

COLUMBIA POWER CORPORATION

SERVICE PLAN UPDATE 2009/10–2011/12

SEPTEMBER 2009



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Honourable Blair Lekstrom
Minister of Energy, Mines and Petroleum Resources

Dear Minister Lekstrom:

I am pleased to submit an update to the February 2009 Columbia Power Corporation's 2009/10–2011/12 Service Plan. Columbia Power Corporation's President and CEO, Barry Chuddy, resigned on July 3, 2009. Giulio Ambrosone and Victor Jmaeff were appointed by the Board of Directors as Joint Interim Presidents and Chief Executive Officers. Gordon Gooding joined Columbia Power Corporation on June 15, 2009 as the Chief Financial Officer and Vice-President, Finance and Stakeholder Relations. The focus of the organization remains the advancement of the Waneta Expansion. SNC-Lavalin has been selected as the initial preferred proponent for design and construction of the Waneta Expansion project.

Table 6.0 Summary Financial Outlook, Table 7.0 Capital Plan, and 4.3 Performance Measures at a Glance, have been updated to reflect 2008/09 actuals.

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

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

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

CPC has received a *Shareholder's Letter of Expectations* from the Province, defining primary responsibilities and setting out the expectations of government and the Minister of Energy, Mines and Petroleum Resources. During the year, CPC also tracked the goals set out in last year's Service Plan. Net Income is \$4.8 million above the projected target for the year due to CPC's 50% share of Brilliant Expansion net income. Brilliant Expansion's net income exceeded its forecast by \$9.0 million, of which approximately \$4.8 million was due to a federal EcoEnergy grant. The insurance claim for Arrow Lakes and the contractor claim for Brilliant Expansion, that were identified as significant issues in the previous Service Plan, have been resolved.

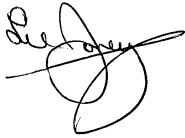
The key risks to CPC's development activities include the costs of construction, the availability of labour, the price of power and the cost of financing – all of which could affect the commercial viability of the Waneta Expansion. The Corporation's short-term goals include: attracting and retaining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

be made on project construction.

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

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

Yours truly,

A handwritten signature in black ink, appearing to read 'Lee Doney', with a large, stylized flourish at the end.

Lee Doney
Board Chair

TABLE OF CONTENTS

Message from the Board Chair to the Minister Responsible	page i
1.0 Organization Overview	
1.1 Introduction	page 1
1.2 Mandate, Vision and Values	page 2
1.3 Business Model	page 3
1.4 Key Relationships	page 6
2.0 Corporate Governance	page 9
3.0 Planning Context and Key Strategic Issues	page 12
4.0 Performance Measures	
4.1 Goals/Objectives, Strategies, Measures and Targets	page 13
4.2 Performance Plan Summary	page 14
4.3 Performance Measures at a Glance	page 15
5.0 Shareholder’s Letter of Expectations	page 16
6.0 Summary Financial Outlook	
6.1 Consolidated Statement of Income Forecast	page 17
6.2 Key Assumptions	page 18
6.3 Risk Factors and Sensitivities	page 18
7.0 Capital Plan	
7.1 Consolidated Capital Spending Forecast	page 24
7.2 Liquidity and Sources of Capital	page 25
8.0 Power Sales Activities	page 25
Glossary	
Appendix A Performance Measures Framework	
Appendix B Benchmarking, Operating, Maintenance and Administration	

COLUMBIA POWER CORPORATION

SERVICE PLAN 2008/09–2010/11

1.0 Organizational Overview

1.1 Introduction

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

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

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

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

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

1.2 Mandate, Vision and Values

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

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

Mandate

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

Vision

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

Values

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

1.3 Business Model

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

Design

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

Evaluate

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

Build

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

Operate

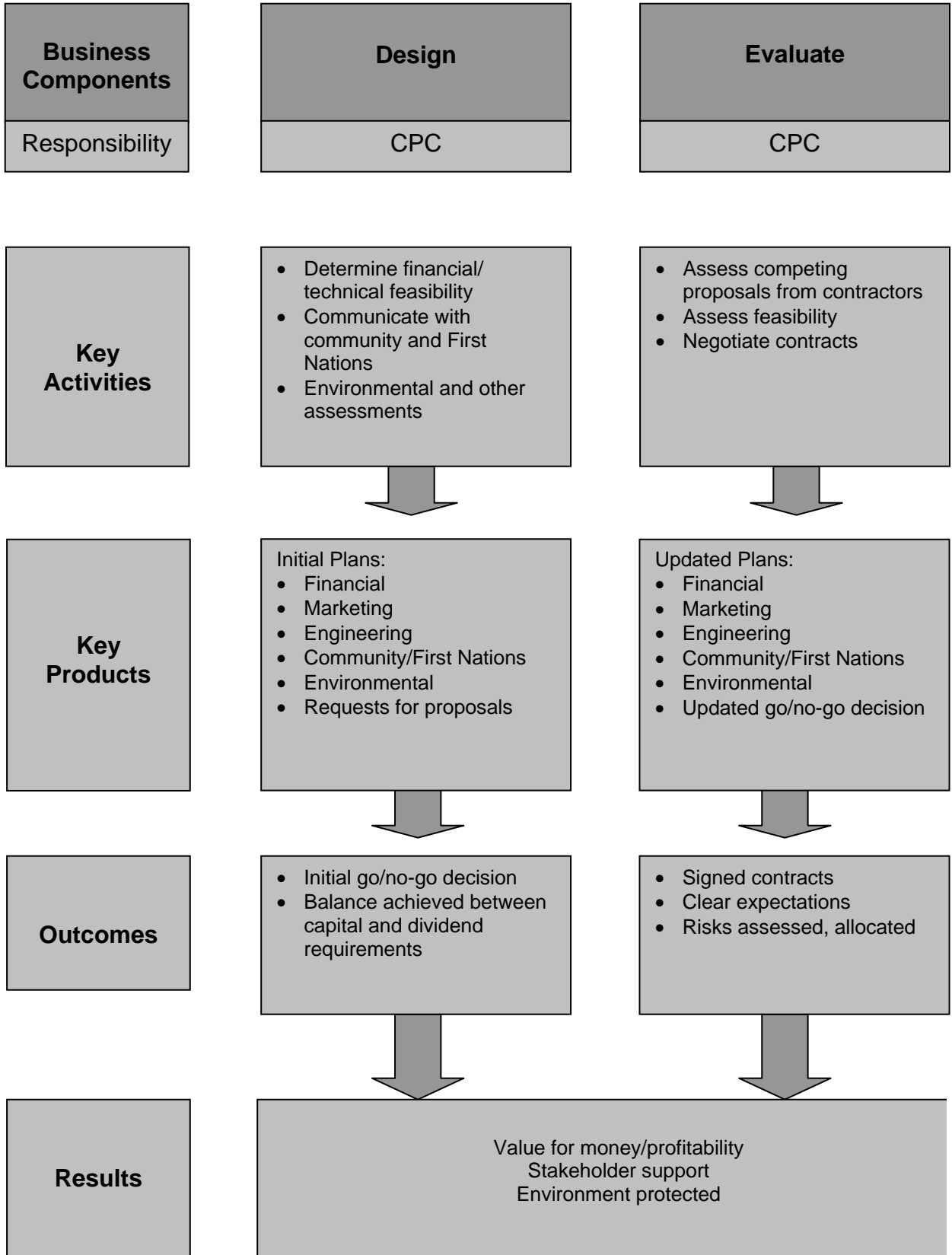
Once a project has been completed and commissioned, operations and power sales begin and further due diligence is undertaken to ensure all deficiencies are resolved and the facility is “fit for purpose.” CPC has in-house engineers knowledgeable in plant operations and maintenance, but, to date has chosen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

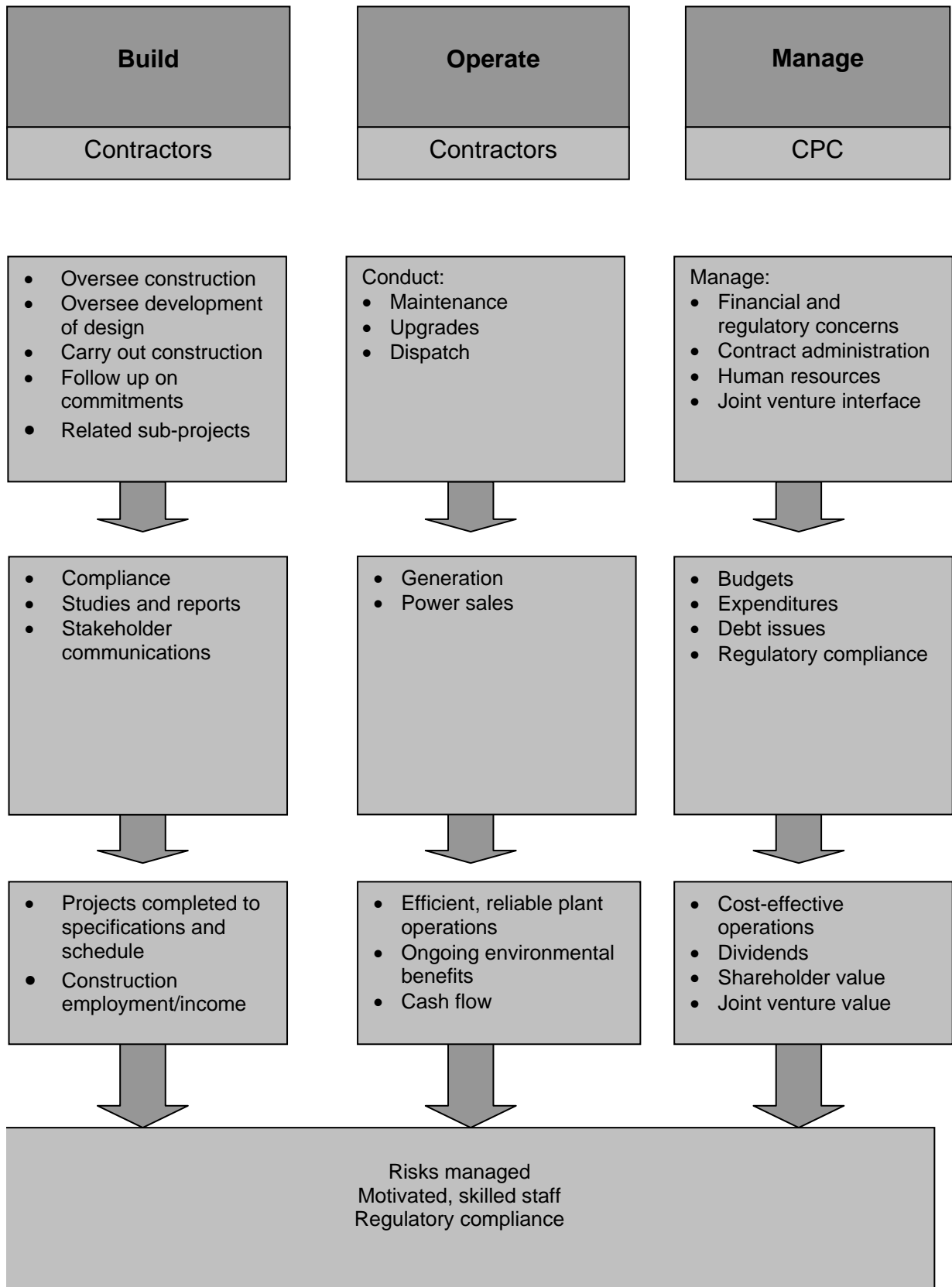
Manage

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

The CPC business model is shown in Figure 1.

Figure 1: Columbia Power Corporation Business Model





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

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

1.4 Key Relationships

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

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

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

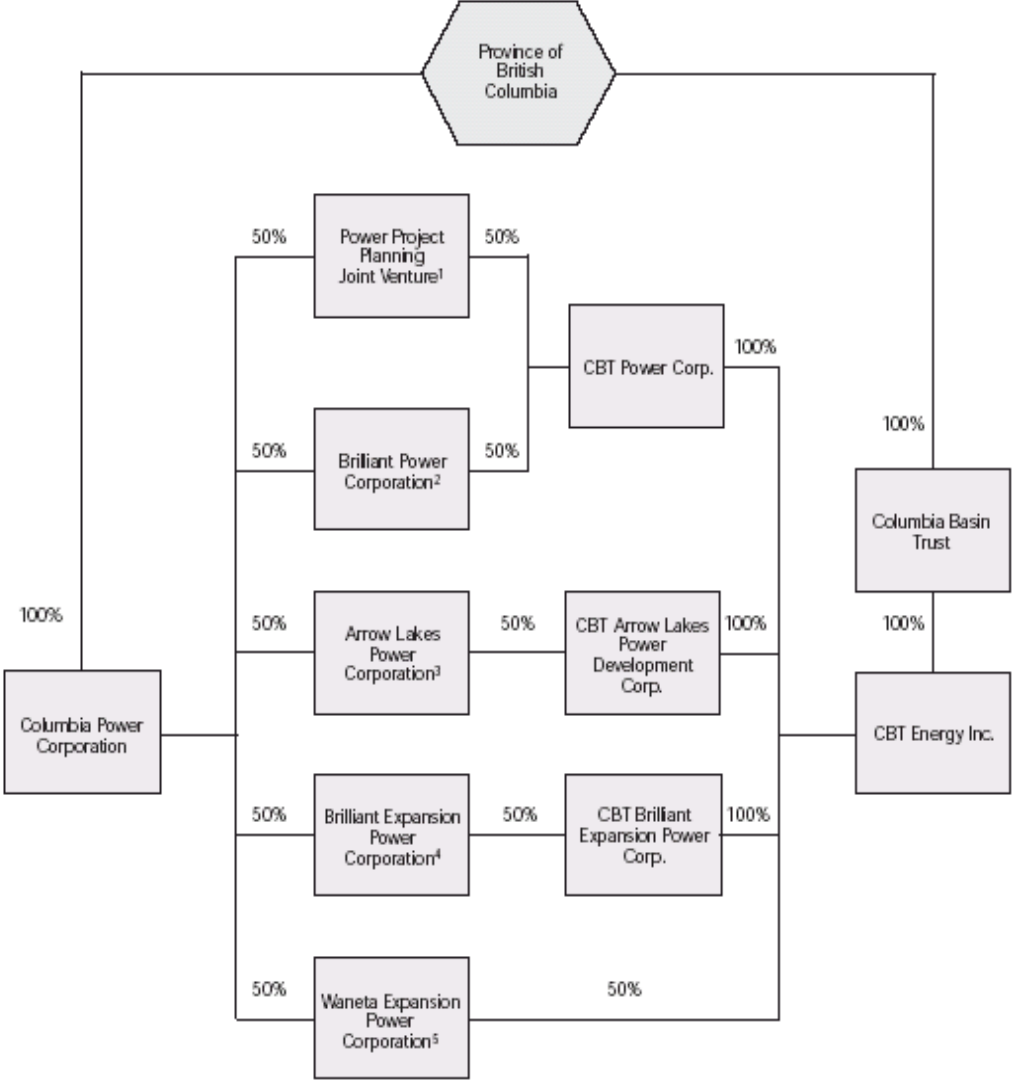
The Brilliant Expansion was constructed by the Brilliant Expansion Consortium, composed of Skanska-Chant and SNC-Lavalin Inc., under a fixed-price design-build contract. Commercial operation was achieved in September 2007. Final acceptance will occur after a number of precedent conditions have been achieved.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

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

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

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

Figure 2: Corporate Structure of the Joint Ventures



Notes:

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

2.0 Corporate Governance

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

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

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

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

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

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

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

Board of Directors and Officers

Board of Directors

Lee Doney
Chair

Gerry Duffy

Gregory Deck

Ron Miles

Tim Stanley

Officers

Giulio Ambrosone
Vice President, Project Implementation
Joint Interim President and CEO

Victor Jmaeff
Vice President, Sales & Development
Joint Interim President and CEO

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

Don Rose
Acting General Counsel and Corporate
Secretary

Debbie Martin
Vice President, Human Resources &
Corporate Services

Gordon Gooding
Chief Financial Officer
Vice-President, Finance and Stakeholder
Relations
David de Git
Corporate Controller

Board Committees

Finance and Audit Committee

Human Resources and
Governance Committee

Major Capital Projects
Committee

3.0 Planning Context and Key Strategic Issues

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

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

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

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

The key strategic issues facing CPC include:

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

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

4.0 Performance Measures

4.1 Goals/Objectives, Strategies, Measures and Targets

Performance Measures Framework

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

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

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

Source of Data and Reliability

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

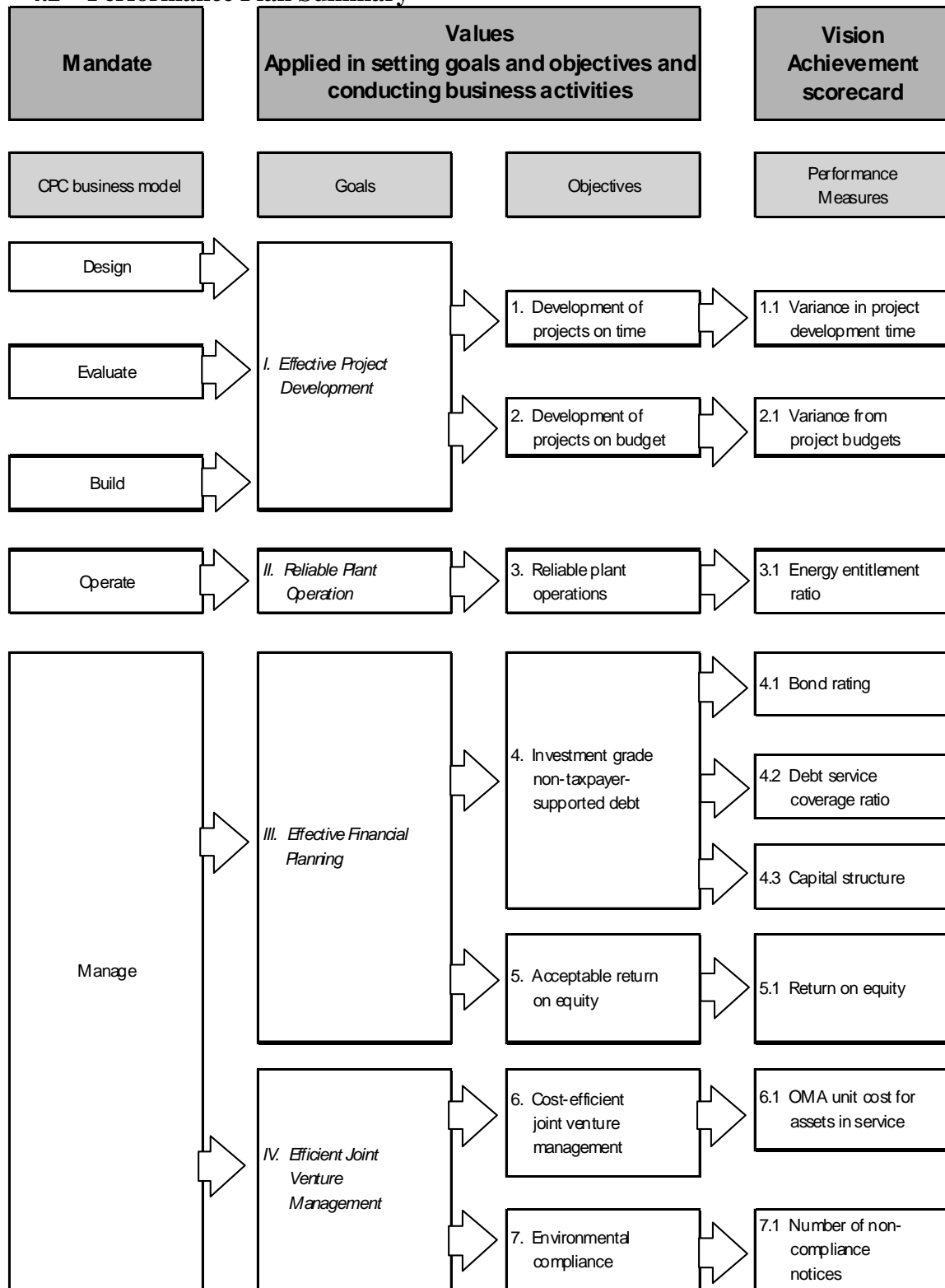
A number of CPC's performance targets are based on forecasts of future events. They were estimated using assumptions that reflect CPC's planned courses of action, and judgments as to the most probable set of economic conditions. Due to the nature of forecasting future events, users of this information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

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

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

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

4.2 Performance Plan Summary



4.3 Performance Measures at a Glance

	BENCHMARK	08/09 Actual	08/09 Target	09/10 Target	10/11 Target	11/12 Target
1.1 Variance in project development time	ALGS: 7 Months Early BTS: On Time	WAX proceeding to final Go/No Go decision	Monitor WAX Schedule	Monitor WAX Schedule	Monitor WAX Schedule	Monitor WAX Schedule
2.1 Variance from project budgets	ALGS: On Budget BTS: On Budget	BRX: No additional claims	WAX: On Budget	WAX: On Budget	WAX: On Budget	WAX: On Budget
3.1 Plant Availability	1st Quartile: See Benchmarking Appendix	ALGS> 95% BRD> 95% BRX> 81%	ALGS: >95% BRD: >95% BRX: >90%	ALGS: >95% BRD: >95% BRX: >92%	ALGS: >95% BRD: >95% BRX: >95%	ALGS: >95% BRD: >95% BRX: >95%
4.1 Bond rating	Investment Grade Bond Ratings	Maintained ratings for all bonds	Maintain or Improve Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds	Maintain Investment Grade Ratings for All Bonds
4.2 Debt service coverage ratio	Greater Than or Equal to 1.3	ALGS: 2.2 BRD: 1.8	ALGS: 2.1 BRD: 1.7	ALGS: 2.3 BRD: 1.7	ALGS: 2.4 BRD: 1.8	ALGS: 2.5 BRD: 1.8
4.3 Capital structure	CEA Composite Performance Measure for 2006 = 77:23	27:73	24:76	22:78	19:81	16:84
5.1 Return on equity	Over the Life of a Project, Comparable to Regulated Utilities	5.3%	4.1%	5.2%	6.1%	6.0%
6.1 OMA unit cost for assets in service	1st Quartile: See Benchmarking Appendix B	ALGS: \$4.18 BRD: \$2.05 BRX: \$13.34	ALGS: \$4.03 BRD: \$2.34 BRX: \$7.41	ALGS: \$5.26 BRD: \$2.26 BRX: \$9.86	ALGS: \$4.39 BRD: \$3.02 BRX: \$6.36	ALGS: \$5.03 BRD: \$3.09 BRX: \$6.05
7.1 Environmental compliance	Baseline Information to be Developed	Zero material non- compliance notices	Zero Material Non- Compliance Notices	Zero Material Non-compliance Notices	Zero Material Non-compliance Notices	Zero Material Non-compliance Notices

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

5. Shareholder’s Letter of Expectations

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

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

6.0 Summary Financial Outlook

6.1 Consolidated Statement of Income Forecast

\$ in thousands

	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Actual			
REVENUES					
Sale of power and transmission revenue	\$ 38,896	46,127	48,605	52,663	53,662
Interest	2,154	2,096	280	281	282
Management fee	752	1,295	857	943	1,037
	<u>41,802</u>	<u>49,518</u>	<u>49,742</u>	<u>53,887</u>	<u>54,980</u>
EXPENSES					
Water rentals	4,696	4,592	5,730	6,041	6,162
Amortization of capital assets in service	6,752	7,933	8,396	8,475	8,573
Amortization of rights	1,176	1,288	1,207	1,207	1,207
Property tax	1,357	1,042	1,358	1,385	1,412
Operations and maintenance	1,778	2,820	2,731	2,709	2,913
Administration and management	3,120	4,004	3,664	2,953	3,067
Insurance	527	587	837	853	870
Community sponsorship	85	85	85	85	85
Other	2,244	750	-	-	-
	<u>21,735</u>	<u>23,101</u>	<u>24,007</u>	<u>23,707</u>	<u>24,288</u>
INCOME FROM OPERATIONS	<u>20,067</u>	<u>26,417</u>	<u>25,735</u>	<u>30,180</u>	<u>30,693</u>
FINANCE CHARGES					
Interest expense	7,982	7,659	7,280	6,960	6,609
Amortization of deferred debt issue costs	289	331	341	366	366
	<u>8,270</u>	<u>7,990</u>	<u>7,621</u>	<u>7,326</u>	<u>6,975</u>
NET INCOME BEFORE CHANNEL REPAIR COSTS	11,797	18,427	18,114	22,854	23,718
CHANNEL REPAIR COSTS	(416)	(92)	-	-	-
RECOVERY OF REPAIR COSTS AND LOSSES	4,291	-	-	-	-
NET INCOME	<u>\$ 15,672</u>	<u>18,335</u>	<u>18,114</u>	<u>22,854</u>	<u>23,718</u>

Notes:

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

6.2 Key Assumptions

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

- Operating cost inflation, including water rental increases, is 2 percent per year.
- Columbia Power Corporation has participated in the government's budget management process to achieve at least 3% administrative cost savings.
- Construction of the Waneta Expansion Project commences in 2009/10 based on securing an economic design-build bid, acceptable financing arrangements, and energy entitlement and power purchase agreements. The Waneta Expansion Project activities should have no impact on net income over the three year plan aside from relatively small write-offs of costs in the year they are incurred.
- Waneta Expansion will be exempt from property tax and pay grants-in-lieu consistent with government policy for the Arrow Lakes Generating Station and Brilliant Expansion.
- The long-term investment grade interest rate is 6 percent or interest rate hedging is used.
- The financing cost for the Waneta Expansion is capitalized as construction interest.
- The exchange rate is \$1.00 Canadian equals \$0.925 U.S.
- CPC's dividends to the Province remain at current levels until after the completion of Waneta Expansion.
- Employee retention and succession plans are developed to maintain CPC compensation competitive in relation to private sector and other stakeholders.

6.3 Risk Factors and Sensitivities

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

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

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

While approximately 90 percent of the Brilliant Expansion plant output is committed under two long-term contracts with BC Hydro, Brilliant Expansion Power Corporation has negotiated a short term sales agreement with Powerex for the remaining output and a shorter term “bridging” contract for some of the output until the second of the BC Hydro long term contracts comes into effect. CPC has recently finalized a Memorandum of Intent (“MOI”) with a credit worthy purchaser for all of the power and related products from the Waneta Expansion.

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

Risk	Issue/Impact	How Managed
Waneta Expansion Construction Decision	Construction of Waneta Expansion is subject to: design-build bids, entitlement negotiations, power marketing and long-term borrowing costs. Each could affect project timing, cost, scale and viability.	<p>SNC-Lavalin is the initial preferred proponent for design and construction of the Waneta Expansion project. SNC-Lavalin was selected from the design-build competition.</p> <p>CPC has signed a <i>Waneta Co-operation Agreement</i> and a <i>Transmission Rights Agreement</i> with Teck Cominco Metals Ltd.</p> <p>CPC is discussing an entitlement agreement with BC Hydro. <i>The Canal Plant Agreement</i> has provisions for the Waneta Expansion Project. When an entitlement amount has been finalized, CPC will pursue power sales agreements pursuant to its MOI.</p>

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

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

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

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

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

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

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

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

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

7.0 Capital Plan

The Waneta Expansion is not yet an approved Major Capital Project. Construction estimates for the Waneta Expansion have been withheld from this table due to commercial sensitivity.

7.1 Consolidated Capital Spending Forecast

\$ in thousands

	2007/08	2008/09	2009/10	2010/11	2011/12
	Actual	Actual			
BRILLIANT POWER CORPORATION	926	1,459	2,275	2,205	2,043
ARROW LAKES POWER CORPORATION	103	37	301	318	350
BRILLIANT EXPANSION POWER CORPORATION	11,277	8,754	763	330	320
POWER PROJECT PLANNING					
Waneta Expansion	2,263	4,531	4,479		
General Power Project Planning			265	265	265
	2,263	4,531	4,744	265	265
CPC CORPORATE	425	1,409	400	440	484
TOTAL	\$ 14,994	16,190	8,483	3,558	3,462

Note:

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

7.2 Liquidity and Sources of Capital

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

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

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

8.0 Power Sales Activities

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

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

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

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

Glossary

Benchmarking

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

Bond rating

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

Canal Plant Agreement

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

Capacity

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

Columbia River Treaty

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

Comptroller of Water Rights

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

Debt service coverage ratio

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

Debt-to-equity ratio

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

Design-build contract

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

Entitlement agreement

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

Environmental approval

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

Environmental management system

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

Final acceptance

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

Final acceptance date

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

First quartile

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

Green power

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

Investment grade bond rating

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

ISO 14001 standard

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

Limited-recourse project debt

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

Megawatt (MW)

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

Megawatt-hour (MWH)

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

Operation, maintenance and administration (OMA)

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

Public-private partnership (P3)

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

Return on investment

Income available to shareholders as a percentage of their investment.

Water rental

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

Appendix A Performance Measures Framework

www.columbiapower.org/cpc_serviceplan_2010_appendixA.html

Appendix B Benchmarking, Operating, Maintenance and Administration

www.columbiapower.org/cpc_serviceplan_2010_appendixB.html



Suite 200
445 – 13th Avenue
Castlegar, BC V1N 1G1
Tel: (250) 304-6060
Fax: (250) 304-6083

Website: www.columbiapower.org