



BC Hydro Service Plan 2008/09 – 2010/11

letter from the chair and president and ceo to the minister



Mossadiq S. Umedaly, Chair



Bob Elton, President and CEO

**The Honourable Richard Neufeld
Minister of Energy, Mines and Petroleum Resources**

Dear Minister,

On behalf of the Board of Directors and employees of BC Hydro, we are pleased to submit BC Hydro's Service Plan for fiscal years 2008/09 to 2010/11. This plan outlines the business environment in which our company operates and defines our long-term goals and short-term priorities for the next three years. It also discusses the risks we face today and in the future, and the measures and targets we currently use to evaluate our performance.

This plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The Board is accountable for the contents of the plan, including the selection of performance measures and targets, and for ensuring that BC Hydro achieves the specific goals and strategies identified in it. The plan is consistent with the Province's goals, and takes into account all significant assumptions, policy decisions and identified risks as of January 2008.

This has been an active and exciting period for BC Hydro as we continued to implement a number of measures aimed both at reducing our incremental load growth through conservation and at providing a long-term supply of clean energy to achieve electricity self-sufficiency by 2016.

The Province's *BC Energy Plan: A Vision for Clean Energy Leadership* aligns with many of the initiatives BC Hydro has been undertaking over the past few years. Among the Energy Plan's action items, BC Hydro will be focusing on meeting 50 per cent of our incremental resource needs through conservation and efficiency by 2020. We also will ensure that all new electricity projects developed by BC Hydro – or purchased from independent power producers (IPPs) – will have zero net greenhouse gas emissions, and that the generation of clean or renewable electricity continues to account for at least 90 per cent of total generation, placing the province among the top jurisdictions in the world.

Also in alignment with the 2007 Energy Plan, BC Hydro launched a Standing Offer Program for small-sized generation projects last year, while our new Clean Power Call sets out to contract for up to 5,000 gigawatt hours of energy per year – enough to power 500,000 households. In the fall, BC Hydro delivered the Stage One report on the proposed Site C hydroelectric project, and we have begun consulting with communities, stakeholders and First Nations to further explore this resource option. In addition, we have been fully engaged applying the lessons learned from last year's storms to increase the resiliency of our system and improve our communication tools to respond even more effectively to severe outages.

Like other utilities across North America, BC Hydro is experiencing cost pressures driven by ageing infrastructure, the high cost for new energy supplies, labour shortages and increasing environmental regulatory compliance requirements.

BC Hydro also faces a widening gap in the amount of electricity that we can supply from existing resources and what is being demanded by our growing population and robust economy. Strong measures are required to ensure we have sufficient, reliable power for generations. This includes implementing aggressive conservation and efficiency initiatives, adding more supply to our system through IPPs, maintaining and expanding our Heritage Assets, and investing in our distribution and transmission systems.

To help address these challenges, in February 2008, BC Hydro will file a Revenue Requirements Application with the BC Utilities Commission (BCUC), which will seek rate increases over two years across all rate classes. The additional revenue will go toward:

- implementing new conservation and efficiency programs and acquiring additional clean and renewable energy to meet increasing demand
- upgrading and expanding our infrastructure to ensure the long-term security of our electricity supply
- continuing to maintain and improve BC Hydro's personnel and infrastructure safety
- preparing for a shrinking labour pool by investing in hiring and retaining highly qualified employees, and
- meeting our obligations for First Nations consultation and implementing agreements.

BC Hydro recognizes that any rate increase can be a challenge to our customers, so our focus is to ensure our operations run as efficiently and effectively as possible. In addition, BC Hydro will continue to promote a culture of conservation and encourage more aggressive conservation through our Power Smart programs. These include programs for customers that will help mitigate and potentially offset the impact of rate increases.

Thanks in large part to our Heritage Assets, BC Hydro customers will continue to benefit from some of the lowest rates in North America, even with the combined effect of these rate adjustments.

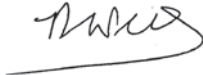
In this year's Service Plan, we also remain focussed on our short-term priorities. These include enhancing our safety performance, improving reliability (customer and supply), addressing climate change and improving electricity conservation and efficiency, meeting our financial targets, maintaining customer satisfaction, and developing our people.

While we pursue our ambitious short-term priorities and long-term objectives, BC Hydro is committed to fulfilling our primary purpose, which is to provide clean, reliable power at low cost for generations.

Sincerely,



Mossadiq S. Umedaly
Chair



Bob Elton
President and CEO

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organizational overview

Mandate

BC Hydro, established under the *Hydro and Power Authority Act*, is a provincial Crown corporation and one of the largest electric utilities in Canada. BC Hydro's mandate is to generate, purchase, distribute and sell electricity. We receive guidance from the shareholder through several policy instruments, including a Shareholder's Letter of Expectations and the 2002 and 2007 Energy Plans from the Provincial Government.

BC Hydro is regulated by the British Columbia Utilities Commission. Under the *Utilities Commission Act*, the BCUC is responsible for ensuring that customers receive safe, reliable and non-discriminatory energy services at fair rates from the utilities it regulates, that shareholders of these utilities are afforded a reasonable opportunity to earn a fair return on their invested capital, and that the competitive interests of B.C. businesses are not frustrated.

Purpose

BC Hydro's purpose is to provide "Reliable Power, at Low Cost, for Generations." This purpose provides the context for all of our business decisions:

- **For Generations** confirms BC Hydro's commitment to sustainability in managing our business. This means making long-term decisions and, when necessary, balancing trade-offs along the environmental, social and financial bottom lines.
- **Reliable Power** means that BC Hydro maintains sufficient energy supply and the capability to deliver it safely to customers when it is needed.
- **Low Cost** means that our operations are at the forefront of business success. This is achieved by being fiscally prudent, and always considering environmental and social costs.

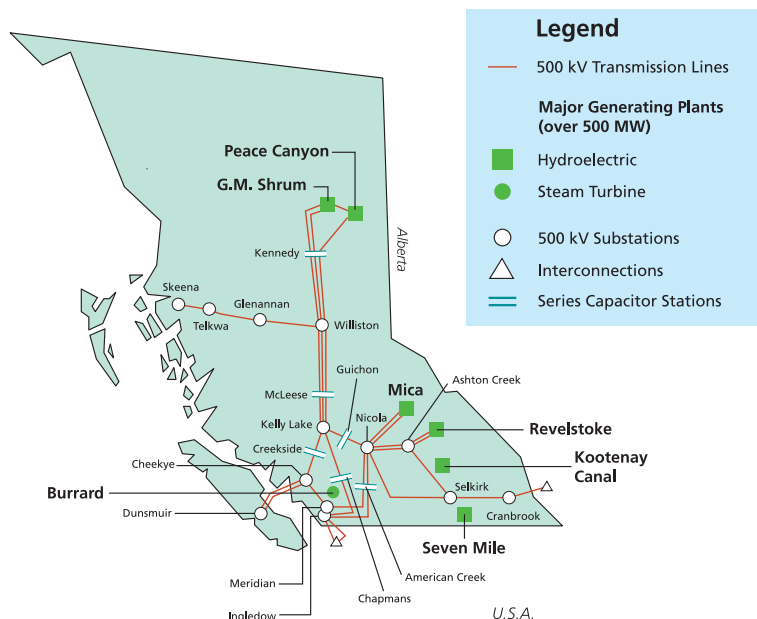
System

As part of fulfilling our mandate and purpose, BC Hydro operates 33 generating facilities, most located well away from the province's major population centres.

Our 30 hydroelectric installations are located mainly on the Peace and Columbia river systems and on the Pacific Coast. Combined, they provide between 43,000 and 54,000 gigawatt hours (GWh) of electricity per year, accounting for approximately 90 per cent of total generation. BC Hydro's three thermal power plants contribute the remaining 10 per cent of generation. Together, our thermal and hydroelectric facilities have an installed capacity of approximately 11,300 megawatts (MW).

We deliver electricity to our customers through a network of more than 74,000 kilometres of transmission and distribution lines.

BC Hydro also serves 17 communities – known as "non-integrated areas" – that are not linked to our transmission network. They are typically small, remote communities, served either by local generating stations owned by BC Hydro, IPPs or the communities themselves.



BC Hydro serves the province with offices in more than 50 communities and corporate centres in Burnaby and Vancouver.

organizational overview

To meet the growing demand for electricity, BC Hydro also contracts with IPPs and buys externally through wholesale electricity markets. We make market purchases through Powerex, our energy marketing and trading subsidiary.

Customers

BC Hydro has over 1.7 million domestic customer accounts, with geographic coverage accounting for 93 per cent of all British Columbians. More than 88 per cent of our customer accounts are residential customers, with the remainder either commercial or industrial consumers. Each of these three groups consume roughly one third of the total electricity supplied.

Rates and Regulation

BC Hydro charges for electricity used by our domestic customers based on rates approved by the BCUC. Rates are set to allow us to recover all approved costs incurred in serving our customers, including earning a return on equity. Both the definition of equity and the method to determine an appropriate return on this equity are defined by Special Directions from the B.C. Government. These Special Directions calculate our allowed return on equity to equal, on a pre-income tax basis, that of the most comparable investor-owned utility in B.C. The Special Directions also require annual dividend payments to the B.C. Government of 85 per cent of our net income, adjusted for capitalized finance charges and related amortization.

Rates are established through BC Hydro's Revenue Requirements Applications and Rate Design Applications:

- A Revenue Requirements Application (RRA) provides justification for the revenues we expect we will need to serve our customers during a number of years. After a public review of the application, the BCUC determines the level of revenue that BC Hydro is able to recover from our ratepayers. BC Hydro will file its latest Revenue Requirements Application for the two years commencing April 1, 2008 with the BCUC in February 2008.
- A Rate Design Application (RDA) is prepared periodically to update our rates and terms and conditions of providing service to our customer classes to ensure that rates are fairly applied across rate classes and that no rate class subsidizes another. The RDA is revenue neutral to BC Hydro.

BC Hydro filed its first RDA since 1991 on March 15, 2007. The application provided an updated foundation upon which to base future rate design proposals that are in line with BC Hydro's overall strategic direction, including the promotion of energy conservation and efficiency.

Following a public hearing in July, the BCUC issued its final decision on our 2007 application in October; this decision included a number of determinations aimed at rebalancing rates among customer groups over the next three years.

In addition, BC Hydro's 2008 Long-Term Acquisition Plan (LTAP) will set out actions to be taken over the next 10 years as BC Hydro builds on existing plans to meet the 2007 Energy Plan's objectives and ensures that we continue to provide reliable, cost-effective long-term service to our customers. The 2008 LTAP will provide an electricity demand and supply gap analysis, an update on potential resource options, and a new Demand Side Management plan. We expect to file the 2008 LTAP with the BCUC in the spring of 2008.

The BCUC has a regulatory process for reviewing BC Hydro's capital plans that requires the BCUC to determine whether any project greater than \$50 million is in the public interest. This is consistent with the *Budget Transparency and Accountability Act*, which requires public disclosure of a Major Capital Project Plan for any project over that amount.

Strategic Partners

British Columbia Transmission Corporation

The British Columbia Transmission Corporation (BCTC) is a provincial Crown corporation that is responsible for planning, operating and managing BC Hydro's transmission system.

The BCTC is regulated by the BCUC and, upon receiving Commission approval, expands and upgrades transmission infrastructure. While BCTC operates the transmission network, system assets (excluding Control Centres) remain under BC Hydro's ownership, with BC Hydro retaining the responsibility for funding transmission capital expenditures and for First Nations and transmission property rights matters.

organizational overview

Independent Power Producers

BC Hydro contracts with IPPs to provide energy to meet our customers' needs, consistent with the Province's 2002 Energy Plan.

Currently, BC Hydro has 87 Electricity Purchase Agreements (EPAs) with IPPs on the integrated system and four EPAs in the non-integrated areas representing over 15,000 GWh per year of energy purchases. For the 91 active contracts, 44 of the projects are in operation, with the remainder expected to reach commercial operation by the end of 2010. During F2007, IPPs provided 6,041 GWh of energy to the BC Hydro system, which accounted for about 12 per cent of total domestic electricity requirements.

BC Hydro will continue to conduct best-in-class competitive call processes and targeted actions to obtain clean and renewable electricity. We will also continue to work with the B.C. Government, IPPs and our customers to improve the procurement process for electricity and to work collaboratively with the IPP industry in designing call terms and conditions and competitive acquisition processes.

UPCOMING CALLS FOR POWER

BC Hydro is in the process of developing three different calls for power. All Electricity Purchase Agreements awarded under these calls must be accepted by the BCUC.

CLEAN POWER CALL

The Clean Power Call will acquire up to 5,000 GWh per year of clean energy from larger projects using proven technologies.

STANDING OFFER

The Standing Offer call is for clean electricity projects with a capacity of 10 MW or less. The Standing Offer will allow small projects to sell power to BC Hydro at a fixed price with standard contract terms and conditions. We will launch the Standing Offer Program in early 2008.

BIOENERGY CALL

In March 2007, BC Hydro issued a Request for Expressions of Interest to identify potential bioenergy projects using residual wood for power production, and received more than 80 submissions in response. We solicited additional input from these prospective proponents and key stakeholders, and continue to work closely with the Ministry of Energy, Mines and Petroleum Resources and the Ministry of Forests and Range to develop the terms of a formal Bioenergy Call. We anticipate launching the program in the spring of 2008.

Accenture Business Services for Utilities

BC Hydro outsources many of its customer care, information technology, human resources, financial systems, purchasing, and building and office services to Accenture Business Services for Utilities (ABSU). ABSU provides BC Hydro with quality service, value and long-term cost reductions.

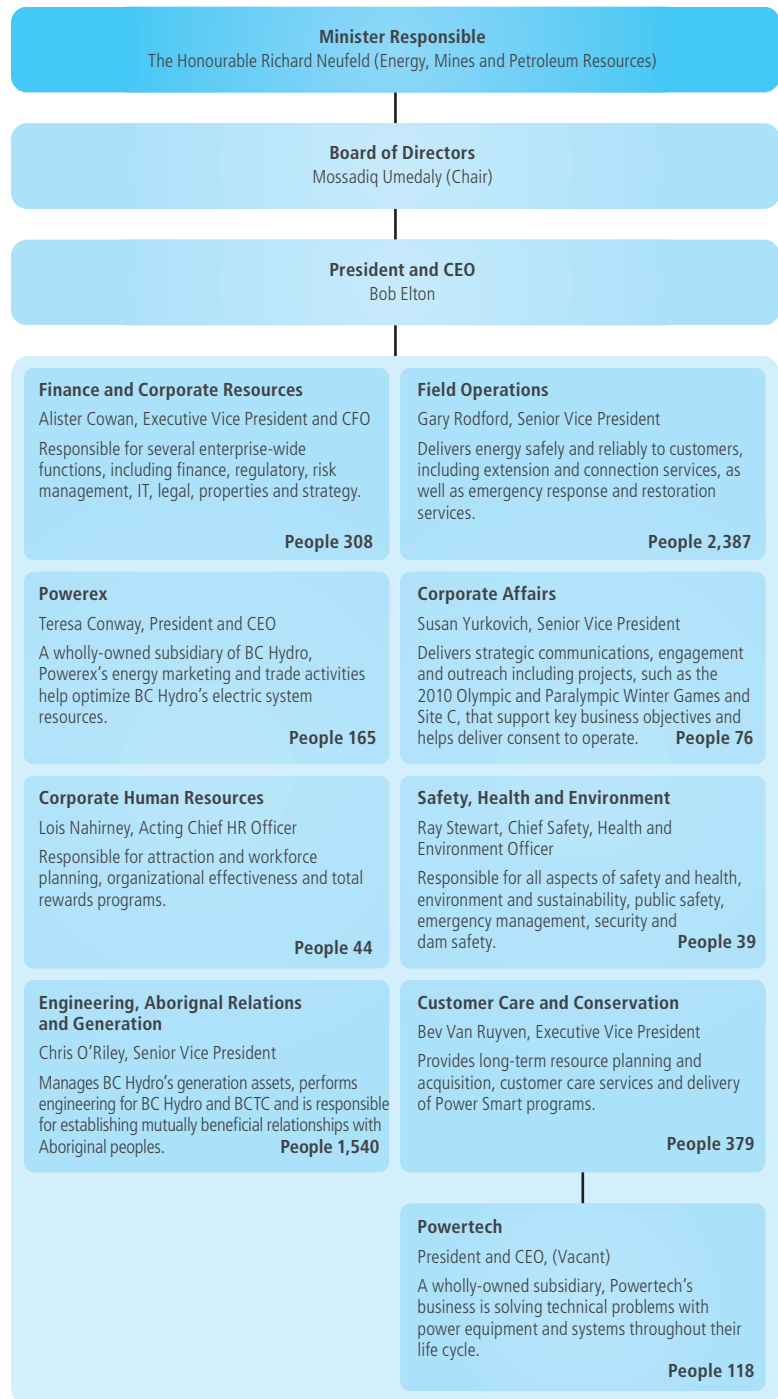
corporate governance

The BC Hydro Board of Directors oversees the conduct of business and supervises management, which in turn is responsible for the day-to-day operations of BC Hydro. Directors are appointed by the Government to bring special skills and experience to Board deliberations. They have a broad set of responsibilities:

- To ensure there is a strategic and business planning process, and then review, question, validate and endorse strategy for the Corporation and monitor its implementation.
- To have a continuing understanding of the risks associated with the Corporation's business. The Board reviews risks through the Audit and Risk Management Committee and the Human Resources Committee. However, risks associated with dam safety are reviewed by the full Board.
- To ensure sufficient controls and governing procedures are in place as part of its oversight of management.

A Shareholder's Letter of Expectations describes the B.C. Government's high-level performance expectations and strategic priorities for BC Hydro's Board and Management. The current letter can be found at <http://www.bchydro.com/policies/openness/openness747.html>.

The Board acts in accordance with the Best Practices Guidelines Governance and Disclosure Guidelines for Governing Boards of BC Public Sector Organizations, which can be found at <http://www.lcs.gov.bc.ca/brdo/governance/>.



corporate governance

Board of Directors

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

Chair: Mossadiq Umedaly

Members: Stephen Bellringer, Wanda Costuros, Elmer Derrick, Brenda Eaton, Nancy Olewiler, Walter Saponja, Tracey McVicar

Audit and Risk Management

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

Chair: Wanda Costuros

Members: Brenda Eaton, Nancy Olewiler, Walter Saponja

Corporate Governance

Purpose: The Corporate Governance Committee assists the Board by ensuring that BC Hydro develops and implements an effective approach to corporate governance, which enables the business and affairs of the Corporation to be carried out, directed and managed with the objective of enhancing shareholder value.

Chair: Brenda Eaton

Members: Stephen Bellringer, Wanda Costuros, Elmer Derrick

Human Resources

Purpose: The Human Resources Committee assists the Board in fulfilling its obligations relating to senior management human resource and compensation issues, and monitors safety performance.

Chair: Nancy Olewiler

Members: Stephen Bellringer, Elmer Derrick

Conservation Task Group

Purpose: The Conservation ad hoc task group of the Board of Directors assists the Board by monitoring and supporting the implementation of an energy conservation strategy as described in the 2007 Energy Plan.

Chair: Brenda Eaton

Members: Nancy Olewiler

strategic context

British Columbia's decision to develop its natural hydro-electric potential through the construction of large dams from the 1960s to the 1980s has contributed to the emergence of the Province as an economic leader.

However, BC Hydro's generation facilities are no longer sufficient to meet the electricity needs of British Columbia's growing economy. While BC Hydro has taken several steps already to address this issue, the B.C. Government recently provided further policy guidance on a comprehensive approach to energy resources.

Government Direction

2007 Energy Plan

On February 27, 2007, the B.C. Government released *The BC Energy Plan: A Vision for Clean Energy Leadership*. Building on the 2002 Energy Plan, the 2007 Energy Plan looks to all forms of clean alternative energy – as well as energy conservation and efficiency – in meeting the future energy needs of British Columbians.

The plan sets an ambitious goal for BC Hydro to acquire 50 per cent of incremental resource needs through energy conservation and efficiency by 2020, while at the same time requiring that:

- all new electricity projects developed in B.C. will have zero net greenhouse gas emissions
- existing thermal generation power plants will reach zero net greenhouse gas emissions by 2016
- there will be zero greenhouse gas emissions from coal-fired electricity generation, and
- clean or renewable electricity generation will continue to account for at least 90 per cent of total provincial generation, placing the province among the top jurisdictions in the world.

The plan also commits the province to being electricity self-sufficient by 2016. To help ensure energy security, BC Hydro will:

- establish a standing offer for projects up to 10MW, a clean power call, and a bioenergy call for independent power producers, and
- with the Province, enter into initial discussions with First Nations, the Province of Alberta and communities to discuss the potential development of a new dam at Site C on the Peace River.

2002 Energy Plan

At the same time, the previous plan – the Province's 2002 Energy Plan, *Energy for Our Future: A Plan for B.C.* – continues to guide our long-term strategy in conjunction with the 2007 Energy Plan. BC Hydro has implemented all 14 policy action items related to BC Hydro, and continues to act on seven action items as an integral part of our business:

Completed Items	Ongoing Items
Establish a Heritage Contract	Ratepayers benefit from trade (up to \$200 million)
Ensure public ownership of Generation, Transmission & Distribution	BC Utilities Commission regulation of BC Hydro rates
Implement BC Hydro outsourcing of non-core services	New supply acquired on a least cost basis (supplemental requirements included within the 2007 Energy Plan)
Review of Vancouver Island Generation Project	Private sector for new supply and BC Hydro improves existing plants
Complete 2004 Integrated Electricity Plan	Choice of electricity supplier by large customer
Separate distribution and generation lines of business	Voluntary target of 50 per cent clean energy from new energy supply (superseded by the 2007 Energy Plan)
Formation of BC Transmission Corporation	New rate structures for large customers to encourage energy efficiency

strategic context

Shareholder's Letter of Expectations

The Shareholder's Letter of Expectations describes the relationship between BC Hydro and the B.C. Government, and sets out objectives the shareholder wishes BC Hydro to achieve. The Province and BC Hydro review the letter annually and update it as required. Directions outlined in the most recent letter, dated June 2006, focus on accountability, energy conservation, stakeholder consultation, private sector support, supply options, electricity trading and government relations. This Service Plan sets out the actions BC Hydro will undertake in response to these directions. Information about our progress on these directions will be provided in BC Hydro's 2007/08 Annual Report.

Climate Change

On November 29, 2007, the B.C. Government passed Bill 44, the *Greenhouse Gas Reduction Targets Act*. The act puts into law British Columbia's target of reducing greenhouse gas (GHG) emissions by at least 33 per cent below 2007 levels by 2020, and by at least 80 per cent below 2007 levels by 2050. The government will set realistic, economically viable interim targets for 2012 and 2016 by the end of 2008.

The act requires provincial ministries and agencies, schools, colleges, universities, health authorities and Crown corporations (including BC Hydro) to become carbon neutral by 2010 and to make public a report every year detailing the actions they have taken towards carbon neutrality.

CARBON NEUTRALITY

BC Hydro is identifying measures and developing a plan to achieve the targets to reduce the greenhouse gas emissions created by our operations, including our vehicles and buildings. This will be completed by March 31, 2008. We are also looking for opportunities to support all other public sector organizations in developing energy efficiency measures that will help us all meet the Province's carbon neutral goal. In addition, we will invest in carbon offsets through the Carbon Trust starting in 2010.

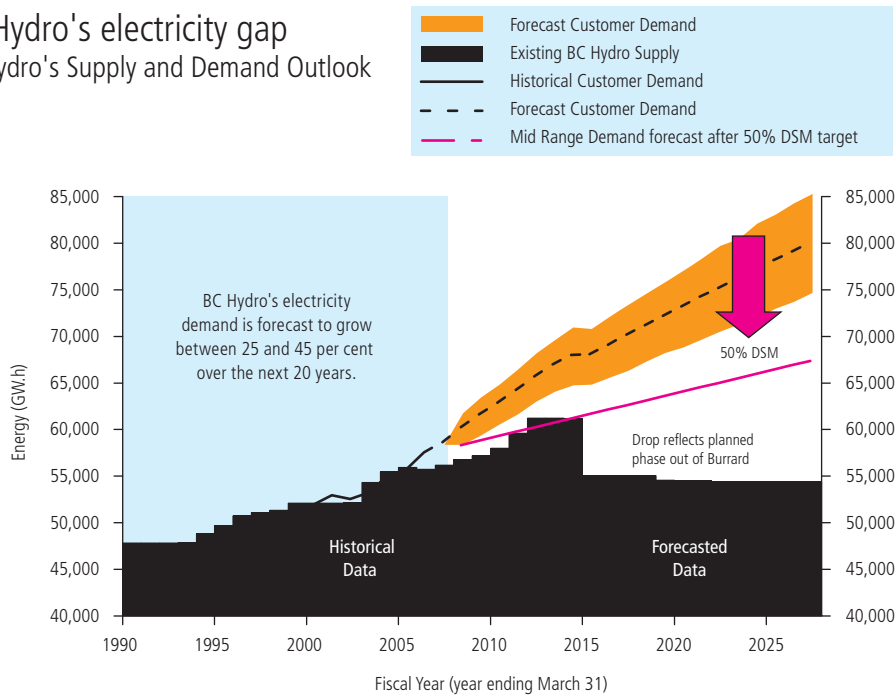
Opportunities and Risks

Security of Our Electricity Infrastructure and Supply

BC Hydro has been a net importer of electricity in recent years, with imports accounting for approximately 10 to 15 per cent of demand. However, with our existing transmission infrastructure, there are physical limits on the amounts we can import or export. There also are increasing transmission constraints in the Pacific Northwest region of the United States that could affect our future ability to import and export electricity. Against this backdrop, our latest forecasts of supply and demand for electricity illustrate that demand will grow by 25 to 45 per cent by 2025 if we do not implement energy conservation and efficiency measures.

strategic context

BC Hydro's electricity gap BC Hydro's Supply and Demand Outlook



As at July 2007

DSM – Energy Conservation and Efficiency through Demand Side Management.

No decision on the future of the Burrard Thermal Generating Station has been made. However, the resulting drop in energy from the phase out represents 6,100 GWh per year.

BC Hydro is working to fill the gap between supply and demand in alignment with the 2007 Energy Plan by:

- **Conserving More and Becoming More Efficient**

BC Hydro is expanding Power Smart programs to engage citizens and businesses across the province to realize the financial and environmental benefits of reducing energy consumption and increasing efficiency.

- **Reinvesting in Our Heritage Assets**

We are reinvesting in our Heritage Assets to prolong their life and, where possible, add additional energy and capacity. BC Hydro has already started to expand the generation capabilities of our existing dams through the maintenance and refurbishment of our Heritage Assets and to examine the potential of new hydro generation facilities. In addition, we are working with our transmission partner, BCTC, to expand our ability to deliver electricity where it is needed. All of these endeavours will require significant capital investments to keep up with the province's economic growth.

- **Purchasing Renewables**

BC Hydro will be buying more power from IPPs using clean or renewable resources such as hydro, wind, biomass, solar and geothermal projects. We do, however, face some challenges in IPP development, including the long lead-time for developing generation assets, increased construction costs, interconnection/transmission constraints and permitting issues.

- **Investigating Other Large Scale Options**

Examining large-scale resource options to meet demand in the 10- to 20-year planning horizon and to add capacity when needed to facilitate bringing renewables on-line.

- **Rates**

BC Hydro will be seeking rate increases across all rate classes to reflect the increasing costs of providing reliable electricity to our growing economy and population. These proposed rate changes are critical to BC Hydro being able to provide long-term security of our electricity supply. BC Hydro recognizes that any rate increase can be a challenge to our customers, so our focus is to ensure our operations run as efficiently and effectively as possible. In addition, we will continue to promote a culture of conservation and encourage more aggressive conservation through our Power Smart programs. These include programs for customers that will help mitigate and potentially offset the impact of rate increases.

strategic context

First Nations Consultation and Agreement Implementation

To fulfill our mandate, it is sometimes necessary for BC Hydro to acquire rights for the use of First Nation lands. Because almost all of British Columbia's lands are currently subject to land claims by First Nations, they may own more B.C. lands as their land claims are settled. It is essential for us to establish and maintain good relationships with First Nations to ensure our existing and future supply of energy, especially in light of emerging court decisions and the government's commitment to First Nations as part of the New Relationship.

We have also made key advances in encouraging economic opportunities for Aboriginal people and ensuring the benefits of BC Hydro activity are distributed equitably across the province by implementing an Aboriginal Contract and Procurement Policy and an Aboriginal Education and Employment initiative.

We continue to work with Tsay Keh Dene Band and Kwadacha First Nation in the Peace River Valley to reach a final agreement on negotiations aimed at addressing the historic impact of flooding from the Williston reservoir.

Safety

Delivering electricity safely means protecting the public and our employees and deterring any threats to the electrical system – including vandalism or terrorism – while anticipating and responding to the impacts of natural disasters. It also means integrating safety in everything we do, from initial design through construction, operation, maintenance and final delivery of electricity to the public.

BC Hydro will continue to work toward our goal of having the best employer safety record in any industry, while ensuring no serious injuries occur. We will also continue to prepare for emergencies by developing and testing appropriate response plans in coordination with other authorities and organizations.

Over the past year, we completed an extensive, independent safety panel assessment to benchmark our approach to safety. The assessment revealed that our safety performance continues to compare well against other industries in British Columbia and against our national utility peers, but requires improvement when viewed relative to the highest industrial safety performance in Canada and around the world. We have made hazard identification and risk assessment a primary focus. Our objective is to find a better way to identify safety hazards so that they can be either eliminated or better managed and controlled – thereby reducing risk of harm to employees, contractors and the public at large.

People

The supply of labour is a significant issue for BC Hydro as well as for other utilities and businesses across North America: approximately 30 per cent of BC Hydro's workforce is eligible to retire in the next five years. While we have made progress in addressing this issue, strong economies, particularly in British Columbia and Alberta, are making it difficult to find workers. Skilled workers, operational managers and qualified trades people are in short supply across the local and Canadian employment marketplace. The cost of living in many British Columbia communities also poses a challenge to recruitment, as does the geographic isolation of some BC Hydro locations. While recognizing these inherent challenges, we do expect to increase our workforce to support our business objectives in the next several years. To do this, we remain focused on programs to attract, train, motivate and retain the best people, creating a positive and diverse workplace. Failing to develop our people capacity presents significant risk to our ability to execute our plans.

long-term goals and short-term priorities

BC Hydro's vision of how to fulfill our mandate and purpose over the next 20 years is guided by our 15 long-term goals. These goals are described in detail in *BC Hydro's Annual Report: Reporting on Triple Bottom Line Performance*.

Long-Term Goals

- Reliability (Customer)
- Reliability (Supply)
- Customer Satisfaction
- Remote Community Electrification
- Workplace
- Teamwork
- Safety
- First Nations Relationships
- Suppliers
- Environmental Impact
- Climate Change, Energy Conservation and Efficiency
- Financial Targets
- Western Opportunities
- Innovation and Technology
- Stakeholder Engagement

Short-Term Priorities

While BC Hydro works towards each of the long-term goals, we have identified a number of short-term priorities to help us meet the immediate challenges of the next three years. This year we have included Climate Change, Energy Conservation and Efficiency as a sixth short-term priority, reflecting its importance within our 20-year vision and the B.C. Government's strategic direction.

1. **Safety:** To provide the safest work environment compared with the best performers in any industry.
2. **Reliability (Customer and Supply):** To provide electricity self-sufficiency (energy and capacity) in B.C. for meeting all domestic needs, and to have the best-in-class reliability by customer segment.
3. **Climate Change, Energy Conservation and Efficiency:** To develop and foster an energy conservation and efficiency culture in B.C. that utilizes technology to lead customers to choose a dramatic and permanent reduction in the use of electricity.
4. **Financial Targets:** To maintain the existing position of having costs among the lowest in North America and to deliver 100 per cent of forecast net income on an annual basis.
5. **Customer Satisfaction:** To lead by offering extraordinary value and service.
6. **People:** To be the top employer for generations and to use exceptional teamwork to engage all employees.

The strategies, measures, and targets developed for each short-term priority are outlined in the next section.

strategies, performance measures and targets

BC Hydro uses a number of measures to guide business performance and progress, evaluate whether a particular short-term priority is on track and identify where adjustments may be required. We track Service Plan metrics internally each month and report performance results to the Province and the public in our annual report.

In conjunction with the Auditor General’s “Building Better Reports” initiative, BC Hydro has developed assurance standards for performance measures. We use these standards when conducting periodic internal audits on performance measures. BC Hydro’s Audit and Risk Management Committee of the Board reviews all internal audits. In addition, BC Hydro participates in a number of benchmarking studies to determine where improvement may be required.

BC Hydro’s Executive Team and the Board of Directors have reviewed the performance measures and targets in this Service Plan to ensure that they are the right indicators to support our six short-term priorities. We have made a number of changes to our reporting framework to provide a more balanced overview of our performance. The changes were the result of a detailed review of BC Hydro’s balanced scorecard approach to ensure it:

- reflects the range of objectives that BC Hydro has to consider in our decision making
- is well used within the utility sector to aid benchmarking, and
- allows the combined assessment of financial, operational, environmental and other customer metrics.

Changes to previously reported metrics and the list of new measures for F2009 are noted below. In addition to these adjustments, we are developing an additional metric to quantify the overall environmental impact of our operations for inclusion in our 2009/10 – 2011/12 Service Plan.

Measures Discontinued for F2009	Additional Measures for F2009
<p>Safety No changes</p>	<p>Safety None added</p>
<p>Reliability (Customer) Average System Availability Index (ASAI) – discontinued Customer Experiencing Longest Interruption Duration (CELID-6) – discontinued</p>	<p>Reliability (Customer) System Average Interruption Frequency Index (SAIFI)</p>
<p>Reliability (Supply) No changes</p>	<p>Reliability (Supply) None added</p>
<p>Climate Change, Energy Conservation and Efficiency No changes</p>	<p>Climate Change, Energy Conservation and Efficiency Greenhouse Gas Emissions – under development Clean Energy – under development Environmental Impact – under development</p>
<p>Financial No changes</p>	<p>Financial Efficiency Return on Assets Return on Regulatory Deemed Equity Earnings Before Interest and Taxes (EBIT) Interest Coverage Debt to Generally Accepted Accounting Principles (GAAP) Equity</p> <p>Operational Efficiency Operations, Maintenance, General and Administrative costs (O.M.G.&A.) (non fuel) per Megawatt Hour O.M.G.&A. (non fuel) per Transmission and Distribution Line Kilometre O.M.G.&A. (non fuel) per Customer Operating Cash Flow Post Dividend to Net Capital Expenditure Transmission and Distribution Capital Expenditure per Transmission and Distribution Line Kilometre Total Factor Productivity</p>
<p>Customer Satisfaction No changes</p>	<p>Customer Satisfaction Billing Accuracy First Call Resolution – under development</p>
<p>People No changes</p>	<p>People Vacancy Rate</p>

1. Safety

Provide the safest work environment compared with the best performers in any industry, where not one of our employees experiences a serious work-related injury.

BC Hydro is committed to integrating safety in all we do. Our safety commitments extend beyond our employees and work places to protecting the public. We achieve this by using an effective system of risk mitigation through quality design, construction, maintenance, and education programs. Delivering electricity safely involves keeping a well maintained electrical system out of reach, deterring an array of threats such as vandalism and theft, while anticipating and responding to the impacts of natural disasters such as storms, floods and forest fires. BC Hydro's emergency preparations include developing and testing appropriate response plans in coordination with other authorities and organizations.

BC Hydro's safety performance continues to compare well with others in B.C. industry and national utility peers as measured through the Canadian Electricity Association (CEA). However, when compared with the highest industrial safety performance in Canada and around the world, there remains opportunity for improvement.

Near-Term Strategies

Over the next three years, our aim is to achieve a reduction in the frequency of serious work-related injuries, such as electrical contacts and falls from height. We will do this by:

- identifying hazards and eliminating them where possible, and
- managing and controlling hazards through the use of barriers, procedures and other measures when hazards cannot be eliminated, to minimize the risks to our employees.

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
Severity <i>(Number of days lost due to injury per 200,000 hours worked)</i>	31	25	30	25	23	20
All Injury Frequency <i>(Number of Injuries per 200,000 hours worked)</i>	2.4	1.9	2.49	2.4	2.3	2.2

Description	Rationale/Benchmarks
<p>Severity is a standard CEA measure and is defined as the number of calendar days lost due to injury, per 200,000 hours worked.</p> <p>All Injury Frequency (AIF) is also a standard CEA measure and is defined as the total number of employee medical aid and disabling injuries occurring in the last 12 months per 200,000 hours worked. Medical aid injuries are those where a medical practitioner has rendered services beyond the level defined as first aid and the employee was not absent from work after the day of the injury. Disabling injuries are those where the employee is absent beyond the day of injury.</p> <p>These definitions align with the U.S. Occupational Safety and Health Administration standards for safety statistics.</p>	<p>We have set these safety performance targets in recognition of our goal to reduce the frequency of serious injuries. Once we have reduced the serious injury frequency over the next two to three years, we will shift our focus to less serious and minor injuries and we expect the AIF will then start to reduce more quickly. For comparison, in 2006 the CEA composite AIF was 2.84 while Severity was at 17.6.</p>

2. Reliability (Customer and Supply)

Reliability (Customer)

Provide best-in-class reliability by customer segment.

Customer reliability means the delivery of an uninterrupted supply of electricity to BC Hydro customers as measured at the point of delivery, usually a customer's meter.

Customers currently report a high level of satisfaction with overall system reliability.

BC Hydro uses two industry-standard measures – CAIDI (Customer Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index) – to monitor the overall performance of the system. BC Hydro also uses the customer-focused CEMI (Customers Experiencing Multiple Interruptions) to measure actual interruptions as experienced by customers, not just system-wide averages, in order to focus efforts on customers experiencing lower levels of reliability. All three of these performance measures assess reliability performance during normal operating conditions, excluding major storms and other events such as forest fires. However, as was evident during the winter of 2006, major storms can significantly affect our customers and communities. In response, BC Hydro has developed a five-year Storm Resiliency Program (see Near-Term Strategies below).

Near-Term Strategies

BC Hydro's new Customer-Based Reliability strategy focuses on meeting specific customer needs while attempting to maintain overall system reliability at historic and reasonable levels. As part of this strategy, over the next three years we will focus on:

- building awareness and understanding – within BC Hydro and in the community – of what our customers need and expect, and the importance of notifying our customers quickly about outages and safety risks, as well as when their power might be restored
- developing the Storm Resiliency Program to strengthen those circuits that are most susceptible to storms
- assessing and investing in circuits with poor reliability, where either the frequency or duration of outages exceeds a reasonable minimum level of performance to reduce the number of customers experiencing multiple outages
- using life-cycle analysis to assess the condition and capability of assets (such as wires, poles and cables) and identify opportunities to deliver more reliable service, and
- delivering the Smart Metering Infrastructure Project (see inset box, **Section 3** on page 18).

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
CAIDI (hours)	2.16	2.15	2.15	2.15	2.15	2.15
SAIFI (frequency)	1.33	1.22	1.35	1.31	1.27	1.22
CEMI-4 (%)	7.30	10	10	9	8	7

Note: Annual targets are based on data that excludes major events. The F2007/08 SAIFI forecast, based on September year-to-date actual, is higher than target due to unexpected customer interruptions in Vancouver, Burnaby, Victoria and a number of districts in the Interior.

Description	Rationale/Benchmarks
CAIDI is the average interruption in hours per interrupted customer.	BC Hydro participates in an annual Transmission and Distribution Benchmarking Study conducted by PA Consulting. In F2007, BC Hydro's reliability performance (CAIDI and SAIFI including major events) ranked in the fourth quartile relative to other leading Canadian and U.S. utilities participating in the study. It must be noted that BC Hydro's vast service territory, as well as the province's terrain, weather and vegetation, significantly affect our ability to cost-effectively achieve higher overall levels of reliability.
SAIFI is the average number of times that a customer experiences an outage during a year.	
CEMI-4 is the percentage of customers experiencing four or more outages during a given time period.	

Reliability (Supply)

Meet all domestic needs.

Reliability of supply means ensuring all the infrastructure components are available and ready to generate electricity for our customers. Generating facilities include BC Hydro's Heritage Assets, IPPs and other contracted generators.

Near-Term Strategies

Over the next three years, we will work to:

- ensure generation Heritage Assets maintain reliability targets
- manage our peak load supply reliability by minimizing the amount of unit outages during the winter peak period
- secure firm market energy (electricity and gas) for domestic peaks
- expand our load curtailment programs with customers as contingencies for winter capacity supply
- return the sixth unit at the Burrard thermal generating station to service in 2008, and
- advance various power acquisition processes and initiatives to ensure incremental supply is in place to meet future needs.

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
Winter Generation Availability Factor (%)	96.24	96.20	96.00	96.20	96.30	96.40

Description	Rationale/Benchmarks
<p>Winter Generation Availability Factor is a percentage of units in the system available to generate electricity (hours available for service/total hours) during the critical peaking period of November 15 to February 15.</p>	<p>This performance measure gauges the reliability of our hydro generation fleet over the critical winter peak period when demand is greatest due to cold weather. Units become unavailable during this time primarily due to unexpected forced outages as well as scheduled outages required to maintain them. This measure drives the need for us to complete all major maintenance in the non-critical period and to minimize outages during the critical peak periods. BC Hydro is not currently aware of any external benchmarks that are suitable for comparison with the Winter Generation Availability Factor, and uses historical trend information to track performance.</p>

3. Climate Change, Energy Conservation and Efficiency

Develop and foster an energy conservation and efficiency culture in B.C. that leads to customers choosing to make a dramatic and permanent reduction in the use of electricity.

Demand-side management is a critical part of our strategy to address our electricity gap and reduce energy costs and environmental impacts.

By lowering provincial electricity demand, BC Hydro will:

- decrease the need for costly new supply
- manage our existing resources more efficiently
- avoid additional adverse effects on the environment
- increase customer satisfaction
- lower energy bills for consumers, and
- support more sustainable communities for the future of British Columbia.

Greenhouse gas emissions, and their effect on climate change, are an increasing concern. BC Hydro is developing a comprehensive strategy to evaluate our contribution to meeting the Province's greenhouse gas reduction goals and establishing corporate targets to reduce emissions.

Near-Term Strategies

Over the next three years, we will implement a new 20-year Demand-Side Management (DSM) plan that will include:

- developing and implementing new electricity rate structures
- supporting the development and adoption of new building codes and standards
- deploying smart metering to all customers by 2012
- implementing community strategies such as the Community Challenge, Turn it Off Tour and Power Smart Champions programs
- developing key partnerships and engaging stakeholders to begin to shift public behaviour
- stimulating innovation through the advancement of new energy efficiency technologies and practices
- building the capability of the marketplace to respond to increased demand for energy efficient products and services, and
- increasing the existing portfolio of successful Power Smart programs.

In addition, we will address greenhouse gas emissions by:

- developing an emissions inventory verification and reporting system
- identifying, quantifying, implementing and tracking GHG reduction opportunities
- meeting regulatory requirements and pursuing offsets as required, and
- participating in forthcoming regulatory mechanisms resulting from the Province's involvement in the Western Climate Initiative.

SMART METERING INFRASTRUCTURE

The Smart Metering Infrastructure (SMI) Project will provide new smart metering technology to approximately 1.7 million residential and commercial BC Hydro customers by 2012.

The new meters will take accurate readings at regular intervals throughout the day and then automatically collect and transmit the information to BC Hydro and to customers' in home displays. Through this innovative communication, customers will be able to see exactly how much electricity they consume and when (enhancing energy conservation and efficiency initiatives in conjunction with new rate structures), while BC Hydro will be able to bill customers more accurately based on time (improving customer satisfaction). More accurate and timely readings will also allow us to better manage supply and demand and increase reliability of supply. In addition, SMI will help facilitate net metering options with customers in the future.

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
Energy Conservation and Efficiency						
Demand-Side Management (DSM) <i>(GWh/year, cumulative since F2008)</i>	N/A	300	300	700	1,250	1,950
Climate Change						
Clean Energy ⁽¹⁾	N/A	N/A	N/A	TBD	TBD	TBD
GHG Emissions ⁽¹⁾	N/A	N/A	N/A	TBD	TBD	TBD
Environmental Impact ⁽²⁾	N/A	N/A	N/A	TBD	TBD	TBD

⁽¹⁾ We have not formally established targets for these metrics as the definition and regulations require clarification from the B.C. Government; we will include targets in the 2009/10 – 2011/12 Service Plan.

⁽²⁾ We have not formally established targets for this metric as the definition is still under development; we will include targets in the 2009/10 – 2011/12 Service Plan.

Description	Rationale/Benchmarks
DSM reflects the cumulative rate of annual electricity savings resulting from DSM activities such as energy conservation and efficiency, and load displacement. Since the inception of the program in F2002 through F2007, the program has saved a cumulative total of 2,500 GWh; a new start year was commenced in F2008 to align with targets outlined in the 2007 Energy Plan. The values provided here are preliminary; they will be updated as part of BC Hydro's LTAP filing in the spring of 2008.	The annual cumulative targets align with the 2007 Energy Plan's 50 per cent energy conservation and efficiency target. This target, in turn, corresponds to a target of 10,000 GWh savings by 2020, which includes additional savings that will be derived from changes to building code standards.
Clean Energy measurement will be established in accordance with the B.C. Government's provincial goal that 90% of electricity generation in the province should be clean or renewable electricity.	Work is ongoing on to develop targets for BC Hydro that reflect this goal.
GHG Emissions targets will be established in accordance with Provincial guidelines originating from the 2007 Energy Plan and the <i>Greenhouse Gas Reduction Targets Act</i> to ensure we meet all regulatory requirements and demonstrate leadership in GHG management.	We have included this measure as it represents the most significant environmental impact attributed to most utilities.
Environmental Impact is intended to measure the comprehensive impact of BC Hydro operations on the environment.	Work is ongoing on to develop targets for BC Hydro that reflect this goal.

4. Financial Targets

Maintain low costs for electricity customers in B.C. over the long term, while consistently delivering 100 per cent of forecast net income.

We want to deliver on our financial targets for both our shareholder and our customers. As the shareholder, the Province's interest is in achieving a stable and predictable return on its investment in BC Hydro. Our customers are interested in maintaining low electricity rates without compromising safety, reliability or environmental performance.

Near-Term Strategies

BC Hydro expects to file its next Revenue Requirements Application with the BCUC in February 2008. BC Hydro is seeking a cumulative general rate increase of 15.3 per cent over the two-year period F2009 to F2010 in order to:

- acquire additional clean and renewable energy as well as higher cost market purchases to meet increasing demand
- upgrade and expand our infrastructure to ensure the long-term security of our electricity supply
- meet our obligations for First Nations consultation and implementing agreements
- continue to maintain and improve BC Hydro's personnel and infrastructure safety, and
- prepare for a shrinking labour pool by investing in hiring and retaining highly qualified employees.

Over the next three years, we will also work to:

- manage the short-term cost of energy by optimizing decisions of "buy versus generate"
- optimize the long-term cost of energy by implementing the 2006 Integrated Electricity Plan and the Long-Term Acquisition Plan, which include conducting future competitive market calls for energy from IPPs in order to get the best price for energy
- enhance prioritization, execution and reporting of capital spending across BC Hydro while upgrading and maintaining our Heritage Assets
- implement productivity projects focusing on rationalizing IT systems, procurement and work management processes, and
- implement a new 20-year demand side management plan.

Over the long-term, these strategies are aimed at sustaining a cost advantage by:

- making good business decisions that enhance productivity
- delivering an effective capital investment program
- procuring new supply at a low total cost, and
- optimizing BC Hydro's balance sheet and cost of capital.

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
Financial Efficiency						
Net Income (\$ in millions)	\$407	\$365	\$370	\$358	\$402	\$444
Return on Assets (%)	6.9	6.4	7.1	5.6	5.9	5.7
Return on Regulatory Equity (%)	13.44	11.64	11.72	11.78	11.78	11.78
EBIT Interest Coverage	1.85	1.60	1.88	1.41	1.40	1.39
Debt to GAAP Equity (%)	80	80	80	80	80	80

Note: The Return on Assets, EBIT interest coverage, and Debt to GAAP equity targets are declining as a result of the increasing capital expenditures program needed to address our ageing infrastructure and increasing demand from customers. The capital program is financed primarily through debt. As BC Hydro is a regulated utility we recover our cost of service (amortization expenses, finance charges, etc.) through tariff rates. As the service lifetimes of our assets are long, we only recover a portion of the capital expenditures each year through our rates. As a result, our income increases by less than our capital assets.

For Return on Regulatory Equity, under Order in Council Nos. 027 and 028, approved on January 17, 2008, the Province amended the definition of equity for regulatory purposes. This is explained in the Financial Outlook Summary section.

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
Operational Efficiency						
O.M.G&A. (non fuel)/ MWh Delivered ⁽¹⁾	\$12.38	\$10.28	\$10.45	\$12.27	\$12.92	\$13.05
O.M.G&A (non fuel)/ Transmission and Distribution Line km ⁽¹⁾	\$8,845	\$7,463	\$7,515	\$8,973	\$9,532	\$9,669
O.M.G&A (non fuel)/Customer ⁽¹⁾	\$377	\$317	\$320	\$377	\$396	\$397
Operating Cash Flow Post Dividend to Net Capital Expenditure (%)	32	35	49	40	38	37
Transmission & Distribution Capital Expenditures/Transmission and Distribution Line km	\$7,309	\$8,628	\$9,397	\$13,711	\$12,130	\$12,950
Total Factor Productivity (%)	N/A	N/A	N/A	1.0	1.0	1.0

⁽¹⁾ Excludes DSM, Site C, and other regulatory expenditures as these are not related to efficiency.

Note: The operational efficiency targets are declining due to cost pressures that are facing similar industries and utilities. Rising operating and maintenance costs reflect the growing number of customers we serve and the higher costs of labour, contractors and materials. While facing these growth and inflationary pressures, BC Hydro plans to undertake a number of initiatives in the forecast period to address reliability issues resulting from an ageing system as well as the ramifications of an ageing workforce and First Nation relationships.

Description	Rationale/Benchmarks
Net Income is defined as total revenue less total expenses after regulatory account transfers, and represents the net impact of key economic and business factors that affect BC Hydro's performance. Regulatory account transfers reflect the financial impact of the factors beyond BC Hydro's control (such as water volatility, market prices, etc.).	Net Income targets are based on the latest forecast and reflect expected rate increases required to enable BC Hydro to cover its costs and earn its allowed return on equity. Rate increases for F2009 to F2011 are still preliminary. Because it represents the basis of performance monitoring, shareholder's return and staff incentive plans, this measure is regarded by BC Hydro as a key measure.

Description	Rationale/Benchmarks
<p>Return on Assets (ROA) is defined as earnings from continuing operations before interest and income taxes divided by the average of beginning and end of total assets.</p>	<p>ROA measures the return relative to the size of the asset base used to generate this return and indicates how effectively the assets are being employed. ROA is a frequently used measure in the sector and is on a GAAP basis for comparability. This measure is benchmarked against comparable entities.</p>
<p>Return On Regulatory Equity is defined as earnings from continuing operations before income taxes divided by average of beginning and end of year equity.</p>	<p>Commonly used in the sector and to determine the profitability of many enterprises across the economy, this measures the return relative to the equity investment and indicates the financial profitability of the investment. This measure is benchmarked against comparable entities.</p>
<p>EBIT (Earnings Before Interest and Taxes) Interest Coverage is defined as earnings from continuing operations before interest and income taxes divided by gross interest incurred before subtracting capitalized interest and interest income.</p>	<p>EBIT Interest Coverage measures the company's ability to meet interest expense from operations. Long-term projections of this ratio provide an indication of the company's long-term financial viability. This is a measure of cash interest coverage and is used within the utilities sector and by financial analysts. This measure is benchmarked against comparable entities.</p>
<p>Debt to GAAP Equity appears in various forms including a debt divided by debt plus equity ratio.</p>	<p>Debt to GAAP Equity is a commonly used measure in the financial community, being of interest to sector analysts, rating agencies and finance providers. It measures the leverage in the company and is used in the regulation of electricity companies in some jurisdictions. This measure is benchmarked against comparable entities.</p>
<p>Operations, Maintenance, General and Administration (O.M.G.&A.) (non fuel)/ MWh Delivered is defined as a measure of operating costs per unit of energy delivered to domestic customers.</p>	<p>This measure is used in monitoring the electricity sector for cost efficiency in Australia and Canada. This measure is benchmarked against comparable entities. Operating Costs include General and Administration costs to ensure comparability with publicly available data, as most comparable entities do not separately disclose the amounts of Operations, Maintenance, General and Administration costs.</p>
<p>Operations, Maintenance, General and Administration (O.M.G.&A.) (non fuel)/ Transmission and Distribution Line km is a sector standard unit cost measure based on the total line kilometres for the network business.</p>	<p>This measures the operating costs per total transmission and distribution line kilometres to account for density of customers being served. It is benchmarked against comparable entities. Operating Costs include General and Administration costs to ensure comparability with publicly available data, as most comparable entities do not separately disclose the amounts of Operations, Maintenance, General and Administration costs.</p>
<p>Operations, Maintenance, General and Administration (O.M.G.&A.) (non fuel)/ Customer is a unit cost measure based on the total number of customers served.</p>	<p>This measure is another of the key drivers of cost in the electricity sector. Combined with Operating Costs per MWh delivered and Operating Costs per Transmission and Distribution Line km, it is possible to form a view of BC Hydro's performance across the range of metrics and check against anomalous companies (for example, against companies with very low customer density). It is benchmarked against comparable entities. Operating Costs include General and Administration costs to ensure comparability with publicly available data, as most comparable entities do not separately disclose the amounts of Operations, Maintenance, General and Administration costs.</p>
<p>Operating Cashflow Post Dividend to Net Capital Expenditure is a measure of the ability of a utility business to fund its capital expenditure requirements out of operating cash flows, post dividends.</p>	<p>This measures the retained operating activities cash flows (after working capital changes and dividends paid) against the capital expenditures net of customer contributions in aid of construction. It is benchmarked against comparable entities.</p>
<p>Transmission and Distribution Capital Expenditures/Transmission and Distribution Line km is a measure of the level of investment in the transmission and distribution network.</p>	<p>This measure is included to measure the extent to which BC Hydro's network assets are being maintained and enhanced. It is used in Australia and the UK, and is benchmarked against comparable entities. To ensure comparability and data availability for benchmarking, the Transmission and Distribution capital expenditures are gross capital expenditures including both growth and sustaining capital expenditures.</p>
<p>Total Factor Productivity is the increase, period over period, of the ratio of a pre-defined set of outputs to inputs.</p>	<p>TFP is an integrated performance measure used in the electricity sector in the UK, USA and Australia.</p>

5. Customer Satisfaction

Lead by offering extraordinary value and service.

Customer satisfaction level is a key indicator of how well our customers feel we are performing. Since customers' needs and expectations change over time, we must continually focus on improvement while maintaining core service levels during times of change to ensure that customer satisfaction remains strong. Because BC Hydro is operating in a changing business environment – and is facing such challenges as an increasing gap between supply and demand, a labour shortage and the need to invest in our ageing infrastructure – we will need strong customer support for the strategies required to meet these challenges.

Near-Term Strategies

The near-term strategies required to ensure we consistently deliver excellent performance include:

- improving service in high customer contact areas by improving outage communication, contact centre interactions, BC Hydro website content and functionality, customer issues resolution and claims processes and customer understanding of electricity and the services BC Hydro provides
- building our understanding of customers through research, sophisticated segmentation and feedback mechanisms, best practice reviews and benchmarking
- promote Power Smart programs to assist customers in reducing their energy costs
- ensure employees understand the customer experience and how their actions create optimal customer value and satisfaction
- developing a Customer Experience Framework, and
- closely managing change with our customers through clear, targeted communications, well-planned implementation, and excellence in our customer service operations.

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
CSAT Index <i>(Percentage of customers satisfied and very satisfied)</i>	89 ⁽¹⁾	80	80	80	80	80
Billing Accuracy <i>(Percentage of bills that are accurate)</i>	98.5	98.2	98.2	98.2	98.2	98.2
First Call Resolution ⁽²⁾ <i>(Percentage of customer calls resolved first time)</i>	N/A	N/A	N/A	TBD	TBD	TBD

⁽¹⁾ BC Hydro introduced a new method for calculating the CSAT index in F2008. This figure represents only the Q4 F2007 CSAT results using the new methodology. Due to its short measurement duration, it may not necessarily be indicative of future performance.

⁽²⁾ We have not formally established targets for this metric; we will include forecasts in the 2009/10 – 2011/12 Service Plan.

Description	Rationale/Benchmarks
<p>CSAT is defined as an equally weighted index of the key drivers of customers' satisfaction with BC Hydro. These drivers include providing reliable electricity, value for money, commitment to customer service, acting in the best interest of British Columbians and efforts to communicate with customers and communities. The CSAT metric is based on total customer satisfaction (per cent of customers who are satisfied or very satisfied on a four-point verbal scale). Customers are divided into three segments: residential, small and medium sized business, and key accounts; all three segments are equally weighted.</p>	<p>BC Hydro maintains a minimum threshold target of 80% for customer satisfaction level to ensure that we have strong customer support and consent to operate. Although customer satisfaction levels have historically been strong, we anticipate that it will take focused effort to ensure this continues in a changing and challenging business environment.</p> <p>In F2007, BC Hydro benchmarked customer satisfaction levels against both electric utilities in North America and a group of non-electric B.C. companies with which our customers are familiar. Findings showed BC Hydro's satisfaction level compared favourably with results in the top quartile. We will complete an update to this result in F2009.</p>
<p>Billing Accuracy is defined as the accuracy of invoices sent to customers. This is the percentage of invoices that are accurately calculated based on a customer's consumption and do not require adjustment or rebilling.</p>	<p>Billing accuracy is a core expectation of customers; therefore, targets are set to deliver consistently high performance.</p>
<p>First Call Resolution is defined as the percentage of customer calls that are resolved during the first contact with a call centre agent, without the need for additional investigation or follow-up.</p>	<p>First call resolution is a best in class call centre measure that assesses customer service operations as a whole in terms of accurate, timely information flow, agent capability and quality, and a satisfying customer experience at a transactional level.</p>

6. People

To be a top employer for generations.

BC Hydro is undertaking a number of intensive strategies in order to respond to the impact of labour shortages during a time of organizational growth, changing retirement patterns, and an evolving business environment. We are focusing on enhancing how we attract, train, motivate and retain the best people, and support a positive and diverse workplace environment. We are also increasing employee engagement to support the achievement of our long-term goals and short-term priorities.

Near-Term Strategies

Over the next three years, we will:

- manage need by continuing to improve organization-wide workforce planning and forecasting capability as well as pursue job redesign, skills upgrading and retraining to support the introduction of new technology
- expand talent by deploying our targeted outreach sourcing strategy and Aboriginal Education and Employment strategy to attract a more diverse workforce and by increasing our focus on international recruiting for hard to fill positions
- attract talent by hiring early replacements for critical roles to allow for knowledge transfer as well as continuing to leverage our Employee Referral Program
- grow talent by continuing to strengthen our leadership team through a focus on leadership coaching and development, succession planning and career pathing and by expanding our apprentice and trainee programs, and
- retain talent by delivering consistent and timely employee on-boarding and orientation programs, conducting a review of our Total Rewards programs (which includes base pay, variable pay, benefits, pension and other related incentive programs) and further involving our people in “once in a lifetime” opportunities and challenges, including addressing the energy gap and supporting the 2010 Olympic and Paralympic Winter Games.

Performance Measure	Actual F2006/07	Target F2007/08	Forecast F2007/08	Target F2008/09	Target F2009/10	Target F2010/11
Vacancy Rate (%)	9.0	10.2	10.2	9.9	9.6	9.3
Employee Engagement (% index score out of five on an employee survey)	N/A ⁽¹⁾	3.50	3.50	3.55	3.60	3.65

⁽¹⁾ BC Hydro moved the annual employee survey from February to November of each year to better align the timing with other work demands. We did not conduct a survey in F2007.

Description	Rationale/Benchmarks
<p>Vacancy Rate is calculated as a percentage of the number of vacancies in progress (replacement or additional positions actively being recruited for internally and externally) to the sum of BC Hydro’s headcount plus the number of vacancies in progress. The year-end result is calculated by averaging the month end rates at the end of each quarter.</p>	<p>Vacancy Rate is an indicator of an organization’s people management, which includes its reputation as an employer, employee morale and turnover, competitiveness, and the effectiveness of recruitment processes. The vacancy rate provides a high level metric that is subject to considerable variation based on factors such as organizational growth, internal personnel movement, employee demographics and external market conditions. As such, it must be interpreted within the context of the timeframe being measured.</p>
<p>Employee Engagement is the mean score (out of five) of survey questions.</p>	<p>Employee Engagement is a consistent element of all the working definitions of “Best Employer” we have reviewed. The level of employee engagement is indicative of both employee satisfaction and productivity across the company and can be measured by means of an employee survey.</p> <p>BC Hydro compares the employee engagement scores to those published by Work Canada. For comparison, the Employee Engagement score for 2006 Work Canada was 3.50 overall, while the Energy and Utility segment was 3.49.</p>

financial outlook summary

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

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

In F2007, BC Hydro provided \$739 million in transfers to the Province. This amount includes water rental fees (royalties paid for the use of provincial water resources), provincial and municipal property taxes and grants-in-lieu of taxes, and BC Hydro's annual dividend to the B.C. Government. In addition, BC Hydro's retained earnings increased by \$76 million.

Cost Drivers

BC Hydro's most significant costs for supplying domestic needs are the variable cost of energy and capital investment costs related to maintaining and expanding assets.

The single largest cost is the cost of energy to meet customer demand. This includes the cost of net market energy purchases, natural gas costs, IPP purchases, water rental fees and transmission costs. On average, the cost of energy makes up between 40 and 45 per cent of BC Hydro's overall domestic costs. Upward pressure on this cost driver comes from the requirement for new energy supplies to meet the growth in customer demand: new supplies are significantly more expensive than electricity from our Heritage Assets.

BC Hydro's amortization costs and finance charges, derived from the capital investment needed to ensure the ongoing reliability of our assets and new assets to meet growing demand, account for around one-third of all domestic costs. The main pressures on these cost drivers are BC Hydro's ageing assets, system expansion due to increasing customer demand, increasing debt levels and market interest rates.

More specifically:

Growth

BC Hydro expects that, if B.C.'s strong economy and population growth continue as forecast, this growth will result in:

- further increases in energy demand
- increased cost of new energy to meet the demand compared with the cost of energy from existing Heritage Assets
- increased capital expenditures and operating costs for Heritage Assets on the Peace and Columbia river systems, to maintain and expand the capacity of the transmission, distribution and generation systems, and
- more spending on demand-side management programs to increase the efficient use of electricity and achieve our target of meeting 50 per cent of our incremental resource needs through energy conservation and efficiency.

Reliability

BC Hydro's assets are ageing and many components of the system are nearing the end of their useful lives. We are therefore exposed to increased risk of equipment failure and reduced service reliability to our customers. To maintain existing assets and keep them operating effectively, BC Hydro expects to:

- increase capital expenditures to refurbish ageing assets, resulting in higher amortization and finance charges
- increase maintenance expenditures to minimize equipment outages
- invest in system hardening to cope with storm events, and
- increase our vegetation management in response to the risk posed by storm events and the Mountain Pine Beetle within the distribution system.

Economic Factors

We expect short-term interest rates to increase over the long term. With approximately 36 per cent of our debt subject to short-term rates, this will have an adverse impact on finance charges. BC Hydro's variable rate debt of 36 per cent represents an optimal portfolio for its given level of risk, which meets the objective of maximizing the value of the corporation while minimizing the volatility in finance charges on a long-term basis. It is based on periodic review with external consultants.

Due to construction market pressures, BC Hydro is already experiencing significant increases in labour and contractor rates and equipment costs, and we expect this to continue in the medium term.

Financial Performance and Key Assumptions

BC Hydro's operations are subject to a range of risks and uncertainties; actual financial results may differ materially from those described in this Service Plan. It is also important to consider the following when assessing BC Hydro's financial performance:

Rate Strategy

BC Hydro expects to file its next Revenue Requirements Application with the BCUC in February 2008. BC Hydro is seeking a cumulative general rate increase of 15.3 per cent over the two-year period F2009 to F2010 in order to:

- acquire additional clean and renewable energy as well as higher cost market purchases to meet increasing demand
- upgrade and expand our infrastructure to ensure the long-term security of our electricity supply
- meet our obligations for First Nations consultation and implementing agreements
- continue to maintain and improve BC Hydro's personnel and infrastructure safety, and
- prepare for a shrinking labour pool by investing in hiring and retaining highly qualified employees.

Any requested rate increase requires the approval of the BCUC. We expect a decision on our application in Fall 2008.

Capital Structure

Under Order in Council Nos. 027 and 028, approved on January 17, 2008, the Province amended the definition of equity defined in Special Directions HC1 and HC2. The amended equity definition is now consistent with Canadian Generally Accepted Accounting Principles (GAAP) and no longer includes deferred revenue, contributions arising from the Columbia River Treaty, and contributions from customers in aid of construction. BC Hydro's equity under the GAAP definition would currently only include retained earnings.

The amended Special Directions deem BC Hydro's equity for rate setting purposes to be 30 per cent of the total of average debt and average equity balances for the year. The impact of this change is an approximately \$45 million reduction from F2008/09 through F2010/11 in the revenue required to meet BC Hydro's allowed return.

Under existing Special Direction HC1, the payment to the Province (dividend) is reduced if the payment causes BC Hydro's debt to equity ratio to exceed 80:20. As a result of the change in the definition of equity, BC Hydro's debt to equity ratio will exceed 80:20 in the plan years and will therefore reduce the payment to the Province by approximately \$500 million over the plan years (F2009 – F2011). This will not affect the inclusion of BC Hydro's net income into the Province's consolidated financial statements.

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

- provide reliable electricity service
- meet all of its financial obligations
- comply with government policy directives, and
- achieve an allowed annual rate of return.

Regulatory Deferral Accounts

BC Hydro has four main regulatory deferral accounts:

- Heritage Payment Obligation Deferral Account
- Trade Income Deferral Account
- Non-Heritage Deferral Account, and
- BCTC Deferral Account.

These accounts – similar to those used by most regulated utilities – are used to capture specific differences between forecast costs and actual costs and are intended to smooth the overall effect on ratepayers of cost impacts out of BC Hydro's control. BC Hydro is subject to periodic reporting of changes in the regulatory deferral accounts. The ability to utilize any accumulated balances in future rate applications is subject to determination and approval by the BCUC.

Financing Strategy

BC Hydro forecasts the overall borrowing requirement to be approximately \$1.2 billion in F2008, \$640 million of which will be used to refinance retired debt for a net requirement of \$574 million. BC Hydro expects to borrow \$830 million of the \$1.2 billion through long-term debt, and the remainder through available revolving borrowing capacity. During F2007, BC Hydro borrowed \$300 million of new long-term debt.

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

We forecast debt net of sinking funds, as of March 31, 2008, to be \$7.6 billion, increasing to \$8.7 billion at the end of F2009. We forecast finance charges to be approximately \$470 million in F2008, compared with actual finance charges of \$453 million for F2007.

Revenues and Expenses – Financial Projections

BC Hydro calculated the following financial projections for revenues and expenses through F2011 based on the forecast submitted to the Board and the Ministry of Finance in January 2008.

Consolidated Statement of Operations ⁽²⁾ (\$ millions)	Actual F2007	Forcast F2008	Forecast F2009	Forecast F2010	Forecast F2011
Revenues					
Domestic	2,791	2,923	3,136	3,438	3,697
Trade	1,406	1,746	2,021	2,302	2,509
	4,197	4,669	5,157	5,740	6,207
Expenses					
Energy costs	2,117	2,492	3,007	3,407	3,738
Domestic	1,037	954	1,175	1,321	1,461
Trade	1,080	1,539	1,832	2,087	2,277
Operating costs	716	743	840	871	906
Operating costs	517	504	559	603	617
BCTC asset management fees	105	108	114	116	116
DSM & other regulatory costs	94	131	167	153	174
Taxes	149	157	167	177	186
Amortization	383	375	399	430	456
	3,365	3,768	4,413	4,887	5,286
Income Before Finance Charges and Regulatory Account Transfers	832	901	744	853	920
Finance charges	453	469	497	567	606
Net Income Before Regulatory Account Transfers	379	431	247	286	314
Regulatory Account Transfers	28	(61)	111	116	130
Net Income	407	370	358	402	444
Net Debt ⁽¹⁾	6,916	7,547	8,732	9,735	11,010
Equity GAAP	1,783	1,861	2,166	2,381	2,651
Capital Spending	807	1,109	1,663	1,744	1,921
Full Time Equivalents	4,590	4,850	5,550	5,700	5,700

⁽¹⁾ Debt figures are net of sinking funds and cash and cash equivalents.

⁽²⁾ Table may not add due to minor rounding.

Key Assumptions

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

Key Assumptions	Actual F2007	Forecast F2008	Forecast F2009	Forecast F2010	Forecast F2011
Growth and Load:					
B.C. Real Gross Domestic Product growth (%) ⁽²⁾	3.1	2.8	3.1	3.3	3.0
Domestic Load Sales growth (%) ⁽¹⁾	0.90	1.28	2.25	1.47	0.95
Residential Sales Load growth (%) ⁽¹⁾	2.40	3.25	1.39	1.55	1.58
Light Industrial and Commercial Sales Load growth (%) ⁽¹⁾	1.98	2.04	1.59	1.22	1.11
Large Industrial Sales Load growth (%) ⁽¹⁾	(2.67)	(1.45)	3.88	1.40	(0.16)
Domestic Load (GWh):					
Domestic Sales Volume (GWh)	52,911	53,587	54,791	55,594	56,125
Surplus Sales Volume (GWh)	0	814	195	58	339
Line Loss and System Use (GWh)	5,329	5,194	5,390	5,474	5,534
Total Domestic Load (GWh)	58,240	59,596	60,377	61,127	61,997
Energy Generation:					
Total System Water Inflows (%) ⁽³⁾	89	109	100	100	100
Sources of Supply to Meet Domestic Load:					
Net Hydro Generation (GWh) ⁽⁴⁾	45,542	48,861	47,926	46,924	46,887
Market Electricity Purchases (GWh)	5,698	2,385	3,529	4,363	3,285
Independent Power Producers and Long-term Purchases (GWh)	6,041	8,018	8,593	9,516	11,520
Thermal Generation (GWh)	959	332	328	324	305
Total Sources of Supply for Domestic Load (GWh)	58,240	59,596	60,377	61,127	61,997
Electricity Trade Sales Volumes (GWh)	41,336	39,672	39,070	40,891	43,052
Average Mid-C Price (\$US/MWh)	\$45.24	\$52.10	\$59.72	\$62.18	\$62.04
Average Natural Gas Price at Sumas (\$US/MMBTU)	\$5.99	\$6.48	\$7.55	\$7.84	\$7.79
Financial:					
Canadian Short-term Interest Rates (%) ⁽²⁾	4.33	4.45	4.68	5.19	5.25
Canadian Long-term Interest Rates (%) ⁽²⁾	4.62	5.16	5.46	6.29	6.70
Foreign Exchange Rate (\$US:Cdn\$) ⁽²⁾	0.8783	0.9749	0.9864	0.9518	0.9235
Rate Increases (%) ⁽⁵⁾	1.54	0.10	6.56	8.21	6.52
Rate Rider (%) ⁽⁵⁾	2.00	2.00	0.50	0.50	0.50

⁽¹⁾ Includes the impact of Power Smart programs.

⁽²⁾ Economic assumptions from Ministry of Finance, December 2007.

⁽³⁾ Water inflows for F2008 reflect the high water inflows experienced during the year. Future year inflows are assumed to be at average levels. The impact of change in water inflows is shown in the sensitivity analysis that follows.

⁽⁴⁾ Includes Exchange Net.

⁽⁵⁾ Rate increases for F2009 to F2011 are estimates only and are based on the increases needed to cover BC Hydro's costs and earn our allowed return on equity. These rate increases could change significantly given economic and operating conditions, such as water inflows and reservoir levels that may be present at the time. Rate increases must be approved by the BCUC.

Various legal and regulatory matters are pending (see our annual and quarterly reports at <http://www.bchydro.com>).

Owing to the size, complexity and nature of BC Hydro's operations, we cannot predict the outcome of these matters at this time.

Sensitivity Analysis

The following table illustrates the impact that key drivers – such as water inflows and gas prices – can have on BC Hydro's earnings. The combined effect of these drivers, which are largely beyond BC Hydro's control, results in range of values of income before regulatory transfers of as much as \$200 to \$900 million in each year.

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

Range of Income subject to deferral account transfers: (\$ millions)	F2008 ⁷		F2009		F2010		F2011	
	Low	High	Low	High	Low	High	Low	High
Inflows/Gas Prices ⁽¹⁾	(45)	40	(265)	220	(330)	360	(400)	250
Foreign Exchange ⁽²⁾	(5)	5	(10)	10	(10)	10	(15)	15
Total Range of Ratepayer Risk	(50)	45	(275)	230	(340)	370	(415)	265

Net Income Sensitive Variables: (\$ millions)	F2008		F2009		F2010		F2011	
	Low	High	Low	High	Low	High	Low	High
Weather ⁽³⁾	(5)	5	(5)	5	(5)	5	(10)	10
Customer Load ⁽⁴⁾	(15)	15	(25)	25	(25)	25	(25)	25
Pension Costs ⁽⁵⁾	–	–	(5)	5	(15)	10	(20)	15
Interest Rates ⁽⁶⁾	(15)	15	(25)	25	(30)	30	(30)	30
Total Range of Shareholder Risk	(35)	35	(60)	60	(75)	70	(85)	80

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

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

⁽³⁾ This variable assumes weather will be five per cent warmer or colder than normal approximately 80 per cent of the time. Colder weather is assumed to increase residential sales volume and income. BC Hydro is proposing in the RRA that the cost of load variance which includes weather impact, flow into the regulatory deferral accounts. If approved by the BCUC, this item would be considered ratepayer risk.

⁽⁴⁾ The customer load high and low ranges are based on being within an 80 per cent probability band. The range is smaller for F2008, reflecting the uncertainty for the remainder of the year only. This variable assumes change in customer load is met by market purchases at current forecast average purchase prices. Because the average price of market purchases is higher than the average tariff rate, decreases in customer load increase net income. BC Hydro is proposing in the RRA that the cost of load variance flow into the regulatory deferral accounts. If approved by the BCUC, this item would be considered ratepayer risk.

⁽⁵⁾ Probable forecast assumes return on pension plan assets is seven per cent, low forecast assumes return of five per cent and high forecast assumes return of 10 per cent. There is no high/low range for F2008 as the main driver of BC Hydro's pension costs is based on the previous year's actual returns. Impacts on changes to the actuarial valuation are not reliably estimable at this time and the range of possibilities can be large.

⁽⁶⁾ A change of one percentage point in short-term interest rates changes finance charges by approximately \$35 million. High and low are based on being within the 80 per cent probability band (which translates to +/- 70 basis points from expected). Higher interest rates would decrease income.

⁽⁷⁾ The sensitivity analysis for 2007/08 reflects the impact for the only the last quarter of the fiscal year.

BC Hydro reports on actual performance in our quarterly and annual reports, and provides updated forecasts each year in our Service Plan.

Capital Expenditures and Capital Expenditure Process

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

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

BC Hydro, as the owner of the transmission system operated by the BCTC, funds the capital expenditures incurred by the BCTC and these costs are included in BC Hydro's capital expenditures. Transmission capital projects are discussed in the BCTC's Service Plan.

The table below shows actual and forecast capital expenditures for the sustaining and growth classifications:

Capital Expenditures (\$ millions)	Actual F2006	Actual F2007	Forecast F2008	Forecast F2009	Forecast F2010	Forecast F2011
BC Hydro Excluding Transmission:						
Sustaining	276	338	430	663	845	904
Growth	206	276	374	471	470	550
BC Hydro Total Excluding Transmission	482	614	804	1,134	1,315	1,454
Transmission:						
Sustaining	87	89	91	113	124	140
Growth	41	104	214	416	305	327
Total Transmission	129	193	305	529	429	467
Total BC Hydro	610	807	1,109	1,663	1,744	1,921

BC Hydro's long-term goals and short-term priorities provide the basis to ensure that specific projects are aligned with our overall strategic direction. We then evaluate projects based on their ability to mitigate risk and/or enhance value to BC Hydro's operations. The risk factors considered for this purpose are financial, environmental, technological, timing, reliability, safety and supply.

BC Hydro follows both a top-down and bottom-up approach in our capital planning. We have procedures in place that oversee the capital planning process across the company. This ensures that individual capital plans do not exceed the overall BC Hydro capacity for capital expenditures, and that all the necessary capital expenditures are undertaken to meet performance targets.

BC Hydro uses a phased decision-making process to define all large capital projects. In the Project Identification Phase, we review the alternatives, evaluate feasibility, and develop a preliminary business case to determine whether or not to proceed to the Definition Phase. In the Definition Phase, we fully investigate the selected alternative, complete any regulatory requirements and update the business case. If the business case is approved we move on to the Implementation Phase where we complete the detailed design, procure equipment, construct and commission the project.

Throughout these phases, as more and more information becomes available, the project scope and cost may change significantly. Costs may also change to reflect any changes in inflation rates, the labour market, etc. This cost uncertainty will remain in place until the project is complete but diminishes as scope is defined and contracts are let. Occasionally, additional information may cause a project to be deferred.

Approved Projects over \$50 Million

BC Hydro has planned for the following projects, each with capital costs expected to exceed \$50 million. All of these projects have been approved by our Board of Directors, and are in the final Implementation Phase.

Mica Generator Stator Replacement (Units 1 – 4)

BC Hydro is replacing the stator and rotor poles on each of the four units at the Mica Generating Station to reduce the risk of forced outages due to core bolt failure and ensure reliability of supply. Project implementation began in F2006 with one unit scheduled to be completed each year.

Scheduled completion: F2010

Approved cost: \$97 million

Peace Canyon Generator Stator Replacement and Rotor Modification

BC Hydro is installing new stators and modifying existing rotors at the Peace Canyon Generating Station to address design deficiencies, reduce the risk of forced outages and make the plant safer for employees by resolving the design deficiencies. The project began in F2006, with one unit scheduled for rehabilitation each year.

Scheduled completion: F2010

Approved cost: \$86 million

Peace Canyon G1 – G4 Turbine Overhaul

In F2006, BC Hydro completed an overhaul of Peace Canyon Unit 4 turbine at the same time as we replaced the Unit 4 stator. This overhaul showed that components of the turbine were worn and damaged. As a result we have begun overhauling the other three units to prevent further wear that would eventually have affected both the availability and the reliability of these units.

Scheduled completion: F2010

Approved cost: \$55 million

Aberfeldie Redevelopment

The original Aberfeldie Generating Station, a five MW generating facility, was constructed in 1922. The wood stave penstock and major generating equipment have reached end of life and are no longer serviceable. We are replacing the old facility with a 24 MW facility.

Scheduled completion: F2009

Approved cost: \$95 million

Coquitlam Dam Seismic Improvement Project

We are constructing a new dam downstream of the existing Coquitlam Dam to meet current seismic standards for earthquakes and to reduce the risks to the local population in the event of an earthquake.

Scheduled completion: F2009

Approved cost: \$66 million

Gordon M. Shrum Units 1 to 4 Stator Replacement

BC Hydro is replacing three stators at the Gordon M. Shrum (GMS) facility that are at risk of failure and where rewinding the stators is not technically feasible due to the condition of the cores. We began installing the new stators in F2007, with one new stator to be installed each year over the next two years. BC Hydro also has the option to replace the stator on GMS Unit 1 if deemed necessary after the work on the first three stators is completed.

Scheduled completion: F2010

Approved cost for three Units (Units 2 – 4): \$75 million

Projected cost for Unit 1: \$10 – \$16 million

Revelstoke Unit 5 Project

The Revelstoke Generating Station was designed as a six-unit generation station. When the facility was constructed only four units were installed and two unit bays were left empty. To support system reliability, we are installing a fifth generating unit to provide approximately 500 MW of additional capacity to the BC Hydro system. The new generating unit will also provide additional energy, operating flexibility and reserves.

Schedule completion: F2011 – F2012

Approved cost depending on in-service date: \$280 – \$350 million

Contemplated Projects over \$50 Million

BC Hydro is contemplating the following projects over \$50 million, but they have not yet been approved by our Board of Directors. Because these projects are in the early identification or definition phases and final costs are as yet uncertain, we have included a range of costs where possible. We will update these interim project cost estimates as we further define the scope of each project.

Campbell River Improvements

John Hart Replacement – The ageing John Hart facility, in operation since 1947, needs significant capital investment in the powerhouse and penstocks to ensure reliable long-term generation and to mitigate earthquake risk and environmental risk to fish and fish habitat. BC Hydro is looking at replacing the existing six unit, 126 MW generating station with a new three unit 135 MW powerhouse with integrated emergency bypass capability to minimize river flow disruption impacts to fish and fish habitat. The wide range of the cost forecast at this early stage is a result of the long lead time and the fact that limited design has been completed to this point.

Targeted completion: F2015

Projected cost: \$360 – \$900 million

Strathcona Seismic and Seepage Issues – Strathcona is the farthest upstream dam on the Campbell River and its reservoir provides the primary storage for the Campbell River system. The Strathcona intake tower, the power conduit, the spillway piers and the earth fill dam do not meet current seismic standards for earthquakes. We are contemplating upgrades to the facility to improve public safety, system reliability and to minimize environmental impacts.

Targeted completion: F2012

Projected cost: \$90 – \$200 million

Ruskin Dam Seismic and Powerhouse Rehabilitation Projects

Ruskin Dam Safety Improvement – The upper portion of the Ruskin Dam, built in 1930, does not meet current seismic standards and is vulnerable to earthquakes. As an interim measure, BC Hydro lowered Hayward Lake Reservoir, behind Ruskin Dam, by approximately two metres and has anchored the most critical section of the upper dam. We are now considering dam rehabilitation work to further mitigate earthquake risk and protect public safety.

Targeted completion: F2014
Projected cost: \$120 – \$200 million

Ruskin Powerhouse Improvements – The existing 1930 Ruskin Generating Station is at the end of its service life and requires significant capital expenditures to support safe and reliable operation. BC Hydro is currently completing a feasibility study to evaluate alternatives for rehabilitating the powerhouse to meet current seismic standards for earthquakes and replace major generating equipment, which is in poor or unsatisfactory condition. The wide range of the cost forecast at this early stage is a result of the long lead time and the fact that limited design has been completed to this point.

Targeted completion: F2014
Projected cost: \$240 – \$600 million

Gordon M. Shrum Units 1 to 5 Turbine Rehabilitation

GM Shrum Units 1 to 5 runners and head covers have required maintenance to address cracking problems since the units went into service in the late 1960s. BC Hydro is now considering whether installing new runners would improve reliability by reducing the risk of runner failure, decrease maintenance costs and improve operating efficiency. We are currently exploring the option of rehabilitating one unit each year beginning in F2013.

Targeted completion: F2017
Projected cost: \$170 – \$240 million

Upper Columbia Capacity Additions at Mica and Revelstoke

Both the Revelstoke and Mica Generating Stations were designed as six-unit generation stations. However, when the facilities were constructed, only four units were installed; two unit bays were left empty at each station. To support system reliability, we are currently looking at adding capacity to units 5 and 6 at Mica and unit 6 at Revelstoke. Each additional unit provides approximately 500 MW of capacity.

Targeted completion: F2014 – F2020
Projected Cost: \$1,200 – \$1,900 million

Mica Gas-Insulated-Switchgear (GIS) and Transformer Replacement

The GIS is a conductor that carries electricity at 500,000 volts from the Mica underground powerhouse to the surface where it transitions to transmission lines. We are investigating the replacement of the GIS to improve availability and reliability of the electricity supply, and to prevent SF₆ gas (a greenhouse gas) leakage. Due to limited physical space within the transformer gallery where the GIS is located, we are also considering replacing the transformers at the same time.

Targeted completion: F2013
Projected Cost: \$120 – \$300 million

Lajoie Dam Seismic Upgrade

The Lajoie Dam is a rock fill structure completed in 1955. BC Hydro completed major refurbishment of the dam in 1972; since then, we have continued to make periodic repairs to the shotcrete surface due to increased leakage as the dam settles. Because the dam does not meet current seismic standards for earthquakes, we are considering a seismic upgrade to the dam to ensure dam and public safety and maintain reliability of supply. We are not yet in a position to provide a target completion date or a cost estimate for this project.

Alouette Generating Station Redevelopment

The Alouette nine MW generating station has been in operation since 1928. Because of its age and the condition of the facility, including the fact that it does not meet current seismic standards, we are considering rehabilitating or replacing both the powerhouse and the generating equipment. We are not yet in a position to provide a target completion date or a cost estimate for this project.

Smart Metering Infrastructure (SMI)

The Smart Metering Infrastructure (SMI) Project will provide new technology smart metering, innovative time-based pricing and secure communication to approximately 1.7 million residential and commercial BC Hydro customers. This will help transform the BC Hydro energy landscape and the way power is delivered to BC Hydro customers, and will provide new ways of measuring and managing electricity supply and demand across the grid and into homes and businesses.

Targeted completion: F2012
Total cost: \$730 – \$930 million

Buildings Revitalization and Improvements

We need to provide safe, efficient workplaces that meet operational work requirements and energy efficiency standards as required by the Province's 2007 Energy Plan. This initiative will upgrade and enhance workplaces across our buildings to meet these objectives, to create more collaborative space and to reduce the need for additional lease space through densification.

Targeted Completion: F2013
Total Cost: \$340 – \$430 million

Transmission Projects

Transmission projects over \$50 million – which, if approved by the BCUC, will be financed by BC Hydro – are disclosed in the BCTC's Service Plan.

appendix – subsidiaries

Powerex

Powerex Corp., a wholly-owned subsidiary of BC Hydro, is a leading marketer of wholesale energy products and services in western Canada and the western United States, and a growing niche player in other markets across North America. Its energy marketing and trade activities help optimize BC Hydro's electric system resources and provides significant economic benefits to the people of British Columbia. The Chief Executive Officer reports to the Board of Directors of Powerex Corp., and has a reporting relationship to BC Hydro's Chief Executive Officer. BC Hydro's Chief Executive Officer ensures the Board of BC Hydro is informed of Powerex's key strategies and business activities.

In recent years, Powerex has increasingly been purchasing electricity from outside the BC Hydro system to support BC Hydro's domestic needs and to meet its own trade commitments. Powerex also markets, on behalf of the Province, the Canadian Entitlement to the Downstream Benefits of the Columbia River Treaty.

Powerex's net income was \$259 million in F2007; its income is expected to be approximately \$145 million in F2008, and to average approximately \$155 million over the F2009 to F2011 period on average sales revenues of \$2.8 billion.

Powertech Labs

Powertech Labs Inc. operates on a commercial basis, providing consulting, analysis, testing and certification services and analytic tools and products to the electric and natural gas industries, their customers and suppliers worldwide. Powertech is a leader in high pressure gas storage and fuelling technology, alternative energy and analytic software for the design and secure operation of integrated electric power systems. The Chief Operating Officer of Powertech Labs Inc. reports to the Board of Powertech and has a reporting relationship to the Senior Vice-President, Customer Care and Conservation, BC Hydro, who in turn reports to BC Hydro's Chief Executive Officer. BC Hydro's Chief Executive Officer ensures the Board of BC Hydro is informed of Powertech's key strategies and business activities.

Powertech provides a centre for the innovative use of a wide array of technology, including high voltage, high power, high current, mechanical, materials, coatings, chemical and civil technologies. What sets Powertech apart is the ability to combine expertise from different disciplines to provide optimum solutions for complex problems.

Powertech is registered for its Environmental (ISO 14001:2004) and Quality (ISO 9001:2000) Management Systems.

Powertech's net income was \$1 million in F2007; its income is expected to be approximately \$1 million in F2008, and to average \$2 million per year on average sales revenues of \$23 million for the F2009 to F2011 period.

Other Subsidiaries

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

National Library of Canada Cataloguing in Publication Data

BC Hydro.

BC Hydro's service plan for fiscal years... — 2002/2003/2004/2005-2006/2006-07/2007-08

Title varies: 2003/2004/2005/2006/2007/2008- , BC Hydro service plan for fiscal years ...

Running title: BC Hydro...service plan.

ISSN 1710-1956 = BC Hydro's service plan

1. BC Hydro — Periodicals. 2. Electric utilities - Planning - British Columbia — Periodicals.

I. Title. III. Title: Service plan for fiscal years...

II. Title: BC Hydro...service plan.

HD2768.C35B74 333.793'2'060711 C2004-960012-5

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