

# COLUMBIA POWER CORPORATION SERVICE PLAN 2011/12 - 2013/14

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**Honourable Steve Thomson***Minister of Energy*

I am pleased to submit Columbia Power Corporation's 2011/12—2013/14 Service Plan.

Columbia Power Corporation ("CPC") is a commercial Crown corporation, wholly owned and controlled by the Province of British Columbia. As an agent of the Province, CPC develops and operates power projects in the Columbia Basin, historically on a joint venture basis with the Columbia Basin Trust ("CBT"). CPC is the joint venture manager, and half of the benefit goes to CBT, in trust for community initiatives.

CPC and CBT own the Brilliant Dam and Generating Station and the Brilliant Terminal Station, the Arrow Lakes Generating Station, and the Brilliant Expansion Generating Station. CPC oversees the operations and management of these assets.

Most recently, the Province and CPC announced that the long anticipated 335 MW Waneta Expansion hydroelectric project is proceeding. The Waneta Expansion is the third, and last, of CPC's expressly mandated projects. The Project is a partnership between Fortis Inc., CPC, and CBT. On behalf of the Board of Directors of CPC, please accept our thanks to the Provincial agencies and staff, in particular those at the Ministry of Energy, for their efforts in making this important project a reality. I would also express our gratitude for the efforts of the CPC directors and our employees, our partners Fortis Inc. and CBT, who worked together to see the project move forward.

Construction of the Waneta Expansion will bring significant economic stimulus to the Kootenays, an area affected by the downturn in the forestry and mining industries. The project will also yield long-term bene-

fits to the Province and the Columbia Basin. Capacity and energy from the project will be sold to FortisBC and BC Hydro under long-term agreements.

CPC has three key priorities:

1. Manage the construction of the Waneta Expansion to completion in 2015—safely, on-schedule and on-budget, while meeting our community, First Nations and environmental commitments.
2. Continue to effectively and efficiently manage the joint venture assets with the CBT.
3. Undertake future strategic planning for CPC.

CPC has received the 2011/12 Shareholder's Letter of Expectation from the Ministry of Energy, as the representative of the Shareholder, defining primary accountabilities and setting out the expectations of the Shareholder. In the Shareholder's Letter of Expectation, CPC is directed to implement its strategic plan. This is an exciting opportunity for CPC. In developing its strategic plan, CPC will work closely with Ministry officials to determine a direction that takes advantage of the expertise and experience at CPC to support British Columbia's energy objectives, as set out in the *Clean Energy Act*, and related Provincial policy directions.

The Corporation will also ensure that CPC is a preferred employer, and will be, in the future, setting an objective and measurement for this goal.

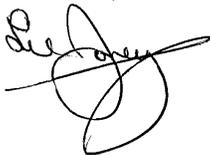
I am also pleased to announce a new President and Chief Executive Officer for CPC. Jane Bird joined CPC in this role on September 1, 2010. Jane has worked closely with all levels of government and the private sector. She is familiar with large construction projects; prior to joining CPC, she was the Chief Executive Officer

of Canada Line Rapid Transit Inc., responsible for the Canada Line, which began revenue service in 2009.

The Corporation's 2011/12—2013/14 service plan was prepared under my direction 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. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks, as of January 28, 2011 have been considered in preparing the plan. The performance measures presented are consistent with the Corporation's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of the Corporation's operating environment, forecast conditions, risk assessment and past 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

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## Introduction

### MANDATE

The mandate of Columbia Power Corporation (“CPC”, “Columbia Power”, or the “Corporation”) 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;
- act as the manager of power project joint ventures with the Columbia Basin Trust;
- act as the Owner’s Representative for construction of the Waneta Expansion Project.

### VISION

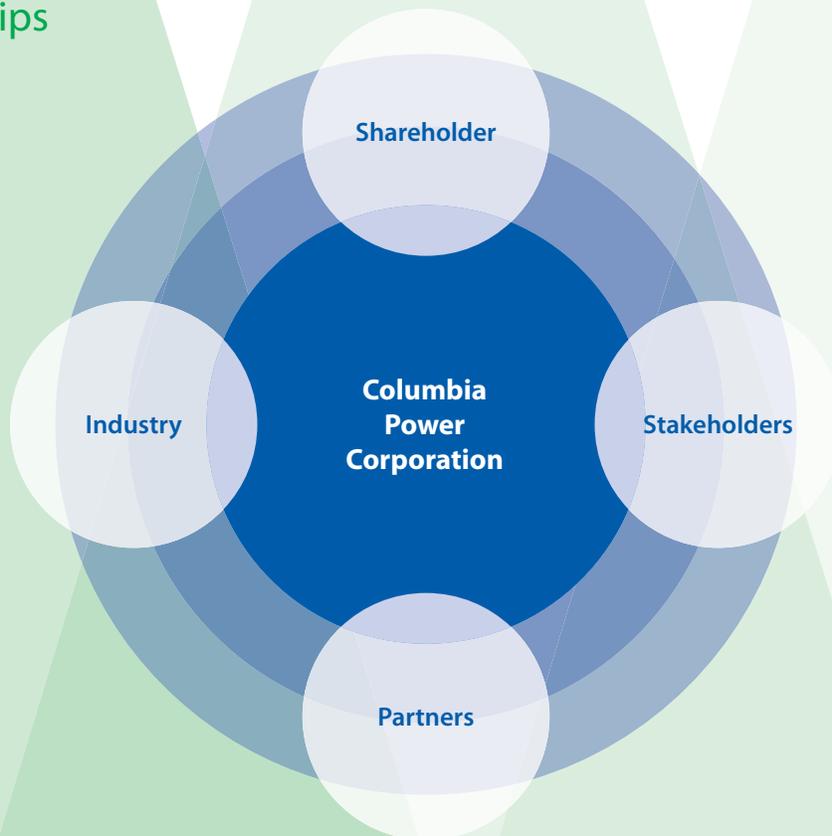
Columbia Power’s vision is to be a respected, continually improving company that maximizes shareholder value by developing and operating power projects in a socially and environmentally responsive manner, while achieving the development objectives of the Province and the Columbia Basin.

### VALUES

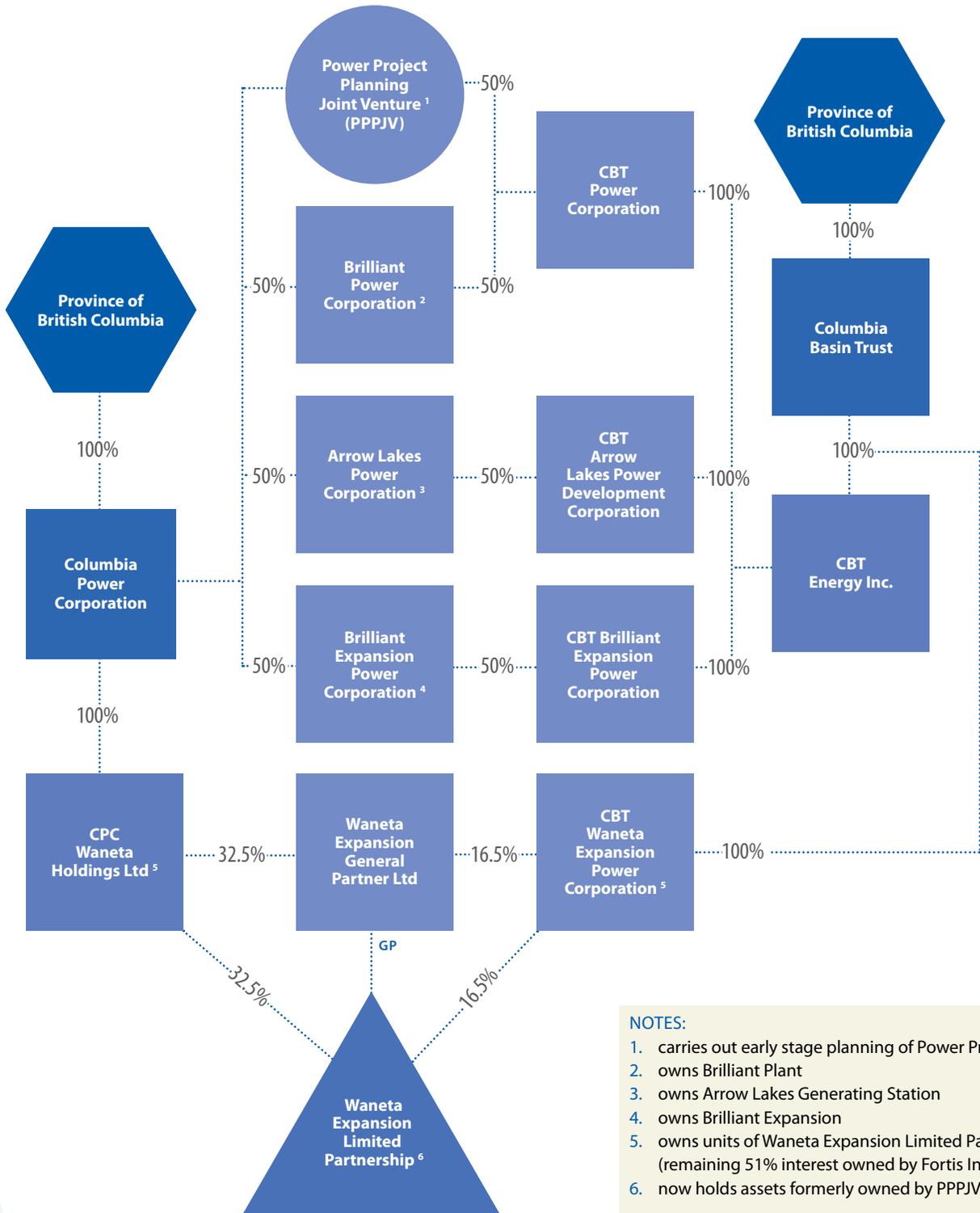
The following values guide how the Corporation works with its staff and external stakeholders:

1. Integrity
2. Respect
3. Versatility
4. Teamwork
5. Sense of Community
6. Promotion of Work/Life Balance
7. Sustainability

## CPC’s Relationships



## Corporate Structure of the Columbia Power Corporation/Columbia Basin Trust Joint Ventures and Partnerships



- 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 units of Waneta Expansion Limited Partnership (remaining 51% interest owned by Fortis Inc.)
  6. now holds assets formerly owned by PPPJV

## Organizational Overview

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. Under the terms of its Agency Agreement with the Province, CPC is confirmed as an agent of the government while reserving for Treasury Board the ultimate decision-making authority for new power project investment and significant financial restructuring.

Columbia Power Corporation’s legislated mandate 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;
- act as the manager of power project joint ventures with the Columbia Basin Trust; and
- act as the Owner’s Representative for construction of the Waneta Expansion Project.

Columbia Power is a small organization, with its office in Castlegar. CPC focuses on asset management activities while engaging private-sector firms to provide construction, plant operation and specialist consulting services. Columbia Power is a significant producer of electricity in British Columbia.

Columbia Power has historically undertaken power projects through joint ventures with subsidiaries of the Columbia Basin Trust (“CBT”) and manages all of the assets of the joint ventures. The power projects are joint ventures undertaken with subsidiaries of CBT, of which 50% of the shares are owned by CPC. Under this model, Columbia Power built and oversees the operations of the 185 MW Arrow Lakes Generating Station, the 120 MW Brilliant Expansion Generating Station and the Brilliant Terminal Station. CPC also oversees the operations of the 145 MW Brilliant Dam and Generating Station, which the partners purchased from Cominco in 1996.

CPC’s key relationships include CBT, BC Hydro, Teck, Fortis Inc., First Nations, regional districts, local communities,

private-sector engineering and environmental firms, environmental groups, and financial and legal advisors. Columbia Power intercedes in regulatory proceedings as needed to ensure joint venture and partnership interests are appropriately addressed.

The Brilliant Dam and Generating Station, the Arrow Lakes Generating Station, the Brilliant Expansion Generating Station and Terminal Station are operated and maintained under agreement by FortisBC (a subsidiary of Fortis Inc.) or its related company, Fortis Pacific Holdings Inc., under the oversight of CPC staff.

Most of the power generated at the current operating facilities is committed under long-term sales agreements to two utilities, FortisBC and BC Hydro. Short-term sales of capacity and energy maximize revenue. The Arrow Lakes Energy Purchase Agreement with BC Hydro was recently extended until 2045.

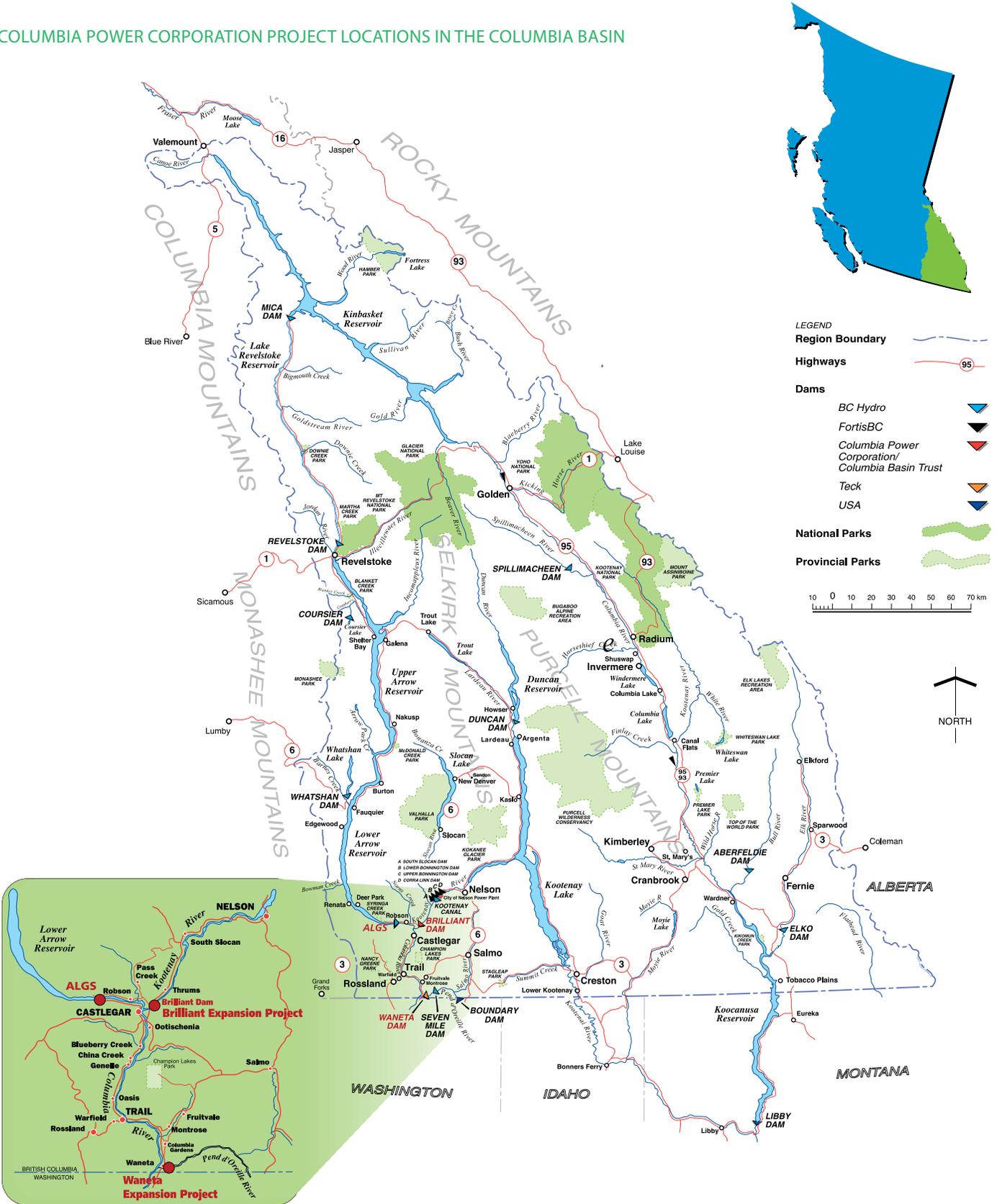
A partnership agreement between Fortis Inc., CPC, and CBT has allowed the construction of the Waneta Expansion to proceed. The partnership agreement provides Fortis Inc. a 51 percent share of the project, CPC with 32.5 percent and CBT with a 16.5 per cent share. CPC is the Owner’s Representative during construction and Fortis Inc. will be responsible for operations of the Waneta Expansion after construction. Long-term contracts for the purchase of capacity and energy have been signed with FortisBC and BC Hydro, respectively.

Returns from Columbia Power’s share of the power projects are distributed to the Province. CBT’s portion is used to create a legacy of social, economic and environmental well-being for residents of the Columbia Basin.

Click below to read the history of Columbia Power Corporation online.

 [columbiapower.org/company/companyhistory.asp](https://columbiapower.org/company/companyhistory.asp)

COLUMBIA POWER CORPORATION PROJECT LOCATIONS IN THE COLUMBIA BASIN



## Governance

### PRINCIPLES

The corporation has six directors, all appointed by the Province and independent of management. As stewards of the corporation, the directors are committed to overseeing the conduct of the Corporation's business, applying the following governance principles:

#### **Integrity: Best Interests of the Corporation**

The directors will act with honesty and integrity, with a view to the best interests of the corporation, recognizing their role in setting the ethical tone for the entire organization.

#### **Direction with Oversight: Support Management**

The directors will provide oversight and support to management to enable management to carry out their role without undue encroachment from the board.

#### **Commitment: Well-informed decision-making**

Each director will be committed to developing a strong understanding of the corporation, its business, principal risks and strategic direction.

#### **Skill Development: Continuous Improvement**

The board will strive to identify and attract the combination of skills and characteristics among its directors that are essential to providing high quality oversight to management. This will involve orientation of new directors and measures designed to continuously improve the skills and competencies of all directors.

#### **Communication**

The directors, having regard for the need to maintain confidentiality where appropriate, will communicate decisions and policies promptly and clearly within the organization and to others whose interests are affected.

#### **Respect**

The directors will conduct themselves in a manner that is respectful of each other and of the interests of the corporation's stakeholders.

### DIRECTORS

- Lee Doney, Chair
- Greg Deck
- Gerry Duffy, Vice-Chair
- Ron Miles
- Tim Stanley
- Lillian White

### BOARD COMMITTEES

The corporation's committees address issues on behalf of the board of directors and report back to the board on a regular basis.

The **Finance and Audit Committee** is responsible for financial and compliance oversight.

**Members:** Lillian White (Chair), Lee Doney and Ron Miles.

The **Human Resources and Governance Committee** assists the board in matters of human resources and compensation, including establishing a plan for continuity and development of senior management.

**Members:** Gerry Duffy (Chair), Greg Deck and Lee Doney.

The **Major Capital Projects Committee** assists the board in its oversight responsibilities with respect to the corporation's major capital projects.

**Members:** Tim Stanley (Chair), Gerry Duffy and Ron Miles.

### OFFICERS OF THE COMPANY

- Jane Bird, President and CEO
- Giulio Ambrosone, Vice President, Capital Projects
- Debbie Martin, Vice President, Human Resources & Corporate Services
- Victor Jmaeff, Chief Technical Officer
- David de Git, Director, Finance
- Don Rose, Corporate Secretary

### SENIOR MANAGEMENT

- Gene Anderson, Director, Operations & Environment
- Llewellyn Matthews, Director, Environment
- Glenn MacIntyre, Director, Planning and Business Development

- Audrey Repin, Director, Stakeholder Relations and Communications
- Janice Hardy, Manager, Compensation and Benefits.

#### THE PROVINCE OF BRITISH COLUMBIA AND COLUMBIA POWER CORPORATION

Columbia Power 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.

#### COLUMBIA POWER CORPORATION'S JOINT VENTURES WITH COLUMBIA BASIN TRUST

Columbia Power owns three hydropower facilities in joint venture partnership with Columbia Basin Trust. The Boards of Directors of these jointly-owned corporations are comprised of six directors, three nominated by CPC and three nominated by CBT.

- **Brilliant Power Corporation** – owns the Brilliant Dam and Generating Station and the Brilliant Terminal Station.
- **Arrow Lakes Power Corporation** – owns the Arrow Lakes Generating Station and a 48-kilometre transmission line from the powerplant to BC Hydro's Selkirk substation.
- **Brilliant Expansion Power Corporation** – owns the Brilliant Expansion Generating Station.

In each case, CPC is the managing partner of these assets.

#### WANETA EXPANSION LIMITED PARTNERSHIP

The Waneta Expansion Project is owned by Waneta Expansion Limited Partnership (WELP); the limited partnership interests are owned 51% by Fortis Inc., 32.5% by CPC, and 16.5% by CBT. WELP is managed by a general partner, Waneta Expansion General Partner Ltd. (WEGPL), which is also owned by Fortis Inc., CPC and CBT. WEGPL has a board of directors of seven, comprised of four nominees of Fortis Inc., two nominees of CPC, and one nominee of CBT. CPC acts as the Owner's Representative for the Waneta Expansion Project.

#### COMPLIANCE

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

Click the link below to learn more about CPC's Corporate Governance and about our board of directors:

▶ [columbiapower.org/content/corporate\\_governance.asp](https://columbiapower.org/content/corporate_governance.asp)

Click the link below to learn more about the Province of British Columbia's Board Resourcing and Development Office:

▶ [fin.gov.bc.ca/brdo/](https://fin.gov.bc.ca/brdo/)

## Strategic Context

CPC's power projects operate in a domestic power market where there is a single dominant wholesale purchaser as well as independent power producers, and constrained long-term firm transmission capacity to adjacent power markets in Alberta and the U.S. Pacific Northwest. CPC operates in a complex environment which includes federal and provincial regulators, an international treaty, as well as local, regional, United States and First Nations stakeholders.

CPC has successfully completed two previous power projects, the Arrow Lakes Generating Station and the Brilliant Expansion, and has expertise in all aspects of hydroelectric project development: feasibility assessment, community consultation, permitting, procurement, contract negotiations, risk allocation, construction oversight, commissioning and operation. CPC has the capacity to meet its planned results and does not foresee any significant capacity issues.

## Key Strategic Issues

The key strategic issues facing CPC include:

- Managing the construction of the Waneta Expansion to completion in 2015, safely, on-schedule and on-budget, while meeting community, First Nations and environmental commitments. The expertise of staff and their relationships with their public and private partners and with provincial, regional and local governments, First Nations and with the private-sector utility, construction, engineering and allied firms is vital to the success of the project.
- Continuing to effectively and efficiently manage the joint venture assets with the Columbia Basin Trust including: major hydroelectric facility owner's risks of human and dam safety, equipment availability and the environment.
- Ensuring expected revenues are met through performance of generating assets.
- Ensuring on-going support for the power projects with local and regional community stakeholders and First Nations.
- Determining how CPC will continue to deliver benefits to the Province and the Columbia Basin through a long-term strategic plan.

## Shareholder's Letter of Expectations

As agreed in the 2011/12 Shareholder's Letter of Expectation, the Corporation will take specific actions on the following:

### Climate Change

**Comply with requirements to be carbon neutral under the *Greenhouse Gas Reduction Targets Act***

The Corporation's carbon neutral plan has been implemented and includes monitoring fuel, paper, and electrical usage. Carbon neutrality is achieved through Pacific Carbon Trust.

### Clean Energy Act

**Support the Shareholder's energy objectives as described in the *Clean Energy Act***

Arrow Lakes Generating Station, Brilliant Dam and Generating Station and Brilliant Expansion together produce 450 MW of green power. The Waneta Expansion will contribute a further 335 MW of clean, renewable power towards the Province's goal of achieving energy self-sufficiency. The project will also stimulate economic development and job creation.

### Strategic Plan and Enterprise Risk Management

**Implement the Corporation's strategic plan and enterprise risk management assessment**

CPC will develop, and with Shareholder approval, implement its strategic plan and enterprise risk management plan.

### Policy Development

**Work with the Shareholder to identify current or upcoming issues**

CPC has on-going communication and coordination with the Ministry of Energy on substantive issues as they arise.

## Performance Measures at a Glance

### Goal 1 - Success of the Waneta Expansion Project

	Benchmark	2009/10 (actual)	2010/11	2011/12	2012/13	2013/14
<b>1.1 Waneta Expansion is on-schedule</b>	Early or on schedule (no negative variance from schedule)	WAX still under decision.	WAX on schedule	WAX on schedule	WAX on schedule	WAX on schedule
<b>1.2 Waneta Expansion is on-budget</b>	On or under budget (no negative variance from budget)	WAX still under decision.	WAX on budget	WAX on budget	WAX on budget	WAX on budget
<b>1.3.1 Waneta Expansion Regulatory Compliance (Safety)</b> Refer to Page 12	8.2 (Injury Rate)	Not applicable	<8.2	<8.2	<8.2	<8.2
<b>1.3.2 Waneta Expansion Regulatory Compliance (Environmental)</b> Refer to Page 13	One major environmental incident per year	0	1	1	1	1

### Goal 2 - Efficient and reliable plant operations

	Benchmark	2009/10 (actual)	2010/11	2011/12	2012/13	2013/14
<b>2.1.1 Equivalent Availability Rate (Hours)</b>	>89.9% ALGS >89.9% BRX	ALGS: >95.8% BRX: >89.7%	ALGS: >98.0% BRX: >81.9%	ALGS: >89.2% BRX: >88.5%	ALGS: >90.6% BRX: >88.5%	ALGS: >93.9% BRX: >88.5%
<b>2.1.2. Equivalent Availability Rate (MWh)</b>	>98.1% ALGS >97.4% BRX	ALGS: >99.1% BRX: >95.7%	ALGS: >98.3% BRX: > 93.9%	ALGS: >97.8% BRX: > 94.3%	ALGS: >96.1% BRX: >94.3%	ALGS: >96.4% BRX: >94.3%
<b>2.2 OMA<sup>1</sup> Costs (\$ per MWh)</b>	OMA benchmark being updated	ALGS: 4.5 BRX: 9.6	ALGS: 5.0 BRX: 9.1	ALGS: 6.7 BRX: 11.2	ALGS: 7.7 BRX: 8.7	ALGS: 8.1 BRX: 8.4
<b>2.3.1 Regulatory Compliance (Safety)</b> Refer to Page 16	Severity (Days) 16.08 AIF <sup>2</sup> (Frequency) 2.08	Not available	< or = to CEA <sup>3</sup> benchmark	< or = to CEA benchmark	< or = to CEA benchmark	< or = to CEA benchmark
<b>2.3.2 Regulatory Compliance (Environmental)</b> Refer to Page 16	1.5 major environmental incidents per year	3	<= 1 major environmental incident	<= 1 major environmental incident	<= 1 major environmental incident	<= 1 major environmental incident
<b>2.3.3 Mandatory Reliability Standards</b>	No sanctionable events attributed to CPC/CBT joint ventures	Not applicable	Zero sanctionable events	Zero sanctionable events	Zero sanctionable events	Zero sanctionable events

### Goal 3 - Effective financial planning

	Benchmark	2009/10 (actual)	2010/11	2011/12	2012/13	2013/14
<b>3.1 Debt service coverage ratio (DSCR)</b>	DSCR 1.3 or greater	Maintained Investment Grade Rating for all bonds	Maintain Investment Grade Rating for all bonds			
<b>3.2 Return on Equity</b>	Over the life of a project, compared to a regulated utility	5.4%	5.6%	4.4%	4.1%	4.0%
<b>3.3 EBITDA<sup>4</sup> (\$ in thousands)</b>	1.0% EBITDA growth	36,851	38,890	38,991	38,701	38,738
<b>3.4 Free Cash Flow (\$ in thousands)</b>	Consistent with target	14,455	(31,096)	(46,123)	(59,347)	(21,206)

1. OMA - Operations, Maintenance and Administration

2. AIF - All Injury Frequency

3. CEA - Canadian Electrical Association

4. EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization

## Performance Measures

### 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.

### BACKGROUND

Columbia Power has two broad goals, which flow from its mandate as the Owner's Representative and as manager of the CPC/CBT joint venture assets.

#### **Goal 1: Success of the Waneta Expansion Project**

#### **Goal 2: Efficient and Reliable Plant Operations**

CPC must also effectively manage its finances:

#### **Goal 3: Effective Financial Planning**

### OUTLOOK

The corporation believes the performance measures it uses highlight the most crucial aspects of its performance, but are also subject to refinement and evolution as the organization matures. A review and update of North American powerplant benchmarks is in progress. This project will provide updated information on plant maintenance, renovations/major improvements, and on-site and off-site support functions in comparison to other facilities to assess the effectiveness of our joint venture management.

### SOURCE OF DATA AND RELIABILITY

The Corporation believes its performance measures are reliable and valid—

- Current and historical performance measures are not audited; however, they are based largely on audited information, information subject to third-party verification and information that is obtained from independent sources.
- Project development and construction effectiveness measures are based on information from project tracking systems and monthly status reports prepared by the design/build contractor and consultants employed by the Corporation.
- The reliable plant operations measure is based on plant outage and generation data that are reconciled with BC Hydro and FortisBC.
- The financial measures are derived from the corporation's audited consolidated financial statements.
- Bond ratings are independently verifiable.
- Environmental compliance measures are also independently verifiable.

Since last year's service plan, the Waneta Expansion Project is under construction. Performance measures have been developed to ensure the success of the project, which is Goal 1 of the Corporation. The metrics are: on-schedule and on-budget, meeting safety and environmental commitments. Goal 2, Efficient and Reliable Plant Operations, has a revised Plant Availability performance metric and a new entitlement-based Plant Availability metric, and safety metric at CPC's existing facilities and office. A new metric, Mandatory Reliability Standards (MRS) has been added. MRS compliance is a legislated requirement. Goal 3, Effective Financial Planning, has discontinued the performance measure of bond rating (as determined by bond rating agencies); it is now included in the Debt Service Coverage Ratio, or DSCR. Capital structure is also no longer an independent metric as it is not directly related to performance. Two new financial performance measures have been developed: EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and Free Cash Flow.

## Goal 1 Success of the Waneta Expansion Project

The Waneta Expansion Project is a \$900 million hydro-electric construction project which includes a 10km transmission line. CPC is the Owner’s Representative and oversees the design/build contractor, SNC-Lavalin Inc. for construction of the powerplant and oversees construction of the transmission line. Over the next 4.5 years, the success of the project will be largely determined by CPC’s ability to ensure the following:

### OBJECTIVE 1.1 WANETA EXPANSION IS ON-SCHEDULE

#### Strategy

The Waneta Expansion Limited Partnership (WELP), in which CPC has a 32.5% interest is the Owner of the Waneta Expansion Project. It has signed a design/build contract with SNC-Lavalin Inc. CPC provides construction management services, including performing the role of Owner’s Representative. The design/build contract specifies a commercial start-up date, with incentives for completion on-schedule. The schedule is the milestone schedule set out in the design/build contract. Throughout the term of the contract, there are provisions to withhold payments if key milestone dates are not met. However, despite there being commercial start-up dates specified in the contract, unanticipated delays can result and must be managed by CPC as the Owner’s Representative, in consultation with SNC-Lavalin Inc. and WELP, the Owner.

#### Benchmark

The benchmark is for the Waneta Expansion to be completed on-schedule. The target is to achieve a variance of less than or equal to zero, indicating the project is tracking towards commercial operation on-schedule or early.

#### Benchmark

The Waneta Expansion is early or on-schedule. No negative variance from schedule.

#### Targets

2009/10 (actual)	WAX still under decision
2010/11	WAX under construction (variance < or = 0)
2011/12	WAX under construction (variance < or = 0)
2012/13	WAX under construction (variance < or = 0)
2013/14	WAX under construction (variance < or = 0)

#### Discussion

Project delays push back the receipt of revenues and can impact project economics.

### OBJECTIVE 1.2 WANETA EXPANSION IS ON-BUDGET

#### Strategy

The design/build contract is fixed-price and provides for performance-based penalties and incentives. However, unanticipated costs can result in claims by the design/build contractor or other third-party costs which must be managed by CPC as the Owner’s Representative, in consultation with the Owner.

#### Benchmark

The benchmark is for the Waneta Expansion to be completed on-budget. The budget is the project capital budget as approved by the Owner. The target is to achieve a variance of less than or equal to zero, indicating the project is tracking towards commercial operation either on or under budget.

**Benchmark**

The Waneta Expansion is on or under budget. No negative variance from budget.

**Targets**

2009/10 (actual)	WAX still under decision
2010/11	WAX under construction (variance < or = 0)
2011/12	WAX under construction (variance < or = 0)
2012/13	WAX under construction (variance < or = 0)
2013/14	WAX under construction (variance < or = 0)

**Discussion**

Although the fixed-price contract provides as much construction price certainty as possible, project cost overruns can impair project economics.

**OBJECTIVE 1.3 WANETA EXPANSION REGULATORY COMPLIANCE (SAFETY AND ENVIRONMENTAL)**

**1.3.1 SAFETY**

**Strategy**

CPC has a corporate commitment to safety on CPC-managed projects that goes beyond strict regulatory compliance. CPC acts as the Owner’s Representative for project construction and therefore has a responsibility to monitor the contractor’s performance in fulfilling its contractual obligations, which includes an obligation to comply with provincial safety regulations. CPC’s strategy for the Waneta Expansion Project includes:

- A dedicated section on safety requirements and reporting within the design/build contract.
- Appointing the design/build contractor as prime contractor.
- Employing a safety professional to conduct owner’s oversight for health and safety.
- Participating in safety coordination meetings with the contractor.
- Requiring and participating in a project safety incentive program.

- A project-specific safety program for CPC employees.
- A requirement that the contractor conduct safety audits as well as conducting their own third-party audits on the safety performance of the contractor.

**Benchmark**

CPC will use the WorkSafeBC injury rate for the heavy construction industry as a benchmark. This is defined as the number of claims (those receiving short-term disability, long-term disability or survivor benefits in the year of injury or first quarter of the following year) per 100 person-years of employment.

**Target**

The Waneta Expansion Project will target to have an injury rate less than the average for the BC heavy construction industry for the period 2005—2009 and subsequent five-year averages.

**Benchmark**

8.2 Injury Rate

**Targets**

2009/10(actual)	Not applicable
2010/11	<8.2
2011/12	<8.2
2012/13	<8.2
2013/14	<8.2

**Discussion**

The safety risks, and therefore the number of injuries associated with the project, will vary with the type of construction activity at various phases of the project. Rates will be highest during the initial stages of the project when the major civil construction activity is taking place and are expected to fall as the project moves to the mechanical installation phase and finally commissioning.

### 1.3.2 ENVIRONMENTAL

#### Strategy

The Waneta Expansion Project was the subject of a thorough environmental assessment (EA). The conclusion of the assessment was that there would be no significant adverse environmental effects from the project and that there would be some significant environmental benefits. The Environmental Assessment Certificate (EAC) provides for a series of Owner’s commitments and a set of environmental performance standards for construction (the Owner’s Environmental Requirements for Construction (OERC). CPC acts as the Owner’s Representative for Project construction and therefore has the responsibility to fulfill the owner’s commitments and ensure the OERC are met.

This is accomplished through:

- Developing and implementing environmental programs.
- Including detailed environmental requirements for construction in the design/build contract.
- Reviewing the contractor’s environmental plan.
- Conducting third-party compliance audits on the contractor.

#### Benchmark

Fulfilling the EAC commitments is a requirement of the project’s EAC and CPC is required to report on the status of the owner’s commitments at certain intervals during the project.

The number of environmental incidents is one measure of environmental performance. However, apart from reportable spills, there is no standard definition of an incident or collection of industry statistics against which to benchmark. CPC’s Environment, Health and Safety Management System defines a major incident (environmental aspect) as one that involves corrective action that requires off-site or third-party resources, or a breach of regulatory requirements. For example, an unauthorized fish mortality in the vicinity of the facilities would be considered a major environmental inci-

dent. Alternatively, a reportable oil spill would also be considered a major environmental incident. The Brilliant Expansion Project construction experienced four major incidents over the four years of construction.

#### Target

- Fulfillment of the OERC.
- No more than one major environmental incident per year.

#### Benchmark

One major event per year

Targets	Compliance with Owner’s Commitments	Major Environmental Incidents
2009/10 (actual)	All relevant commitments complete or in progress	0
2010/11	All pre-construction commitments complete	1
2011/12	All relevant commitments complete or in progress	1
2012/13	All relevant commitments complete or in progress	1
2013/14	All relevant commitments complete or in progress	1

#### Discussion

Under the EAC, the Owner must submit three reports on compliance with the OERC; prior to construction, one month after the start of operations, and one year after the start of operations. The pre-construction report was submitted on 15 September 2010 showing all pre-construction commitments were complete.

## Goal 2 Efficient And Reliable Plant Operations

### OBJECTIVE 2.1 RELIABLE PLANT OPERATIONS

#### Strategy

Under the terms of agreements with BC Hydro, CPC/CBT joint ventures receive fixed amounts of energy and cap-

acity entitlements in exchange for the assets’ physical generation. This obviates the uncertainty associated with water flow (hydrology risk). The entitlements reflect long-term average water flows. BC Hydro benefits by optimizing the overall generation of the Columbia-Kootenay hydroelectric system. The entitlements reflect potential revenues available to the CPC/CBT joint ventures. The entitlement received is impacted negatively by both planned and unplanned outages.

**Plant Availability**

Plant availability benchmarks are a measure for CPC to assess reliability performance relative to industry peers and the company’s own performance based on internal criteria. Targets reflect the company’s annual performance forecasts based on outage durations required for planned maintenance, periods of major maintenance and capital projects. Asset reliability metrics have been reviewed extensively by CPC to ensure a meaningful measure of availability is used by the corporation. CPC previously engaged the service of Navigant Consulting Inc. to provide benchmarking services, including the provision of a report detailing the compilation of industry benchmarks. CPC has commissioned an update of the 2006 Navigant study “Hydro 2006: Hydroelectric Generation Benchmarking Program” (the Navigant study). The updated report will not be available for this year’s Service Plan.

CPC does not anticipate a significant change in the Plant Availability benchmark (2.1.1) from the 2006 Navigant study; generally the generation sample population should be very similar. However, the Operations, Maintenance and Administration (OMA) metric (2.2) is largely a function of cost and there may be significant cost changes in the updated Navigant study. Consequently, we have not established a benchmark for the OMA target. Although CPC’s unique entitlement environment may not be directly comparable for all benchmarks reported by Navigant, CPC believes the report provides useful information.

CPC has identified two metrics for Plant Availability:

**2.1.1 EQUIVALENT AVAILABILITY RATE (HOURS)**

This metric is the number of hours each generating unit is available annually, accounting for both planned and forced (unplanned) outages, relative to the total number of generating hours available. This metric facilitates a comparison of CPC’s performance relative to an external benchmark.

**Benchmark**

The benchmark is the average equivalent rate for medium-sized hydro plants in operation for less than forty-five years, as provided by the Navigant study. The benchmark is 89.9%.

**Target**

The long-term (2016) target is to meet or exceed the benchmark. Interim annual targets reflect extended periods of major planned maintenance to commence in 2010/2011 and, as a result, a slight increase in the potential for forced (unplanned) outages.

**Benchmark**

>89.9% ALGS >89.9% BRX

<b>Targets</b>		
2009/10 (actual)	ALGS: 95.8%	BRX: 89.7%
2010/11	ALGS: >98.0%	BRX: >81.9%
2011/12	ALGS: >89.2%	BRX: >88.5%
2012/13	ALGS: >90.6%	BRX: >88.5%
2013/14	ALGS: >93.9%	BRX: >88.5%

**Discussion**

Equivalent Availability Rate (hours) can be compared to other hydro operators with similar assets. The targets for this metric are based on forecast planned maintenance and forced outages. Major maintenance periods can vary in duration from those expected. Forced outages may increase during major equipment

warranty periods, early plant life cycle abnormalities and after major maintenance activities.

**2.1.2. EQUIVALENT AVAILABILITY RATE (MWh)**

This metric is the number of entitlement megawatt hours (MWh) available to each facility annually accounting for both planned and forced (unplanned) outages, relative to the total entitlement MWh available to each facility. This metric facilitates a comparison of CPC’s performance relative to an internal benchmark.

The Equivalent Availability Rate (MWh) is the entitlement analog of the Equivalent Availability Rate (Hours) and reflects the timing of the planned and forced (unplanned) outages during the year. As such, this metric relates directly to the revenue forecast.

**Benchmark**

CPC uses historic and forecast production levels based on internal data. The benchmark reflects an optimal scenario of reliable plant operation and efficiently addressing maintenance outages.

**Target**

The long-term target is to meet or exceed the benchmark.

**Benchmark**

>98.1% ALGS    >97.4% BRX

**Targets**

2009/10 (actual)	ALGS: >99.1%	BRX: >95.7%
2010/11	ALGS: >98.3%	BRX: >93.9%
2011/12	ALGS: >97.8%	BRX: >94.3%
2012/13	ALGS: >96.1%	BRX: >94.3%
2013/14	ALGS: >96.4%	BRX: >94.3%

**Discussion**

As the metric is entitlement-based, it is not comparable to external industry metrics, but is useful for CPC

purposes. As with the Equivalent Availability Rate (Hours) metric, major maintenance periods can vary in duration from those expected. Forced outages may increase during major equipment warranty periods, early plant lifecycle abnormalities, and after major maintenance activities.

**OBJECTIVE 2.2 OMA COSTS**

This metric is the Operations, Maintenance and Administration costs for each plant divided (net of allowance for outages) by entitlement energy for that plant, in dollars per megawatt hour. It is a key measure of plant operational cost efficiency.

**Strategy**

Columbia Power endeavours to manage its joint ventures effectively and efficiently. Under the terms of the long-term, fixed-price power sales agreements, CPC has limited ability to adjust the contract price to flow through cost increases. Brilliant is the exception. In that case, OMA costs flow through to FortisBC so CPC/CBT joint venture revenues are not impacted.

**Benchmark**

The Navigant study, which provides the benchmark, is currently being updated.

**Benchmark**

OMA Benchmark being updated

**Targets (\$ per MWh)**

2009/10 (actual)	ALGS: 4.5	BRX: 9.6
2010/11	ALGS: 5.0	BRX: 9.1
2011/12	ALGS: 6.7	BRX: 11.2
2012/13	ALGS: 7.7	BRX: 8.7
2013/14	ALGS: 8.1	BRX: 8.4

**Discussion**

CPC endeavours to deliver efficient management of

the CPC/CBT joint venture assets and to achieve OMA costs within industry norms.

**OBJECTIVE 2.3 REGULATORY COMPLIANCE (SAFETY AND ENVIRONMENT)**

**2.3.1 SAFETY**

**Strategy**

Health and safety is a core value of CPC. Our goal is to ensure every CPC employee and worker at CPC -managed projects and offices returns home from work safely. CPC has a Health and Safety Policy and has developed an Environment, Health and Safety Management System that is consistent with OHSAS (Occupational Health and Safety Assessment Series) 18001 to achieve this goal.

**Benchmark**

CPC uses two benchmarks:

- The Severity Measure, which is a standard Canadian Electrical Association (CEA) measure and is defined as the number of calendar days lost due to injury per 200,000 hours worked, and;
- The All Injury Frequency (AIF) which is another standard CEA measure and is defined as the number of lost-time injuries and medical aids occurring in the last 12 months per 200,000 hours worked.

The CPC statistics being benchmarked include those of contractors working on CPC projects and facilities. CPC will use the average CEA composite index for generation as a benchmark.

**Target**

CPC will target a severity and AIF less than the CEA benchmarks.

**Benchmark**

CEA Severity 16.08 AIF 2.08

**Targets**

	SEVERITY (Days)	AIF (Incidents)
2009/10 (actual)	Not available	Not available
2010/11	< or = to CEA benchmark	< or = to CEA benchmark
2011/12	< or = to CEA benchmark	< or = to CEA benchmark
2012/13	< or = to CEA benchmark	< or = to CEA benchmark
2013/14	< or = to CEA benchmark	< or = to CEA benchmark

**Discussion**

It is difficult to compare CPC with industry peers. CPC is a small organization with fewer exposure hours than other CEA reporting entities. Therefore, one or two incidents will result in large changes in the rates leading to greater volatility and making the identification of trends difficult.

**2.3.2 ENVIRONMENT**

**Strategy**

Environmental stewardship is also a core value of CPC. CPC has an Environmental Policy and has developed an Environment, Health and Safety Management System that is consistent with ISO 14001 to implement the policy.

**Benchmark**

The number of environmental incidents is one measure of environmental performance. However, apart from reportable spills, there is no standard definition of an “incident” or collection of industry statistics against which to benchmark. CPC’s Environment, Health and Safety Management System defines a major incident (environmental aspect) as one that “involves corrective action that requires off-site or third-party resources, or a breach of regulatory requirements.” For example, an

unauthorized fish mortality in the vicinity of the facilities would be considered a major environmental incident. Alternative, a reportable oil spill would also be considered a major environmental incident. CPC has averaged 1.5 major environmental incidents per year over the past six years.

**Target**

No more than one major environmental incident per year.

**Benchmark**

1.5 major environmental incidents per year

**Targets (Incidents)**

2009/10(actual)	3
2010/11	<= 1 major environmental incident
2011/12	<= 1 major environmental incident
2012/13	<= 1 major environmental incident
2013/14	<= 1 major environmental incident

**Discussion**

Most of the environmental incidents in the past few years have been related to white sturgeon at the Brilliant Expansion Generating Station. CPC has been developing and improving mitigation measures to reduce the risk of harm. A mitigation plan was submitted to the Department of Fisheries and Oceans in 2010.

**2.3.3 MANDATORY RELIABILITY STANDARDS**

**Strategy**

In 2009, BC Reg. 32/2009 was issued, mandating CPC and other generation and transmission entities to register with the British Columbia Utilities Commission and to file a mitigation plan confirming compliance with Mandatory Reliability Standards (MRS). Failure to comply with these standards could result in financial penalties and/or sanctions.

**Benchmark/Target**

No sanctionable events attributable to the CPC/CBT joint ventures.

**Benchmark**

No sanctionable events attributable to the CPC/CBT joint ventures.

**Targets**

2009/10 (actual)	Not applicable
2010/11	Zero sanctionable events
2011/12	Zero sanctionable events
2012/13	Zero sanctionable events
2013/14	Zero sanctionable events

**Discussion**

Pursuant to agreements between FortisBC and the joint ventures, as approved by the BCUC, FortisBC has assumed the role of managing MRS for the joint venture assets. In that capacity, they are in the process of filing mitigation plans. However, a residual exposure remains for the CPC/CBT joint venture assets.

**Goal 3 Effective Financial Planning**

Financial planning is important to gauge profitability, viability and resource capacity which together contribute to CPC’s financial sustainability. This broad goal is linked to four objectives:

1. Debt-service coverage ratio
2. Return on equity
3. EBITDA
4. Free cash flow

**OBJECTIVE 3.1 DEBT-SERVICE COVERAGE RATIO**

**Strategy**

The Debt-Service Coverage Ratio (DSCR) is a measure of creditworthiness used to determine an organization’s ability to service current debt, measured as net

income before interest and amortization of assets, divided by interest plus debt principal repayment. High debt service coverage ratios reflect an ability to raise additional limited-recourse project debt on favourable terms and also provide comfort on current debt service obligations.

**Benchmark**

The benchmark generally used by rating agencies to establish an investment grade bond rating is a debt service coverage ratio of 1.3 or greater.

**Target**

The target is to achieve an investment grade bond rating.

**Benchmark**

DSCR 1.3 or greater

**Targets**

2009/10 (actual)	Maintained Investment Grade Rating for all bonds
2010/11	Maintain Investment Grade Rating for all bonds
2011/12	Maintain Investment Grade Rating for all bonds
2012/13	Maintain Investment Grade Rating for all bonds
2013/14	Maintain Investment Grade Rating for all bonds

**Discussion**

Rating agencies review the ratings on existing bonds periodically. In addition, the Corporation anticipates Arrow Lakes Power Corporation will issue a new series of bonds secured by revenues from the Arrow Lakes Generating Station. The financing contemplates that Arrow Lakes Power Corporation will not achieve the benchmark DSCR for the fiscal years 2012 and 2013. To the extent it is not achieved, a liquidity reserve will provide security to bond holders during that period.

**OBJECTIVE 3.2 RETURN ON EQUITY**

**Strategy**

The corporation attempts to achieve a return on equity that is broadly consistent with similar projects in similarly regulated environments. Overall, the strategy is to maximize revenues generated through power purchase agreements with FortisBC, BC Hydro, Powerex and others, and to control costs associated with plant operations and related programs.

**Benchmark**

Suitable industry benchmarks are not readily available. The power projects must “back-end load” their return on equity. Regulated utilities such as BC Hydro and FortisBC have their return on equity set by the British Columbia Utilities Commission; however this is not the case with CPC.

**Target**

Overall, the objective is, over a project’s life, to earn a return comparable with that earned by regulated utilities. This measure reports return on equity, calculated as consolidated net income divided by consolidated equity (contributed surplus retained earnings).

**Benchmark**

Over the Life of a Project, Comparable to Regulated Utilities

**Targets**

2009/10 (actual)	5.4%
2010/11	5.6%
2011/12	4.4%
2012/13	4.1%
2013/14	4.0%

**Discussion**

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

**OBJECTIVE 3.3 EBITDA****Strategy**

EBITDA is "Earnings Before Interest, Taxes, Depreciation and Amortization." It is a measure of operating cash flow. EBITDA focuses on returns more directly influenced by management and excludes those factors over which management has limited or no influence.

EBITDA is particularly effective comparing the performance of the joint ventures year over year.

**Benchmark**

External benchmarks are difficult to identify because CPC, as a small, unregulated commercial Crown working within a large regulated environment, is unique. As an entity, in terms of financial benchmarks, CPC's corporate characteristics are somewhere between an Independent Power Producer and a large regulated utility. The growth targets below are therefore based on CPC's historic and forecast performance.

**Target**

A growth in EBITDA of 1% each fiscal year.

**Benchmark**

1% EBITDA growth

**Targets (\$ in thousands)**

2009/10 (actual)	36,851
2010/11	38,890
2011/12	38,991
2012/13	38,701
2013/14	38,738

**Discussion**

Growth in EBITDA should achieve target in Fiscal 2011 but falls in Fiscal 2012 due to operational requirements for the joint venture assets. Subsequent to 2012 target, growth is anticipated.

**OBJECTIVE 3.4 FREE CASH FLOW****Strategy**

Free cash flow is the amount of cash a company has left over after it has satisfied its obligations, including sustaining capital investments and debt service. Free cash flow is an important measure in determining availability of dividend payments. On a long-term basis, free cash flow is also a measure of funds available for future capital planning investments.

**Benchmark**

External benchmarks are difficult to identify because CPC, as a small, unregulated commercial Crown working within a large regulated environment, is unique. As an entity, in terms of financial benchmarks, CPC's corporate characteristics are somewhere between an Independent Power Producer and a large regulated utility. The cash flow targets below are therefore based on CPC's historic and forecast performance.

**Target**

The targets are described in the table below. The material negative cash flow during the years 2011/12 - 2013/14 reflects the significant cash outlay to fund CPC's interest in the construction of the Waneta Expansion Project. These will be offset by significant positive cash flow in the years following commissioning in 2015.

**Benchmark**

Consistent with target below

**Targets (\$ in thousands)**

2009/10 (actual)	14,455
2010/11	(31,096)
2011/12	(46,123)
2012/13	(59,347)
2013/14	(21,206)

## Summary Financial Outlook

### CONSOLIDATED STATEMENT OF INCOME FORECAST

\$ in thousands

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

	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Forecast			
<b>Revenues</b>					
Sale of power	45,984	48,167	31,627	31,999	32,738
Lease revenue			13,624	13,952	14,217
Operating revenue			5,538	5,654	5,773
EcoEnergy grant	2,110	2,103	2,103	2,103	2,103
Transmission facility revenue	1,565	1,300			
Interest	264	288	2,136	1,394	707
Management fee	1,643	1,081			
CPC Service Agreement		599	1,240	1,096	1,024
	<b>51,566</b>	<b>53,538</b>	<b>56,268</b>	<b>56,198</b>	<b>56,562</b>
<b>Expenses</b>					
Water rentals	5,545	6,123	6,251	6,383	6,517
Property tax	1,074	1,105	1,127	1,151	1,175
Operations and maintenance	2,531	3,068	3,773	3,895	3,958
Administration and management	4,419	3,275	5,011	4,932	5,016
Insurance	603	603	616	629	642
Grants in lieu	461	406	414	422	431
Community sponsorship	82	68	85	85	85
	<b>14,715</b>	<b>14,648</b>	<b>17,277</b>	<b>17,497</b>	<b>17,824</b>
<b>EBITDA</b>	<b>36,851</b>	<b>38,890</b>	<b>38,991</b>	<b>38,701</b>	<b>38,738</b>
<b>Finance charges</b>					
Amortization of capital assets in service	8,287	8,424	5,705	5,773	5,838
Amortization of rights	1,280	1,207	1,207	1,207	1,207
Interest on Project bonds	7,177	6,741	14,703	14,504	14,290
Financing costs	321	1,825	158	158	158
	<b>17,065</b>	<b>18,197</b>	<b>21,773</b>	<b>21,642</b>	<b>21,493</b>
<b>Net income</b>	<b>19,786</b>	<b>20,693</b>	<b>17,218</b>	<b>17,059</b>	<b>17,245</b>

All budget information documented in this Service Plan is consistent with that approved by government.

## Key Assumptions

Key assumptions affecting the forecast's performance measures targets are as follows:

- Operating cost inflation, including water rental increases is 2.1% per year. The Province recently amended the water rental regulation to change the indexing from BC Hydro electricity rates to inflation (Consumer Price Index).
- The long-term investment grade interest rate is 5.55%. If prudent, interest rate hedging will be used.
- CPC's dividends to the Province remain at current levels.
- Adequate resources are available to the corporation to achieve its forecast performance.
- Plant availability is as forecast.
- The Waneta Expansion project will be built on-schedule and on-budget.
- Capital and operating needs of the assets under management are as forecast.
- Forecast financial information after March 31, 2011 reflects the adoption of International Financial Reporting Standards, or IFRS, as CPC understands the impact of IFRS adoption at this time.

## Risk Factors and Sensitivities

CPC's assets provide stable streams of power and revenue. Factors that could affect the future rate of return include: payments to government, capital and operating needs of the assets under management, and subsequent regulatory and/or legislative changes imposed on existing or pre-approved assets.

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.

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

### RISK FACTORS AND SENSITIVITIES

Issue/Impact	How Managed
<b>Waneta Expansion On-Schedule</b>	<ul style="list-style-type: none"> <li>• Failure to adhere to construction schedule would negatively impact project revenues.</li> <li>• The design-build contract with contractor specifies commercial start-up dates with incentives for early completion and penalties for late completion.</li> <li>• CPC as project manager will oversee project.</li> </ul>
<b>Waneta Expansion On-budget</b>	<ul style="list-style-type: none"> <li>• Failure to adhere to budget would negatively impact project.</li> <li>• The majority of the construction cost-risk is transferred to the design-build contractor with performance-based penalties and incentives.</li> <li>• CPC as project manager will oversee project.</li> </ul>
<b>Regulatory risk</b>	<ul style="list-style-type: none"> <li>• Regulatory and/or legislative changes can impact existing assets.</li> <li>• CPC proactively intervenes in regulatory proceedings to protect its interests and monitors regulatory and legislative developments, and provides input into the development of legislation relevant to CPC's interests.</li> </ul>
<b>Brilliant Expansion sturgeon incidents and critical habitats</b>	<ul style="list-style-type: none"> <li>• Regulatory developments with regards to the <i>Species at Risk Act</i> could impact plant operation.</li> <li>• CPC is involved in industry association and policy groups to proactively manage regulatory risks such as Fisheries Act and Species at Risk legislation.</li> </ul>

## RISK FACTORS AND SENSITIVITIES

	Issue/Impact	How Managed
<b>Plant Reliability</b>	<p>Plant availability has large impact on forecasted revenues. Unanticipated O&amp;M cost increases and capital requirements will impact net revenues.</p> <p>If ALGS plant outage factor were to increase by 1 percentage point, revenues and net income would decline by \$327,000 in 2010/11.</p> <p>If BRX plant outage factor were to increase by 1 percentage point, revenues and net income would decline by \$327,000 in 2010/11.</p>	<ul style="list-style-type: none"> <li>Plant outage risk for the Brilliant facility is transferred to FortisBC Inc. as the power purchaser/plant operator. All power projects also carry business interruption, property and liability insurance.</li> <li>Plant operations and maintenance is overseen by CPC.</li> </ul>
<b>Attracting and Maintaining Key Staff</b>	<p>CPC requires the organizational capacity to effectively manage all existing facilities and the Waneta Expansion.</p>	<ul style="list-style-type: none"> <li>CPC has established HR strategies and compensation plans to keep and attract key staff.</li> </ul>
<b>First Nations and Community</b>	<p>Relationships with First Nations and Local Communities should be enhanced to ensure CPC's social licence in Region.</p>	<ul style="list-style-type: none"> <li>Both groups are the focus of CPC Community Relations and are regularly engaged.</li> </ul>
<b>WAX Transmission Line (plant to Selkirk substation)</b>	<p>Schedule and budget dependent upon finalization of landowner issues for Right of Way access.</p>	<ul style="list-style-type: none"> <li>Active negotiations underway with landowners and settlement of outstanding issues anticipated by end of 2011.</li> </ul>
<b>Property Taxation</b>	<p>The CPC/CBT share of the Waneta Expansion expects to be permitted to pay grants-in-lieu of property taxes pursuant to an Order in Council. Failure to obtain the expected Order in Council will negatively impact project economics.</p>	<ul style="list-style-type: none"> <li>Columbia Power has previously obtained Orders in Council exempting Arrow Lakes Generating Station and the Brilliant Expansion from property tax but instead pays grants-in-lieu of tax.</li> <li>Columbia Power is working with the Ministry of Energy and the Ministry of Finance on obtaining the OIC.</li> </ul>
<b>Geographical Challenge</b>	<p>Maintaining connections with government and industry.</p>	<ul style="list-style-type: none"> <li>Regular effective communications with government and industry.</li> </ul>

## Capital Plan

### CONSOLIDATED CAPITAL SPENDING (FORECAST)

(in thousands)

	2009/10	2010/11	2011/12	2012/13	2013/14
	Actual	Forecast			
Arrow Lakes Power Corporation	165	314	438	259	150
Brilliant Expansion Power Corporation	379	314	280	328	334
Brilliant Power Corporation	1,434	2,513	1,189	1,049	1,204
Waneta Expansion	5,253	36,125	63,085	76,790	38,631
CPC Corporate	431	195	847	354	361
<b>Total</b>	<b>7,662</b>	<b>39,461</b>	<b>65,839</b>	<b>78,780</b>	<b>40,680</b>

## Liquidity and Sources of Capital

CPC has a Financing Plan for the Waneta Expansion utilizing debt from Arrow Lakes Power Corporation and operating cash flows. This Plan has been approved by the Minister of Finance (December 13, 2010.) All other cash flow requirements may come from internal cash flows.

## 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.

### Canadian Electricity Association (CEA)

An association of industry participants involved in the generation, transmission, distribution and sales of electricity in Canada.

### Canal Plant Agreement

An agreement between BC Hydro, FortisBC Inc., Teck, Brilliant Power Corporation, Brilliant Expansion Power Corporation and Waneta Expansion Limited Partnership 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) and another in Montana (Libby). 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 licenses and the safety of water-retaining structures.

### Debt service coverage ratio (DSCR)

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

### Debt-to-equity ratio

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

### Department of Fisheries and Oceans (DFO)

A Federal department that supports sustainable use and development of Canada’s waterways for the management of fisheries and federal waters.

### 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.

### Downstream benefits

The extra power that is generated at United States power plants on the Columbia River that results from the operation of Columbia River Treaty storage dams located in Canada. Under the Columbia River Treaty signed in 1964, the Province of British Columbia owns one-half of this incremental power, called “Canadian Entitlement to the Downstream Benefits.” The Province sold the first 30 years of these benefits to a group of United States utilities for US \$254 million. The money helped pay for the construction of the three Treaty dams in Canada.

### Energy entitlement ratio

The ratio of a project’s actual energy entitlements to maximum entitlements.

### 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, licenses 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, health and safety 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 and health and safety policies.

**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% 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 credit 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-hour (MWH)**

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

**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.

**Operation, maintenance and administration (OMA)**

The cost of operating and maintaining power plants, along with the related administration costs. OMA does not include amortization, taxes, interest or insurance.

**Occupational Safety and Health Assessment Series (OSHAS) 18001 Standard**

A health and safety management system.

**Owner's Representative**

The Owner's Representative is designated by the Owner to act as a single point of contact for the Contractor with respect to the prosecution of the Work.

**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 the use of water.

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