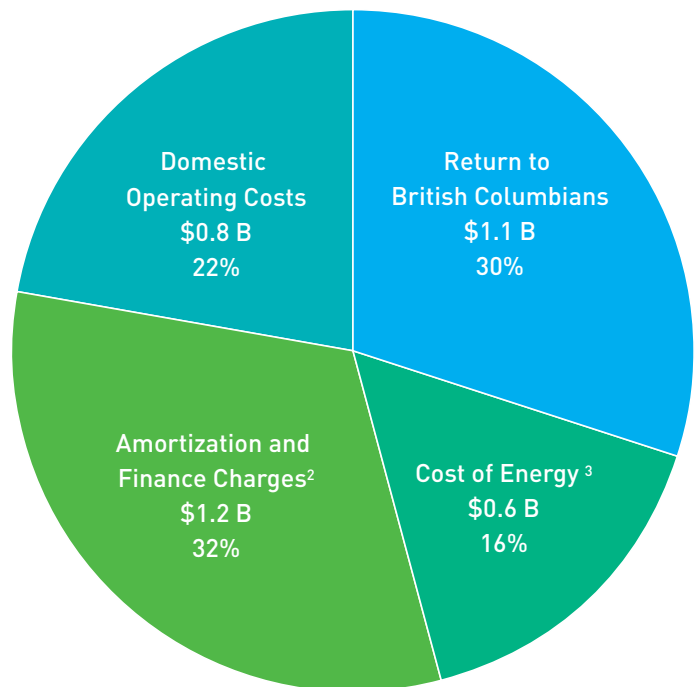
### DOMESTIC OPERATING COSTS —\$0.8 BILLION

Domestic operating costs are 22 per cent of the total revenue requirement for F2012. This is the cost of paying for day to day operations such as equipment maintenance, labour costs, and vegetation management expenditures.

### COST OF ENERGY—\$0.6 BILLION

Cost of energy accounts for 16 per cent of the total revenue requirement for F2012 and includes costs such as the purchase of market electricity to meet growth in customer demand, the purchase of power from Independent Power Producers, natural gas costs, and transmission costs.

## TOTAL ESTIMATED F2012 REVENUE REQUIREMENT—\$3.8 BILLION<sup>1</sup>



<sup>1</sup> Does not include miscellaneous and non-tariff revenue.

<sup>2</sup> Amortization and Finance Charges are increasing due to the increased capital expenditures. Includes amortization of regulatory accounts such as Demand-Side Management (DSM).

<sup>3</sup> Includes IPP purchases and market purchases of electricity. Net of Trade Income and miscellaneous non-tariff revenues.

Note: Chart may not add due to minor rounding.

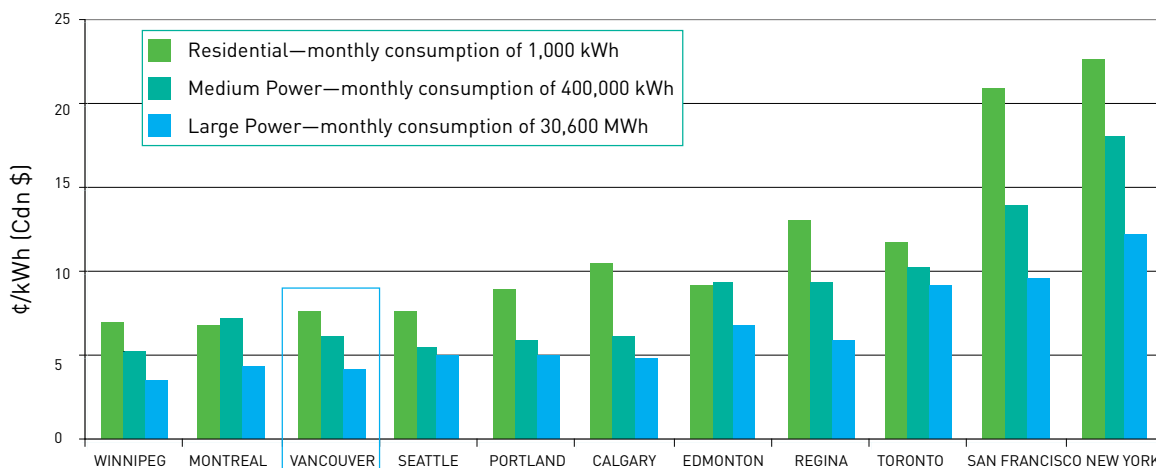
## ELECTRICITY RATES REMAIN AMONG THE LOWEST IN NORTH AMERICA

In large part due to the investments made in BC Hydro assets in past decades, our electricity rates remain among the lowest in North America (see chart below) and the *Clean Energy Act* confirms the government's objective of keeping BC Hydro's rates low.

Rates are rising across North America as utilities upgrade their infrastructure and meet the increasing demands of their customers. Our rates, too, will increase in the future as we reinvest in our assets, take steps to meet growth in demand by securing new sources of supply, and continue our strong commitment to social and environmental responsibility.



### BC HYDRO ELECTRICITY RATE COMPARISON APRIL 1, 2010 (F2011)



Source: "2010 Comparison of Electricity Prices in Major North American Cities" (Hydro-Quebec, November, 2010).

Rates are presented in Canadian currency as of April 1, 2010.

BC Hydro rates reflect impact of F2011 Revenue Requirements Application settlement agreement.

For utilities in other cities, chart does not reflect changes implemented since April 1, 2010.

# ORGANIZATIONAL OVERVIEW

Almost 50 years ago, the Province of B.C. created one unified utility to plan, build and bring clean and reliable electricity to homes and businesses throughout the province. Today, BC Hydro is one of the largest electric utilities in Canada.

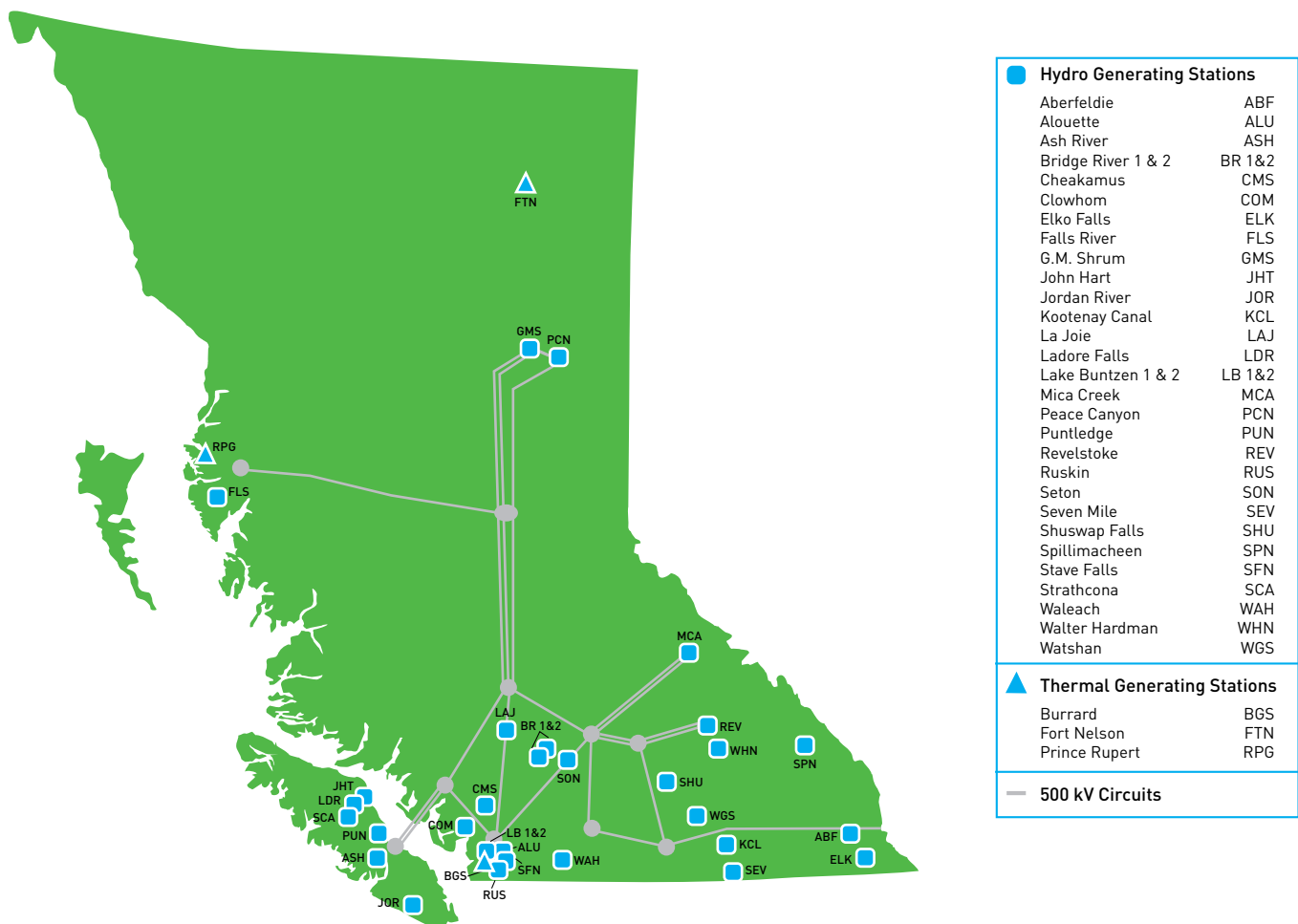
We serve 95 per cent of B.C.'s population, delivering electricity safely and reliably at competitive rates to approximately 1.8 million customers. Nearly 90 per cent of our customer accounts are residential, with the remainder either commercial or industrial. Each of these three groups consumes roughly one third of the total electricity we supply.

With approximately 6,000 employees stationed throughout the province, we operate 31 hydroelectric facilities and three thermal generating plants, capable of generating 11,800 MW of power.

Over 95 per cent of the electricity we generate comes from our hydroelectric facilities, which are located throughout the Peace, Columbia and Coastal regions of B.C. Our three thermal generating plants produce the remainder.

We deliver electricity to our customers through a network of nearly 80,000 kilometres of transmission and distribution lines. This system also includes approximately 300 substations, 900,000 utility poles and 325,000 individual transformers. Our transmission network connects with transmission systems in Alberta and Washington State, which both improves the overall reliability of our system and provides opportunities for trade.

## 500 KV TRANSMISSION SYSTEM AND MAJOR GENERATING STATIONS





Demonstration at the  
BC Hydro Safety Rodeo 2010

Our Vision, Values and Strategic Objectives outline the purpose, direction and priorities of our organization and help clarify how we manage our business and make day-to-day decisions.

### OUR VISION

“Powering B.C. with clean, reliable electricity for generations.”

### OUR VALUES

Five Core Values are essential to our success: Accountability, Integrity, Safety, Service, and Teamwork.

### OUR STRATEGIC OBJECTIVES

Our new Strategic Objectives are to:

- Safely Keep the Lights On
- Succeed Through Relationships
- Mind Our Footprint
- Foster Economic Development
- Maintain Competitive Rates
- Engage a Safe and Empowered Team

Please see the Strategic Objectives, Performance Measures and Targets section, beginning on page 16, for descriptions and targets associated with these new Objectives.

### OUR MANDATE

As a Provincial Crown corporation, our owner and sole Shareholder is the Province of British Columbia. BC Hydro reports to the B.C. Government through the Minister of Energy. The Government’s expectations for us are expressed through legislation, policy and instructions.

### LEGISLATION

The *Hydro and Power Authority Act* is the most important long-standing piece of legislation governing BC Hydro. This Act gives us our mandate: to generate, manufacture, purchase, distribute, supply and sell electricity in British Columbia in a cost-effective and reliable way.

The *Utilities Commission Act* gives the British Columbia Utilities Commission the power to regulate BC Hydro to ensure that customers receive safe, reliable and non-discriminatory energy services at fair rates; that the government, as shareholder, is afforded a reasonable opportunity to earn a fair return on its invested capital; and that the competitive interests of B.C. business are not frustrated.

The *BC Hydro Public Power Legacy and Heritage Contract Act* ensures public ownership of BC Hydro’s Heritage Resources, which include BC Hydro’s transmission and distribution systems, and all of BC Hydro’s existing generation and storage assets.

The B.C. Government's 2007 *BC Energy Plan* lays out the general energy policies we are required to follow. The 2010 *Clean Energy Act (CEA)* updates several elements and targets included in that plan and provides further guidance for how we are to meet the Province's energy objectives. The CEA came into force on June 3, 2010, consolidated BC Hydro and British Columbia Transmission Corporation, and set targets for meeting the goals of electricity self-sufficiency, reduced greenhouse gas emissions, and increased investments in clean, renewable energy across the province.



### CLEAN ENERGY ACT OBJECTIVES:

- (a) to achieve electricity self-sufficiency;
- (b) to take demand-side measures and to conserve energy, including the objective of the authority reducing its expected increase in demand for electricity by the year 2020 by at least 66 per cent;
- (c) to generate at least 93 per cent of the electricity in British Columbia from clean or renewable resources and to build the infrastructure necessary to transmit that electricity;
- (d) to use and foster the development in British Columbia of innovative technologies that support energy conservation and efficiency and the use of clean or renewable resources;
- (e) to ensure the authority's ratepayers receive the benefits of the Heritage Assets and to ensure the benefits of the heritage contract under the *BC Hydro Public Power Legacy and Heritage Contract Act* continue to accrue to the authority's ratepayers;
- (f) to ensure the authority's rates remain among the most competitive of rates charged by public utilities in North America;
- (g) to reduce B.C. greenhouse gas emissions;
  - (i) by 2012 and for each subsequent calendar year to at least 6 per cent less than the level of those emissions in 2007,
  - (ii) by 2016 and for each subsequent calendar year to at least 18 per cent less than the level of those emissions in 2007,
  - (iii) by 2020 and for each subsequent calendar year to at least 33 per cent less than the level of those emissions in 2007,
  - (iv) by 2050 and for each subsequent calendar year to at least 80 per cent less than the level of those emissions in 2007, and
  - (v) by such other amounts as determined under the *Greenhouse Gas Reduction Targets Act*;
- (h) to encourage the switching from one kind of energy source or use to another that decreases greenhouse gas emissions in British Columbia;
- (i) to encourage communities to reduce greenhouse gas emissions and use energy efficiently;
- (j) to reduce waste by encouraging the use of waste heat, biogas and biomass;
- (k) to encourage economic development and the creation and retention of jobs;
- (l) to foster the development of First Nation and rural communities through the use and development of clean or renewable resources;
- (m) to maximize the value, including the incremental value of the resources being clean or renewable resources, of British Columbia's generation and transmission assets for the benefit of British Columbia;
- (n) to be a net exporter of electricity from clean or renewable resources with the intention of benefiting all British Columbians and reducing greenhouse gas emissions in regions in which British Columbia trades electricity while protecting the interests of persons who receive or may receive service in British Columbia;
- (o) to achieve British Columbia's energy objectives without the use of nuclear power;
- (p) to ensure the commission, under the *Utilities Commission Act*, continues to regulate the authority with respect to domestic rates but not with respect to expenditures for export, except as provided by this Act.

The B.C. Government's Shareholder's Letter of Expectations describes the relationship between BC Hydro and the Province, and sets out objectives that the Shareholder wishes BC Hydro to achieve.

The Province and BC Hydro review the letter annually and update it as required. Directions outlined in the letter focus on:

- Supporting the implementation of the *Clean Energy Act*.
- Achieving cost savings and efficiencies.
- Planning and operating the transmission system to serve domestic, export and economic development needs.
- Working with the BCUC.

This Service Plan outlines how we intend to meet the Shareholder's expectations over the next three years. For more details on the current Shareholder's letter, go to: [bchydro.com/about/company\\_information/openness\\_accountability.html](http://bchydro.com/about/company_information/openness_accountability.html).

## INTEGRATED RESOURCE PLAN

The 2010 *Clean Energy Act* requires BC Hydro to prepare an Integrated Resource Plan (IRP) for government review and approval by November 2011. This plan will set BC Hydro's course for acquiring generation and transmission resources to meet our customers' anticipated future electricity needs.

For more information, go to: [bchydro.com/planning\\_regulatory/long\\_term\\_electricity\\_planning/irp/about\\_irp.html](http://bchydro.com/planning_regulatory/long_term_electricity_planning/irp/about_irp.html).



## OUR REGULATOR

BC Hydro is regulated by the BCUC. Under the *Utilities Commission Act*, the BCUC must approve the rates BC Hydro charges for electricity. The rates allow us to recover costs incurred in serving our customers, including earning a return on equity.

On March 3, 2010, BC Hydro filed a Revenue Requirements Application (RRA) with the BCUC for F2011, proposing a general rate increase of 6.11 per cent and an increase in the deferral account rate rider by 3 per cent. These increases were effective, on an interim basis, on April 1, 2010 and resulted in an overall net bill impact to our customers of 9.26 per cent. In December 2010, the BCUC accepted a negotiated settlement between BC Hydro and intervenor groups, including representatives from our main customer groups, which resulted in an overall customer net bill impact of 7.29 per cent.

We will file our F2012–F2014 RRA with the BCUC in February 2011, requesting increases to rates of 9.73 per cent per year in F2012–F2014. Please see the Financial Outlook Summary section on page 26 for detailed information on annual and cumulative changes in rates and rate riders. The rate increases are attributable primarily to higher finance charges and amortization expenses due to increases in capital expenditures required to maintain an aging asset base and meet customer growth, as well as increases in domestic energy costs as new sources of firm supply are at higher prices than existing heritage sources.

Other significant applications and filings under review or that we expect to submit to the BCUC over the next fiscal year include:

- Ruskin Dam and Powerhouse Upgrade Project.
- John Hart Generating Station Replacement Project.
- Dawson Creek/Chetwynd Area New Transmission Project.
- Time of Use (TOU) Rates.

For more information on the F2012–F2014 RRA as well as other current regulatory matters, go to: [bchydro.com/planning\\_regulatory/regulatory.html](http://bchydro.com/planning_regulatory/regulatory.html) or visit the BCUC website: [bcuc.com](http://bcuc.com).

## STRATEGIC OBJECTIVES

With change comes opportunity and excitement. Since the enactment of the *Clean Energy Act* in June 2010, as well as the integration of BCTC and BC Hydro, we have revised our Vision and Strategic Objectives to build momentum across the organization, provide clarity around our priorities, and ensure BC Hydro is positioned for success.

Each Strategic Objective in the section that follows is supported by corresponding strategies, performance measures and targets. Each performance measure is supported by a definition and rationale, as well as internal/external benchmarking measures that allow a comparison of performance over time. These measures track BC Hydro's progress in delivering on our key priorities; BC Hydro management is responsible for measuring performance against targets, and results are reported to the Board on a quarterly basis and publicly on an annual basis in the Annual Report.



# STRATEGIC OBJECTIVES, PERFORMANCE MEASURES AND TARGETS

## SAFELY KEEP THE LIGHTS ON

Reliably meet the electricity needs of our customers through integrated planning, technology and safely operating, maintaining and advancing our system.

The majority of our workforce support the generation, transmission and distribution of electricity. Most will tell you it is their job to “keep the lights on” or maintain and operate the system to safely and reliably meet customer needs.

This work also involves an important planning element whereby we must maintain the health of our assets and plan for new sources of supply to meet future customer needs. The requirement to be electricity self-sufficient by 2016 guides this planning. Our progress against this goal and our approach are described in the chart on page 6.

The wording in this objective reminds us we must work safely in our pursuit of reliability—both safety and reliability are key priorities for the company. Producing and delivering electricity safely involves keeping a well-maintained electrical system that is safe for workers and the public. This includes preventing employee injuries as well as vandalism and theft, and anticipating and responding to the impacts of natural disasters such as storms, floods and forest fires.

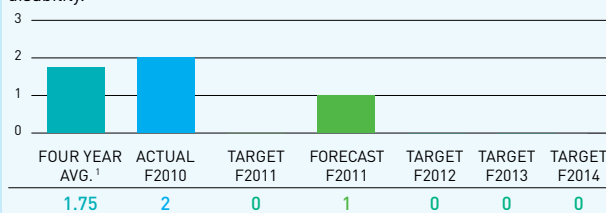
In late 2010, in response to a tragic employee fatality, we launched a new Safety Action Plan. This plan includes a comprehensive incident investigation and analysis, a process and best practice review, and a culture and organization effectiveness review (led by a cross-operations team of employees) to determine what it will take to ensure *no employee experiences a serious work-related injury*.

### PERFORMANCE MEASURES

(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)

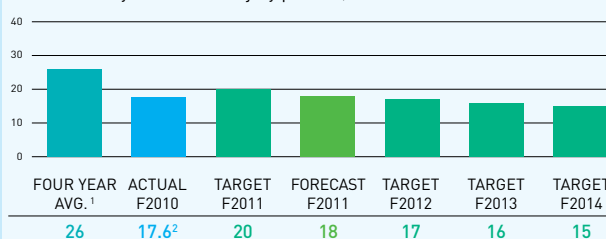
#### ZERO FATALITY AND SERIOUS INJURY

There has either been a loss of life or an injury resulting in a permanent disability.



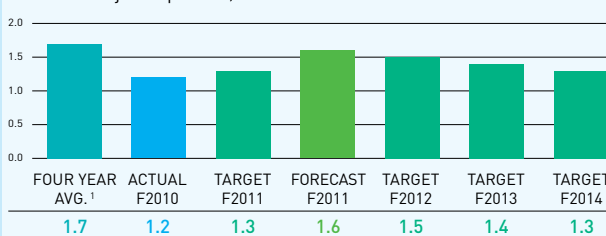
#### SEVERITY

Number of days lost due to injury per 200,000 hours worked—*lower is better*



#### ALL INJURY FREQUENCY

Number of injuries per 200,000 hours worked—*lower is better*



<sup>1</sup> For trending purposes, four-year averages are included in the Targets section, where applicable. Four-year averages are based on historical actuals.

<sup>2</sup> Report production dates and other factors (such as corporate reorganizations and claim status changes) can impact historic statistics that form part of year-to-year comparisons.

## STRATEGIES

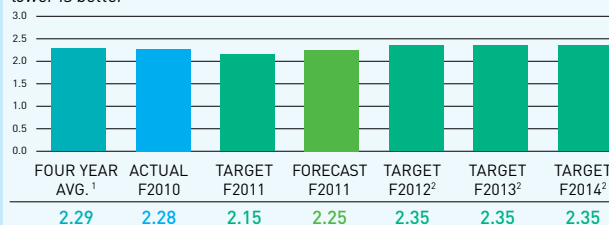
- Include safety in the design of any new construction or reconstruction of operating systems and facilities.
- Systematically include identification of hazards and barriers in all work-planning activities and work procedure development.
- Increase integration of job-safety planning into day-to-day work for all operating facilities and all operational activities.
- Promote rigorous job observation to ensure effectiveness of work planning and procedures.
- Thoroughly review barriers and their effectiveness when investigating incidents.
- Continually improve safety-management systems and the risk-management framework.
- Develop a 20-year Integrated Resource Plan (IRP) that includes a 30-year transmission planning outlook.
- Manage peak load supply and reliability by minimizing the amount of generating unit outages in the winter, continuing with customer load curtailment programs and securing firm market energy.
- Reinvest in Heritage Assets to prolong their life and where possible, add additional energy and capacity.
- Invest in projects, including the Smart Metering & Infrastructure Program, the Smart Grid Program, Distribution Management System (DMS), Enterprise Geographic Information System (EGIS) and other business intelligence solutions to improve and provide a full account of customers' experiences.
- Participate in regional planning initiatives to identify opportunities to increase regional transmission capacity and advance work on major transmission infrastructure projects.
- Complete a comprehensive, long-term reliability strategy to identify strategies to improve our system and customer reliability. As well, we will identify meaningful performance measures and targets.
- Participate in developing industry reliability standards and their application in B.C., and ensure we are fully compliant with mandatory reliability standards approved by the BCUC.

## PERFORMANCE MEASURES

(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)

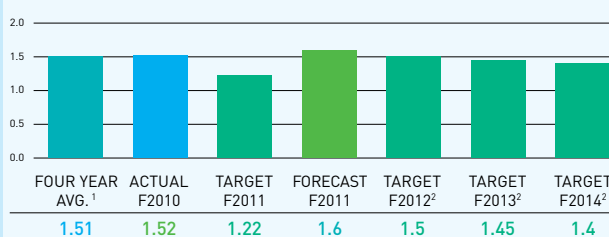
### CAIDI

Average interruption in hours per interrupted customer  
*lower is better*



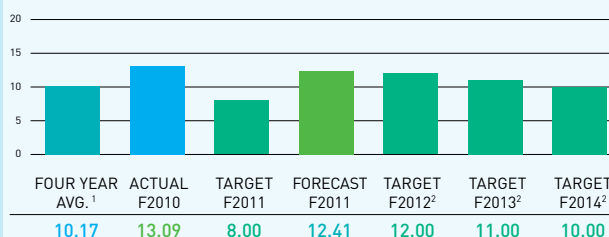
### SAIFI

Number of interruptions per customer per year  
*lower is better*



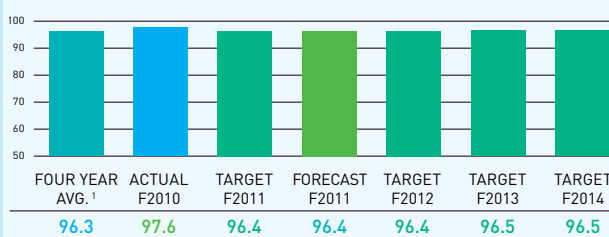
### CEMI-4

Percentage of customers experiencing 4 or more outages  
*lower is better*



### WINTER GENERATION AVAILABILITY FACTOR (%)

Heritage Asset units >20 MW available to generate electricity  
*higher is better*



<sup>1</sup> For trending purposes, four-year averages are included in the Targets section, where applicable. Four-year averages are based on historical actuals.

<sup>2</sup> Our reliability targets are based on specific values; however, performance within 10 per cent is considered acceptable given the wide range of variations in weather patterns and other uncontrollable elements that can significantly disrupt the electrical system. BC Hydro measures reliability under normal circumstances, because major events are not predictable and largely uncontrollable. The reliability measure is therefore based on data that excludes major events. We review performance during major events and take that performance into consideration in reliability improvement initiatives.

# SUCCEED THROUGH RELATIONSHIPS

Gain support for our work by building trusted relationships with customers, suppliers, First Nations and the communities we serve.

BC Hydro is not only a supplier of electricity to consumers, but also a significant customer for thousands of suppliers. We recognize the importance of our relationships with these two groups and are examining what it will take to continuously improve in their eyes. Our goals are for our customers to recognize we deliver outstanding value and service, and for our suppliers to see us as a “purchaser of choice.”

We recognize the importance of building mutually beneficial relationships with Aboriginal communities. We continue to implement a comprehensive approach to Aboriginal relations that provides a foundation for long-term and effective business relationships with Aboriginal people in B.C. This approach helps to uncover new opportunities for collaboration and to reduce financial, legal and operating risks for BC Hydro associated with the outstanding claims of Aboriginal rights and title.

BC Hydro is also focusing on communities, including local governments, and regional districts. We recognize there is enormous potential to advance shared goals by working together. We work with communities through our Power Smart, Community Relations and Sustainable Communities programs and have field offices and project personnel throughout the province. Specifically, we also aim to gain support for our work in communities where we operate and have projects underway, such as the Site C Clean Energy Project.

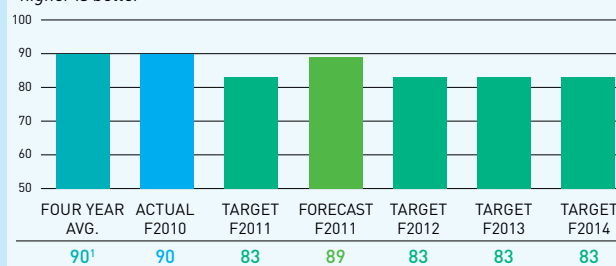
Important in any relationship is an understanding of each others’ interests. Our business and the decisions we make are complex. We will continue to seek input from groups across the province and will continue a proactive approach to ensure British Columbians better understand our challenges and choices.

## PERFORMANCE MEASURES

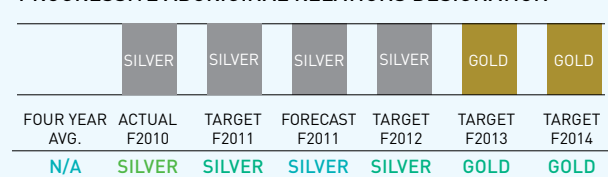
(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)

### CSAT INDEX—CUSTOMER SATISFACTION INDEX (%)

higher is better

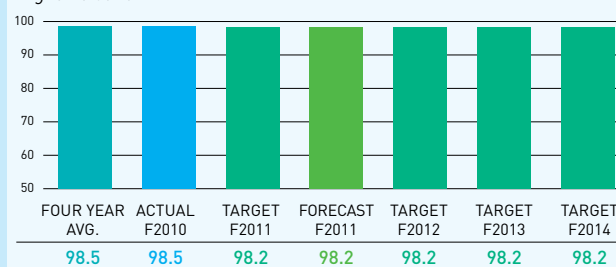


### PROGRESSIVE ABORIGINAL RELATIONS DESIGNATION



### BILLING ACCURACY (%)

higher is better



<sup>1</sup>This measure was not reported in F2007; three years of data only.

## STRATEGIES

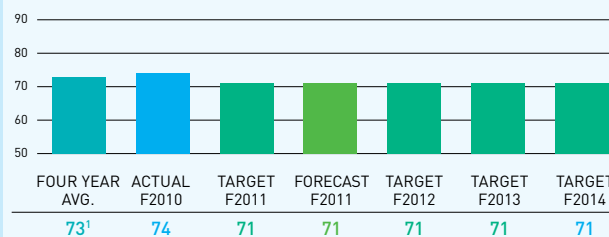
- Continue using communications and consultation processes to promote openness and transparency with BC Hydro's stakeholders.
- Undertake consultation where our activities may have an impact on Aboriginal rights and title, and where appropriate, accommodate First Nations' interests. As well, work with First Nations to resolve grievances related to BC Hydro's facilities and operations.
- Develop economic and business relationships that enhance the economic viability of Aboriginal communities.
- Strengthen our understanding of customers' needs and expectations through customer engagement, targeted segmentation and benchmarking.
- Increase the efficiency, consistency and quality of customer experiences through the integration of all customer channels.
- Educate, support and encourage regional districts, municipalities and large-scale developers in creating integrated, community-wide energy strategies.
- Implement recommendations from our supplier engagement review to improve how we engage and transact business with our suppliers.

## PERFORMANCE MEASURES

(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)

### FIRST CALL RESOLUTION (%)

*higher is better*



<sup>1</sup> This measure was not reported in F2007; three years of data only.





# MIND OUR FOOTPRINT

Create a sustainable energy future in B.C. by carefully managing our impacts on the environment and fostering an energy conservation and efficiency culture.

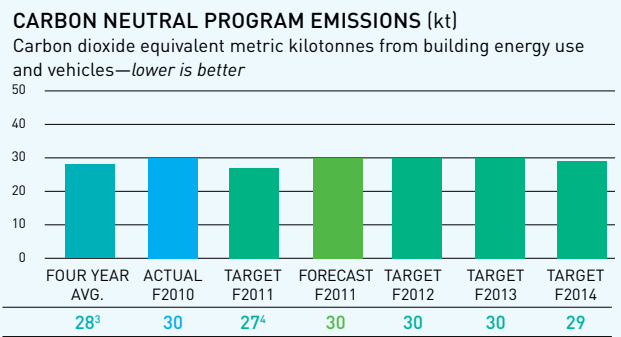
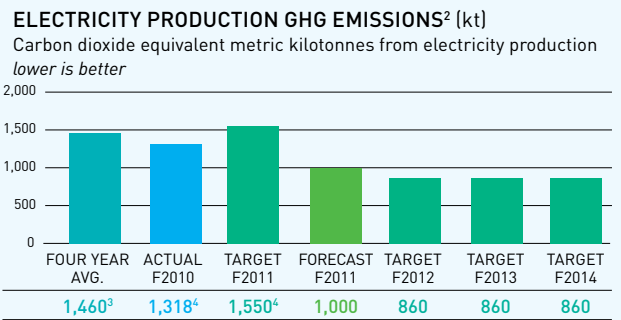
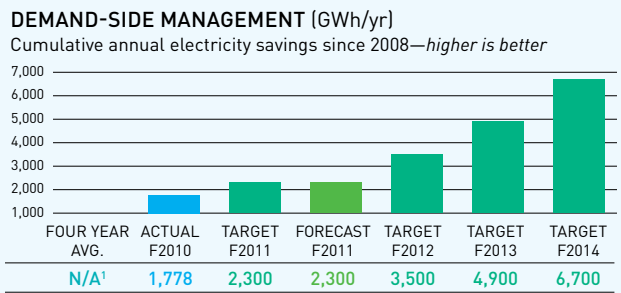
In 2004, BC Hydro established a goal of achieving no net incremental environmental impact in 2024 as compared with 2004. We maintain our commitment to this goal. To understand this goal, we have developed new metrics to track our progress, and in 2012 we will report on how we are addressing the impact of our operations across four categories: air, land, water and climate change.

Provincial legislation reinforces our commitment to reducing BC Hydro's own greenhouse gas emissions and highlights that our low-carbon electricity generation is to remain at least 93 per cent clean or renewable, which can also help our customers contribute to provincial greenhouse gas reduction targets.

B.C.'s first and best choice for managing the future supply gap is through energy conservation and efficiency. By helping customers be more efficient and use their power wisely, we can reduce the need to build new generation capability and proactively minimize the extent of any new impacts. The *Clean Energy Act* also raises the bar for our reliance on demand-side measures: DSM will be crucial for meeting the Act's requirement to meet 66 per cent of all new power demand through conservation by 2020.

## PERFORMANCE MEASURES

(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)



<sup>1</sup> This is a cumulative target; an average is not applicable.  
<sup>2</sup> For the purpose of the Electricity Production GHG metric, emissions from natural gas-fired generation are included based on forecast need to run these resources, taking into account water conditions, reliability and system needs, and key market conditions, including the expected price of carbon emissions.  
<sup>3</sup> This measure was not reported in F2007; this represents three years of data.  
<sup>4</sup> For GHG Emissions, the integration of BCTC operations resulted in revisions to F2011 targets.

## STRATEGIES

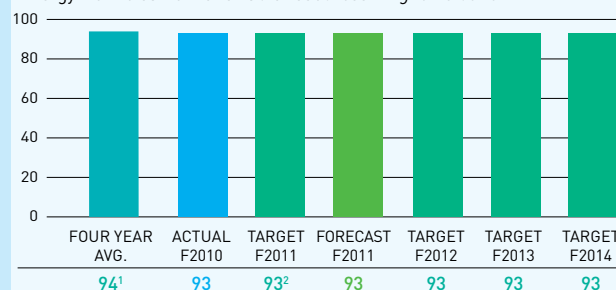
- Continue to implement Power Smart programs and focus on community energy planning.
- Introduce new electricity conservation rate structures.
- Support the adoption of new regulations for energy-efficient products, building codes and standards.
- Apply an “avoid,” “minimize,” and “offset” hierarchy approach to managing the impact on the environment from resource use, operations and new developments.
- Through capital investments identify and implement environmental opportunities, including design considerations which achieve positive environmental outcomes.
- Meet all new regulatory requirements for greenhouse gas emissions from our emission sources. This includes preparing to participate in emission trading under the *B.C. Cap and Trade Act* and ensuring our operations are carbon neutral under the *B.C. Greenhouse Gas Reduction Targets Act*.
- Conduct an assessment of the opportunities and implications associated with supporting the new provincial *Zero Net Deforestation Act* through BC Hydro’s operational activities and planned capital projects.
- Prepare for the impacts of climate change to our operations and develop risk-based adaptation strategies.
- Pursue and measure the effectiveness of fuel-switching initiatives per the CEA to reduce greenhouse gases in support of provincial targets.
- Continue to purchase power from IPPs that use clean or renewable resources.
- Continue implementing the PCB electrical equipment phase out strategy, and develop a long-term strategy for the handling, decontamination and disposal of PCB contaminated equipment and materials.
- Invest in projects, including The Smart Metering & Infrastructure Program and other business intelligence solutions to encourage conservation.

## PERFORMANCE MEASURES

(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)

### CLEAN ENERGY (%)

Energy from clean or renewable resources—higher is better



<sup>1</sup> This measure was not reported in F2007; this represents three years of data.

<sup>2</sup> F2011 target was revised from the original 90 per cent target as a result of the *Clean Energy Act*.

**“I REALLY STARTED WATCHING EVERY LITTLE THING. BECAUSE IT’S THE LITTLE THINGS THAT MAKE SUCH A BIG DIFFERENCE.”**

Ryan Kesler isn’t too bothered by cold. In fact, the Canucks centre likes to keep his house a little chilly—not that big of a surprise, considering how much time he spends out on the ice. The thing is, Ryan’s wife Andrea doesn’t quite feel the same way. She likes to keep the house well on the toasty side.

All of this used to mean a miniature cold war over the thermostat. Since joining Team Power Smart, though, the Keslers have found a comfortable middle. Now, they set the thermostat a little lower than they used to, and when Andrea’s feeling chilly, she reaches for a warm sweater.

Can saving energy really be as simple (and as comfortable) as throwing on a sweater instead of turning up the heat? If we all kept our homes just 1°C cooler, the whole province would save enough electricity in one year to power the NHL for over 30 seasons.

Join Team Power Smart\* and receive exclusive member benefits. Sign-up at [bchydro.com/join-me](http://bchydro.com/join-me).

**BC Hydro powersmart**

**BE SMART WITH YOUR POWER AND WITH YOUR MONEY.**

\*Must be at least 19 years of age and a resident of BC. A10-523a



# FOSTER ECONOMIC DEVELOPMENT

Foster economic development opportunities across B.C. through our projects, practices and advancement of the clean energy sector.

BC Hydro will continue to be a significant contributor to economic development in B.C., and to support the development of clean energy suppliers, businesses and innovative technologies in this province.

The *Clean Energy Act* affirms and expands our responsibilities for promoting economic development across the province, and asks us to help ensure B.C. is positioned for success in evolving energy markets. It also outlines various electrification initiatives for BC Hydro, such as the Northwest Transmission Line, that will drive development, support the use of clean technologies and help reduce greenhouse gases.

## PERFORMANCE MEASURES

Measures of BC Hydro's contribution to economic development will include our direct and indirect impacts on provincial GDP and job creation. A baseline for BC Hydro's impacts will be developed in F2012 to enable us to set targets in next year's Service Plan.

## STRATEGIES

- Continue to develop best-in-class energy-procurement practices; strengthen relationships with energy suppliers; and complete energy procurement activities such as developing bioenergy initiatives, maintaining the Standing Offer Program and establishing a feed-in-tariff.
- Advance innovative integrated energy solutions in regional and Aboriginal communities.
- Support innovative technologies in B.C. by attracting federal, cross-sector and private funding; partnering with academic institutions; and enabling technology demonstrations through access to our expertise and non-financial resources, such as properties.
- Work with other economic development agencies to leverage resources, knowledge, expertise, funds and partnerships.
- Ensure we have appropriate tariff/rate structures in place and market B.C.'s advantages to attract new investment in B.C.
- Use innovative business development approaches to enable new energy projects that make sense from a longer-term, provincial perspective.
- Pursue electrification initiatives as directed by the *Clean Energy Act*.
- Develop rates, terms and conditions for integrating intermittent resources and for ancillary services; work with government to advocate for eligibility of B.C. clean resources in renewable portfolio standard programs; and pursue expanding transmission capacity from B.C. to destination markets.

# MAINTAIN COMPETITIVE RATES

Deliver value for British Columbia and maintain competitive rates by efficiently and responsibly managing our business.

BC Hydro's goal is to maintain competitive rates over the long-term and provide value for the Province.

In large part due to the development of our Heritage Assets—generating facilities that were built between the 1950s and 1980s—BC Hydro's electricity rates remain some of the lowest among major utilities across North America, according to rate comparison studies of residential, medium and large power rate classes.

As BC Hydro moves forward with significant investments in B.C.'s electricity system, we will spend close to \$2 billion a year for the next three years on capital projects. These investments are required to renew and replace aging facilities that were built decades ago and to meet the growing demand for power with clean, renewable energy by building new generating capacity and new transmission lines to deliver the power reliably to people's homes and businesses.

While we are making these significant investments, we will carefully manage our costs and operate in an efficient and cost-effective manner and will strive to ensure our projects deliver benefits and are on time, and within both scope and budget.

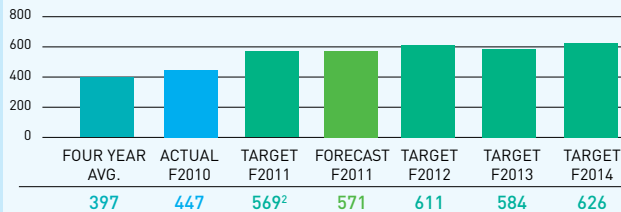
## PERFORMANCE MEASURES

(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)

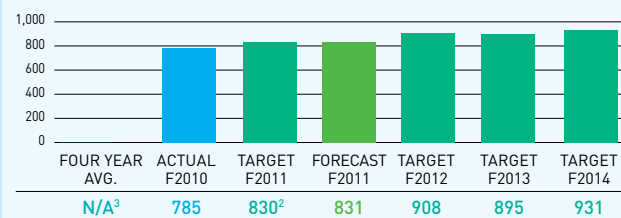
### COMPETITIVE RATES<sup>1</sup>

FOUR YEAR AVG.	ACTUAL F2010	TARGET F2011	FORECAST F2011	TARGET F2012	TARGET F2013	TARGET F2014
1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile	1 <sup>st</sup> Quartile

### NET INCOME (\$ millions)



### OPERATING COSTS (\$ millions)



### DEBT TO EQUITY (%)

FOUR YEAR AVG.	ACTUAL F2010	TARGET F2011	FORECAST F2011	TARGET F2012	TARGET F2013	TARGET F2014
80/20	80/20	80/20	80/20	80/20	80/20	80/20

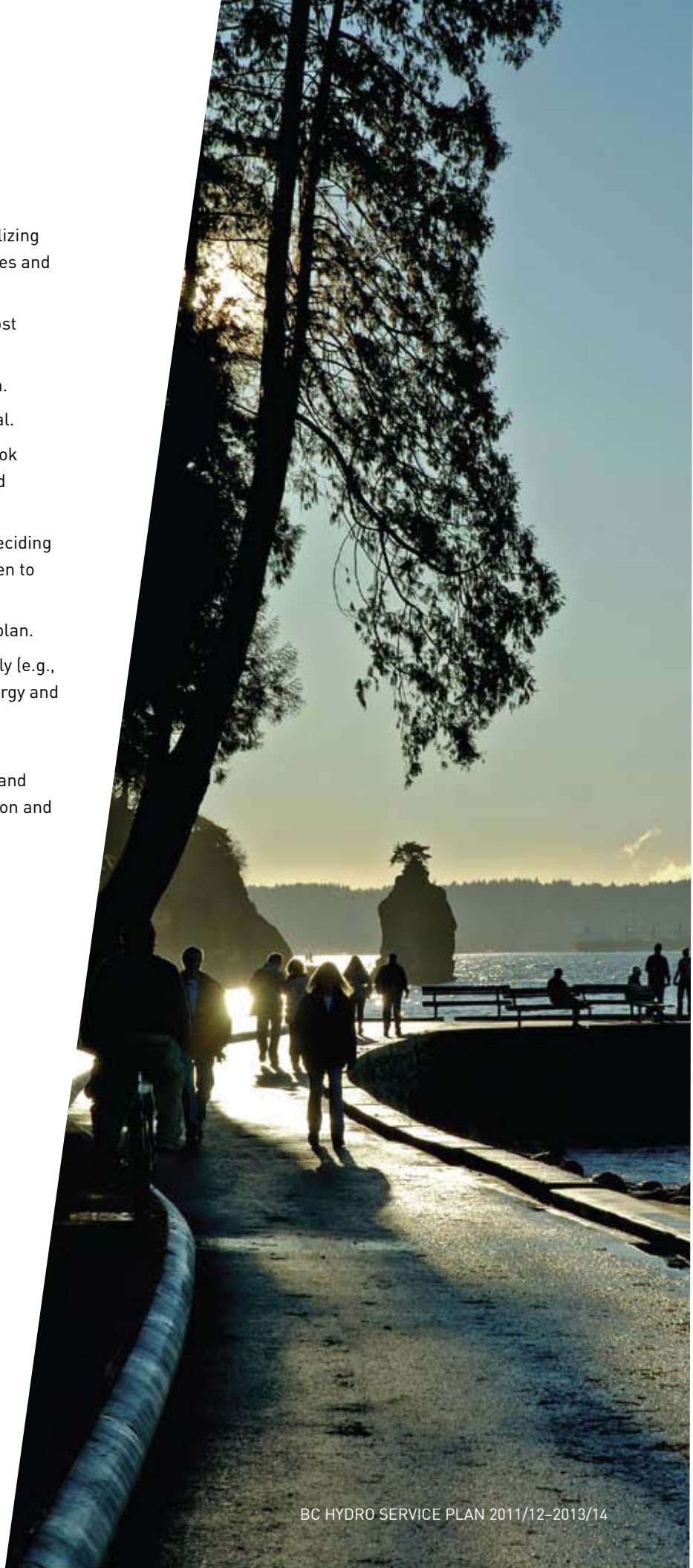
<sup>1</sup> We compare rates across residential, medium and large power rate classes as illustrated in the graph on page 10.

<sup>2</sup> For Net Income and Operating Costs, the integration of BCTC operations, the F2011 RRA Negotiated Settlement Agreement, and changes to the presentation of certain financial statement items have resulted in revisions to F2011 targets.

<sup>3</sup> Due to integration of BCTC and changes in financial statement presentation there is no meaningful comparable data.

## STRATEGIES

- Continue with productivity projects including rationalizing IT systems, enhancing procurement, human resources and work management systems.
- Increase focus on management and control of our cost structure.
- Effectively deliver on our capital investment program.
- Optimize BC Hydro's balance sheet and cost of capital.
- Procure new electricity at a competitive total cost, look for alternative sources of new energy at low cost, and potentially build new supply.
- Manage the short-term cost of energy by carefully deciding when to buy electricity from outside sources and when to generate.
- Implement our 20-year Demand-Side Management plan.
- Increase our ability to use our Heritage Assets flexibly (e.g., through non-treaty storage, more DSM, more bioenergy and large hydro capacity projects).
- Increase efficiency through improved processes and technologies in the plan, design, schedule, dispatch and analysis of all major types of work within Transmission and Distribution.





# ENGAGE A SAFE AND EMPOWERED TEAM

Empower a team that is innovative, prepared for the future and committed to safety.

With the challenges and increasing pace of change in the utility industry, BC Hydro will need a highly qualified, diverse, flexible workforce that thrives and excels in a team environment. We will adapt and develop our team for success and future needs. We will also ensure that our people are clear on objectives, resourceful and consider how they approach their work. To accomplish this, we will work to ensure that everyone has the appropriate accountability and authority.

Our commitment to safety is reinforced again here as we recognize that employee health and engagement are drivers of our safety outcomes. It is important that our efforts are focused on building and enhancing a positive safety culture and demonstrating safety leadership across the company. (See page 16 for our safety measures and strategies.)

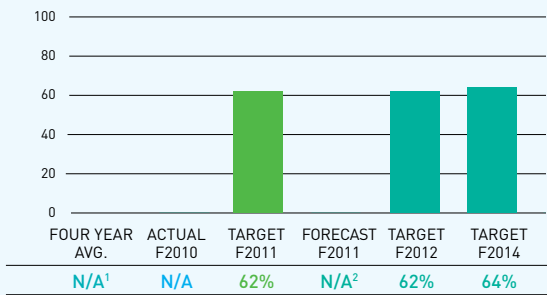
## STRATEGIES

- Prudently manage staffing levels, ensure we have the optimal complement of fully performing employees, and employ our contracted and outsourced service providers in a safe and efficient manner.
- Identify key skill shortages in critical roles and create recruitment and development plans to ensure a readily available talent pool for all critical roles.
- Provide an appropriate balance of competitive, cost-efficient compensation, flexible benefits, and work/life programs that enhance employees' wellbeing and serve to attract the best possible candidates and retain top performers.
- Engage employees so they are highly motivated to work together safely and effectively.

### PERFORMANCE MEASURE

(Please see Appendix A for Performance Measure definitions, rationales and benchmarking information.)

#### EMPLOYEE ENGAGEMENT (%) higher is better



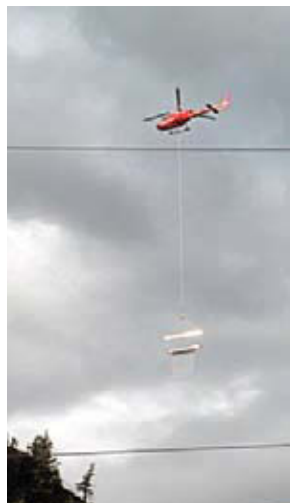
<sup>1</sup> Employee Engagement score of 51 per cent in F2008 improved to 62 per cent in F2009 (11 per cent increase). This measure, formerly expressed as a mean score out of five, is expressed by overall "percentage favourable"—defined as the percentage of respondents who strongly agree or agree with survey statements.

<sup>2</sup> An employee survey was originally planned for F2011. However, given the changes in the organization over the past year, an employee pulse check, representing a sample of the BC Hydro workforce, will be conducted for F2011 to assess employee engagement around BC Hydro's Vision and Strategic Objectives. A full survey for all employees will take place in F2012. Future survey results will be reported every two years.



# FINANCIAL OUTLOOK

## SUMMARY



Terzaghi Project

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

Financial performance focuses on the financial return to BC Hydro's Shareholder (the Province of British Columbia) and the electricity rates paid by customers.

In F2010, BC Hydro provided \$532 million in transfers to the Province. This amount includes water rental fees (royalties paid for the use of provincial water resources), provincial and municipal property taxes and grants-in-lieu of taxes, and BC Hydro's annual dividend to the B.C. Government. BC Hydro's retained earnings increased by \$391 million in F2010.

### COST INFLUENCES

BC Hydro's costs are driven by our capital investment costs, the return to government, the cost of energy, and ongoing operating costs.

The largest cost driver relates to BC Hydro's amortization costs and finance charges, derived from the capital investment needed to ensure the ongoing reliability of our assets and building new assets to meet growing demand. This category accounts for approximately one-third of all costs to serve domestic load. The main upward pressures on these costs are BC Hydro's aging assets, system expansion due to increasing customer demand, increasing debt levels and market interest rates.

### FINANCIAL PERFORMANCE

BC Hydro's operations are subject to a range of risks and uncertainties. As a result, actual financial results may differ materially from those described in this Service Plan.

### RATE INCREASES

BC Hydro expects to file its next Revenue Requirements Application (RRA) with the BCUC by March 2011. As shown in the table on page 27, we will be seeking a general rate increase of approximately 9.73 per cent per year in each of F2012–2014. BC Hydro will be requesting these increases because of:

- An increase in our capital-related costs (amortization and financing costs) due to higher levels of investment in assets.
- An increase in the return on equity (ROE) as BC Hydro's asset base grows.
- A reduction in forecast trade income due to weaker export market conditions.

PROJECTED CHANGES IN CUSTOMER RATES	F2012	F2013	F2014
<b>Projected Rate Increase</b>	<b>9.73%</b>	<b>9.73%</b>	<b>9.73%</b>
Projected Deferral Account Rate Rider	2.5%	2.5%	2.5%
Projected Annual Bill Impact	10.13%	9.73%	9.73%
Projected Cumulative Net Bill Impact <sup>1</sup>	10.13%	20.85%	32.61%

<sup>1</sup> The cumulative bill impact is disclosed relative to the annualized weighted average rates for F2011 that reflect the 7.29% increase in the F2011 RRA Negotiated Settlement Agreement.

The BCUC must approve any requested rate increases. The proposed increase equates to a monthly increase of approximately \$7 to the average monthly residential bill for each of the next three years. We expect a decision from the BCUC on our application in Winter 2011.



## CAPITAL STRUCTURE

Prior to F2012, BC Hydro's equity for rate-setting purposes was deemed to be 30 per cent of the total of average debt and average equity balances for the year. Commencing in F2012, Special Direction HC2 deems BC Hydro's equity for rate-setting purposes to be 30 per cent of the company's rate base, comprised largely of BC Hydro's property, plant and equipment in service.

Special Direction HC2 states that in regulating and setting rates for BC Hydro, the BCUC must ensure that those rates allow BC Hydro to collect sufficient revenue in each fiscal year to enable it to:

- Provide reliable electricity service.
- Meet all of its financial obligations.
- Comply with government policy directives.
- Achieve an allowed annual rate of return.

Under Special Direction HC1, the payment to the Province (dividend) is equal to 85 per cent of BC Hydro's net income. This payment is reduced if the payment causes BC Hydro's debt to equity ratio to exceed 80:20.

## DEFERRAL AND OTHER REGULATORY ACCOUNTS

BC Hydro has three energy deferral accounts:

- Heritage Deferral Account.
- Non-Heritage Deferral Account.
- Trade Income Deferral Account.

These energy deferral accounts capture specific differences between forecast costs and actual costs and smooth the overall effect on ratepayers of cost volatility out of BC Hydro's control, similar to those used by most regulated utilities. BC Hydro is subject to periodic reporting of changes in the energy deferral accounts. Recovery of the accumulated balances in future rate increases is subject to determination and approval by the BCUC and is done through the rate rider.

BC Hydro also has a number of other regulatory accounts, including Demand-Side Management expenditures, First Nations settlement costs, and Site C project definition and consultation expenditures. The purpose of these regulatory accounts is to defer (for potential future recovery through rates) those amounts that, under Generally Accepted Accounting Principles (GAAP), would otherwise be recorded as expenses in the current accounting period. This allows, for regulatory purposes, a better matching of costs and benefits for different generations of customers and a deferral of the rate impact of large non-recurring costs. The recovery of these expenditures, through our rates, is determined by the BCUC.

## FINANCING STRATEGY

BC Hydro forecasts the overall new borrowing requirement to be approximately \$1.0 billion in F2011, \$150 million of which will be used to refinance retired debt for a net requirement of \$0.9 billion. This borrowing is largely required to finance BC Hydro's capital expenditure program. BC Hydro expects to borrow \$670 million of the \$1.0 billion through long-term debt, and the remainder through available revolving borrowing capacity. During F2010, BC Hydro borrowed \$2.1 billion of new long-term debt.

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

We forecast debt net of sinking funds, as of March 31, 2011, to be \$11.6 billion, increasing to \$13.4 billion at the end of F2012. We forecast finance charges to be approximately \$433 million in F2011 and \$520 million in F2012. The increase in finance charges reflects increasing debt levels, required to fund BC Hydro's capital expenditure program and higher interest rates.

## FINANCIAL PROJECTIONS

BC Hydro prepared the following financial projections for revenues and expenses through F2014 which were approved by the Board and submitted to the Ministry of Finance in January 2011.

The financial information, including forecast information, related to fiscal periods up to the end of Fiscal 2012 is prepared based on Canadian GAAP. The forecast information related to periods after Fiscal 2012 is prepared based on a new framework of accounting standards in accordance with a Directive issued by Treasury Board pursuant to section 23.1 of the *Budget Transparency and Accountability Act* and section 9(1) of the *Financial Administration Act*. The new framework reflects International Financial Reporting Standards, and applies United States Financial Accounting Standards Board Accounting Standards Codification 980 (Regulated Operations).

Additionally, commencing in F2011, BC Hydro changed its reporting of regulatory account transfers on the Statement of Operations to report individual line items net of transfers to regulatory accounts, as compared to prior years in which net transfers to regulatory accounts were reported as a single separate line item and income was reported both before and after regulatory account transfers. This change results in the company's presentation being more consistent with other regulated utilities in Canada.

CONSOLIDATED STATEMENT OF OPERATIONS <sup>1</sup> (\$ MILLIONS)	ACTUAL F2010	FORECAST F2011	FORECAST F2012	FORECAST F2013	FORECAST F2014
<b>REVENUES</b>					
Domestic	3,289	3,414	3,956	4,153	4,463
Trade	2,875	1,259	1,352	1,576	1,839
	6,164	4,673	5,308	5,729	6,302
<b>EXPENSES</b>					
Energy Costs—Domestic	1,146	1,044	1,095	1,080	1,167
Energy Costs—Trade	2,612	1,048	1,215	1,433	1,689
Operating Costs	785	831	908	895	931
Taxes & Other	187	212	201	233	245
Amortization	477	534	758	880	949
	5,207	3,669	4,177	4,521	4,981
<b>INCOME BEFORE FINANCE CHARGES</b>	<b>957</b>	<b>1,004</b>	<b>1,131</b>	<b>1,208</b>	<b>1,321</b>
Finance Charges	510	433	520	623	696
<b>NET INCOME</b>	<b>447</b>	<b>571</b>	<b>611</b>	<b>584</b>	<b>626</b>
Net Debt <sup>2</sup>	10,696	11,570	13,408	14,601	15,554
GAAP Equity	2,674	2,892	3,352	3,650	3,889
Capital Spending <sup>3</sup>	2,406	1,566	2,195	2,037	2,020

Notes:

<sup>1</sup> Table may not add due to minor rounding.

<sup>2</sup> Debt figures are net of sinking funds and cash and cash equivalents.

<sup>3</sup> Capital expenditure amounts have been adjusted to reflect the total estimated impact of IFRS. See page 31 for more details.

## KEY ASSUMPTIONS

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

KEY ASSUMPTIONS	ACTUAL F2010	FORECAST F2011	FORECAST F2012	FORECAST F2013	FORECAST F2014
<b>GROWTH AND LOAD:</b>					
B.C. Real Gross Domestic Product Growth (%) <sup>1</sup>	(2.3)	3.1	2.2	2.8	2.8
Domestic Sales Load Growth (%) <sup>2</sup>	(3.98)	0.78	2.86	(0.05)	0.27
Residential Sales Load Growth (%) <sup>2</sup>	(1.50)	0.49	1.21	(0.97)	(1.59)
Light Industrial and Commercial Sales Load Growth (%) <sup>2</sup>	(2.49)	0.18	0.15	(1.76)	(1.85)
Large Industrial Sales Load Growth (%) <sup>2</sup>	(8.97)	1.11	8.09	3.00	4.92
Domestic Load (GWh)					
Domestic Sales Volume (GWh)	50,233	50,623	52,071	52,046	52,187
Surplus Sales Volume (GWh)	0	54	458	1,320	2,048
Line Loss and System Use (GWh)	4,975	5,266	5,308	5,306	5,216
Total Domestic Load (GWh)	55,208	55,943	57,837	58,672	59,451
<b>ENERGY GENERATION:</b>					
Total System Water Inflows (%) <sup>3</sup>	86	83	100	100	100
Sources of Supply to Meet Domestic Load:					
Net Hydro Generation (GWh)	43,641	39,206	45,907	47,274	46,931
Market Electricity Purchases (GWh)	2,161	4,452	1,274	700	656
Independent Power Producers and Long-term Purchases (GWh)	8,893	11,862	10,115	9,941	11,068
Thermal Generation (GWh)	513	423	541	757	796
Sources of Supply for Domestic Load (GWh)	55,208	55,943	57,837	58,672	59,451
Electricity Trade Sales Volumes (GWh)	28,210	28,075	33,613	36,920	40,571
Average Mid-C Price (U.S.\$/MWh)	34.24	32.35	35.77	39.80	42.51
Average Natural Gas Price at Sumas (U.S.\$/MMBTU)	3.93	4.06	4.61	5.09	5.36
<b>FINANCIAL:</b>					
Canadian Short-Term Interest Rates (%) <sup>4</sup>	0.46	0.81	1.66	3.01	4.2
Canadian Long-Term Interest Rates (%) <sup>4</sup>	3.58	3.68	3.94	4.85	5.85
Foreign Exchange Rate (U.S.\$:Cdn\$) <sup>4</sup>	0.9220	0.9683	0.9861	0.9838	0.9762
Rate Increases (%) <sup>5</sup>	8.74	4.67	9.73	9.73	9.73
Rate Rider Change from previous year (%) <sup>6</sup>	0.5	2.53	(1.03)	—	—

Notes:

<sup>1</sup> Economic assumptions, based on calendar year, from Government's First Quarter Report September 2010.

<sup>2</sup> Includes the impact of Power Smart programs. The load growth assumptions for F2010 and F2011 reflect the impact of the general economic slowdown and several mill curtailments and closures in the industrial sector.

<sup>3</sup> Water inflows for F2011 reflect the lower water inflows experienced early in the year. We assume future year inflows will be at average levels. The sensitivity analysis that follows shows the impact of change in water flows.

<sup>4</sup> Financial assumptions from Ministry of Finance, October 2010.

<sup>5</sup> In November 2010, the BCUC approved a general rate increase of 6.11 per cent for F2011 plus an F2011 Revenue Requirements Application (RRA) settlement credit, resulting in an effective weighted average rate increase F2011 of 4.67 per cent. Rates for future years are estimates only and are based on the increases needed to cover BC Hydro's costs and earn our allowed return on equity. These rate increases could change significantly depending on economic and operating conditions, such as changing water inflows and reservoir levels.

<sup>6</sup> The rate rider is used to recover a portion of the current balances in the energy deferral accounts. The BCUC has approved the rate rider of an effective rate of 3.53 per cent for F2011. Based on the Negotiated Settlement Agreement related to the F2011 RRA, the rate rider is calculated based on a 10-year amortization period for the Heritage, Non-Heritage deferral accounts and a five-year amortization for the Trade Income deferral account. This methodology will be discussed as part of BC Hydro's next RRA and may change based on a BCUC decision.

Various legal and regulatory matters are pending (please visit our website for our annual and quarterly reports [bchydro.com](http://bchydro.com)). Owing to the size, complexity and nature of BC Hydro's operations, we cannot predict the outcome of these matters at this time.

## SENSITIVITY ANALYSIS

The following table illustrates the impact that key drivers, such as water inflows and gas prices, can have on BC Hydro's earnings. Each separate item in the sensitivity analysis assumes the others are held constant. The combined effect of these drivers, which are largely beyond BC Hydro's control, results in range of values of net income in the absence of regulatory transfers of as much as \$150 to \$715 million in each year.

The volatility between BC Hydro's plan and actual results are mostly mitigated through the use of BCUC-approved regulatory deferral accounts.

(\$millions)	F2011 <sup>7</sup>		F2012		F2013		F2014	
	Low	High	Low	High	Low	High	Low	High
<b>Net Income Sensitive Variables:</b>								
Inflows/Gas Prices <sup>1</sup>	(50)	30	(135)	105	(145)	230	(120)	330
Foreign Exchange <sup>2</sup>	(5)	5	(15)	15	(20)	15	(25)	20
Weather <sup>3</sup>	(20)	20	(25)	25	(30)	30	(30)	30
Customer Load <sup>4</sup>	(5)	5	(5)	5	(5)	5	(5)	5
Pension Costs <sup>5</sup>	—	—	(20)	5	(40)	15	(60)	20
Interest Rates <sup>6</sup>	(5)	5	(15)	15	(25)	25	(35)	35
<b>TOTAL RANGE OF RATEPAYER RISK</b>	<b>(85)</b>	<b>65</b>	<b>(215)</b>	<b>170</b>	<b>(265)</b>	<b>320</b>	<b>(275)</b>	<b>440</b>

### Notes:

<sup>1</sup> High and low ranges are based on being within an 80 per cent probability band. The ranges fluctuate from year to year due to the impact inflow levels and market prices have on optimization decisions, including reservoir levels.

<sup>2</sup> High and low are based on being within the 80 per cent probability band, which translates to +/- six cents Canadian from expected. The impact of a change in the dollar exchange rate largely includes the impact on Powerex net cash flows. Because BC Hydro's U.S. dollar exposure is in a net cash inflow position, a stronger Canadian dollar vis-à-vis the U.S. dollar decreases income.

<sup>3</sup> This variable assumes weather will be five per cent warmer or colder than normal approximately 80 per cent of the time. Colder weather is assumed to increase residential sales volume and income.

<sup>4</sup> The customer load high and low ranges are based on being within an 80 per cent probability band. The range is smaller for F2011, reflecting the uncertainty for the remainder of the year only. This variable assumes change in customer load is met by market purchases at current forecast average purchase prices. Because the average price of market purchases is higher than the average tariff rate, decreases in customer load increase net income.

<sup>5</sup> The forecast assumes return on pension plan assets is 7.3 per cent; low forecast assumes return of zero per cent and high forecast assumes rate of 10 per cent. There is no high/low range for F2011, as the main driver of BC Hydro's pension costs is based on the previous year's actual returns as of December 31, 2009.

<sup>6</sup> A change of one percentage point in short-term interest rates changes finance charges by approximately \$45 million. High and low are based on being within the 80 per cent probability band (which translates to +/- 55 basis points from expected). Higher interest rates would decrease income.

<sup>7</sup> The sensitivity analysis for F2011 reflects the impact for the remaining months of the fiscal year.

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

# CAPITAL EXPENDITURES

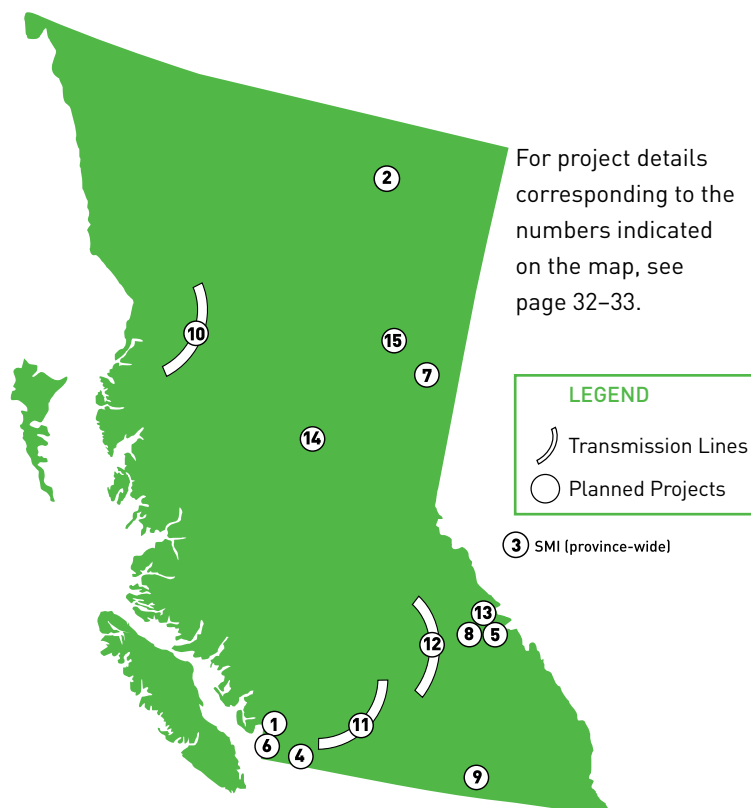
## SUMMARY

We are refurbishing our Heritage Assets to ensure system reliability and safety and are undertaking new projects to meet future electricity demand in B.C. These projects span our entire system, and provide economic and business development opportunities in different communities and regions across the province.

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

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

The table below shows actual and forecast capital expenditures for the sustaining and growth classifications, and for type of expenditure. The BC Hydro total capital expenditure amounts are presented both in accordance with Canadian GAAP, and also with an adjustment to reflect the total estimated impact of International Financial Reporting Standards (IFRS).



CAPITAL EXPENDITURES <sup>1</sup> (\$ MILLIONS)	ACTUAL F2010	FORECAST F2011	FORECAST F2012	FORECAST F2013	FORECAST F2014
Sustaining	948	898	1,314	1,254	1,100
Growth	1,458	668	881	961	1,099
<b>BC HYDRO TOTAL</b>	<b>2,406</b>	<b>1,566</b>	<b>2,195</b>	<b>2,215</b>	<b>2,199</b>
Generation	1,302	405	443	498	561
Transmission	390	496	715	811	905
Distribution	425	416	414	419	450
Smart Metering & Infrastructure Program <sup>2</sup>	1	36	360	280	76
Properties and other	288	213	263	207	207
<b>BC HYDRO TOTAL</b>	<b>2,406</b>	<b>1,566</b>	<b>2,195</b>	<b>2,215</b>	<b>2,199</b>
IFRS impact adjustment <sup>3</sup>	-	-	-	(178)	(179)
<b>BC HYDRO TOTAL (IFRS)</b>	<b>2,406</b>	<b>1,566</b>	<b>2,195</b>	<b>2,037</b>	<b>2,020</b>

<sup>1</sup> Table may not add due to minor rounding.

<sup>2</sup> Amounts relate to capital costs only and do not include operating expenditures subject to regulatory deferral.

<sup>3</sup> The IFRS impact adjustment relates primarily to the ineligible portion of capital overhead which is expensed under IFRS but capitalized under Canadian GAAP. The IFRS adjustment changes the period in which costs are expensed but do not change the amount of the total cost.

## PLANNED PROJECTS OVER \$50 MILLION

BC Hydro has planned for the following projects, listed according to targeted completion date, each with a range of capital costs expected to exceed \$50 million. Some of these ranges may be large, particularly for projects still in Definition phase, as scope, final costs and completion dates are still to be determined.

<b>1. CHEAKAMUS SPILLWAY GATE RELIABILITY UPGRADE</b>	<b>F2012</b> Targeted completion	<b>\$64–73</b> Total cost (\$ millions) <sup>1</sup>
Upgrade the spillway gates <sup>2</sup> at the Cheakamus dam to increase public and employee safety and ensure the gates meet Flood Discharge Reliability requirements.		
<b>2. FORT NELSON GENERATING STATION UPGRADE</b>	<b>F2012</b> Targeted completion	<b>\$139–150</b> Total cost (\$ millions) <sup>1</sup>
Increase generating capacity at the Fort Nelson Generating Station by 24.5 MW to ensure an adequate supply of electricity to the Fort Nelson area.		
<b>3. SMART METERING &amp; INFRASTRUCTURE PROGRAM</b>	<b>F2013–F2014</b> Targeted completion	<b>\$930</b> Total cost (\$ millions) <sup>1,3</sup>
Introduce new digital smart meters that support two-way communications to approximately 1.8 million BC Hydro customers throughout the province. Includes in-home feedback options, metering communication infrastructure, supporting infrastructure for time-based rates, system metering to reduce electricity theft, and advanced telecommunications infrastructure.		
The Smart Metering & Infrastructure Program plays a key role in modernizing BC Hydro's electricity grid. All customers will benefit from more choice and more control over their electricity usage, and operational efficiencies that will help keep BC Hydro's rates competitive and contribute to a clean energy future.		
<b>4. STAVE FALLS SPILLWAY GATE RELIABILITY UPGRADE</b>	<b>F2013</b> Targeted completion	<b>\$67–72</b> Total cost (\$ millions) <sup>1</sup>
Upgrade the spillway gates <sup>2</sup> at the Stave Falls dam to increase public and employee safety and ensure the gates meet Flood Discharge Reliability requirements.		
<b>5. COLUMBIA VALLEY TRANSMISSION PROJECT (CVT)</b>	<b>F2013</b> Targeted completion	<b>\$132–209</b> Total cost (\$ millions) <sup>1</sup>
Construct a new 230kV transmission line from the existing Invermere substation to a new substation (called Kicking Horse) to be built on the west side of the Columbia River near the town of Golden; construct a new 69kV transmission line between the new Kicking Horse substation and the existing Golden substation; expand Golden and Invermere substations and modify the Cranbrook substation—all to meet load growth in the Columbia Valley area.		
<b>6. VANCOUVER CITY CENTRAL TRANSMISSION (VCCT)</b>	<b>F2013</b> Targeted completion	<b>\$177–195</b> Total cost (\$ millions) <sup>1</sup>
Build an enclosed 230/12 kV substation in the Mt. Pleasant area of the City of Vancouver and two new underground 230 kV transmission lines connecting the new substation to the existing transmission network to serve growing loads in the Mt. Pleasant/False Creek area and maintain a reliable supply of electricity to other areas of central Vancouver.		

<b>7. DAWSON CREEK/CHETWYND AREA TRANSMISSION (DCAT)</b>	<b>F2014</b> Targeted completion	<b>\$150–250</b> Total cost (\$ millions) <sup>1</sup>
Extend the 230 kV transmission system to Bear Mountain terminal and Dawson Creek to meet the area's high load growth (primarily from oil and gas development) and integrate potential wind generation resources in the region.		
<b>8. MICA GAS INSULATED SWITCHGEAR REPLACEMENT</b>	<b>F2014</b> Targeted completion	<b>\$181–200</b> Total cost (\$ millions)
Replace the switchgear system at the Mica Generating Station to ensure the reliability of this key generating station and reduce SF <sub>6</sub> (a greenhouse gas) leakage. (The switchgear system uses 500-kV circuits to conduct the energy from the Mica underground powerhouse to the surface, where it transitions to transmission lines.)		
<b>9. HUGH KEENLEYSIDE SPILLWAY GATE RELIABILITY UPGRADE</b>	<b>F2014</b> Targeted completion	<b>\$91–102</b> Total cost (\$ millions) <sup>1</sup>
Upgrade the spillway gates <sup>2</sup> at the Hugh Keenleyside dam to increase public and employee safety and ensure the gates meet Flood Discharge Reliability requirements.		
<b>10. NORTHWEST TRANSMISSION LINE PROJECT (NTL)</b>	<b>F2014</b> Targeted completion	<b>\$364–525</b> Total cost (\$ millions) <sup>1</sup>
Construct a 340 km, 287 kV transmission line between Skeena substation near Terrace and a new substation to be built near Bob Quinn Lake to ensure a reliable supply of clean power to potential industrial developments in the area; provide a secure interconnection point for clean generation projects; and potentially help certain northwest communities to get their power from the electricity grid rather than diesel generators.		
<b>11. INTERIOR TO LOWER MAINLAND (ILM)</b>	<b>F2015</b> Targeted completion	<b>\$540–780</b> Total cost (\$ millions) <sup>1</sup>
Construct a new 500 kV transmission line approximately 255 km in length between the Nicola substation near Merritt and the Meridian substation in Coquitlam and build a new series capacitor station at Ruby Creek near Agassiz to help meet domestic load growth in the Lower Mainland.		
<b>12. SEYMOUR ARM SERIES CAPACITOR STATION (SASC)</b>	<b>F2015</b> Targeted completion	<b>\$50–100</b> Total cost (\$ millions) <sup>1</sup>
Construct a new 500 kV series capacitor station adjacent to the existing corridor for lines 5L71 and 5L72 near the mid-point between the Mica Generating Station and the Nicola Substation near Merritt to securely deliver the expanded generation output of the Mica generating station (see over).		

<sup>1</sup> The capital expenditure amounts are presented in accordance with Canadian GAAP and have not been adjusted to reflect the impact of IFRS.

<sup>2</sup> Spillway gates control the amount of water that can be discharged from the reservoir. They are generally used in times of flood to pass high inflows.

<sup>3</sup> Smart Metering & Infrastructure Program amount includes both capital costs and operating expenditures subject to regulatory deferral.

## CAPITAL EXPENDITURES SUMMARY

13. MICA UNITS 5 AND 6	F2015– F2016 Targeted completion	\$700–800 Total cost (\$ millions) <sup>1</sup>
Install two additional 500 MW generating units into existing turbine bays at the Mica Generating Station. The new units are similar to the four existing units, but with more efficient turbines. To be undertaken in conjunction with the construction of a series capacitor station located near the mid-point on the existing Mica-Nicola 500kV transmission lines. (Under the 2010 <i>Clean Energy Act</i> , this project is exempt from BCUC approval.)		
14. GORDON M. SHRUM UNITS 1 TO 5 TURBINE REHABILITATION)	F2017 Targeted completion	\$247–314 Total cost (\$ millions) <sup>1</sup>
Replace the turbines for Units 1 to 5 to reduce the risk of runner failure; decrease maintenance costs; and improve operating efficiency.		

15. SITE C CLEAN ENERGY PROJECT <sup>2</sup>	F2021 Targeted completion	TBD Total cost (\$ millions) <sup>1</sup>
The Site C Clean Energy Project is a proposed third dam and hydroelectric generating station on the Peace River in northeast B.C. Based on the historic project design, Site C will provide approximately 900 MW of capacity and 4,600 GWh of energy—enough electricity to power more than 400,000 homes per year in B.C. Subject to environmental certification and required regulatory approvals, Site C will be a source of clean and renewable power for more than 100 years.		

<sup>1</sup> The capital expenditure amounts are presented in accordance with Canadian GAAP and have not been adjusted to reflect the impact of IFRS.

<sup>2</sup> Site C costs and output are based on the historic project design and are subject to change once the design is refined and updated.

## CONTEMPLATED PROJECTS OVER \$50 MILLION

BC Hydro is contemplating the following projects over \$50 million during F2012–F2014. These projects are in the early Identification or Definition Phases; scope, final costs and completion dates are still to be determined. These projects have not yet been approved by our Board of Directors or Management.

SOUTHERN INTERIOR SERIES COMPENSATION (SISC)
Construct two 500 kV series capacitor stations in the Southern Interior, one station near Summerland and the other near Edgewood, to meet the needs of major projects planned for the Southern Interior, such as Columbia Power Corporation's Waneta Expansion Project.
GMS / DAWSON AREA TRANSMISSION
Increase transmission capacity to the South Peace area by providing a second 230 kV supply to Dawson Creek to support the existing 138 kV transmission system and prepare for significant new shale gas production and resulting anticipated load growth. This project will add to the capacity provided by the DCAT project in F2014.
COLWOOD AREA REINFORCEMENT
Reinforce the transmission system serving the Colwood/Langford, Sooke and Jordan River areas, which are currently supplied radially by one 138 kV circuit from Goward Substation in the Victoria area, to meet anticipated increased demand.
DOWNTOWN VANCOUVER REDEVELOPMENT PROGRAM
Upgrade and expand the transmission and distribution network serving downtown Vancouver.
LAJOIE DAM SEISMIC UPGRADE
Upgrade the Lajoie Dam (a rock fill structure completed in 1955) to meet current seismic standards, ensure dam and public safety and maintain reliability of supply.
CHEAKAMUS GENERATOR UPGRADES
Replace or refurbish the two units at Cheakamus generating station (commissioned over 50 years ago) and ancillary equipment to address the condition and known deficiencies of major components.

JOHN HART REPLACEMENT
Replace the existing six unit, 126 MW generating station (in operation since 1947) and add integrated emergency bypass capability to ensure reliable long-term generation and to mitigate earthquake risk and environmental risk to fish and wildlife habitat.
RUSKIN DAM SEISMIC AND POWERHOUSE UPGRADE
Upgrade the Ruskin Dam and Powerhouse—built in 1930—to further mitigate the risk to public safety from earthquakes and replace major generating equipment, which is in poor or unsatisfactory condition. (As an interim seismic upgrade, we lowered the Hayward Lake Reservoir, behind the Ruskin Dam, by approximately two meters and anchored the most critical section of the upper dam.)
BRIDGE 2 UNITS 5 & 6 REHABILITATION
Restore Bridge 2 Units 5 and 6 (commissioned over 60 years ago) to "as new condition." This would address known major component deficiencies and enable the units to run at full capacity (currently derated from 70 MW to 60 MW).
EDMONDS NEW TOWER
Advance phase 2 of Edmonds Campus development consolidating office space at Edmonds to improve cost efficiencies and improve adjacencies and workspaces.
NORTH EAST TRANSMISSION LINE (NETL)
This project is in early stages, and will assess the feasibility of constructing a 500 km transmission line from G.M. Shrum Generating station to Fort Nelson and to the Horn River Basin. The NETL line would provide a reliable supply of clean power to BC Hydro customers in Fort Nelson, to potential natural gas production industrial developments in the Horn River Basin, and a secure interconnection point for clean generation projects in proximity to the line. The definition assessment would include public and First Nations consultation, preliminary engineering and environmental assessment of the line. If found feasible the earliest in service date for the transmission line would be F2017.

# CORPORATE GOVERNANCE

## BC HYDRO BOARD OF DIRECTORS

The BC Hydro Board of Directors oversees the conduct of business and supervises management, which in turn is responsible for the day-to-day operations of BC Hydro. Directors are appointed by the B.C. Cabinet to bring special skills and experience to the Board's deliberations.

### THE CHAIR OF THE BOARD OF DIRECTORS:

Dan Doyle

### THE BOARD OF DIRECTORS MEMBERS:

Chief Kim Baird

Stephen Bellringer

Larry Blain

James Brown

Peter Busby

John Knappett

Tracey McVicar

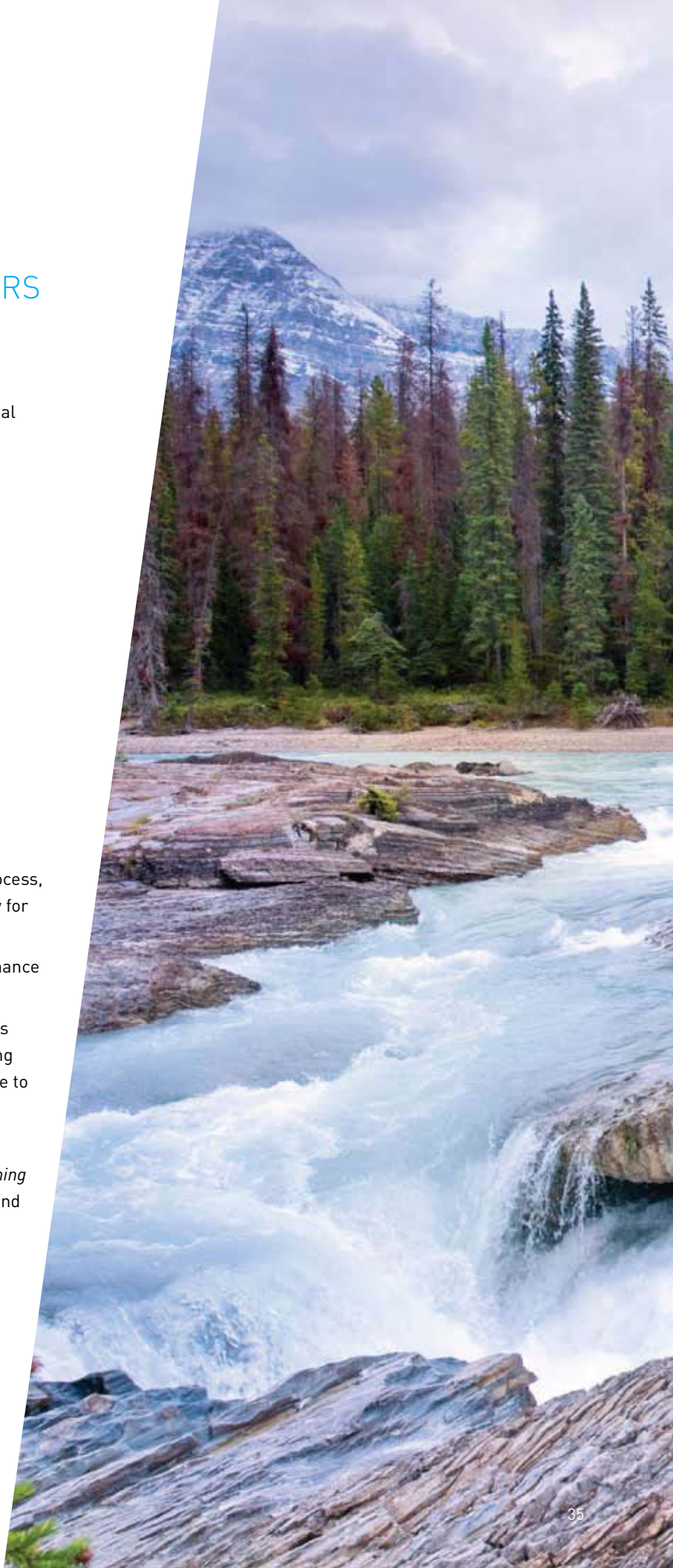
Janine North

John Ritchie

The Board's broad set of responsibilities includes:

- Ensuring there is a strategic and business planning process, and then reviewing, validating and endorsing a strategy for the Corporation and monitoring its implementation.
- Ensuring that effective controls and appropriate governance are in place as part of its oversight of management.
- Having a continuing understanding of the principal risks associated with the Corporation's business and ensuring that the appropriate processes and systems are in place to mitigate that risk.

The Board acts in accordance with the *Best Practices Guidelines Governance and Disclosure Guidelines for Governing Boards of BC Public Sector Organizations*, which can be found at: [fin.gov.bc.ca/brdo/governance/index.asp](http://fin.gov.bc.ca/brdo/governance/index.asp).



## BOARD OF DIRECTORS

**Mandate:** The Board is responsible for overseeing the conduct of business, supervising management and ensuring all major issues affecting the Corporation are given proper consideration. The Board, through the Chief Executive Officer, sets the standards of conduct for BC Hydro and ensures the safety of its operations.

CHAIR: Dan Doyle  
MEMBERS: Chief Kim Baird, Stephen Bellringer, Larry Blain, James Brown, Peter Busby, John Knappett, Tracey McVicar, Janine North, John Ritchie

## AUDIT AND RISK MANAGEMENT COMMITTEE

**Purpose:** The Audit and Risk Management Committee assists the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the Corporation's pension plans, and various facets of risk management.

CHAIR: Tracey McVicar  
MEMBERS: Stephen Bellringer, Larry Blain, Dan Doyle\*

## CAPITAL PROJECTS COMMITTEE

**Purpose:** The Capital Projects Committee assists the Board of Directors in fulfilling its obligations and oversight responsibilities relating to the Corporation's long-term capital plans, capital budgets and capital projects, including risk identification and management, dam safety, Aboriginal relations and negotiations, and transmission projects.

CHAIR: Dan Doyle\* (Acting)  
MEMBERS: John Knappett, John Ritchie

## CONSERVATION AND CLIMATE ACTION COMMITTEE

**Purpose:** The Conservation and Climate Action Committee assists the Board by monitoring and directing the environmental performance of the Corporation and monitoring and supporting the implementation of an energy conservation strategy as described in the BC Energy Plan. The Committee also provides guidance and direction to management and makes recommendations to the Board regarding initiatives and programs related to meeting the Corporation's environmental goals.

CHAIR: Peter Busby  
MEMBERS: Chief Kim Baird, Tracey McVicar, Janine North, Dan Doyle\*

## CORPORATE GOVERNANCE COMMITTEE

**Purpose:** The Corporate Governance Committee is structured as a Committee of the Whole. This means that its membership includes all Directors. None-the-less the Committee has independent Terms of Reference and is responsible for ensuring that BC Hydro and its Board develops and implements an effective approach to corporate governance. This shall enable the business and affairs of the Corporation to be carried out, directed and managed with the objective of ensuring compliance with established governance practices and The Code of Conduct, as well as following sound ethical principles.

CHAIR: Stephen Bellringer  
MEMBERS: All Directors

## EXECUTIVE COMMITTEE

**Purpose:** The Executive Committee only meets in special circumstances. It has the full powers of the Board to act in situations when, for timing reasons, a Board meeting cannot be scheduled.

CHAIR: Dan Doyle  
MEMBERS: Chief Kim Baird, Stephen Bellringer, Larry Blain, Peter Busby, Tracey McVicar

## EXPORT DEVELOPMENT AND ENERGY PROCUREMENT COMMITTEE

**Purpose:** The purpose of the Export Development and Energy Procurement Committee is to provide advice and direction to the Corporation with respect to both its strategic direction relating to export strategy, economic development and energy procurement activities and its execution of related initiatives. In addition, the Committee will provide advice and support to the Board Chair in his or her dealings with government pertaining to these issues.

CHAIR: Larry Blain  
MEMBERS: Peter Busby, John Ritchie, Dan Doyle\*

## HUMAN RESOURCES AND SAFETY COMMITTEE

**Purpose:** The Human Resources and Safety Committee assists the Board in fulfilling its obligations relating to human resources and compensation issues, related specifically to senior management and generally to the Corporation. The Committee also monitors safety performance.

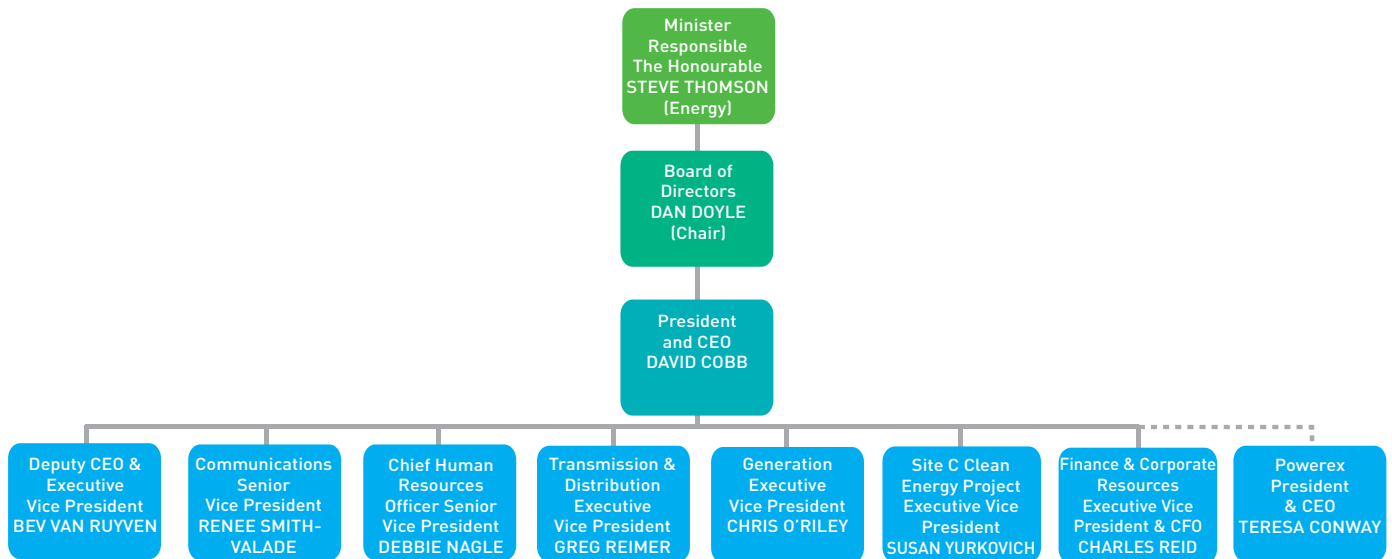
CHAIR: Chief Kim Baird  
MEMBERS: James M. Brown, Janine North, Dan Doyle\*

\*The Board Chair is an ex-officio member of all Committees.

## EXECUTIVE OF BC HYDRO

BC Hydro's organizational structure now is designed to integrate BCTC with BC Hydro; ensure we deliver on our strategic objectives and the ambitious mandate of the *Clean Energy Act*; and facilitate coordination among business functions.

The following chart shows the current organizational structure of the Executive Team.



**Deputy CEO**—Responsible for several functions, including Aboriginal Relations and Negotiations, Power Smart and Customer Care, Integrated Resource Planning, the Smart Metering and Infrastructure Program, Economic and Business Development, and the office of the Chief Safety, Health and Environment Officer.

**Communications**—Responsible for strategic communications, engagement and outreach that support BC Hydro's key business objectives and help deliver success through relationships.

**Corporate Human Resources**—Responsible for attraction and workforce planning, organizational effectiveness and benefits programs.

**Transmission and Distribution**—Responsible for building, maintaining and advancing the systems and assets needed to deliver electricity safely and reliably to BC Hydro customers.

**Generation**—Responsible for managing and operating BC Hydro's generation assets to provide a reliable supply of clean energy, and performing engineering services for BC Hydro.

**Site C Clean Energy Project**—Responsible for the Site C Clean Energy project.

**Finance and Corporate Resources**—Responsible for several enterprise-wide functions, including finance, regulatory, information technology, procurement, legal, properties and strategy.

**Powerex**—A wholly owned subsidiary of BC Hydro, responsible for energy marketing and trade activities that help optimize BC Hydro's electric system resources.

# BC HYDRO SUBSIDIARIES

## POWEREX CORPORATION

Powerex Corp. is a wholly owned subsidiary of BC Hydro and a key participant in energy markets across North America, buying and supplying wholesale power, natural gas, ancillary services, and financial energy products and, more recently, environmental products with an ever-expanding list of trading partners. Established in 1988, its export, marketing and trade activities help optimize BC Hydro's electric system resources and provide significant economic benefits to the people of British Columbia.

Powerex supports BC Hydro's electric system requirements through importing and exporting energy as required in addition to meeting its own trade commitments. Powerex also markets, on behalf of the Province, the Canadian Entitlement to the Downstream Benefits of the Columbia River Treaty.

The Chief Executive Officer of Powerex reports to the Board of Directors of Powerex Corp., and has a reporting relationship to BC Hydro's Chief Executive Officer. BC Hydro's Chief Executive Officer ensures the Board of BC Hydro is informed of Powerex's key strategies and business activities. Powerex's Directors are Larry Blain (Chair), Stephen Bellringer, James Brown, David Cobb, and Dan Doyle.

Powerex operates in complex and volatile energy markets which can cause net income in any given year to vary significantly. Over the previous five years, Powerex income has ranged from \$12 to \$259 million. Market and economic conditions, recovery expectations, reduced BC Hydro system flexibility and the strength of the Canadian dollar may materially impact Powerex and its ability to achieve net income at the same level as in recent years for the foreseeable future.

Economic conditions and recovery expectations, as the primary driver of energy demand and therefore prices, continue to improve in Canada; however there is growing uncertainty surrounding the strength of the recovery in the United States (primarily in the western U.S.) where the bulk of the Powerex activity occurs. In addition to the overall economic conditions, there is a surplus supply of natural gas as a result of the development of several shale gas deposits in the U.S. and Canada which is serving to further depress natural gas prices. This is happening at a time when energy demand is already down. In the western U.S. and Canada, natural gas prices tend to set electricity prices at the margin, so low natural gas prices generally equate to low power prices and narrow spreads.

In response, Powerex is looking at opportunities for longer term energy transactions that can create long-term economic value including long-term renewable transactions to continue to build upon our renewable energy portfolio. Additionally, Powerex has been pursuing multiple paths to advance exports of B.C. clean energy. Powerex and BC Hydro are reviewing the current status of the long-term transmission options, long-term export opportunities, and the integrated resource plan as it relates to exports and potential short term opportunities.

With uncertainty as to the strength of the economic recovery in the near term, as well as weak demand and over-supply fundamentals for both power and natural gas and the strength of the Canadian dollar, Powerex forecasts its net income to be within the range noted above but it can vary significantly year over year. The estimated average annual net income is \$50 to \$100 million over the F2011–F2014 period.

## POWERTECH LABS INC.

Powertech Labs has operated as a separate, for-profit, commercial entity since 1989. In addition to supplying technical services to BC Hydro, Powertech's employees provide clean energy consulting, testing and systems integration for a large number of clients in energy-related sectors across North America, Asia, Europe, South America and beyond.

Powertech's Directors are Bob Elton (Executive Chair), David Cobb, Brenda Eaton, John Knappett, and Nancy Olewiler.

Powertech's net income was \$1.0 million in F2010. The forecast annual net income is \$0.35 to \$6.4 million over the F2011–F2014 period.

## OTHER SUBSIDIARIES

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

# APPENDIX A:

## PERFORMANCE MEASURES

### SAFELY KEEP THE LIGHTS ON

DESCRIPTION OF PERFORMANCE MEASURES	RATIONALE/BENCHMARKING ACTIVITIES
<p><b>ZERO FATALITY AND SERIOUS INJURY</b> a “Level 1 injury incident” is one where there has either been a loss of life or the injury has resulted in a permanent disability (for which a disability pension has been received or is expected).</p>	<p>Both <b>Severity</b> and <b>AIF</b> metrics, as defined in the CEA Standard, are generally harmonized with the U.S. Occupational Safety and Health Administration Standards for safety statistics. BC Hydro benchmarks its safety performance against available Canadian Electricity Association composite AIF and Severity results.</p>
<p><b>SEVERITY</b> is a standard Canadian Electricity Association (CEA) measure and is defined as the number of calendar days lost due to injury per 200,000 hours worked. The Severity metric does not include data on fatal incidents. One or two injuries can have a major impact on severity.</p>	<p>BC Hydro has continued to perform well against the Canadian Electricity Association (CEA) Composites for both metrics. In AIF, BC Hydro closed out the last fiscal year at 1.2 in comparison to the CEA composite AIF of 2.15 for the calendar year ending December 31, 2009. The BC Hydro Severity rate at fiscal year end was 17.6, compared with the CEA composite for calendar 2009 of 15.73.</p>
<p><b>ALL INJURY FREQUENCY (AIF)</b> is a standard CEA measure and is defined as the total number of employee Medical Aids and Disabling injuries occurring in the last 12 months per 200,000 hours worked. Medical Aid injuries are those where a medical practitioner has rendered services beyond the level defined as “first aid” and the employee was not absent from work after the day of the injury. Disabling injuries are those where the employee is absent beyond the day of injury.</p>	<p>Unfortunately, in spite of these strong results, we continue to experience serious incidents, primarily when work is being conducted in high hazard work environments. In response to this, we have formed a task force comprised of operational managers and front-line employees to uncover why these serious incidents are still occurring and to develop lasting solutions so that no employee experiences a serious work-related injury. We anticipate having the task force’s recommendations in early F2012 and these, combined with safety programs already underway, should help to continue to improve our safety performance.</p> <p>Finally, in order to underscore our commitment to ensuring no serious incidents occur, we have established a target to this effect.</p>
<p><b>CAIDI</b> is the average interruption in hours per interrupted customer.</p>	<p>BC Hydro’s targets are set against normalized results which exclude major uncontrollable events.</p>
<p><b>SAIFI</b> is a measure of how many sustained interruptions (longer than one minute) an average customer will experience over the course of a year.</p>	<p>Annually, BC Hydro participates in Transmission and Distribution Benchmarking surveys conducted by the First Quartile Consulting and the Electric Utilities Costing Group, and the Distribution Service Continuity survey conducted by the Canadian Electricity Association.</p>
<p><b>CEMI-4</b> is the percentage of customers experiencing four or more outages during a 12-month period.</p>	<p>In F2010, BC Hydro’s reliability is ranked third and fourth quartile for <b>CAIDI</b> and <b>SAIFI</b>, respectively. <b>CEMI</b> is not benchmarked externally as utilities are at varying stages in their development of this metric.</p>
<p><b>WINTER GENERATION AVAILABILITY FACTOR (WGAF)</b> is a percentage of Heritage Asset units in the system greater than 20 MW and available to generate electricity (total hours available for service/total hours) during the critical peak-load period of November 15 to February 15.</p>	<p>Reliability is a challenge, given the size of our service area, predominantly overhead distribution system, abundance of trees and rough terrain. BC Hydro has two to three times as many trees per overhead pole kilometre as the North American average, and trees, together with adverse weather, account for half of the annual lost customer hours. These constraints significantly affect our ability to achieve higher levels of reliability while balancing the needs to remain as one of the lowest cost service providers in North America.</p>
	<p>BC Hydro focuses on <b>WGAF</b> to manage the availability of generation during the critical winter period when customer loads are most likely to reach their annual peaks, and all BC Hydro generating units will remain in-service barring a forced outage or urgent maintenance. We are not aware of any external benchmarks suitable for comparison with the WGAF, and instead use historical trend information to track performance.</p>

## SUCCEED THROUGH RELATIONSHIPS

DESCRIPTION OF PERFORMANCE MEASURES	RATIONALE/BENCHMARKING ACTIVITIES
<p><b>CUSTOMER SATISFACTION (CSAT)</b> is the percentage of customers—residential, small and medium-sized businesses and key accounts—who are satisfied or very satisfied with BC Hydro (as measured on a four-point verbal scale) in five equally weighted areas:</p> <ul style="list-style-type: none"> <li>• Providing reliable electricity.</li> <li>• Value for money.</li> <li>• Commitment to customer service.</li> <li>• Acting in the best interests of British Columbians.</li> <li>• Efforts to communicate with customers and communities.</li> </ul>	<p>BC Hydro maintains a minimum threshold target of 83 per cent for <b>CSAT</b> to ensure we have strong customer support. BC Hydro benchmarks against leading regional service providers and other electric utilities in an effort to better understand our performance relative to customer perceptions and understand what is needed to be a leader in industry and the province. Benchmarking results to date demonstrate we compare well against both non-electric utility service providers and other electric utilities.</p>
<p><b>PROGRESSIVE ABORIGINAL RELATIONS (PAR)</b> designations are awarded by the Canadian Council for Aboriginal Businesses. Applications are subject to external verification and a PAR jury. The levels of bronze, silver and gold recognize achievements across four areas: employment, business development, individual capacity development, and community relations.</p>	<p>BC Hydro was the first utility in Canada to participate in the <b>PAR</b> program. Companies with designations remain an exclusive set. PAR re-assessment is scheduled to occur in early F2013.</p> <p>See: <a href="http://ccab.com/par_companies">ccab.com/par_companies</a>.</p>
<p><b>BILLING ACCURACY</b> is the percentage of invoices that are accurately calculated based on the customer's consumption and do not require adjustment or rebilling.</p>	<p>This is a core expectation of our customers. We have therefore set our targets to deliver consistently high performance.</p>
<p><b>FIRST CALL RESOLUTION</b> is the percentage of customer calls that are resolved during the first contact with a call centre agent, without the need for additional investigation or follow-up.</p>	<p>This is a measure that assesses customer service operations as a whole in terms of accurate and timely information flow, agent capability and quality, and a satisfying customer experience at a transaction level.</p>

## MIND OUR FOOTPRINT

DESCRIPTION OF PERFORMANCE MEASURES	RATIONALE/BENCHMARKING ACTIVITIES
<p><b>DEMAND-SIDE MANAGEMENT (DSM)</b> reflects the cumulative rate of annual electricity savings resulting from DSM activities including programs, codes and standards and rate structures. The new programs and reported savings began in fiscal 2008, following the 2007 BC Energy Plan.</p>	<p>BC Hydro developed our annual cumulative <b>DSM</b> targets as part of long-term DSM and resource planning using the results from a Conservation Potential Review and research related to other DSM tools as benchmarks for achievable savings.</p>
<p>The <b>ELECTRICITY PRODUCTION GHG EMISSIONS</b> measure includes carbon dioxide equivalent (CO<sub>2</sub>e) emissions from stationary combustion for electricity generation (owned natural gas plants on the integrated grid, purchased electricity from natural gas and biomass IPPs, and diesel generation in the non-integrated areas) and fugitive SF<sub>6</sub> losses. For the purpose of the Electricity Production GHG metric, emissions from natural gas-fired generation are included based on forecast need to run these resources, taking into account water conditions, reliability and system needs, and key market conditions, including the expected price of carbon emissions.</p>	<p>In the past, BC Hydro set targets for two GHG emissions measures: one for overall GHG emissions arising from electricity production, and one to track performance toward carbon neutral public sector objectives.</p> <p>For F2012, we have replaced overall GHG emissions with the <b>Electricity Production GHG Emissions</b> measure to ensure that all material emission sources are included in one of the two GHG metrics, but not both. Restricting one metric to Electricity Production also makes our numbers more comparable to other utilities.</p> <p>We compare our Electricity Production GHG Emissions performance against published emission data from other Canadian hydroelectric utilities, and against members of the CEA.</p> <p>Under the B.C. Carbon Neutral Government Regulation, public sector organizations will be required to report their emissions to the Province for the first time in 2011 for 2010 calendar year emissions. When this information becomes available, we will compare BC Hydro's <b>Carbon Neutral Program Emissions</b> to those reported by other public sector organizations.</p>
<p>The <b>CARBON NEUTRAL PROGRAM EMISSIONS</b> measure includes carbon dioxide equivalent (CO<sub>2</sub>e) emissions from BC Hydro's vehicle fleet, buildings (heating and cooling, and lighting) and paper use, in accordance with the Province's guidelines for Crown corporations.</p>	
<p>The <b>CLEAN ENERGY</b> measure represents a minimum threshold generation target in accordance with the B.C. Government's requirement that at least 93 per cent of electricity generation in the province be from clean or renewable resources—i.e., from biogas, biomass, energy recovery generation, geothermal, hydrocarbon, hydro, hydrogen, municipal solid waste, solar, tidal, wave, wind or other potential clean or renewable electricity sources recognized by the B.C. Government.</p>	<p>The <b>Clean Energy</b> target aligns with the objectives set forth in the 2010 <i>Clean Energy Act</i>. BC Hydro does not compare its results for this performance measure against other utilities.</p>

## MAINTAIN COMPETITIVE RATES

DESCRIPTION OF PERFORMANCE MEASURES	RATIONALE/BENCHMARKING ACTIVITIES
<p><b>COMPETITIVE RATES</b> measures BC Hydro's rates against other utilities across North America for three types of power classes:</p> <ul style="list-style-type: none"> <li>• A typical residential customer with an estimated monthly consumption of 1,000 kWh.</li> <li>• A medium customer with an estimated monthly consumption of 400,000 kWh.</li> <li>• A large customer with an estimated monthly consumption of 30,600 MWh.</li> </ul>	<p>Pursuant to Rate Comparison Regulation under the <i>Utilities Commission Act</i>, issued on March 30, 2009, BC Hydro provides an <i>Electricity Rate Comparison Annual Report</i> to the BCUC. This is based on survey information taken from the Hydro-Quebec report, <i>Comparison of Electricity Prices in Major North American Cities</i>, which compiles monthly bill and average prices for 11 Canadian utilities and 10 U.S. utilities.</p>
<p><b>NET INCOME</b> equals net income as reported in BC Hydro's financial statements.</p>	<p>We base <b>Net Income</b> targets on the latest forecast. The targets reflect expected rate increases required to enable BC Hydro to cover costs and earn its allowed return on equity. Rate increases for F2012 to F2014 are estimates and require BCUC approval.</p> <p>BC Hydro regards Net Income as a key measure because it represents the basis of performance monitoring, Shareholder's return and staff incentive plans.</p>
<p><b>OPERATING COSTS</b> are defined as personnel expenses, materials and external services, included in income, less recoveries and capitalized costs.</p>	<p>BC Hydro regards <b>Operating Costs</b> as an important measure to evaluate our prudence of expenditures. Benchmarking against publicly available information of peer utilities can provide directional indications as to relative performance, however, some of these peer utilities may have different operating or geographic characteristics and therefore may not be directly comparable.</p>
<p><b>DEBT TO EQUITY</b> is defined as the ratio of debt to the sum of the total of debt and equity.</p>	<p>This is of interest to sector analysts, rating agencies, and finance providers. It is commonly used in the financial community. It measures the leverage in the company and is used in the regulation of electricity companies in some jurisdictions.</p>

## ENGAGE A SAFE AND EMPOWERED TEAM

DESCRIPTION OF PERFORMANCE MEASURES	RATIONALE/BENCHMARKING ACTIVITIES
<p>The level of <b>EMPLOYEE ENGAGEMENT</b> is measured by an employee survey. BCHydro's approach uses questions drawn from a global set of benchmarking questions based on the "lead indicators," which are:</p> <ul style="list-style-type: none"> <li>• Alignment—the extent to which employees know what to do.</li> <li>• Capability—the extent to which employees have the skills to do it.</li> <li>• Resources—the extent to which employees have the tools to do it.</li> <li>• Motivation—the extent to which employees want to do it.</li> </ul>	<p>The level of <b>Employee Engagement</b> indicates both employee satisfaction and productivity across the company. BC Hydro compares the employee engagement scores to researched benchmarks. In F2009, BC Hydro scored 69.5% a full 10% higher in employee engagement than the industry average of 59.9%, (Watson Wyatt WorkCanada Energy/Utilities index).</p> <p>The 2008/2009 WorkCanada Survey report indicates that employee engagement drives both individual and organizational performance, companies with high engagement scores typically achieve better financial performance than others in their industries.</p>

## HOW TO CONTACT BC HYDRO:

### Lower Mainland

604 BCHYDRO (604 224 9376)

### Outside Lower Mainland

1 800 BCHYDRO (1 800 224 9376)



FOR GENERATIONS