COLUMBIA POWER CORPORATION

SERVICE PLAN UPDATE 2005/06 – 2007/08

September 2005

August 22, 2005

Honourable Richard Neufeld
Minister of Energy, Mines and Petroleum Resources

Dear Minister Neufeld:

I am pleased to submit Columbia Power Corporation's 2005/06 – 2007/08 Service Plan Update.

Columbia Power Corporation ("CPC") is wholly owned and controlled by the Province of British Columbia (the "Province"). CPC develops and operates power projects in the Columbia Basin, as an agent of the Province, on a joint venture basis with the Columbia Basin Trust ("CBT"). CPC is the joint venture manager. Returns from CPC's 50 per cent share of power projects are available to be distributed to the Province. Returns from CBT's 50 per cent share of power projects are available to be distributed to CBT to provide benefits to the people of the Columbia Basin in accordance with the *Columbia Basin Trust Act*.

CPC was created in 1994 to purchase certain hydroelectric rights from Cominco Ltd. Since then, CPC has gone from being a "start-up" company to the fourth largest producer of electricity in B.C. CPC now manages over $850 million in assets. CPC develops and operates CPC/CBT projects on a commercial basis, as an independent power producer ("IPP"), using limited-recourse project debt and without a provincial debt guarantee. CPC/CBT power projects utilize existing dams and harness water that would otherwise be spilled. Thus, CPC/CBT power projects create significant net environmental benefits. Despite this, being on international rivers, CPC/CBT power projects are permitted, built and operated in a very difficult environmental regulatory system (which includes federal and provincial regulators, an international treaty and local, regional, aboriginal and U.S. stakeholders). CPC/CBT power projects sell into a monopoly-controlled domestic power market characterized by limited transmission access to adjacent power markets in Alberta and the U.S., with domestic power prices based on the average cost of existing supply, not the marginal cost of new supply. Accordingly, CPC must be efficient and innovative to achieve its goals and objectives.

Over the period 1999/00 to 2002/03, CPC managed the construction and commissioning of the 185 megawatt, $270 million, Arrow Lakes Generating Station ("ALGS"). ALGS was completed on budget and ahead of schedule, and received the Lieutenant Governor's Award for Overall Excellence from the Consulting Engineers of British Columbia, as well as awards from the Canadian Consulting Engineers and the Design Build Institute of America. During the three-year construction period, ALGS created 750 person years of direct employment (85 per cent local hires), $60 million in direct and indirect income and $20 million in regional procurement.

At ALGS we have carried out many tests and warranty inspections since assuming responsibility for operation from the design-build contractor on January 1, 2003. Under the ALGS design-build contract, the construction contractor, Peter Kiewit Sons Co. ("PKS"), has an obligation to address material deficiencies relative to the project's contractual design and performance specifications documented by the owner through to the project's "Final Acceptance Date" milestone of January 1, 2006, or 3 years after CPC/CBT, as owner, assumed responsibility for plant operation. Further, the manufacturers of ALGS machinery and equipment have ongoing obligations to meet all warranties and related performance specifications. As part of CPC's overall risk management strategy, all CPC/CBT joint venture projects also carry business interruption, property and liability insurance.

Construction of ALGS began in 1999, and commercial operation was achieved in 2002. On May 3, 2004, CPC discovered damage to the concrete lining of the approach channel caused by unstable hydraulic conditions. Power generation was suspended while emergency repairs were performed in order to maintain the structural integrity of the channel and the adjoining structures. Interim repairs were then made to allow power generation to resume safely in August 2004. Plans are being made to carry out permanent repairs to the approach channel in 2006.

The Brilliant Expansion Project ("BRX") is now more than two years into construction. This 120-megawatt powerplant is scheduled to begin commercial operation in August 2006, and we expect the project will be completed on schedule and on budget. Forty percent of the power has been sold to BC Hydro for 20 years, as a component of its "green power" portfolio. Marketing efforts for the remainder of the power are progressing in domestic and U.S. markets.

The Environmental Assessment Certificate Application for the Waneta Expansion Project ("WAX") is being finalized in preparation for its submission to review agencies. Engineering, environmental and financial studies are ongoing in order to optimize the size and configuration of the project. The start of construction is planned for 2007, subject to a final decision being made earlier in that same year to proceed with the project.

Over the period 2005/06 to 2007/08, the CPC/CBT power projects are expected to generate $74 million in net income, and will pay an additional $35 million in taxes and water rentals. Net income during 2005/06 and/or 2006/07 may be materially affected by permanent channel repairs, depending on the cost of repairs and the amount and timing of recoveries from insurance and/or the design-build contractor.

In September 2004, BC Hydro announced it had given approval in principle to the purchase of the shares of CPC and our joint venture partner, CBT Energy subject to satisfactory completion of due diligence. However, in response to input received in community meetings, CBT decided it would not sell the shares of its subsidiary, CBT Energy. Subsequently the Province directed, in January 2005, that the existing structure for the Columbia Basin Initiative be continued, with the mandates of CPC and CBT remaining unchanged and CPC continuing, as manager of the joint ventures, to develop, construct and operate power projects. This Service Plan has been prepared on that basis.

The Province's January 2005 direction also committed to supporting CPC's mandate through appointment of additional members to the CPC Board of Directors. In addition to my appointment as Chair in February 2005, two other members with considerable experience as officers and directors in the private sector were appointed in April 2005.

On June 20, 2005 CBT Energy Inc. ("CBTE"), a wholly-owned subsidiary of CBT, filed a "Notice of Intention" with the Province under an April 2001 Option Agreement that provides CBTE with an option to purchase CPC. The Province and CBTE are currently carrying out due diligence and consultations on the option, which can be exercised until November 30, 2005.

CPC's 2005/06 – 2007/08 Service Plan Update was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the plan, including the selection of performance measures and targets. The plan is consistent with government's strategic priorities and overall Strategic Plan. All significant assumptions, policy decisions and identified risks, as of August 5, 2005, have been considered in preparing the plan. I am accountable for ensuring CPC achieves its specific objectives identified in the plan and for measuring and reporting actual performance.

Yours truly,

Lee Doney
Board Chair

TABLE OF CONTENTS

COLUMBIA POWER CORPORATION

SERVICE PLAN UPDATE
2005/06 – 2007/08

1.0 Organizational Overview

1.1 Introduction

CPC is a Crown corporation wholly owned and controlled by the Province of British Columbia, existing under the *Business Corporations Act* and reporting to the Minister of Energy, Mines and Petroleum Resources. Its mission is to efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin. In making power project investments, CPC's goal is to support the employment, economic development and resource management objectives of the Province and CBT, within the constraints of a commercial enterprise.

CPC undertakes power projects through joint ventures with subsidiaries of CBT. CPC is the manager of the joint ventures. CPC is a small organization, with fewer than 40 full-time equivalent positions, located in Castlegar and Victoria. CPC focuses on asset management activities while engaging other firms to provide construction, plant operation and specialist consulting services. Through its joint ventures, CPC is one of the largest producers of electricity in British Columbia.

The core projects of CPC and CBT are ALGS, BRX and WAX, all of which are located in the Columbia Basin. The joint venturers may also undertake other power generation, transmission or distribution projects in the Columbia Basin. The purchase of the Brilliant dam in 1996 was the first investment by the joint venturers. Construction of ALGS began in 1999 and start-up was achieved in 2002. Construction of BRX began in 2003, with start-up scheduled for 2006. Environmental approval is being sought for WAX. All of the power generated at the current operating projects is committed under long-term sales contracts to two utilities, FortisBC and BC Hydro. A long-term contract with BC Hydro is also in place for the sale of a portion of the output of BRX upon project completion.

1.2 Historic Context

In 1964, Canada and the United States ratified the Columbia River Treaty. Under the Treaty, Canada, through the Province, agreed to build three new storage dams in the Canadian section of the Columbia River: Duncan (1968), Keenleyside (1969) and Mica (1973). The purpose of the new dams was to create 15.5 million acre feet of water storage which would control flooding in Washington and Oregon and allow hydroelectric facilities in these states to produce up to 2,400 megawatts of additional electricity capacity (BC Hydro has about 10,000 megawatts of capacity). This additional power is referred to as the downstream benefits. In exchange, the Province received $64.4 million plus one-half the downstream benefits, which it sold to a consortium of U.S. utilities for a period of 30 years from the completion dates of the three Canadian dams.

The construction of the three Treaty dams brought current and future financial benefits to the Province, but also significant economic, environmental and social costs to the residents of the Columbia Basin, both at the time and on an ongoing basis. Twenty-three hundred residents were displaced, communities were lost, lands were expropriated and properties were flooded. There continue to be ongoing negative environmental effects from reservoir and river-flow fluctuations.

In 1995, the Province, through legislation and contractual arrangements, created a unique model in recognition of the costs borne by the Columbia Basin as a result of the Treaty dams. Through the Columbia Basin Initiative, it was agreed to allocate a share (about 8%) of the value of future downstream benefits sales to the region. The mechanisms of the Columbia Basin Initiative were the *Columbia Basin Trust Act*, which created CBT, and the 1995 Financial Agreement between the Province and CBT, which set out the terms for the regional funding allocation.

Under the 1995 Financial Agreement, CBT and CPC received $250 million each over 10 years to provide equity for qualifying power project developments in the region. Three core projects were designated: Keenleyside (subsequently renamed as ALGS), BRX and WAX. BRX and WAX involve development rights purchased by CPC in 1994 from Cominco Ltd., now Teck Cominco Metals Ltd. Other generation, distribution and transmission projects can be carried out by CPC and CBT, provided both parties agree and the projects meet the same commercial and other tests as the core projects. In 1996, CPC and CBT purchased the Brilliant dam and powerplant from Teck Cominco Metals Ltd. and subsequently carried out a substantial sustaining capital and upgrade program. Returns from CPC's 50% share of the power projects are available to be distributed to the Province. Returns from CBT's 50% share of the power projects are available to be used by CBT to provide benefits to the people of the region in accordance with the *Columbia Basin Trust Act*.

1.3 Mandate, Vision and Values

In January 2005, the Province confirmed the mandates of CPC and CBT. CPC is to continue, as manager of the joint ventures with CBT, to develop, construct and operate power projects. CBT is to continue to invest and deliver economic, social and environmental benefits to Columbia Basin residents. The mandate, vision and values of CPC are presented below.

Mandate

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

Vision

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

Values

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

1.4 Business Model

The business of CPC is to plan, develop and operate commercially viable, environmentally sound and safe power projects in the Columbia Basin, with the first priority being the core projects identified in 1995, ALGS, BRX and WAX. In carrying out its business, CPC relies to a great extent on the private sector. The planning, design, financing, construction, operation and power sales functions involve private sector firms wholly or in part. CPC follows a public-private-partnership (P3) model for the design, procurement and operation of the joint venture power projects. This allows CPC to properly allocate and manage risks and realize innovation and efficiency through competition. The model has five distinct components: design, evaluation, construction (build), operation and management of power assets.

<u>Design</u>
The design component involves the assessment of over-all financial, economic and environmental feasibility. This includes basic engineering design, capital cost estimates, market price forecasts, stakeholder consultations, regulatory submissions and solicitation of contractor interest. It concludes with an initial go/no-go decision based on critical criteria. This component is largely carried out by CPC with its consultants.

<u>Evaluate</u>
In this component, all the information obtained in the design component, including fixed-price design-build bids, is assessed, along with power sales agreements and environmental permits, to determine if a project can proceed and if a design-build contract can and should be executed. CPC, on behalf of the Joint Venture, is responsible for this evaluation and due diligence.

<u>Build</u>
With the signing of a design-build contract many responsibilities are transferred to the contractor. CPC, however, engages an "Owner's Consultant" to ensure compliance with contract terms, including monitoring of quality control and environmental permit requirements.

Operate
Once a project has been completed and commissioned, operations and power sales begin, and further due diligence is undertaken to ensure all deficiencies are resolved and the facility is "fit for purpose". CPC has in-house engineers knowledgeable in plant operations and maintenance but has chosen, for cost and efficiency purposes, to engage a contractor to operate and maintain the joint venture's plants, with oversight by CPC. The contractor is responsible for a number of activities, including compliance with dam safety and environmental requirements.

Manage
CPC is the manager for the Joint Venture and is responsible for all activities in the business model components. This includes negotiating and administering agreements, raising financing, paying lenders, paying taxes, complying with approvals, employing qualified staff and advisors and above all, serving the public interest.

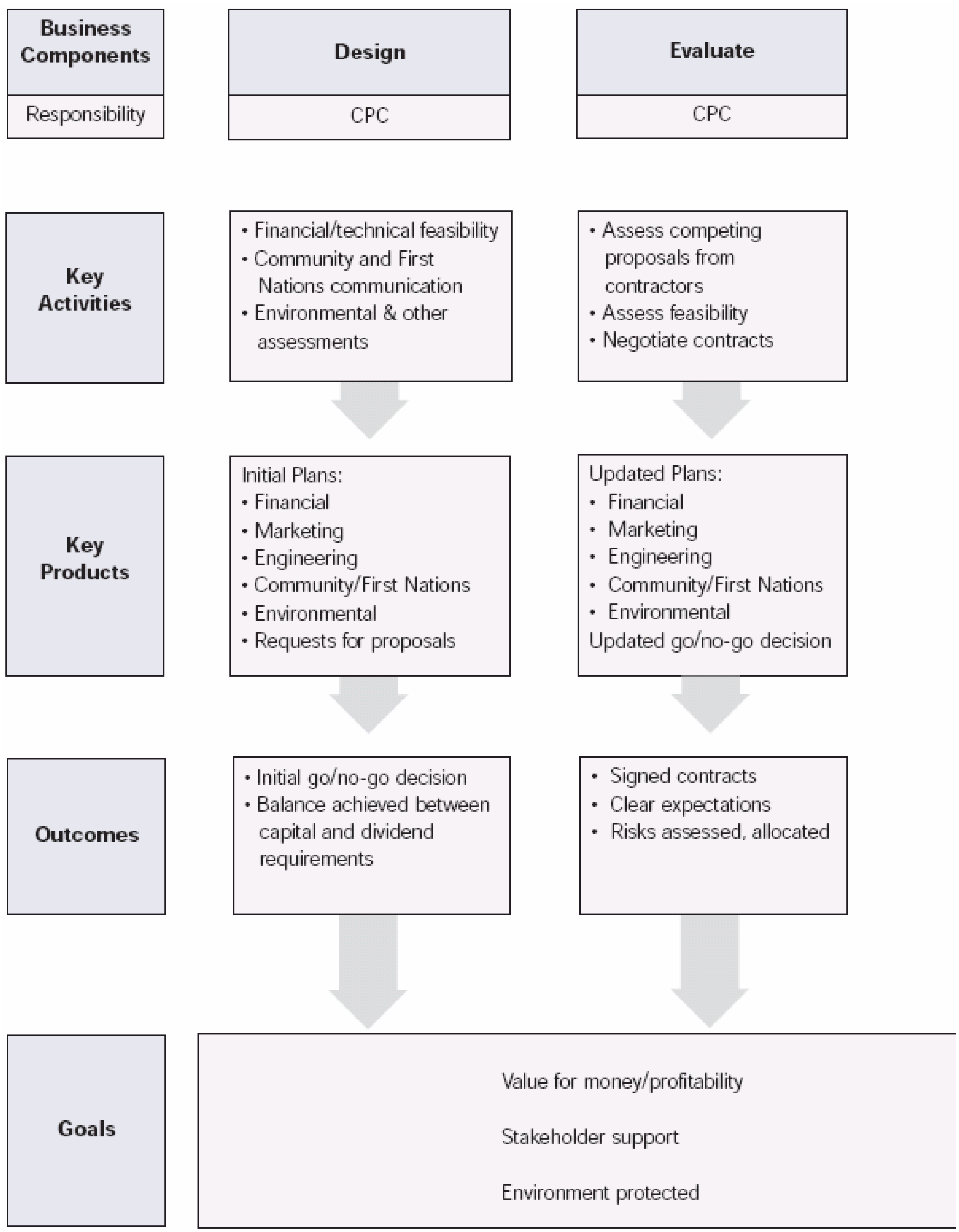
The CPC business model is shown in Figure 1.

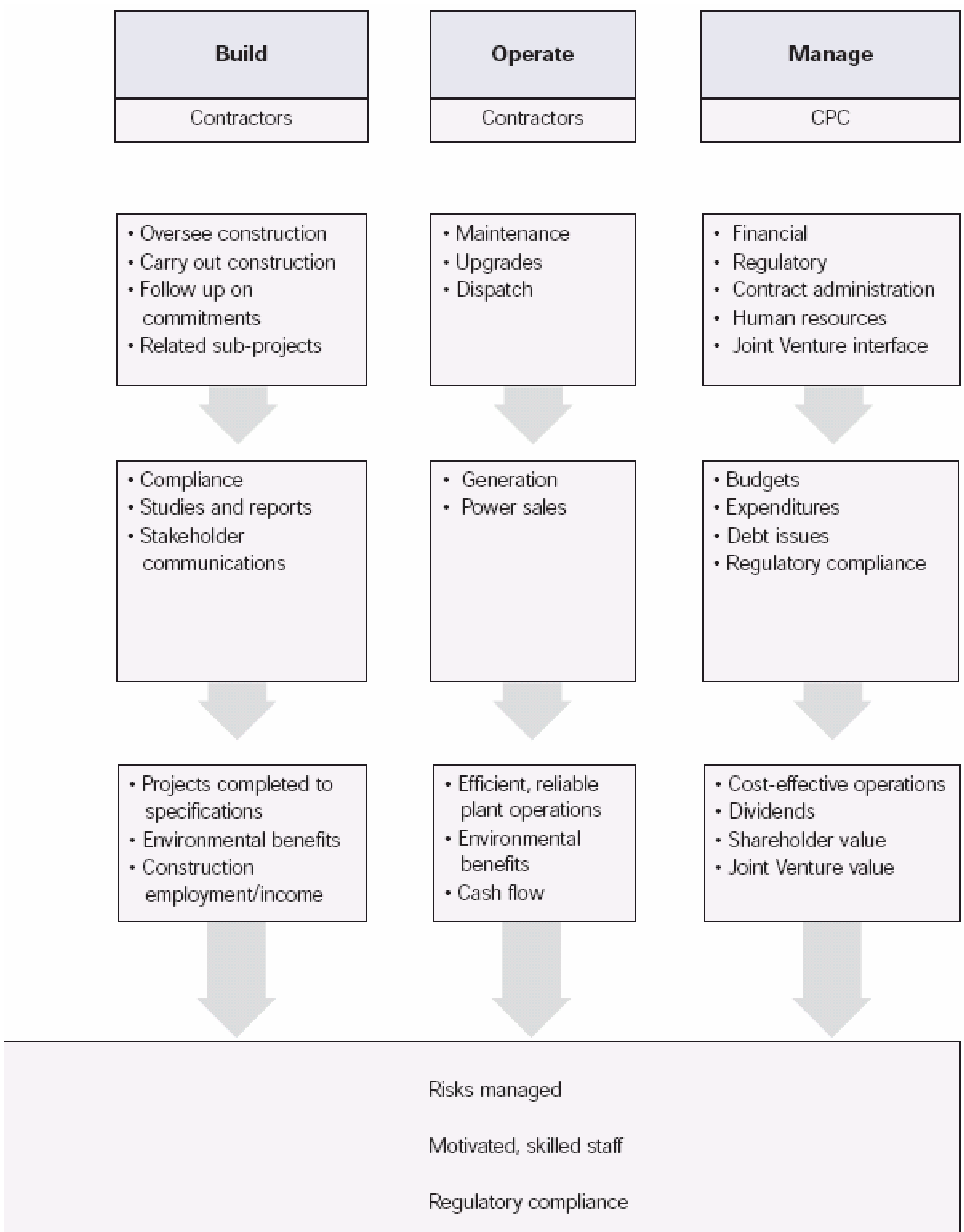
In carrying out its business model, CPC has two roles:

- It is an owner with a 50% interest in joint venture power projects, each of which is a separate power project corporation, matching the 50% owned by CBT Energy Inc. (a wholly owned subsidiary of CBT). These projects are established as separate corporations for the purpose of securing commercial project financing without provincial debt guarantees.

- It is the manager for the joint ventures. The corporate structure of the joint ventures is shown in Figure 2.

Figure 1:


Business Components
Responsibility
Design
CPC
Evaluate
CPC
Key Activities
• Financial/technical feasibility
• Community and First Nations communication
• Environmental & other assessments
• Assess competing proposals from contractors
• Assess feasibility
• Negotiate contracts
Key Products
Initial Plans:
• Financial
• Marketing
• Engineering
• Community/First Nations
• Environmental
• Requests for proposals
Updated Plans:
• Financial
• Marketing
• Engineering
• Community/First Nations
• Environmental
Updated go/no-go decision
Outcomes
• Initial go/no-go decision
• Balance achieved between capital and dividend requirements
• Signed contracts
• Clear expectations
• Risks assessed, allocated
Goals
Value for money/profitability
Stakeholder support
Environment protected


Build
Contractors
Operate
Contractors
Manage
CPC
• Oversee construction
• Carry out construction
• Follow up on commitments
• Related sub-projects
• Maintenance
• Upgrades
• Dispatch
• Financial
• Regulatory
• Contract administration
• Human resources
• Joint Venture interface
• Compliance
• Studies and reports
• Stakeholder communications
• Generation
• Power sales
• Budgets
• Expenditures
• Debt issues
• Regulatory compliance
• Projects completed to specifications
• Environmental benefits
• Construction employment/income
• Efficient, reliable plant operations
• Environmental benefits
• Cash flow
• Cost-effective operations
• Dividends
• Shareholder value
• Joint Venture value
Risks managed
Motivated, skilled staff
Regulatory compliance

1.5 Key Relationships

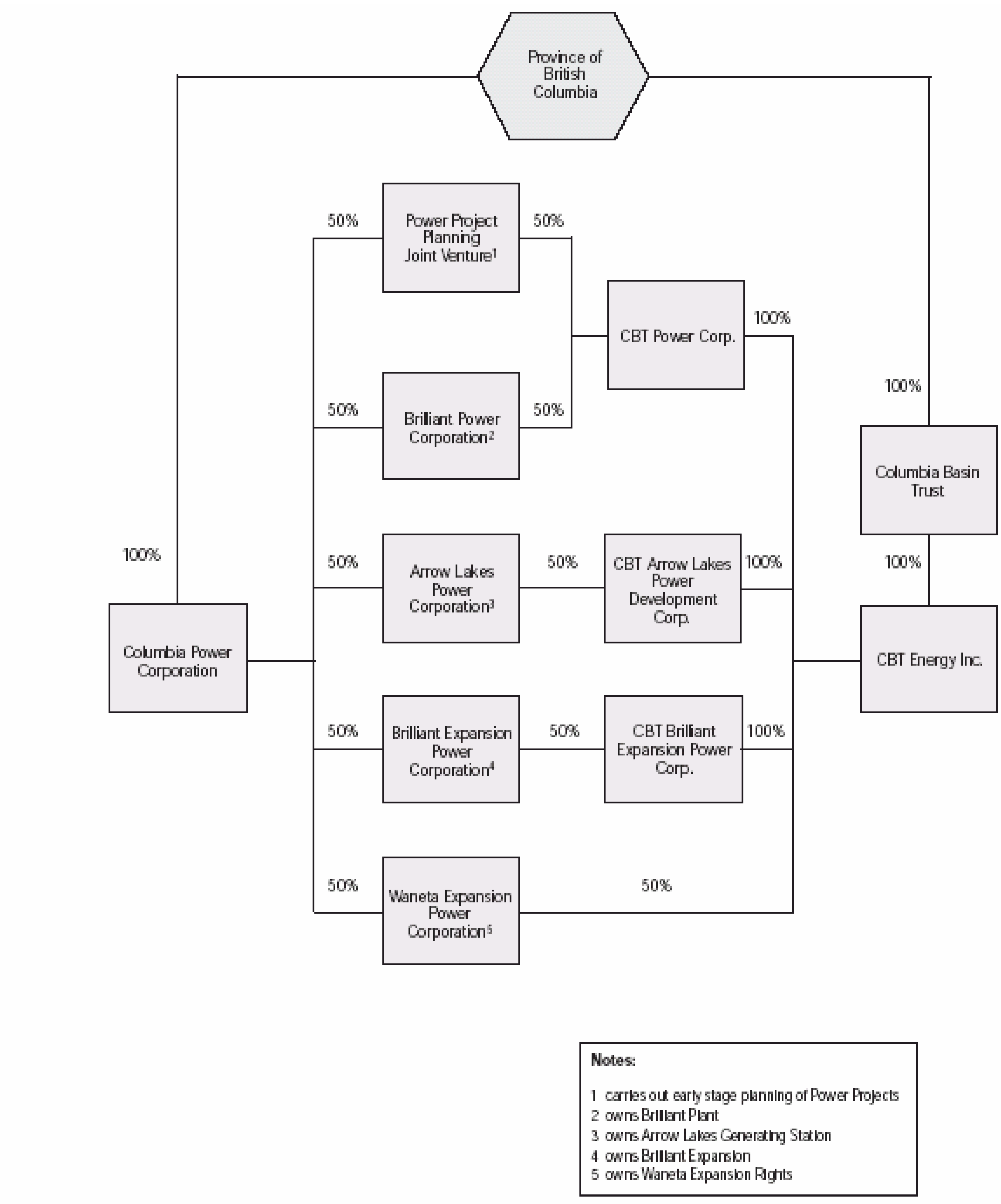
The joint venture power project companies owned by CPC and CBT Energy are IPPs that are wholesalers of power, primarily to regulated utilities. The joint venture currently has a 12-year power sales agreement for ALGS with BC Hydro (expiring in 2015); a 60-year power sales agreement for the Brilliant powerplant with FortisBC (formerly Aquila Networks Canada) (expiring in 2056); and a 20-year "green power" sales agreement with BC Hydro (coming into effect with the commissioning of the Brilliant Expansion).

The joint venture hydroelectric projects have or will have "entitlement" agreements with BC Hydro. These entitlement agreements provide the projects with predetermined monthly energy and capacity quantities. The entitlement agreements remove hydrology risk from energy generation and make the projects more attractive to investors and lenders. BC Hydro is compensated for providing these entitlements by keeping a small share of the actual annual energy produced. BC Hydro has similar arrangements with FortisBC and Teck Cominco Metals.

The Brilliant Expansion is being constructed by the Brilliant Expansion Consortium, composed of Skanska-Chant and SNC-Lavalin Inc., under the terms of a fixed-price design-build contract.

ALGS was constructed by Peter Kiewit Sons Co. under the terms of a fixed-price design-build contract. Final Acceptance has not been achieved, pending satisfaction of all contract requirements, including resolution of a number of deficiencies.

Figure 2:


Province of British Columbia
100%
Columbia Power Corporation
50%
Power Project Planning Joint Venture[1]
50%
50%
Brilliant Power Corporation[2]
50%
CBT Power Corp.
100%
50%
Arrow Lakes Power Corporation[3]
50%
CBT Arrow Lakes Power Development Corp.
100%
50%
Brilliant Expansion Power Corporation[4]
50%
CBT Brilliant Expansion Power Corp.
100%
50%
Waneta Expansion Power Corporation[5]
50%
100%
Columbia Basin Trust
100%
CBT Energy Inc.
Notes:
1 carries out early stage planning of Power Projects
2 owns Brilliant Plant
3 owns Arrow Lakes Generating Station
4 owns Brilliant Expansion
5 owns Waneta Expansion Rights

1.6 Planning Context & Key Strategic Issues

CPC develops and operates CPC/CBT core power projects as an independent power producer ("IPP"), using limited-recourse project debt without a provincial debt guarantee. Like other IPPs, CPC is not a regulated utility, and thus does not have a service area with a built-in customer base to absorb ALGS, BRX and WAX capital and operating cost overruns, environmental and regulatory compliance costs, or tax and tariff increases. ALGS and BRX have fixed-price power sales contracts.

CPC's mandate is to develop and operate ALGS, BRX and WAX at existing dams using water that would otherwise be spilled. CPC/CBT power projects create significant net environmental benefits. However, CPC/CBT core power projects also have low capacity utilization factors (of about 50 per cent), relying primarily on spring run-off water and upstream flow regulation. CPC/CBT power projects are also on international rivers, and are built and operated in a very difficult environmental regulatory system (which includes federal and provincial regulators, an international treaty and local, regional, aboriginal and U.S. stakeholders). CPC/CBT power projects also operate in a monopoly-controlled transmission and retail power market characterized by limited access to adjacent power markets in Alberta and the U.S. Pacific Northwest with domestic power prices based on the average cost of existing supply, not the marginal cost of new supply. Accordingly, CPC must be efficient and innovative to achieve its goals and objectives.

The key strategic issues facing CPC include:

- obtaining federal and provincial approvals, permits and licenses to develop and operate power projects within a difficult environmental regulatory regime;
- developing regional support for CPC/CBT power projects through consultation with local and regional community stakeholders, negotiating land issues with owners and continuing to work to develop solutions to First Nations issues regarding CPC/CBT projects;
- securing power sales contracts in a domestic market, where CPC/CBT power projects represent a low cost source of new power supply, but where there is one dominant buyer, and power prices are regulated based on average costs;
- accessing a promising market in the U.S. for green power in the face of monopoly ownership of transmission and ongoing under-investment in transmission capacity on both the B.C. and U.S. sides of the border;
- adjusting to a higher Canadian dollar, which lowers the value of power exports to the U.S. market, and higher construction and commodity prices, such as steel and concrete;
- completing negotiations with BC Hydro, FortisBC and Teck Cominco to renew for 30 years the Canal Plant Agreement ("CPA"), key parts of which expire in September 2005, and to include BRX and WAX (the existing CPA includes BRD; ALGS has a separate entitlement agreement with BC Hydro);
- uncertainty regarding future interest rates and thus the cost of debt finance for the remaining core CPC/CBT power projects;
- uncertainty regarding new property and other tax costs that may be implemented as part of the Province's economic and energy policy, which have the potential to adversely affect the economic viability of CPC/CBT power projects; and,
- CPC/CBT restructuring discussions and proposals have created uncertainty for CPC staff, contractors, suppliers, lenders, potential BRX power purchasers, regulators and potential WAX design-build bidders. This uncertainty was substantially reduced by the Province's January 2005 direction that CPC will continue to be the joint venture manager, separate from CBT and wholly owned by the Province; however, the option notification by CBTE of June 2005 has renewed uncertainty.

2.0 Performance Measures

2.1 Performance Measures at a Glance

	BENCHMARK	04/05 Actual	04/05 Target	05/06 Target	06/07 Target	07/08 Target
1.1 Variance in project development time	ALGS: 7 months early BTS: on time	BEPC on Schedule	N/A	N/A	BRX: Sept. 2006	N/A
2.1 Variance from project budgets	ALGS: On budget BTS: On budget	BEPC on Budget	N/A	N/A	BRX: On budget	N/A
3.1 Unresolved deficiency ratio	Baseline to be developed	Deficiencies Actively Monitored	N/A	ALGS: Less than or equal to 1	N/A	N/A
4.1 Energy entitlement ratio	CEA: Hydraulic Weighted Capability Factor 2003=91%	ALGS: 76% BRD: 99%	Greater or equal to 95%	ALGS:95% BRD: 95%	ALGS:91% BRD: 95% BRX: 90%	ALGS:95% BRD: 95% BRX: 92%
5.1 Bond rating	Investment Grade bond ratings	Maintained ratings for all bonds	Maintained ratings for all bonds	Maintain or improve ratings for all bonds	Maintain or improve ratings for all bonds	Maintain or improve ratings for all bonds
5.2 Debt service coverage ratio	Greater than or equal to 1.3	ALGS: 1.7 BRD: 1.6	ALGS: 1.8 BRD: 1.7	ALGS: 2.0 BRD: 1.6	ALGS: 2.0 BRD: 1.6	ALGS: 2.1 BRD: 1.7 BRX: 1.7 BRX: 3.5U
5.3 Capital structure	CEA composite performance measure for 2003 = 72:28	30:70	30:70	28:72	27:73	36:64
6.1 Return on equity	Over the life of a project, comparable to regulated utilities	1.9%	2.1%	2.5%	3.6% 4.3%U	4.0% 4.8%U
7.1 OMA unit cost for assets in service	Baseline information to be developed	ALGS: $4.82 BRD: $2.06	ALGS: $3.80 BRD: $1.90	ALGS: $4.40 BRD: $2.30	ALGS: $3.30 BRD: $2.20 BRX: $3.70	ALGS: $3.20 BRD: $2.10 BRX: $2.70
7.2 Revenue per employee	CEA composite average for 2003: $464,000	$712,000	$810,000	$810,000	$990,000	$1,120,000
8.1 Environmental Compliance	Baseline information to be developed	Zero material non-compliance notices	Zero material non-compliance notices	Zero material non-compliance notices	Zero material non-compliance notices	Zero material non-compliance notices

U - Denotes an Updated Calculation

2.2 Goals/Objectives, Strategies, Measures and Targets

Performance Measures Framework

CPC's performance measures framework follows the *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks and targets linked to specific goals/objectives and strategies. The framework also reflects CPC's dual functions as a development company and an operating company. The framework aligns specific strategies to each goal/objective and incorporates ongoing research regarding suitable benchmarks and targets. Given CPC's role as joint venture manager and the extent to which CPC contracts out, finding suitable industry benchmarks remains a challenge, as the industry is still largely dominated by vertically integrated regulated utilities. These challenges are described more fully in the individual performance measures. Where suitable industry benchmarks are not available, those specific to CPC have been used.

Very little has changed between the updated forecasts and targets from those presented in the February 2005 Service Plan. The differences reflect the deferral by one year of the issuance of BRX long-term project debt (which has improved return on equity and debt service coverage targets). Accordingly, this document restates the February 2005 Service Plan to include 2004/05 actual results and the updated return on equity and debt service coverage targets (which are denoted with a "U").

Six performance measures listed in CPC's 2004/05-2006/07 Service Plan (Return on Assets in Service, Equilibrating Natural Gas Prices, Manager Unit Cost, Employee Training, Net Income and Employment Creation) are not included in this Updated Service Plan, consistent with the February 2005 version. The purpose of the reduction in the number of goals/objectives and related measures and targets is to focus on key aspects of CPC's project development and operation mandate. In the future, CPC plans to provide additional, more precise, measures by disaggregating the current measure for "operations, maintenance and administration" into its key functional components of plant operations, plant maintenance, renovations/major improvements, and on-site and off-site support functions.

Goal/Objective #1 – Development of projects on time

Strategy:

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

Performance measure, benchmark and target

1.1 This measure reports any variance between expected and actual project start-up dates. The benchmark for this measure is ALGS, which was developed seven months early. The target is to achieve a variance of less than or equal to zero, indicating an approved project has achieved commercial start-up on time or early.

GOAL/OBJECTIVE **1. Development of Projects on Time**	**Benchmark**	**TARGETS**					
PERFORMANCE MEASURE **1.1 Variance in project development time**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	ALGS: 7 months early	BTS: On time	BEPC on Schedule	N/A	N/A	BRX: Sept. 2006	
2005/06 – 2007/08 Service Plan	BTS: on time			N/A	N/A	BRX: Sept. 2006	N/A

Goal/Objective #2 – Development of projects on budget

Strategy:

CPC's strategy is to transfer construction risk to the design-build contractor. Design-build contracts are fixed-price and contain detailed project specifications, including performance specifications, to minimize change orders and ensure that a project is "fit for purpose." Design-build contracts also provide performance-based penalties and incentives

Performance measure, benchmark and target

2.1 This measure reports on variance between project development costs incurred and the approved budget. The benchmark for this measure is ALGS, which was developed on budget. The target is to achieve a variance of less than or equal to zero, indicating an approved project has achieved commercial start-up on or under budget.

GOAL/OBJECTIVE **2. Development of Projects on Budget**	**Benchmark**	**TARGETS**					
PERFORMANCE MEASURE **2.1 Variance from project budgets**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	ALGS: 7 months early	BTS: On Budget	BEPC on Budget	N/A	N/A	BRX: On budget	
2005/06 – 2007/08 Service Plan	BTS: on budget			N/A	N/A	BRX: On budget	N/A

Goal/Objective #3 – Effective construction management

Strategy:

As noted, CPC's design-build contracts specify a project completion date and key milestones, with performance incentives and non-performance penalties. In addition, design-build contracts are secured by performance and labour and materials bonds, either cash holdbacks or letters of credit, and parent company guarantees. CPC retains independent engineers to oversee contractor performance against the design-build contract specifications and milestones. Once CPC takes over responsibility for a project's commercial operation, there is a three-year period within which the design-build contractor must resolve all material deficiencies and project performance issues documented by CPC as owner. At a project's Final Acceptance Date, the design-build contract allows for "liquidated damages" for any unresolved materials deficiencies. Liquidated damages can be recovered against any securities or holdbacks under the contract. CPC maintains sufficient security to cover potential deficiencies.

Performance measure, benchmark and target

3.1 This measure reports the ratio of the value of unresolved material deficiencies (under a project's design build contract) to the value of contractual holdbacks for liquidated damages at the Final Acceptance Date. The target is to achieve a ratio with a value less than or equal to one, indicating that the value of any unresolved material deficiencies is offset by the value of security for liquidated damages.

<table>
<tr><th>GOAL/OBJECTIVE
3. Effective Construction Management</th><th rowspan="2">Benchmark</th><th colspan="6">TARGETS</th></tr>
<tr><th>PERFORMANCE MEASURE
3.1 Unresolved deficiency ratio</th><th>2003/04 Actual</th><th>2004/05 Actual</th><th>2004 /05</th><th>2005 /06</th><th>2006 /07</th><th>2007 /08</th></tr>
<tr><td>2004/05 – 2006/07 Service Plan</td><td rowspan="2">Baseline to be developed</td><td rowspan="2">BTS: No unresolved deficiencies</td><td rowspan="2">Deficiencies actively monitored</td><td>N/A</td><td>ALGS: Less than or equal to 1</td><td>N/A</td><td></td></tr>
<tr><td>2005/06 – 2007/08 Service Plan</td><td>N/A</td><td>ALGS: Less than or equal to 1</td><td>N/A</td><td>N/A</td></tr>
</table>

Goal/Objective #4 – Reliable plant operations

Strategy:

CPC/CBT power projects receive contractual energy entitlements based on long-term average stream flow, plant capabilities (energy and capacity) and plant availability. Plant availability can be reduced by both planned and unplanned outages. CPC attempts to minimize the impact of planned outages by scheduling plant maintenance, repairs and upgrades during low flow (and low entitlement) months (primarily February through April). Unplanned outages tend to be higher during a new plant's period of initial operation, decrease to a "normal" operating level, and eventually increase as a plant ages. CPC/CBT projects are either newly constructed ALGS or have been completely refurbished (Brilliant dam). CPC design-build contracts specify plant performance and reliability measures. In addition, machinery and equipment have manufacturer warranties. CPC's independent owner's engineers conduct independent studies and investigations to help ensure that a plant's performance and reliability criteria are met and a project is fit for purpose.

Performance measure, benchmark and target

4.1 This measure reports the ratio of a project's actual energy entitlements to maximum energy entitlements, by project, thus providing a measure of plant reliability. The benchmark is the Canadian Electricity Association ("CEA") key performance indicator: Hydraulic Weighted Capability Factor, which has a value of 91% for both 2003 and the five-year period 1999-2003. The target is to achieve a value greater than or equal to 95%, indicating that planned and unplanned outages do not result in more than a 5% reduction in energy entitlements for the year. The lower targets for ALGS in 2004/05 and 2006/07 reflect actual interim and expected final channel repairs.

GOAL/OBJECTIVE **4. Reliable Plant Operations**	**Benchmark**	**TARGETS**					
PERFORMANCE MEASURE **4.1 Energy entitlement ratio**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	CEA: Hydraulic Weighted Capability Factor 2003 =91%	ALGS: 94% BRD: 98%	ALGS: 76% BRD: 99%	Greater or equal to 95%	Greater or equal to 95%	Greater or equal to 95%	
2005/06 – 2007/08 Service Plan				ALGS: >75% BRD: >95%	ALGS: >95% BRD: >95%	ALGS: >91% BRD: >95% BRX: >90%	ALGS: >95% BRD: >95% BRX: >92%

Goal/Objective #5 – Investment Grade, non-tax-supported credit ratings

The electricity industry is dominated by regulated utilities, such as BC Hydro, which typically do not finance debt on a limited-recourse project basis. Furthermore, the debt of BC Hydro and most other Crown corporations is guaranteed by the Province. CPC/CBT project debt is not guaranteed by the government, thus it is not tax supported. It is therefore important that CPC maintain investment grade credit ratings.

Strategy:

CPC/CBT have a fixed $500 million government equity endowment. The final $50 million equity payment from the Province under to the 1995 Financial Agreement was paid on April 1, 2005. To have sufficient capital to develop all three mandated core projects, CPC must raise long-term debt in the commercial bond market on a limited-recourse project basis (as noted, CPC/CBT do not have a government debt guarantee). To minimize overall interest costs while enabling it to pursue CPC/CBT project development goals, CPC uses equity resources and short-term credit facilities to reduce interest costs during project development. Once a project has been constructed and a long-term power sales agreement has been put in place, CPC raises long-term project debt from the bond market as required.

Before going to the bond market, CPC obtains a project bond rating from one or more bond rating agencies, such as Dominion Bond Rating Service (DBRS) and Moody's Investor Service (Moody's). Bond ratings provide an independent, objective and credible third-party evaluation of the risks associated with a project bond issue (commercial debt). CPC's objective is to maintain investment grade project bond ratings, which requires CPC to be able to assure rating agencies that a power project can sustain a debt coverage ratio of 1.3 or greater. There are three measures of our performance: the bond ratings, debt service coverage ratios and capital structure.

Performance measure, benchmark and target

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

GOAL/OBJECTIVE 5. Investment Grade, Non-Tax Supported, Credit Rating	Benchmark	TARGETS					
PERFORMANCE MEASURE **5.1 Bond rating**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	Investment Grade bond ratings for CPC/CBT project debt	Maintained ratings for all bonds	Maintained ratings for all bonds	Maintain or improve current Investment Grade bond ratings for CPC/CBT project debt: ALGS: DBRS A (high) BRD: DBRS A (high), Moody's A1 BRX: Investment Grade bond rating in 07/08			
2005/06 – 2007/08 Service Plan							

5.2 The second measure of credit worthiness reports on a project's debt service coverage ratio, measured as net income before interest and amortization of assets, divided by interest plus debt principal repayment, for projects with a bond rating. The benchmark used by rating agencies to establish an Investment Grade bond rating is an interest coverage ratio of greater than or equal to 1.3. CPC has established a target debt service ratio of 1.5 for each project with a bond rating, subject to CPC's capital spending needs and the availability of equity. High debt service coverage ratios suggest an ability to raise additional limited-recourse project debt in the commercial bond market.

GOAL/OBJECTIVE 5. Investment Grade, Non-Tax Supported, Credit Rating	Benchmark	TARGETS					
PERFORMANCE MEASURE **5.2 Debt service coverage ratio**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	Greater than or equal to 1.3	ALGS: 5.2 BRD: 1.7	ALGS: 1.7 BRD: 1.6	ALGS: 1.8 BRD: 1.7	ALGS: 1.9 BRD: 1.7	ALGS: 2.0 BRD: 1.8	
2005/06 – 2007/08 Service Plan				ALGS: 1.7 BRD: 1.6	ALGS: 2.0 BRD: 1.6	ALGS: 2.0 BRD: 1.6	ALGS: 2.1 BRD: 1.7 BRX: 1.7 BRX: 3.5U

U - Denotes an Updated Calculation

5.3 The third measure reports on CPC's capital structure, measured as consolidated debt and consolidated equity, each divided by consolidated debt plus equity, expressed as a ratio. Along with a project's debt service ratio, a project's debt to equity ratio is a key measure of CPC's ability to raise additional long-term debt to develop all three of its mandated core projects.

Finding a suitable industry benchmark is difficult. The electricity industry average is a composite that reflects the dominance of large government-backed regulated utilities such as Hydro Quebec and

BC Hydro, which do not engage in limited-recourse project finance. The ratio of debt to equity is a standard industry measure that is reported on a consolidated basis, not on a project basis. CPC's low debt-to-equity targets are consistent with its Capital Plan and investment strategy of using equity to construct projects. Once BRX and WAX have been constructed, CPC's debt-to-equity ratio will more closely track the CEA industry average.

<table>
<tr><th>GOAL/OBJECTIVE
5. Investment Grade, Non-Tax Supported, Credit Rating</th><th rowspan="2">Benchmark</th><th colspan="6">TARGETS</th></tr>
<tr><th>PERFORMANCE MEASURE
5.3 Capital structure</th><th>2003/04 Actual</th><th>2004/05 Actual</th><th>2004 /05</th><th>2005 /06</th><th>2006 /07</th><th>2007 /08</th></tr>
<tr><td>2004/05 – 2006/07 Service Plan</td><td rowspan="2">CEA composite performance measure for 2003 = 72:28</td><td rowspan="2">26:74</td><td rowspan="2">30:70</td><td>30:70</td><td>29:71</td><td>27:73</td><td></td></tr>
<tr><td>2005/06 – 2007/08 Service Plan</td><td>30:70</td><td>28:72</td><td>27:73</td><td>36:64</td></tr>
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Goal/Objective #6 – Acceptable return on equity

Strategy:

As noted earlier, the mandate of CPC is to develop and operate ALGS, BRX and WAX on a commercial basis with a fixed amount of equity from the Province, without a provincial government debt guarantee and without a built-in customer base (i.e., as an IPP and wholesaler). CPC/CBT power projects are capital intensive, but because they largely harness spring run-off water, they have low capacity utilization factors (of about 50%). Furthermore, while the economic life of a CPC/CBT hydroelectric power project can be 70 years or more, limited-recourse project debt is typically for terms of 30 years or less. Thus, CPC/CBT must defer receiving a significant portion of its equity returns until after project debt is retired.

In view of these constraints, CPC pursues the objective of an acceptable long-term return on equity over the life of a project. In order to balance market opportunities with the ability to raise limited-recourse project debt, CPC has put in place a portfolio of power sales contracts with varying terms (60 years for the Brilliant dam with market price adjustments after year 30; 12 years for ALGS; and 20 years for the 40% of BRX output currently under contract). CPC also pursues a strategy of managing project risks by establishing competitive, fixed-price design-build contracts, passing hydrology risk to BC Hydro in exchange for predetermined monthly energy and capacity entitlements, entering into long-term power sales agreements supported by third-party backstop agreements; and carrying business interruption, property and liability insurance.

Performance measure, benchmark and target

6.1 This measure reports return on equity, measured as consolidated net income divided by equity (contributed surplus plus retained earnings). Suitable industry benchmarks are not readily available. Return on equity is a standard industry measure, but – unlike for regulated utilities, which dominate the industry – CPC/CBT power projects do not earn an annual regulated rate of return in each year from a built-in customer base. As noted, CPC/CBT earn a return on equity over the life of a project investment. This return will depend on market conditions and CPC's ability to manage trade-offs between risk and return. The benchmark is to achieve, over a project's life, a return on equity comparable to that earned by regulated utilities. The target annual return on equity will be low in a project's early years and will rise over time, particularly once debt is retired.

GOAL/OBJECTIVE 6. Acceptable Return on Equity	Benchmark	TARGETS					
PERFORMANCE MEASURE **6.1 Return on equity**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	Over the life of a project, comparable to regulated utilities	2.8%	1.9%	2.1%	2.3%	3.6%	
2005/06 – 2007/08 Service Plan				2.0%	2.5%	3.6% 4.3%U	4.0% 4.8%U

U - Denotes an Updated Calculation

Goal/Objective #7 – Cost-efficient joint venture management

Strategy:

In order to be cost efficient, CPC relies on the use of external contractors, through both its competitive design-build development strategy and the contracting out of project operation and maintenance, legal, payroll, pension administration, benefits administration and IT functions. CPC maintains a regular staff of highly qualified professionals, who perform project and corporate planning, project permitting, risk management, commercial negotiation, power marketing, project and corporate accounting, treasury, land management, community relations, environmental management, contract administration and due diligence functions.

Performance measure, benchmark and target

7.1 A key industry measure of efficiency is the operations, maintenance and administration (OMA) unit cost for assets in-service, measured as OMA costs divided by net electricity entitlement, in dollars per megawatt-hour. Given CPC's reliance on external contractors, this measure may not be comparable to industry standards. Furthermore, to provide meaningful benchmarks against which to manage ongoing operations, this measure needs to be disaggregated by function and by project. As noted, CPC plans to present disaggregated OMA performance measures in future Service Plan Reports.

GOAL/OBJECTIVE 7. Cost Efficient Joint Venture Management	Benchmark	TARGETS					
PERFORMANCE MEASURE **7.1 OMA unit cost for assets in service**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	Baseline information to be developed	ALGS: $3.80 BRD: $1.90	ALGS: $4.82 BRD: $2.06	ALGS: $3.80 BRD: $1.90	ALGS: $2.40 BRD: $2.00	ALGS: $2.50 BRD: $2.00 BRX: $3.40	
2005/06 – 2007/08 Service Plan				ALGS: $6.00 BRD: $1.90	ALGS: $4.40 BRD: $2.30	ALGS: $3.30 BRD: $2.20 BRX: $3.70	ALGS: $3.20 BRD: $2.10 BRX: $2.70

Note: The higher target values for ALGS reflect: increased CPC due diligence related to unresolved material deficiencies at ALGS; FortisBC's plant maintenance charges at ALGS taking longer than anticipated to track levels at the Brilliant dam; and CPC's decision to hire engineers-in-training to develop internal expertise regarding CPC/CBT powerplant operations and maintenance.

7.2 Another industry measure of efficiency is revenue per employee, measured as consolidated revenue divided by the number of employees at year-end. The benchmark is the CEA industry composite average. Given CPC's reliance on external contractors, this performance measure may not be comparable to the electricity industry standard. To partially adjust for this, the target performance measure includes only the one-half share of total power project revenue that accrues to CPC.

GOAL/OBJECTIVE **7. Cost Efficient Joint Venture Management**	**Benchmark**	**TARGETS**					
PERFORMANCE MEASURE **7.2 Revenue per employee**		**2003/04 Actual**	**2004/05 Actual**	**2004 /05**	**2005 /06**	**2006 /07**	**2007 /08**
2004/05 – 2006/07 Service Plan	CEA composite average for 2003: $464,000	$810,000	$712,000	$810,000	$800,000	$970,000	
2005/06 – 2007/08 Service Plan				$770,000	$810,000	$990,000	$1,120,000

Goal/Objective #8 – Environmental compliance

Strategy:

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

In 2004/05, CPC implemented an environmental management system (EMS) to guide its management of the legal, regulatory and other environmental requirements that stem from its projects. The EMS has been developed with the International Organization for Standards' ISO 14001 standard, which has been adopted by the CEA, as a guide. Although CPC plans to operate at this standard, it is not currently planning to apply for certification because of cost and staffing considerations. The scope of the EMS includes project planning, project construction, facility operation and maintenance, and land management. The basic objective or goal is to have CPC conform to an appropriate level of environmental due diligence, consistent with the legal standard of care established by the courts. That standard requires CPC to take all reasonable steps to avoid causing prohibited environmental harm. The measure of reasonableness will change over time as industry expertise progresses. CPC considers its particular circumstances, as well as the practices and standard of care within the industry in which CPC operates. The greater the potential for environmental harm, the higher the standard of care will be.

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

Performance measure, benchmark and target

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

GOAL/OBJECTIVE 8. Environmental Compliance	Benchmark	TARGETS					
PERFORMANCE MEASURE 8.1 Compliance with environmental requirements		**2003/04 Actual**	**2004/05 Actual**	**2004/05**	**2005/06**	**2006/07**	**2007/08**
2004/05 – 2006/07 Service Plan	Baseline information to be developed	Zero material non-compliance notices	Zero material non-compliance notices	Zero material non-compliance notices			
2005/06 – 2007/08 Service Plan							

Variance Analysis:

CPC's fiscal 2004/05 financial and efficiency measures were negatively affected by ALGS production outages and interim channel repair costs. The expensing of current and prior period Columbia Basin Initiative restructuring costs also affected overall performance relative to targets. In the absence of these items, CPC's financial targets would have been exceeded.

Updated forecasts and targets for 2005/06 to 2007/08 reflect the deferral by one year of the issuance of BRX's long term debt issue. This change improved return on equity and debt service coverage targets.

Methodology:

Current and historical performance measures are not audited. Development and construction efficiency measures are based on information from project tracking systems and monthly status reports. The financial measures are derived from CPC's audited consolidated financial statements and other reliable sources. Bond ratings and environmental compliance measures are independently verifiable.

A number of CPC's performance targets are based on forecasts of future events. They were estimated using assumptions that reflect CPC's planned courses of action, and judgments as to the most probable set of economic conditions. The financial impacts of the permanent channel repairs at ALGS are not determinable at this time and have not been reflected in the future financial targets. Because of the nature of forecasting future events, users of this information are cautioned that actual results will vary from the information presented.

3.0 Alignment with Government's Strategic Plan

The government's Strategic Plan has five goals, as enumerated in the Throne Speech in February 2005:

- Goal 1: To make B.C. the best educated, most literate jurisdiction on the continent.
- Goal 2: To lead the way in North America in healthy living and physical fitness.
- Goal 3: To build the best system of support in Canada for persons with disabilities, special needs, children at risk and seniors.
- Goal 4: To lead the world in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.
- Goal 5: To create more jobs per capita than anywhere else in Canada.

CPC makes significant contributions directly to Goal 4 and Goal 5 and indirectly to Goals 1, 2 and 3.

<u>Goals 1, 2 and 3</u> – Best educated, healthiest, most fit population with the best system of social support

Through the payment of dividends to the Province and CBT, taxes to the Province and local governments, and water rentals to the Province, CPC's power projects help to fund: education, healthcare and other provincial social support programs and services; CBT social programs in the Columbia Basin; and local government services in the Regional District of Central Kootenay and the City of Castlegar. Over the period 2005/06–2007/08, CPC's power projects are expected to generate $74 million of net income for their shareholders, the Province and CBT. The projects will also contribute $35 million in taxes and water rentals.

In keeping with its commitment to Columbia Basin residents, CPC also provides direct sponsorship funding for community services, regional events and scholarships and bursaries in the Columbia Basin. Examples of sponsorship include hiking trail improvements, community festivals, hospital foundations, sporting and cultural events, and wildlife groups. CPC provides scholarships to graduating classes of all 23 secondary schools in the Columbia Basin. It also makes bursaries available to students enrolled at the three post-secondary institutions in the Columbia Basin: the College of the Rockies, the Kootenay School of the Arts and Selkirk College.

<u>Goal 4</u> – Sustainable environmental management and the best fisheries management

CPC completed the development of its environmental management system in 2004/05 and is currently in the process of implementing this system.

ALGS and BRX together will displace over 700,000 tonnes per year of CO2, compared to generating an equivalent amount of electricity in a gas-fired generating plant. These avoided emissions are equivalent to displacing 140,000 cars from Vancouver streets. The joint venture partners have maintained ownership of any greenhouse gas credits for their projects, which could potentially be sold in the future.

ALGS and BRX together will reduce by 70% the number of days when total gas pressure (TGP) in the Columbia River at the U.S. border exceeds the U.S. standard. When TGP reaches a level of 115% of normal, bubbles can form in the cardio-vascular systems of fish, which can lead to death and disruption of migration and spawning. The joint venture projects are of major benefit to the U.S., which spends millions of dollars to reduce TGP. For this reason, eight U.S. federal and state agencies, including the Environmental Protection Agency and the Fish and Wildlife Service, and the Colville Confederated Tribes have endorsed the joint venture's projects.

Since 1999, CPC and CBT have provided $175,000 per year (adjusted for inflation) for the Arrow Lakes Fish Fertilization Program. The joint venture partners contributed $193,570 in 2004/05, for a six-year total of just over $1.1 million. The fertilization program involves adding a mixture of liquid nitrogen and phosphorus to the water that increases phytoplankton (algae), which in turn feeds the zooplankton, kokanee and larger fish. An estimated 1 million kokanee spawned in the Arrow Lakes Reservoir in 2004, compared to 395,000 in 1999. This is the highest number of spawning kokanee since 1988. The average size of a spawning kokanee has also increased significantly. By increasing the number and size of spawning kokanee, fertilization is providing a better food source for wildlife predators and scavengers such as bears and eagles. The program is recognized as one of the largest lake restoration projects in the world.

Additional contributions for environmental purposes included: the transfer of 125 acres of land to the Nature Trust; funding for the Slocan River Rainbow Trout Habitat Enhancement Program, a demonstration phase of which implemented in the winter of 2004/05 consisted of constructing five in-stream habitat structures; and funding a number of programs under the Columbia Basin Fish and Wildlife Compensation Program, which is administered by BC Hydro.

CPC's power projects also help to fund CBT environmental and fisheries programs in the Columbia Basin.

Goal 5 – Job creation

Over the period 1999/00 through 2002/03, with the construction and commissioning of the $270 million ALGS, CPC had the third largest hydro project under construction in North America and the largest industrial project in B.C. ALGS was completed on budget and ahead of schedule. During the three-year construction period, the project created 750 person-years of direct employment (85% local hires), $60 million in direct and indirect income and $20 million in regional procurement.

The construction of the $205 million BRX, which began in the first quarter of 2003/04, will create over 450 person-years of direct employment, $30 million in direct and indirect income and $15 million in local procurement during the three-year construction period.

Supply of competitively-priced and reliable power to BC Hydro and FortisBC help to maintain British Columbia's low energy costs, and support economic development and job creation.

CPC's power projects also help to fund CBT economic programs and related job creation in the Columbia Basin.

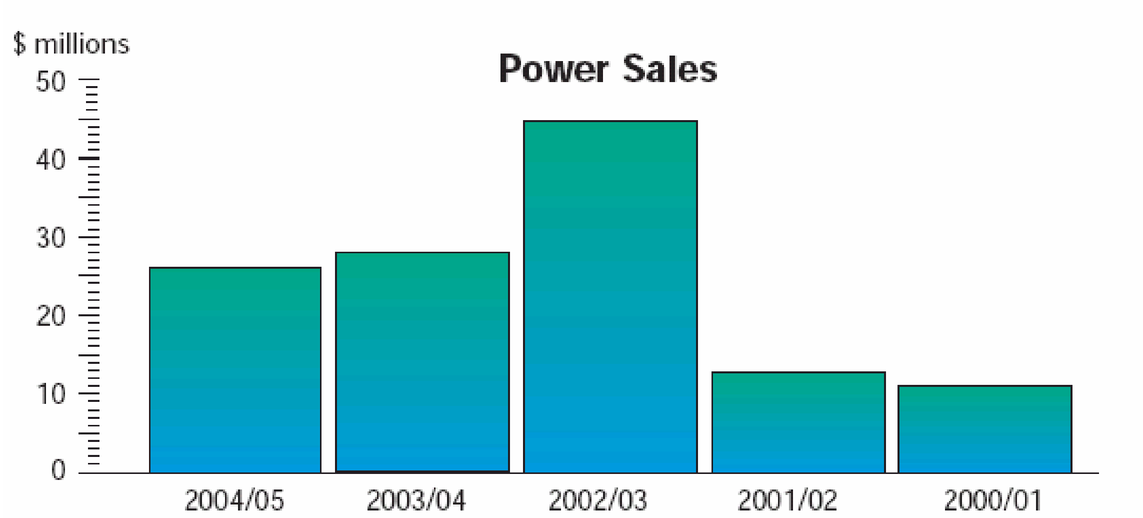
4.0 Historical Five Year Comparative

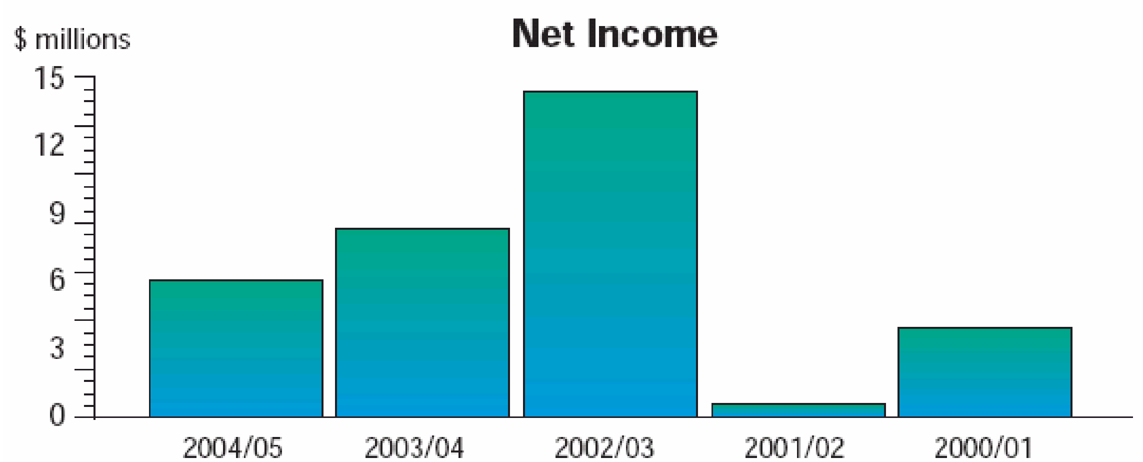
Five-Year Comparative Data

($ in thousands)

	2004/05	2003/04	2002/03	2001/02	2000/01
Power Sales	$ 26,480	$ 28,081	$ 44,650	$ 12,781	$ 11,071
Interest and Other Earnings	2,721	1,892	700	711	2,811
Net Income	5,744	8,262	13,438	550	3,716
Dividend Payments	2,000	2,000	2,000	2,000	3,000
Capital Assets and Deferred Costs	365,234	330,852	287,296	266,148	210,005
Short-Term Debt	-	-	47,254	63,491	20,343
Long-Term Debt	128,407	107,664	59,049	59,839	46,288
Equity	303,417	299,673	293,411	287,011	288,461
Capital and Deferred Spending	$ 41,865	$ 50,460	$ 26,601	$ 58,999	$ 63,095
Debt to Equity Ratio	30:70	26:74	27:73	30:70	19:81

Five Year Comparative Power Sales and Net Income





5.0 Summary Financial Outlook

5.1 CPC Consolidated Statement of Income Forecast

$ in thousands

		2003/04	2004/05	2005/06	2006/07	2007/08
		Actual	Actual			
REVENUES						
Sale of power and transmission revenue	$	28,865	27,891	32,017	40,725	47,350
Interest		584	727	538	433	278
Management fee		524	583	585	644	708
		29,973	29,201	33,140	41,802	48,336
EXPENSES						
Water rentals		3,531	4,090	3,959	4,673	5,462
Amortization of capital assets in service		5,932	6,174	6,443	8,331	9,681
Amortization of power sales right		914	720	971	971	971
Property tax		960	1,027	1,217	1,241	1,266
Operations and maintenance		1,384	1,423	1,458	1,574	1,693
Administration and management		1,655	1,791	1,979	1,897	2,049
Insurance		513	497	521	719	734
Community sponsorship		72	75	85	85	85
Restructuring and development costs			762			
		14,961	16,559	16,633	19,491	21,941
INCOME FROM OPERATIONS		15,012	12,642	16,507	22,311	26,395
FINANCE CHARGES						
Interest expense		6,610	8,106	8,540	8,225	10,283
Amortization of deferred debt issue costs		140	254	257	257	257
		6,750	8,360	8,797	8,482	10,540
NET INCOME BEFORE CHANNEL REPAIR COSTS		8,262	4,282	7,710	13,829	15,855
CHANNEL REPAIR COSTS			(3,927)			
RECOVERY OF REPAIR COSTS AND LOSSES			5,389			
NET INCOME	$	8,262	5,744	7,710	13,829	15,855
Full Time Equivalents		40	40	41	42	43

Notes:
1. Revenues and expenses represent CPC's 50 per cent share of joint venture amounts.
2. Revenues include recovery of Channel Repair Outages.
3. Operations and maintenance includes channel repair costs and are offset by recoveries.

5.2 Key Assumptions

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

- BRX will achieve its Commercial Operation Date of September 7, 2006 within the approved development and construction budget of $205 million.

- Grants in lieu of property tax are paid by ALGS and BRX on a similar basis to BC Hydro Columbia River Treaty facilities and generation plants on the Peace, Columbia and Pend d'Oreille Rivers.

- The market price for electricity is C$55 per MWh at March 31, 2005, escalating in nominal terms at 2 per cent per year.

- Operating cost inflation, including water rental increases, is 2 per cent per year.

- A new 30-year Canal Plant Agreement ("CPA") is signed among BC Hydro, CPC/CBT, FortisBC, and Teck Cominco prior to the expiration of the current CPA in September 2005.

5.3 Risk Factors and Sensitivities

CPC's return on equity will increase over time as projects now under development enter the operating phase and begin to earn income following intensive capital spending during construction. Factors that could affect the future rate of return include power market developments, interest and exchange rate movements, payments to government and access to transmission systems. The Province's energy plan supports the development of CPC's projects by providing greater access to the transmission system and improving the ability of non-utility generators to sell power directly to large customers.

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

The major source of short-term operational uncertainty for CPC is the damage to the approach channel at ALGS. Damage to the concrete lining of the approach channel was discovered on May 3, 2004. Arrow Lakes Power Corporation carried out interim repairs of the channel during the year and is preparing plans to undertake permanent repairs as appropriate. It is taking all necessary steps – including pursuing its remedies under the design-build contract and its insurance policies and preserving its available sources of working capital – to ensure that its obligations to creditors and regulators will be satisfied.

Net income during 2005/06 and/or 2006/07 may be materially affected by permanent channel repairs, depending on the cost of repairs and the amount and timing of recoveries from insurance and/or the design-build contractor.

Subject to resolution of the ALGS channel problem, CPC's outlook for the future is for stable earnings growth. At the Brilliant power facility and terminal station and ALGS, prices are fixed by long-term contracts and are not affected by changes in power markets. Entitlement agreements with BC Hydro provide firm amounts of power regardless of actual water flows, thereby eliminating hydrology risk. Interest costs for projects in operation are fixed through the issue of long-term bonds. At Brilliant, earnings stability is further enhanced by the cost-of-service nature of the power sales agreement. Although the sales contract for ALGS does not have this feature, operating costs at Arrow Lakes are low relative to revenues, as is typical in a hydroelectric generating plant.

The construction program for BRX is scheduled to run for the next one and a half years. The fixed-price nature of the contract and built-in performance guarantees have the effect of transferring most of the construction risk to the contractor. It is expected that an entitlement agreement will be in place for BRX, which will remove hydrology risk. With approximately 40% of the plant output sold under a long-term contract with BC Hydro, CPC is pursuing opportunities to enter into sales agreements for the remaining plant output prior to completion of construction. The nature of the sales arrangements put in place for BRX will affect CPC's ability to raise financing at project completion, which in turn will affect the availability of funds for the construction of WAX.

The following table presents an analysis of the primary risks that CPC faces and the strategies implemented during 2004/05 to address these risks.

Risk	**Issue/Impact**	**How managed**
ALGS Channel Repair Costs	The cost of permanent channel repairs could be significant in 2005/06 and 2006/07.	CPC has retained $12 million as of March 31, 2005 to fund permanent repairs and will retain further cash in 2005/06. CPC will seek to recover these costs and lost revenue from insurers and/or the design-build contractor.
Waneta Expansion Construction Decision	Construction of WAX is subject to: permitting, design-build bids, entitlement negotiations, power marketing and long-term borrowing costs. Each could affect project timing, scale and viability.	CPC is pursuing the design-evaluate-build development strategy used to develop ALGS and BRX. CPC has achieved a transfer of the Waneta Water Reserve to CPC/CBT, and has also signed a Waneta Cooperation Agreement and a Transmission Rights Agreement with Teck Cominco.
Canal Plant Agreement (CPA) Renegotiations	The existing CPA includes Brilliant entitlements. Key parts of the CPA expire in September 2005. BC Hydro, CPC, FortisBC and Teck Cominco are negotiating to renew the CPA for 30 years and to include BRX and WAX.	CPC continues to work with BC Hydro, FortisBC and Teck Cominco on finalization of the CPA renewal. The CPA renewal agreements are expected to be finalized in September 2005.
Brilliant Expansion – Commercial Operation Date	The scheduled Commercial Operation date is August 2006. Missing that date would have a direct negative impact on project revenues. Estimated August Revenues are $2.3 million.	CPC actively monitors the progress of construction. The design-build contract specifies a project completion date, with bonuses for early completion and penalties for late completion exceeding one month.

Risk	Issue/Impact	How managed
Plant Reliability	If the ALGS plant outage factor were 5%, instead of the budgeted 2.3%, revenues and net income would decline by $750,000 in 2005/06, assuming no recoveries.	Plant outage risk for Brilliant is transferred to the power purchaser/plant operator. Design-build contracts are secured by: performance and labour and materials bonds; either cash holdbacks or letters of credit; and parent company guarantees. Machinery and equipment have manufacturer warranties. All power projects also carry business interruption, property and liability insurance.
Availability of Funds	Equity and debt funding are required for completion of current and future projects.	The final $50 million of government equity was paid April 1, 2005. Key ALGS, BRX and WAX agreements are structured to achieve financeable projects with a high credit rating. CPC/CBT plan to retain cash from operations to lessen the borrowing burden for WAX, which may allow more flexible WAX power marketing.
BRX Power Marketing	Forty percent of BRX output has been marketed to BC Hydro under a 20-year Green Power contract, the revenue from which is sufficient to recover project capital costs. .	CPC is pursuing sales contracts with utilities and marketers in domestic and U.S. markets for the remaining 60% of BRX power.
Transmission and Market Access	CPC/CBT power projects are located in a region with limited long-term firm transmission capacity to access adjacent markets in Alberta and the U.S.	CPC has signed a long-term Transmission Rights Agreement with Teck Cominco. CPC is intervening in BC Transmission Corporation tariff hearings. CPC is also pursuing sales contracts with delivery at CPC/CBT points of interconnection.
Regulatory Risk	CPC/CBT and CPC/CBT power projects come under the *Utilities Commission Act* definition of public utilities.	CPC has obtained a Ministerial Order exempting CPC/CBT and CPC/CBT power projects from regulation. Where appropriate, CPC also intervenes in the regulatory proceedings of BC Hydro and FortisBC.

Risk	**Issue/Impact**	**How managed**
Property Taxation	Taxing ALGS and BRX at current regional district rates would reduce annual project net income by about $6 million and $3 million, respectively. WAX could be similarly impacted. This would affect the economic viability of the power projects and the ability to raise debt to fund WAX.	CPC has previously obtained Orders in Council exempting ALGS and BRX from property tax. CPC will seek a similar tax exemption for WAX. It is expected that ALGS, BRX and WAX will pay grants in lieu on a similar basis to BC Hydro Columbia River Treaty facilities and generation plants on the Peace, Columbia and Pend d'Oreille Rivers.
Water Use Planning and Columbia River Treaty Operations Risk	Constraints imposed as a result of BC Hydro water use planning and changes in upstream flow regulation associated with the Columbia River Treaty could adversely affect powerplant operations and project revenues, unless CPC/CBT are saved harmless. .	CPC has obtained an indemnity from BC Hydro saving harmless CPC/CBT power projects from the effects of Water Use Planning. CPC is also monitoring changes to U.S. regulation of Libby dam and has registered CPC/CBT interests with the U.S. Army Corp of Engineers and BC Hydro, the designated U.S. and Canadian Entities under the Columbia River Treaty.
Foreign Exchange Risk	A 1¢ change in the Canadian dollar relative to the U.S. dollar represents about $200,000 per year for the 60% of BRX power entitlement not currently under contract.	Sales to BC Hydro and FortisBC are in Canadian dollars. For export sales in U.S. dollars, hedging against exchange risk can be used.
Counter-party Credit Risks	Bond ratings and interest costs for CPC/CBT project debt are affected by the creditworthiness of the buyer. Power purchasers may also require CPC to post security.	CPC's marketing efforts are directed at selling power to purchasers with high credit ratings and entering backstop arrangements as appropriate. CPC will negotiate with purchasers to minimize or, if possible, eliminate this requirement.
Interest Rate Risk	Higher interest rates could negatively impact the cost of new project debt, project net income and the economics of and ability to finance WAX. Depending on the size of WAX, a one-percentage point interest rate rise could reduce annual net income by up to $4 million.	CPC continues to pursue debt management strategies and use interest rate hedges to manage risk to acceptable levels, as appropriate.

Risk	Issue/Impact	How managed
Uncertainty as to the ownership and structure of CPC and CBT power project companies	CPC/CBT restructuring discussions and proposals have created uncertainty for CPC staff, contractors, suppliers, lenders, potential BRX power purchasers, regulators and potential WAX design-build bidders. This uncertainty was substantially reduced by the Province's January 2005 direction that CPC will continue to be the joint venture manager, separate from CBT and wholly owned by the Province; however, the Option Agreement notification by CBTE of June 2005 has renewed uncertainty in this regard.	CPC will continue to assist the Province and CBTE in their due diligence efforts in order to expedite a final resolution to this issue at the earliest possible date.

6.0 Capital Plan

BRX is the only approved CPC/CBT Major Capital Project in the period 2005/06 to 2007/08. Treasury Board and CBT Board approval to proceed with this 120 MW, $205 million project was obtained in February 2003; a fixed-price design-build contract was signed in February 2003; and, construction commenced in April 2003. The contractual Commercial Operation Date for BRX is September 7, 2006. Forecast BRX capital spending over the period of the Service Plan totals $46 million ($157 million having been advanced from 2002/03 to 2004/05). In accordance with the *Budget Transparency and Accountability Act*, a Major Capital Project Plan was submitted for BRX to the Clerk of the BC Legislative Assembly on March 18, 2003 (which is available on CPC's web site www.columbiapower.org/content/projects.html under BRX). While WAX is not yet an approved project, the following capital spending table includes estimated WAX capital spending to the end of 2007/08 on the assumption that CPC receives the requisite approval to enter into a design-build contract in early 2007/08.

6.1 CPC Consolidated Capital Spending Forecast

$ in thousands						
		2003/04	2004/05	2005/06	2006/07	2007/08
		Actual	Actual			
BRILLIANT POWER CORPORATION		13,065	3,506	2,189	2,420	1,930
ARROW LAKES POWER CORPORATION		1,140	1,123	476	276	246
BRILLIANT EXPANSION POWER CORPORATION		36,273	36,497	13,168	9,572	260
POWER PROJECT PLANNING						
Waneta Expansion		1,041	1,580	3,029	3,725	68,204
General Power Project Planning				265	265	265
		1,041	1,580	3,294	3,990	68,469
CPC CORPORATE		112	202	329	362	398
TOTAL	$	51,631	42,908	19,456	16,620	71,303

Notes:

1. With the exception of CPC Corporate (primarily furniture, office equipment and vehicles), capital spending represents CPC's 50 per cent share of joint venture amounts.
2. Forecast Arrow Lakes Power Corporation capital spending does not include the approach channel permanent repair costs. The amount, timing and recovery level of these cost can not be determined at this time.

6.2 Liquidity and Sources of Capital

CPC has set aside cash and temporary investment reserves to complete BRX, fund the ALGS Channel permanent repair, finish the Brilliant life extension program and partially fund the development of WAX.

CPC has access to the Province's fiscal agency loan program, which can be used to finance WAX during construction. Subject to the creditworthiness of future power sales contracts, long-term and short-term borrowing capacity is also available from the existing power projects to finance WAX.

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

7.0 Board of Directors and Officers

Board of Directors

Lee Doney
Chair

Jane Fleming

Art Willms

Lorne Sivertson
President

Ed Pietraszek
Corporate Secretary/Treasurer

Officers

Lorne Sivertson
President

Victor Jmaeff
Vice President, Power Supply and Marketing

Bill Freeman
Vice President, Planning and Development

Giulio Ambrosone
Vice President, Engineering and Construction

Bruce Duncan
Vice President, Strategic Planning and Regulatory Affairs

Ed Pietraszek
Corporate Secretary/Treasurer

Wally Penner
Executive Director, Community and Regional Affairs

Randall Smith
Comptroller

8.0 Corporate Governance

CPC is a Crown corporation existing under the *British Columbia Business Corporations Act*. It is owned and controlled by the Province and is an agent of the Province. Under the terms of its agency agreement, CPC must obtain the approval of the Province's Treasury Board for all budgets and material decisions. The Province appoints its directors annually. All employees are bound by the CPC Standards of Conduct.

As a government corporation under the *British Columbia Financial Administration Act*, CPC is required to maintain its accounts in a manner acceptable to the Minister of Finance. The Auditor General of British Columbia is the auditor for CPC.

The power project investments of CPC and CBT are guided by the principle, as stated in the Financial Agreement between the Province and CBT, that the joint venture management committee formed for a power project will only authorize the commencement of the power project if such commencement is approved by the respective boards of directors of CPC and CBT and such power project would meet conditions precedent as would be set by a reasonable lender for the financing of such power project, including conditions in respect of debt servicing, return on equity, permits, construction agreements, contracts for the sale or distribution of electricity and similar matters.

All operating and capital budgets for a joint venture power project require the unanimous approval of the joint venture's management committee. Such committees consist of three members appointed by CPC and three members appointed by CBT.

Between February and April 2005, the Province appointed three additional directors to the Board of CPC, bringing the total number of directors to five. The new directors, one of whom was appointed as Chair, bring to the Board considerable experience as directors and officers in the public and private sector. One of the first tasks for the expanded board will be to determine the appropriate committee structure for the board, based on best practice corporate governance guidelines.