

COLUMBIA POWER CORPORATION **SERVICE PLAN**

2012/13 - 2014/15



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Honourable Rich Coleman
Minister of Energy and Mines

On behalf of the Board of Directors, I am pleased to submit Columbia Power Corporation's 2012/13—2014/15 Service Plan.

Columbia Power Corporation ("Columbia Power") is a commercial Crown corporation, wholly owned and controlled by the Province of British Columbia. As an agent of the Province, Columbia Power develops and operates power projects in the Columbia Basin. Historically, these projects were developed on a joint venture basis with Columbia Basin Trust ("CBT"). For those projects Columbia Power is the joint venture manager; the benefits are shared by Columbia Power and CBT. CBT's share is in trust for community initiatives.

Columbia Power and CBT own the Brilliant Dam and Generating Station and the Brilliant Terminal Station, the Arrow Lakes Generating Station (also known as Arrow Lakes Hydro), the Brilliant Expansion Generating Station and associated transmission lines. Columbia Power oversees the operations and management of these assets.

In the fall of 2010, construction began on the long anticipated 335MW \$900 million Waneta Expansion hydroelectric project, 20 km south of Trail, BC. The Project is a partnership between Fortis Inc., Columbia Power and CBT and is managed by Columbia Power. The Project is now well underway and on track to achieve commercial operation in the spring of 2015. We extend our thanks to the Project team and our partners Fortis Inc. and CBT who are working together to advance construction of this important addition to the portfolio of hydroelectric assets in the Columbia Basin.

There are currently over 200 people employed at the Waneta site; of those, 84% reside within 100 km of the Project. The Kootenay region has the second highest unemployment rate in the Province. These opportunities, plus the indirect economic benefits—

approximately \$60 million spent in the local economy during the past year—have a very positive impact. In addition to the economic benefit over the four-year construction period, the Project continues the strong hydroelectric tradition in the Columbia Basin and provides long-term benefits to the Province and the region through long-term sales agreements for the capacity and energy from the Project. FortisBC will purchase the capacity; BC Hydro the energy.

Columbia Power has three priorities for the next year:

- **Continue to effectively manage the construction of the Waneta Expansion to substantial completion and operation in 2015—safely, on-schedule and on-budget, while meeting our community, First Nations and environmental commitments.**

- The Project is on-schedule and on-budget; safety for both workers and the public is being well managed—there have been no lost time injuries and no major environmental incidents. Environmental, First Nations and community commitments continue to be met.

- **Continue to effectively and efficiently manage the joint venture assets with CBT.**

- The joint venture assets continue to operate effectively; however, an unplanned outage at the Brilliant Expansion Generating Station, as a result of a failure in the shaft seal, resulted in additional cost and a decrease in revenue last year.

- **Undertake future strategic planning for Columbia Power.**

- Columbia Power has received the 2012/13 Government's Letter of Expectations (the "Letter") from the Minister of Energy and Mines, as the representative of the Government of British Columbia. The Letter defines primary account-

abilities and sets out the expectations of the Government. In addition to the management of its existing assets and the construction of the Waneta Expansion Project, the Letter directs Columbia Power to implement a strategic plan. The Board of Directors held a strategic planning session in September 2011. We are working closely with the Ministry of Energy and Mines and BC Hydro to identify potential projects after Waneta Expansion that take advantage of the expertise and experience at Columbia Power, in particular adding hydroelectric generation capacity to existing facilities. The projects would support British Columbia's energy objectives and related Provincial policy directions.

The market conditions for our industry continue to be challenging. Key factors which will affect our planning include:

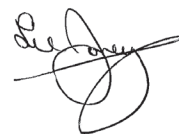
- uncertainty regarding long-term energy prices, though the general view is that energy prices in the Pacific Northwest over the next five to ten years will be low due to an excess of supply.
- the impacts of shale gas and LNG initiatives, which will need to be factored into Columbia Power's long-term planning.
- ongoing interest in clean renewable energy—hydroelectric, biomass, wind, and as noted, renewed interest in natural gas.

The Corporation's 2012/13—2014/15 Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The Plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the Plan, including what has been included in the Plan and how it has been reported.

All significant assumptions, policy decisions, events and identified risks, as of January 28, 2012 have been considered in preparing the Plan. The performance measures presented are consistent with the Corporation's mandate and goals and focus on aspects critical to the organization's performance. The targets in this Plan have been determined based on an assessment of the Corporation's operating environment, forecast conditions, risk assessment and past performance.

In summary, 2012/13 promises to be a year of significant opportunity for Columbia Power. We anticipate continued reliable performance of our existing assets, a year of intense, challenging construction on the Waneta Expansion and working with the Ministry of Energy and Mines and BC Hydro on the advancement of a Columbia Power strategy that will look beyond the Waneta project. Plant operations require constant diligence to ensure reliability—on a cost effective basis. Given its size and complexity, the Waneta construction presents numerous risks—such as environmental, geotechnical and financial—to name a few. We have developed a comprehensive project register of risks and appropriate contingency, which is monitored continually by the project team and quarterly by the Board of Directors. Finally, the strategic direction of the company will be challenging in the context of industry uncertainty noted above. In addition, it will require close collaboration with, and support from the Ministry, BC Hydro, local government, First Nations and other key stakeholders.

Yours truly,



Lee Doney
Board Chair

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Introduction

MANDATE

The mandate of Columbia Power Corporation (“Columbia Power”, or the “Corporation”) is to:

- efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin;
- act as the manager of power project joint ventures with the Columbia Basin Trust;
- act as the Owner’s Representative for construction of the Waneta Expansion Project;
- undertake strategic planning for the future of the Corporation.

VISION

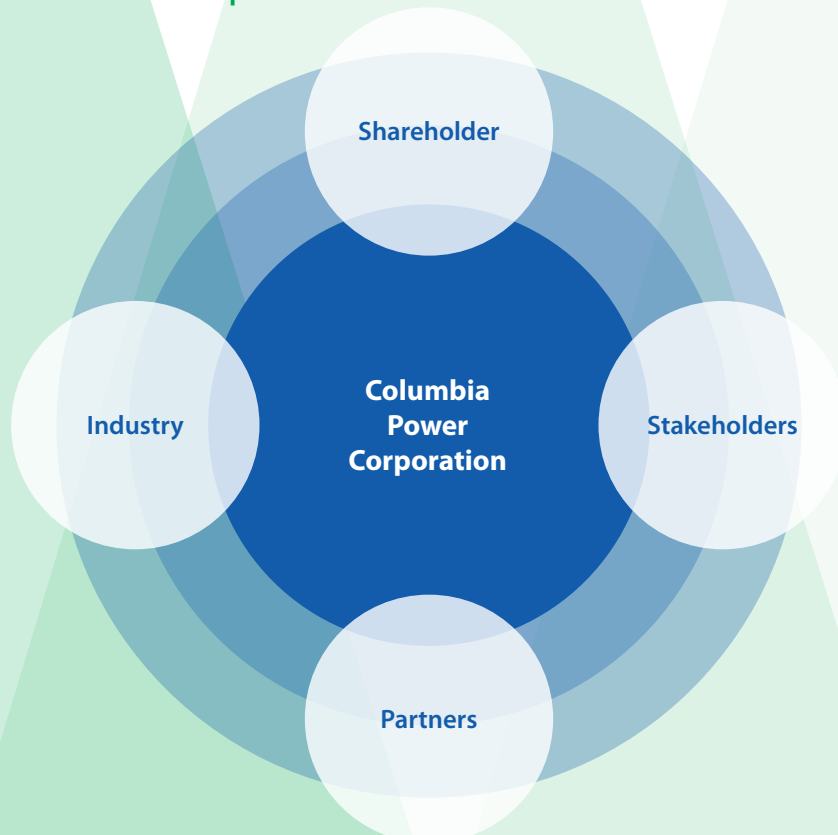
Columbia Power’s vision is to be a respected, continually improving company that maximizes shareholder value by developing and operating power projects in a socially and environmentally responsive manner, while achieving the development objectives of the Province and the Columbia Basin.

VALUES

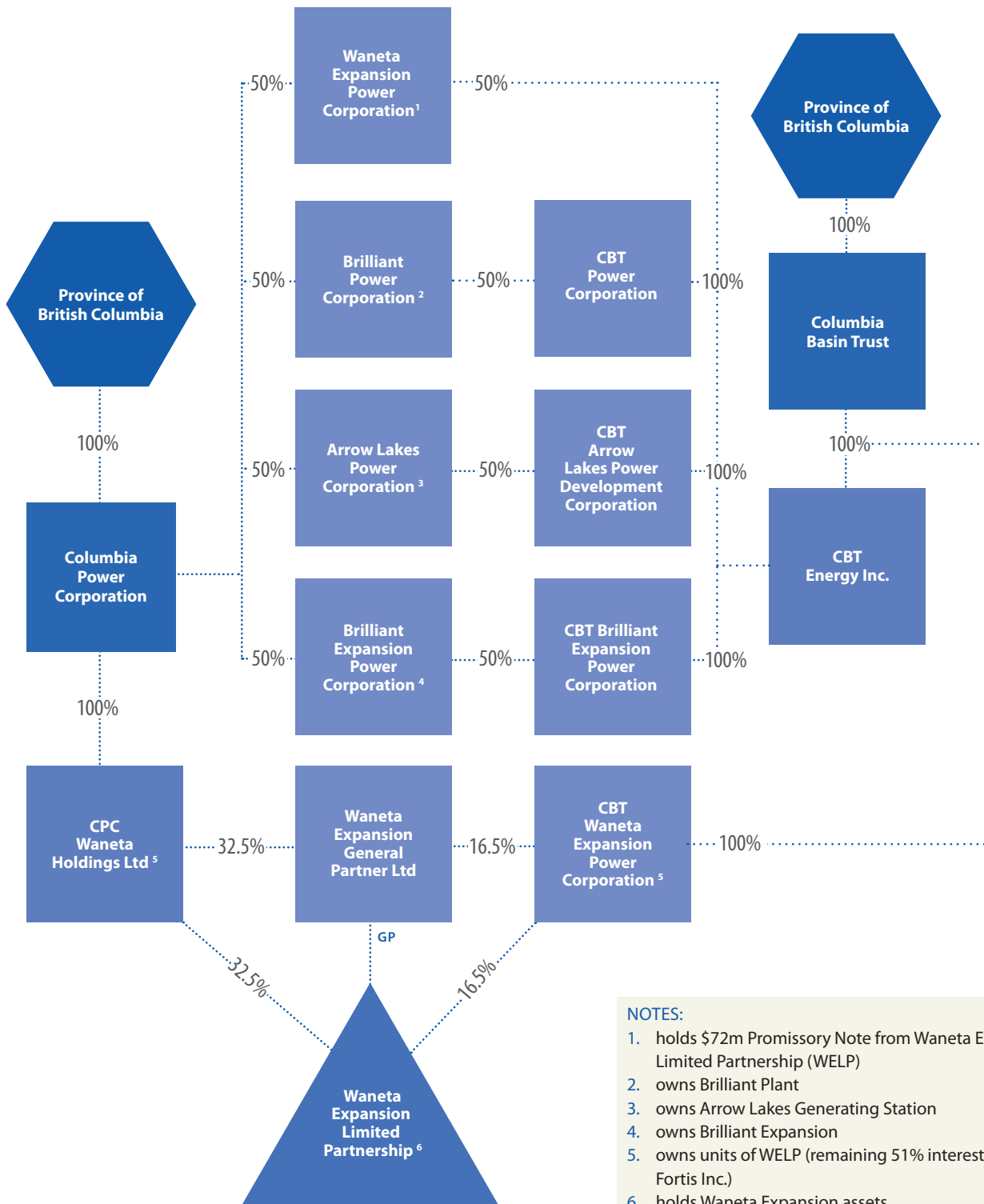
The following values guide how the Corporation works with its staff and external stakeholders:

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

Columbia Power’s Relationships



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



- NOTES:**
- holds \$72m Promissory Note from Waneta Expansion Limited Partnership (WELP)
 - owns Brilliant Plant
 - owns Arrow Lakes Generating Station
 - owns Brilliant Expansion
 - owns units of WELP (remaining 51% interest owned by Fortis Inc.)
 - holds Waneta Expansion assets

Organizational Overview

Columbia Power Corporation (“Columbia Power”) 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 and Mines. Under the terms of its Agency Agreement with the Province, Columbia Power is confirmed as an agent of the government while reserving for Treasury Board the ultimate decision-making authority for new power project investment and significant financial restructuring.

Columbia Power’s current mandate is to:

- efficiently develop and operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province and the residents of the Columbia Basin;
- act as the manager of power project joint ventures with the Columbia Basin Trust;
- act as the Owner’s Representative for construction of the Waneta Expansion Project; and
- undertake strategic planning for the future of the Corporation.

Columbia Power is a cost-effective organization, with its head office in Castlegar. The company focuses on asset management activities while engaging private-sector firms to provide construction, plant operation and specialist consulting services.

Columbia Power has historically undertaken power projects through joint ventures with subsidiaries of Columbia Basin Trust (“CBT”). Columbia Power owns 50% of the shares and manages all of the assets of the joint ventures. Under this model, Columbia Power built and oversees the operations of the 185 MW Arrow Lakes Generating Station, the 120 MW Brilliant Expansion Generating Station and the Brilliant Terminal Station. Columbia Power also oversees the operations of the 145 MW Brilliant Dam and Generating Station, which the partners purchased from Cominco in 1996. Through these assets, Columbia Power has a peak capacity of approximately 450 MW of electricity.

Columbia Power’s key relationships include CBT, BC Hydro, Teck, Fortis Inc., First Nations, regional districts, local communities and professional advisors.

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

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

The Waneta Expansion Project is a partnership between Fortis Inc., Columbia Power and CBT. The partnership agreement provides Fortis Inc. a 51 per cent share of the Project, Columbia Power with 32.5 per cent and CBT with a 16.5 per cent share. Columbia Power is the Owner’s Representative for design and construction and Fortis Inc. will be responsible for operations of the Waneta Expansion after construction. Long-term contracts for the purchase of capacity and energy have been signed with FortisBC and BC Hydro, respectively.

Columbia Power intercedes in regulatory proceedings as needed to ensure joint venture and partnership interests are appropriately addressed.

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

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

 columbiapower.org/company/companyhistory.asp

Governance

PRINCIPLES

The authorized number of Directors of the Corporation is six, all appointed by the Province and independent of management. As of the date of this Service Plan, there is one vacancy on the Board. As stewards of the Corporation, the Directors are committed to overseeing the conduct of the Corporation's business, applying the following governance principles:

Integrity: Best Interests of the Corporation

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

Direction with Oversight: Support Management

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

Commitment: Well-Informed Decision-Making

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

Skill Development: Continuous Improvement

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

Communication

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

Respect

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

DIRECTORS

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

BOARD COMMITTEES

The Corporation's committees address issues on behalf of the Board of Directors and report back to the Board on a regular basis.

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

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

The **Human Resources and Governance Committee** assists the Board in matters of human resources and compensation, including establishing a plan for continuity and development of senior management. This Committee is also responsible for providing a focus on governance that will enhance Columbia Power's performance.

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

The **Major Capital Projects Committee** assists the Board in its oversight responsibilities with respect to the operations of the Corporation's existing facilities and major capital projects.

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

OFFICERS OF THE COMPANY

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

SENIOR MANAGEMENT

- Gene Anderson, Director, Operations
- Llewellyn Matthews, Director, Environment

- Audrey Repin, Director, Stakeholder Relations and Communications
- Janice Hardy, Manager, Human Resources and Corporate Services

THE PROVINCE OF BRITISH COLUMBIA AND COLUMBIA POWER CORPORATION

Columbia Power is wholly owned and controlled by the Province of British Columbia. As an agent of the Province, the Corporation develops and operates power projects in the Columbia Basin.

KEY ACCOUNTABILITY RELATIONSHIPS

Pursuant to the Government's Letter of Expectations, the Board Chair and the Corporation's Chief Executive Officer communicate regularly with the Minister of Energy and Mines, or with a representative of the Ministry, to report on implementation of the Letter.

COLUMBIA POWER CORPORATION'S JOINT VENTURES WITH COLUMBIA BASIN TRUST

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

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

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

WANETA EXPANSION LIMITED PARTNERSHIP

The Waneta Expansion Project (being the development of a 335 MW Generating Station on the Pend d'Oreille River near Trail, BC) is owned by Waneta Expansion Limited Partnership (WELP); the limited partnership interests are owned 51% by Fortis Inc., 32.5% by Columbia Power, and 16.5% by Columbia Basin Trust. WELP is managed by a general partner, Waneta Expansion

General Partner Ltd. (WEGPL), which is also owned by Fortis Inc., Columbia Power and Columbia Basin Trust. WEGPL has a Board of Directors of seven, comprised of four nominees of Fortis Inc., two nominees of Columbia Power, and one nominee of Columbia Basin Trust. Columbia Power acts as the Owner's Representative for the Waneta Expansion Project.

COMPLIANCE

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

Click the link below to learn more about Columbia Power's Corporate Governance and about our Board of Directors:

 columbiapower.org/content/corporate_governance.asp

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

 fin.gov.bc.ca/brdo/

Strategic Context

Columbia Power's power projects operate in a domestic power market where there is a single dominant wholesale purchaser as well as independent power producers. Long-term firm transmission capacity to adjacent power markets in Alberta and the US Pacific Northwest is constrained due to transmission capacity limitations. The operating environment is complex and includes federal and provincial regulators, an international treaty, as well as local, regional, United States, and First Nations stakeholders.

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

Government's Letter of Expectations

As agreed in the 2012/13 Government's Letter of Expectations, the Corporation will take specific actions on the following:

Waneta Expansion Project

Manage the construction of the Waneta Expansion to completion in 2015 safely, on schedule and on-budget, while meeting commitments to First Nations, community and the environment

Columbia Power will continue to manage the construction of the Waneta Expansion Project safely, on-schedule and on-budget, while meeting its environmental and community commitments until commencement of commercial operation in 2015. Columbia Power will continue to engage Project stakeholders through its Waneta Expansion Community Impact Management Committee and continue to coordinate with the Ktunaxa Nation Council and Okanagan Nation Alliance in the implementation of their respective community benefits agreements.

Management of Existing Facilities

Manage the operation of existing facilities to meet financial and other performance targets

Columbia Power will proactively manage the operation of its existing facilities – Brilliant Dam and Expansion Project and the Arrow Lakes Generating Station – in order to meet its targets.

Strategic Plan and Enterprise Risk Management

Continue to develop the Corporation's Strategic Plan and Enterprise Risk Management Plan

Columbia Power has been encouraged by regional government and key stakeholders to develop opportunities after the completion of the Waneta Expansion. In consultation with Ministry of Energy and Mines representatives and BC Hydro, Columbia Power will develop and implement its Strategic Plan. The Strategic Plan will also involve consultation with potential partners, local government and key stakeholders. Concurrently, Columbia Power will continue to develop its Enterprise Risk Management Plan.

Policy Development

Work with the Government to identify current or upcoming issues that could require provincial policy development and assist with implementation of any such policies

As part of ongoing communication with the Ministry of Energy and Mines, Columbia Power will meet quarterly with the Ministry to coordinate on substantive issues. In addition, Columbia Power will work with the Ministry of Energy and Mines and other relevant ministries to address potential issues as they arise. Columbia Power will also assist the Government in any policy implementation activities that are required.

PERFORMANCE MEASURES AT A GLANCE

The 2010/11 fiscal year is the most recent completed fiscal year and is included for historic context. 2011/12 is the current fiscal year. Information related to this year is a forecast to fiscal year end, March 31, 2012.

Goal 1 - Success of the Waneta Expansion Project

	Benchmark	2010/11 (actual)	2011/12 (forecast)	2012/13	2013/14	2014/15
1.1 Waneta Expansion is on-schedule	Early or on schedule (no negative variance from schedule)		WAX on-schedule	WAX on-schedule	WAX on-schedule	WAX on-schedule
1.2 Waneta Expansion is on-budget	On or under budget (no negative variance from budget)		WAX on-budget	WAX on-budget	WAX on-budget	WAX on-budget
1.3.1 Waneta Expansion Regulatory Compliance (Safety) Refer to Page 12	< or =5 (Injury Rate)		< or = 4	< or = 4	< or = 4	< or = 4
1.3.2 Waneta Expansion Regulatory Compliance (Environmental) Refer to Page 13	One major environmental incident per year		1	1	1	1

Goal 2 - Efficient and reliable plant operations

	Benchmark	2010/11 (actual)	2011/12 (forecast)	2012/13	2013/14	2014/15
2.1.1 Equivalent Availability Rate (Hours) Refer to Page 14	ALH: >90.0% BRX: >90.0%	ALH: >99.7% BRX: >85.9%	ALH: >89.2% BRX: >88.5%	ALH: >87.5% BRX: >87.7%	ALH: >88.7% BRX: >88.5%	ALH: >93.9% BRX: >88.5%
2.1.2. Equivalent Availability Rate (MWh) Refer to Page 15	ALH: >96.3% BRX: >96.0%	ALH: >99.8% BRX: >98.5%	ALH: >97.8% BRX: >94.3%	ALH: >95.9% BRX: >94.3%	ALH: >96.1% BRX: >94.3%	ALH: >96.4% BRX: >94.3%
2.2 OMA¹ Costs (\$ per MWh) Refer to Page 15	7.0 (2nd Quartile)	ALH: 5.1 BRX: 9.1	ALH: 6.7 BRX: 11.2	ALH: 7.1 BRX: 10.5	ALH: 8.1 BRX: 10.0	ALH: 6.8 BRX: 10.4
2.3.1 Regulatory Compliance (Safety) Refer to Page 16	CEA ² AIF ³ for CPC employees - 2.1 WSBC ⁴ AIF for Contractors - 2.3	0 0	< or = to CEA benchmark < or = to WSBC benchmark	< or = to CEA benchmark < or = to WSBC benchmark	< or = to CEA benchmark < or = to WSBC benchmark	< or = to CEA benchmark < or = to WSBC benchmark
2.3.2 Regulatory Compliance (Environmental) Refer to Page 17	1.35 major environmental incidents per year	0	< or = 1 major environmental incident	< or = 1 major environmental incident	< or = 1 major environmental incident	< or = 1 major environmental incident
2.3.3 Mandatory Reliability Standards Refer to Page 17	No sanctionable events attributed to Columbia Power/CBT joint ventures	0	0	0	0	0

Goal 3 - Effective financial planning

	Benchmark	2010/11 (actual)	2011/12 (forecast)	2012/13	2013/14	2014/15
3.1 Debt service coverage ratio (DSCR)	DSCR 1.3 or greater	Maintained Investment Grade rating for all bonds	Maintain Investment Grade rating for all bonds	Maintain Investment Grade rating for all bonds	Maintain Investment Grade rating for all bonds	Maintain Investment Grade rating for all bonds
3.2 Return on Equity	Over the life of a project, compared to a regulated utility	4.4%	3.2%	4.1%	4.0%	4.0%
3.3 EBITDA⁵ (\$ in thousands)	1.0% EBITDA growth	18,499	13,876	18,354	18,815	20,060
3.4 Free Cash Flow (\$ in thousands)	Consistent with target	14,455	119,205	(60,166)	(23,861)	2,091

Goal 4 - Approval and Implementation of the Strategic Plan

	Benchmark	2010/11 (actual)	2011/12 (actual)	2012/13	2013/14	2014/15
4.1 Approval of the Strategic Plan	Obtain approval of the Strategic Plan		Strategic Planning Workshop conducted with Board	Obtain Board and Shareholder approval of the Strategic Plan	Update the Strategic Plan	Update the Strategic Plan
4.2 Development of New Projects	Power Projects defined and approved by 2013		Completed preliminary feasibility study for Project 1	Complete Project 1 Definition Report and obtain approval to next step. Complete Preliminary Feasibility Study for Project 2	Apply for regulatory and environmental permits for Project 1. Complete Project 2 Project Definition report and obtain approval for next step.	Commence construction for Project 1. Issue application for regulatory and environmental permits for construction of Project 2.

1. OMA - Operations, Maintenance and Administration

2. CEA - Canadian Electricity Association

3. AIF - All Injury Frequency

4. WSBC - WorkSafeBC

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

Performance Measures

PERFORMANCE MEASURES FRAMEWORK

Columbia Power’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 Columbia Power’s dual functions as a development company and an operating company. The framework provides broad goals and underlying objectives, aligns specific corporate strategies to each objective, incorporates ongoing research regarding suitable benchmarks and targets, and comments on the significance of results.

BACKGROUND

Columbia Power has two specific and two broad goals; specifically, its mandate as the Owner’s Representative for Waneta Expansion and the manager of Columbia Power/CBT joint venture assets; and more broadly, to accurately state its financial status and to obtain approval and implement a Strategic Plan.

Goal 1: Success of the Waneta Expansion Project

Goal 2: Efficient and Reliable Plant Operations

Goal 3: Effective Financial Planning

Goal 4: Approval and Implementation of the Strategic Plan (New Goal)

OUTLOOK

The Corporation believes the performance measures it uses highlight the most crucial aspects of its performance but are also subject to refinement and evolution as the organization matures. The metrics defined were developed using industry benchmark reports compared to actual data, providing the most accurate understanding of its business performance. Work continues going forward to develop an assessment management approach for its operating facilities and managing its projects.

SOURCE OF DATA AND RELIABILITY

The Corporation believes its performance measures are reliable and valid—current and historical performance measures are not audited; however, they are based

largely on audited information, information subject to third-party verification, and information that is obtained from independent sources.

- Project development and construction effectiveness measures are based on information from project tracking systems and monthly status reports prepared by the design/build contractor and consultants employed by the Corporation.
- The reliable plant operations measure is based on plant outage and generation data that are reconciled with BC Hydro and FortisBC.
- The financial measures are derived from the Corporation’s audited consolidated financial statements.
- Bond ratings are independently verifiable.
- Environmental compliance measures are based on the Corporation’s past performance, industry reports and are independently verifiable.
- Safety compliance measures are derived from industry and are independently verifiable.

The Waneta Expansion Project continues to be under construction. Performance measures have been developed to ensure the success of the Project, which is Goal 1 of the Corporation. The metrics are: on-schedule and on-budget, and meeting safety and environment commitments. Goal 2, Efficient and Reliable Plant Operations has metrics that were selected to track and compare joint venture asset performance with respect to compliance, reliability, and cost effective operations. The metrics are: availability, operations, maintenance and administrative costs, safety, and regulatory compliance. Goal 3, Effective Financial Planning has metrics that are based on government regulations and sound financial practices. The metrics are: debt-service coverage ratio, return on equity, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), and free cash flow. Goal 4, Strategic Planning, is a new goal requiring approval of a Strategic Plan as a critical next step. The metric targets are: plan approval dates and standard project development due diligence milestones.

Key Strategic Issues

The key strategic issues facing Columbia Power include:

- Managing construction of the Waneta Expansion until commercial operation in 2015—safely, on-schedule and on-budget, while meeting community, First Nations and environmental commitments. The expertise of staff in design/build construction projects, together with their relationships with public and private partners, provincial, regional and local governments, First Nations and private-sector utility, construction, engineering and allied firms is vital to the success of the Project.
- Continuing to effectively and efficiently manage the joint venture assets with Columbia Basin Trust including: major hydroelectric facility owner’s risks of human and dam safety, equipment availability and the environment.
- Ensuring expected revenues are met through performance of generating assets.
- Ensuring on-going support for the power projects with local and regional community stakeholders and First Nations.
- Continuing work on future strategic planning in consultation with the Minister of Energy and Mines, BC Hydro and local stakeholders to identify potential projects that take advantage of Columbia Power’s expertise and experience.

Goal 1 Success of the Waneta Expansion Project

The Waneta Expansion Project is a \$900 million hydroelectric construction project which includes a 10 km transmission line. Columbia Power is the Owner’s Representative and oversees the design/build contractor, SNC-Lavalin Inc. for design and construction of the powerplant and oversees construction of the transmission line. Over the next 3.5 years, the success of the Project will be largely determined by Columbia Power’s ability to ensure the following:

OBJECTIVE 1.1 WANETA EXPANSION IS ON-SCHEDULE

Strategy

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

Benchmark

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

Benchmark

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

Targets

2011/12	WAX under construction (variance < or = 0)
2012/13	WAX under construction (variance < or = 0)
2013/14	WAX under construction (variance < or = 0)
2014/15	WAX under construction (variance < or = 0)

Discussion

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

OBJECTIVE 1.2 WANETA EXPANSION IS ON-BUDGET

Strategy

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

Benchmark

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

Benchmark

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

Targets

2011/12	WAX under construction (variance < or = 0)
2012/13	WAX under construction (variance < or = 0)
2013/14	WAX under construction (variance < or = 0)
2014/15	WAX under construction (variance < or = 0)

Discussion

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

OBJECTIVE 1.3 WANETA EXPANSION REGULATORY COMPLIANCE (SAFETY AND ENVIRONMENTAL)

1.3.1 SAFETY

Strategy

Columbia Power has a corporate commitment to safety on Columbia Power-managed projects that goes beyond strict regulatory compliance. Columbia Power acts as the Owner’s Representative for project design

and construction and therefore has a responsibility to monitor the contractor’s performance in fulfilling its contractual obligations, which includes an obligation to comply with provincial safety regulations. Columbia Power’s strategy for the Waneta Expansion Project includes:

- A dedicated section on safety requirements and reporting within the design/build contract.
- Appointing the design/build contractor as prime contractor.
- Employing a safety professional to conduct Owner’s oversight for health and safety.
- Participating in safety coordination meetings with the contractor.
- Participating in joint safety audits with the contractor.
- Participating in the Project safety incentive program.
- A Project-specific safety program is in place for Columbia Power employees.
- A requirement for the contractor to employ a full-time safety manager along with the requirement for the contractor to perform regular safety audits as to the effectiveness of the Project’s health and safety plan and for the performance of the prime contractor.
- Employment by Columbia Power of an independent safety professional/auditor to conduct independent oversight and audits of health and safety on the Project.

Benchmark

Columbia Power will use the WorkSafeBC (WSBC) lost time (LTI) injury rate for the heavy construction industry as a benchmark. This is defined as the number of claims (those receiving short-term disability, long-term disability or survivor benefits in the year of injury or first quarter of the following year) per 100 person-years of employment. The WSBC LTI rate for 2010 was 5.0.

Target

The Waneta Expansion Project will proactively target to have an injury rate 1% lower than the 2010 average for the BC heavy construction industry and therefore being less than or equal to 4.0. The target for subsequent years will be maintained at a rate of 4.0 and evaluated

on an annual basis using the WorkSafeBC year end results.

Benchmark

< or = 5.0 Injury Rate

Targets

2011/12	< or = 4.0
2012/13	< or = 4.0
2013/14	< or = 4.0
2014/15	< or = 4.0

Discussion

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

1.3.2 ENVIRONMENTAL

Strategy

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

This is accomplished through:

- Developing and implementing environmental programs.
- Including detailed environmental requirements for construction in the design/build contract.

- Reviewing the contractor’s Environmental Management Plan.
- Reviewing the contractor’s Environmental Work Plans.
- Conducting third-party compliance audits on the contractor.
- Employing an environmental professional to conduct Owner’s environmental oversight on the Project.
- Requiring the contractor to employ a full-time independent environmental manager to carry out the environmental requirements under the contract.
- Providing a full-time independent project environmental monitor pursuant to the water license for the Project.

Benchmark

Fulfilling the EAC commitments is a requirement of the Project’s EAC and Columbia Power is required to report on the status of the Owner’s commitments at regular intervals during the Project.

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

Target

- Fullfillment of Owner’s Commitments.
- No more than one major environmental incident per year.

Continued on next page...

Benchmark		
One major event per year		
Targets	Compliance with Owner's Commitments	Major Environmental Incidents
2011/12	All relevant commitments complete or in progress	1
2012/13	All relevant commitments complete or in progress	1
2013/14	All relevant commitments complete or in progress	1
2014/15	All relevant commitments complete or in progress	1

Discussion

Under the EAC, the Owner must submit three reports on compliance with the Owner's Commitments; prior to construction, one month after the start of operations, and one year after the start of operations. A 2011 commitment status report will be produced in January 2012.

Goal 2
Efficient and Reliable Plant Operations

OBJECTIVE 2.1 RELIABLE PLANT OPERATIONS

Strategy

Under the terms of agreements with BC Hydro, Columbia Power/CBT joint ventures receive fixed amounts of energy and capacity entitlements in exchange for the assets' physical generation. This eliminates the uncertainty associated with water flow (hydrology risk). The entitlements are based on long-term average water flows. BC Hydro benefits by optimizing the overall generation of the Columbia-Kootenay hydroelectric system. The entitlements represent potential revenues available to the Columbia Power/CBT joint ventures. The entitlement received is impacted negatively by both planned and unplanned outages.

Plant Availability

Plant availability benchmarks are a measure for Columbia Power to assess asset reliability performance relative to industry peers and the Corporation's own

performance based on internal criteria. Targets reflect Columbia Power's annual performance forecasts based on outage durations required for planned maintenance, periods of major maintenance and capital projects. Asset reliability metrics have been reviewed extensively by Columbia Power to ensure a meaningful measure of availability is used by the Corporation. Columbia Power has engaged the service of Navigant Consulting Inc. to provide benchmarking services, including the provision of a report detailing the compilation of industry benchmarks. Columbia Power has received the 2010 Navigant study "Hydro 2010: Hydroelectric Generation Benchmarking Program" (the Navigant Study).

Columbia Power has identified two metrics for Plant Availability: Equivalent Availability Rate (Hours) and Equivalent Availability Rate (MWh). The Equivalent Availability Rate (Hours) references the Navigant Study as the benchmark. The Equivalent Availability Rate (MWh) references an internal benchmark.

2.1.1 EQUIVALENT AVAILABILITY RATE (HOURS)

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

Benchmark

The benchmark is the average equivalent rate for medium-sized hydro plants in operation for less than forty-five years, as provided by the Navigant Study. The benchmark is 90.0%.

Target

The long-term (2015) target is to meet or exceed the benchmark. Interim annual targets reflect extended periods of major planned maintenance to commence in 2012/2013 and, as a result, a slight increase in the potential for forced (unplanned) outages.

Benchmark

>90.0% Arrow Lakes Hydro (ALH)
>90.0% Brilliant Expansion (BRX)

Targets

2010/11 (actual)	ALH: >99.7%	BRX: >85.9%
2011/12	ALH: >89.2%	BRX: >88.5%
2012/13	ALH: >87.5%	BRX: >87.7%
2013/14	ALH: >88.7%	BRX: >88.5%
2014/15	ALH: >93.9%	BRX: >88.5%

Discussion

Equivalent Availability Rate (hours) can be compared to other hydro operators with similar assets. The targets for this metric are based on forecast planned maintenance and forced outages. Major maintenance periods can vary in duration from the typical annual planned outages. Forced outages may increase during major equipment warranty periods, early plant lifecycle abnormalities and after major maintenance activities.

2.1.2. EQUIVALENT AVAILABILITY RATE (MWh)

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

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

Benchmark

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

Target

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

Benchmark

>96.3% ALH
>96.0% BRX

Targets

2010/11 (actual)	ALH: >99.8%	BRX: >98.5%
2011/12	ALH: >97.8%	BRX: >94.3%
2012/13	ALH: >95.9%	BRX: >94.3%
2013/14	ALH: >96.1%	BRX: >94.3%
2014/15	ALH: >96.4%	BRX: >94.3%

Discussion

As the metric is entitlement-based, it is not comparable to external industry metrics, but is useful for Columbia Power's purposes. As with the Equivalent Availability Rate (Hours) metric, major maintenance periods can vary in duration from those expected. Forced outages may increase during major equipment warranty periods, early plant lifecycle abnormalities, and after major maintenance activities.

OBJECTIVE 2.2 OMA COSTS

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

Strategy

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

Benchmark

The Navigant Study is performed annually to gauge Columbia Power plant performance relative to industry. A normalized version of the Partial Function Cost benchmark from the Navigant Study is used.

Benchmark

7.0 (2nd quartile)
Normalized Partial Function Cost benchmark from the Navigant Study

Targets (\$ per MWh)

2010/11 (actual)	ALH: 5.1	BRX: 9.1
2011/12	ALH: 6.7	BRX: 11.2
2012/13	ALH: 7.1	BRX: 10.5
2013/14	ALH: 8.1	BRX: 10.0
2014/15	ALH: 6.8	BRX: 10.4

Discussion

Columbia Power adjusted the Partial Function Cost benchmark to allow for different input variables including physical generation versus entitlement and cost categorization differences. In addition, the Corporation normalized for regional labour rates and \$CAD/\$US conversions incorporated in the Navigant Study.

OBJECTIVE 2.3 REGULATORY COMPLIANCE (SAFETY AND ENVIRONMENT)

2.3.1 SAFETY

Strategy

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

Benchmark

Columbia Power uses two benchmarks:

- The Canadian Electricity Association (CEA) All Injury Frequency (AIF) defined under CEA's Group III having <300 employees as the number of lost-time injuries and medical aids occurring in the last 12 months per 200,000 hours worked.
- The second benchmark is related to our operating

plants and references WorkSafeBC's (WSBC) database around lost time injuries and medical aids, referenced as an All Injury Frequency (AIF). The AIF injury rate for utilities is calculated from the number of lost-time injuries and medical aids occurring in the last 12 months per 200,000 hours worked.

The Columbia Power statistics being reported include a Canadian Electricity Association AIF for its employees and a WorkSafeBC AIF for its contracted employees working at the power plants and projects (not including WAX, which is reported under Goal 1).

Target

Columbia Power will target an AIF less or equal to the CEA and WorkSafeBC benchmarks for the 2011 calendar year.

Benchmark

CEA AIF for CPC Employees 2.1
WSBC AIF for Contractors 2.3

Targets

	CPC Employee AIF (Incidents)	Contractors AIF (Incidents)
2010/11 (actual)	0	0
2011/12	< or = to CEA benchmark	< or = to WSBC benchmark
2012/13	< or = to CEA benchmark	< or = to WSBC benchmark
2013/14	< or = to CEA benchmark	< or = to WSBC benchmark
2014/15	< or = to CEA benchmark	< or = to WSBC benchmark

Discussion

It is difficult to compare Columbia Power with industry peers based on the size of the Corporation and its operating model of primarily contracting work at its plants and projects. Based on Columbia Power's employee number of exposure hours, one or two incidents will result in large changes in the corporate rates leading to greater volatility and making the identification of trends difficult.

2.3.2 ENVIRONMENT

Strategy

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

Benchmark

The number of environmental incidents is one measure of environmental performance. However, apart from reportable spills, there is no standard definition of an “incident” or collection of industry statistics against which to benchmark. Columbia Power’s Environment, Health and Safety Management System defines a major incident (environmental aspect) as one that “involves corrective action that requires off-site or third-party resources, or a breach of regulatory requirements.” Columbia Power has averaged 0.45 major environmental incidents per operating facility per year since 2004, resulting in an internal benchmark of 1.35 major environmental incidents per year for the three current operating facilities.

Target

No more than one major environmental incident per year.

Benchmark

1.35 major environmental incidents per year

Targets (Incidents)

2010/11(actual)	0
2011/12	<= 1 major environmental incident
2012/13	<= 1 major environmental incident
2013/14	<= 1 major environmental incident
2014/15	<= 1 major environmental incident

Discussion

Mitigation plans to reduce the risk of harm to white sturgeon at Brilliant Expansion appear to be effective and there have been no incidents since the fall 2009. Equipment replacement plans have been advanced at Arrow Lakes to reduce the risk of oil leaks to the river.

2.3.3 MANDATORY RELIABILITY STANDARDS

Strategy

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

Benchmark/Target

No sanctionable events attributable to the Columbia Power/CBT joint ventures.

Benchmark

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

Targets

2010/11 (actual)	0
2011/12	0
2012/13	0
2013/14	0
2014/15	0

Discussion

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

Goal 3
Effective Financial Planning

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

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

OBJECTIVE 3.1 DEBT-SERVICE COVERAGE RATIO

Strategy

The Debt-Service Coverage Ratio (DSCR) is a measure of creditworthiness used to determine an organization’s ability to service current debt, measured as net income before interest and amortization of assets, divided by interest plus debt principal repayment. High debt service coverage ratios reflect an ability to raise additional limited-recourse project debt on favourable terms and also provide comfort on current debt service obligations.

Benchmark

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

Target

For Columbia Power/CBT joint ventures that have issued bonds, the target is to achieve an investment grade bond rating.

Benchmark

DSCR 1.3 or greater

Targets

2010/11	Maintained Investment Grade rating for all bonds (actual)
2011/12	Maintain Investment Grade rating for all bonds
2012/13	Maintain Investment Grade rating for all bonds
2013/14	Maintain Investment Grade rating for all bonds
2014/15	Maintain Investment Grade rating for all bonds

Discussion

Rating agencies review the ratings on existing bonds periodically. In addition, Arrow Lakes Power Corporation issued \$350 million of Series B bonds secured by the assets of and revenues from the Arrow Lakes Generating Station. In order for Arrow Lakes Power Corporation to achieve the benchmark DSCR for the fiscal years 2012, 2013 and 2014 it established a series of liquidity reserves to provide security to bond holders during those years.

OBJECTIVE 3.2 RETURN ON EQUITY

Strategy

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

Benchmark

Suitable industry benchmarks are not readily available. Typically, power projects must “back-end load” their return on equity. In other words, the returns are greater in the later years of a project’s life. Regulated utilities such as BC Hydro and FortisBC have their return on equity set by the British Columbia Utilities Commission; however this is not the case with Columbia Power.

Target

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

Benchmark

Over the Life of a Project, Comparable to Regulated Utilities

Targets

2010/11 (actual)	4.4%
2011/12	3.2%
2012/13	4.1%
2013/14	4.0%
2014/15	4.0%

Discussion

The annual return on equity will be lower in a project's early years and will rise over time, particularly once debt is retired. Columbia Power also has a significant amount of equity for the investment in the Waneta Expansion, which will not earn a return until 2015.

OBJECTIVE 3.3 EBITDA**Strategy**

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

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

Benchmark

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

Target

A growth in EBITDA of 1% each fiscal year.

Benchmark

1% EBITDA growth

Targets (\$ in thousands)

2010/11 (actual)	18,499
2011/12	13,876
2012/13	18,354
2013/14	18,815
2014/15	20,060

Discussion

EBITDA will fall in Fiscal 2012 due to an unanticipated operational incident at Brilliant Expansion which resulted in an unplanned outage and Arrow Lakes Power Corporation bond redemption costs. After 2012, growth is anticipated.

OBJECTIVE 3.4 FREE CASH FLOW**Strategy**

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

Benchmark

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

Target

The targets are described in the table below. The material positive cash flow in 2011/12 reflects the \$350 million ALPC Series B bond issue, redemption of Series A bonds and subsequent payment of special dividend to ALPC shareholders (Columbia Power and CBT Arrow Lakes Power Corp.) The material negative cash flow during the years 2012/13—2013/14 reflects the significant cash outlay to fund Columbia Power’s 32.5% interest in the construction of the Waneta Expansion Project. These will be offset by significant positive cash flow in the years following commissioning in 2015.

Benchmark

Consistent with target below

Targets (\$ in thousands)

2010/11 (actual)	14,455
2011/12	119,205
2012/13	(60,166)
2013/14	(23,861)
2014/15	2,091

Goal 4 (New)
Approval and Implementation of the Strategic Plan

Columbia Power develops and operates power projects in the Columbia Basin and is managing the construction of the Waneta Expansion, which is scheduled for completion in 2015. As set out in the Government’s Letter of Expectations, Columbia Power is developing a Strategic Plan for approval by its Board and Shareholder. The Strategic Plan will contemplate the period up to and after the completion of Waneta Expansion. It is intended to support the Government’s mandate to enable job creation and build a stronger economy.

It is anticipated that the Strategic Plan will include a modest growth strategy. It will include clear objectives for maintaining and improving the operation and maintenance of existing facilities (See Goals 2 and 3) and for the development of potential new projects.

OBJECTIVE 4.1 APPROVAL OF THE STRATEGIC PLAN

Strategy

Early in 2012/2013, Columbia Power will work to achieve Board and Shareholder approval of the Strategic Plan. At a strategic planning session in September 2011, the Board supported management’s recommendations for a “maintain and grow” strategic direction. The strategic direction reflects the views of provincial and local government representatives, stakeholders, First Nations and other third parties.

Benchmark

Obtain approval of the Strategic Plan

Targets

2011/12 (actual)	Strategic Planning Workshop conducted with Board of Directors – September 2011
2012/13	Obtain Board and Shareholder Approval of the Strategic Plan
2013/14	Update the Strategic Plan
2014/15	Update the Strategic Plan

Discussion

Approval of the Strategic Plan is important as it provides Columbia Power’s Board and management with the accountability and authority to make resource decisions (both human and capital resources) that impact its ability to maintain and grow its business. The strategy and associated annual operating plans are structured to ensure that Columbia Power collaborates with partners whenever feasible and invests prudently and in a manner that reflects the risks inherent in the development of long lead time capital intensive projects. At risk capital will be prudently managed and development funding decisions will only be made if the risk associated with each project is thoroughly understood and shared with partners.

OBJECTIVE 4.2 DEVELOPMENT OF NEW PROJECTS

Strategy

Consistent with the Strategic Plan, define and develop power projects, working closely with the Ministry of Energy and Mines and key third parties.

Benchmark

Power Projects defined and approved for development by 2013

Targets

2011/12 (actual)	Completed Preliminary Feasibility Study for Project 1
2012/13	Complete Project 1 Project Definition Report and obtain approval to next step Complete Preliminary Feasibility Study for Project 2
2013/14	Issuance of application for regulatory and environmental permits for Project 1 Complete Project 2 Project Definition Report and obtain approval for next step
2014/15	Commence construction for Project 1 Issuance of application for regulatory and environmental permits for Project 2

Discussion

It is expected that two projects will be considered for development. Decision points will be defined and appropriate levels of approval will be obtained prior to entering each phase of project development.

Summary Financial Outlook

CONSOLIDATED STATEMENT OF INCOME FORECAST

\$ in thousands

(Income (loss) amounts represent Columbia Power's percent share of investees)

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Forecast			
OPERATING REVENUE					
Services Agreement	\$ 733	\$ 1,875	\$ 1,993	\$ 1,936	\$ 1,754
Management Fee	1,146				
	1,879	1,875	1,993	1,936	1,754
INVESTING REVENUE					
Income (loss) from equity accounted investees:					
Brilliant Power Corporation	9,022	9,501	9,917	10,259	10,700
Brilliant Expansion Power Corporation	10,299	8,040	9,465	9,892	9,908
Arrow Lakes Power Corporation	8,056	(3,282)	(1,431)	(662)	36
Waneta Expansion Power Corporation	(7,972)	1,399	1,478	1,561	1,649
	19,405	15,658	19,429	21,050	22,293
Total, Operating and Investing Revenue	21,284	17,533	21,422	22,986	24,047
OPERATING EXPENSE					
Staff and Office Costs (Net of Recoveries)	2,296	2,981	3,162	3,388	3,423
Salaries and benefits	1,722	2,355	2,530	2,710	2,738
Office Costs	574	626	632	678	685
Community Sponsorship	82	85	85	85	85
Grants in lieu	407	455	464	473	482
Total, Operating Expense	2,785	3,521	3,711	3,946	3,990
EBITDA	18,499	14,012	17,711	19,040	20,057
AMORTIZATION & FINANCING					
Interest expense	-	1,133	1,133	1,133	1,133
Amortization of Property, Plant & Equipment	585	778	383	384	429
Less: Interest revenue	520	2,098	1,294	742	684
	65	(187)	222	775	878
NET INCOME	\$ 18,434	\$ 14,199	\$ 17,489	\$ 18,265	\$ 19,179

Key Assumptions

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

- Operating cost inflation, including water rental increases is approximately 2% per year.
- Columbia Power's dividends to the Province remain at \$2.0 million per year.
- Adequate resources are available to the Corporation to achieve its forecast performance.
- Plant availability is as forecast. The Waneta Expansion project will be built on-schedule and on-budget.
- Capital and operating needs of the assets under management are as forecast.
- Forecast financial information reflects the adoption of International Financial Reporting Standards (IFRS) as Columbia Power understands the impact of IFRS adoption at this time.

International Financial Reporting Standards (IFRS) Differences; Other Differences - 2011/12 Service Plan vs 2012/13 Service Plan

IFRS differences:

- The financial results for 2010/11 presented in the 2012/13 Service Plan are unaudited and presented in accordance with International Financial Reporting Standards (IFRS). These results are not comparable to the financial results reported in Columbia Power's 2010/11 Annual Report. The 2010/11 Annual Report was prepared in accordance with Canadian generally accepted accounting principles at that time.
- The 2011/12 Service Plan was prepared using "proportionate consolidation" which brings in Columbia Power's 50% share of income, expense and balance sheet items from Columbia Power's operating joint ventures with CBT on a line-by-line basis (e.g. power sales, water rentals, operations & maintenance).
- Under IFRS, the proportionate consolidation method is being phased out and the equity method is encouraged. The 2012/13 Service Plan is prepared using the equity method, where Columbia Power recognizes only the income from the investment on a "one-line basis" (e.g. income from Brilliant Power Corporation).
- The 2011/12 Service Plan did not include financial details from the joint ventures, as the information was captured in the line-by-line detail. As the financial results for each joint venture is reported under a single line for the equity method, further information is required. In the 2012/13 Service Plan, financial information for each joint venture is included.
- This change has a significant impact on the EBITDA financial target, as under the proportionate consolidation method, bond interest and financing costs, as well as amortization of the property, plant and equipment related to the powerplants are not included as an expense for EBITDA calculation. Under the equity method, these expenses have already been included in the joint venture income, therefore the EBITDA values under the equity method are much lower.
- The 2011/12 Service Plan was prepared considering Columbia Power's knowledge of IFRS' impact at that time. The lease revenue for Brilliant Power Corporation was assumed to be consistent with the semi-annual lease receipts. With further analysis, on an overall basis, revenue recognition is higher than the lease receipts in earlier periods due to a fixed escalator that increases future payments. The 2012/13 Service Plan reflects this knowledge.

Other differences:

- BRX shaft seal failure caused a 22-day outage resulting in a \$3.2 million revenue loss that was not contemplated in the 2011/12 Service Plan—resulting in reduced ROE, EBITDA and net income forecasted in 2011/12, as reflected in the 2012/13 Service Plan.
- ALPC Series B bond issue size, redemption costs and timing reported to occur in 2010/11 did not occur until 2011/12, resulting in reduced ROE, increased free cash flow (timing), and reduced EBITDA and net income in 2011/12, as reflected in the 2012/13 Service Plan.
- Other project development was not contemplated in the 2011/12 Service Plan. As a result of the direction from a September 2011 strategic planning workshop with Columbia Power's Board and anticipating final approval of the Strategic Plan by the Province, the 2012/13 Service Plan reflects a provision for capital spending on other development in the capital plan.
- The 2011/12 Service Plan did not include a write-down of development costs related to the Waneta Expansion. However, in 2010/11, \$72 million of development costs were written down to \$43 million based on the discounted value of a non-interest bearing Promissory Note due in 2020. The 2012/13 Service Plan reflects the write down in 2011/12 as well as interest revenue accruing from the Promissory Note annually until the note becomes due in 2020.

Risk Factors and Sensitivities

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

Future dividends will be determined based on annual earnings, working capital requirements, contingency

reserves, reserves for future sustaining capital requirements, and new power project investment opportunities.

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

RISK FACTORS AND SENSITIVITIES

	Issue/Impact	How Managed
Waneta Expansion On-Schedule	Failure to adhere to construction schedule would negatively impact project revenues.	<ul style="list-style-type: none"> The design-build contract with contractor specifies commercial start-up dates with incentives for early completion and penalties for late completion. Columbia Power, as the Owner's Representative, with experience in similar design/build projects, is overseeing the project.
Waneta Expansion On-budget	Failure to adhere to budget would negatively impact project financials.	<ul style="list-style-type: none"> The majority of the construction cost risk is transferred to the design-build contractor with performance-based penalties and incentives. Columbia Power, as the Owner's Representative, with experience in similar design/build projects, is overseeing the project.
WAX Transmission Line (plant to Selkirk substation)	On-schedule and on-budget.	<ul style="list-style-type: none"> Completion of negotiations with landowners and commencement of transmission line corridor site preparation and clearing for construction in fiscal 2013.
Property Taxation	The Columbia Power/CBT share of the Waneta Expansion expects to be permitted to pay grants-in-lieu of property taxes pursuant to an Order in Council. Failure to obtain the expected Order in Council will negatively impact project economics.	<ul style="list-style-type: none"> Columbia Power has previously obtained Orders in Council (OIC) exempting Arrow Lakes Generating Station and the Brilliant Expansion from property taxes but instead pays grants-in-lieu of taxes. Columbia Power is working with the Ministry of Energy and Mines and the Ministry of Finance on obtaining an OIC for the Waneta Expansion.
Species at Risk Act Implementation	Implementation of the prohibitions and critical habitat protection could impact plant operations and revenues.	<ul style="list-style-type: none"> Columbia Power continues to work with the Department of Fisheries and Oceans and other hydro owners on permitting solutions for hydro facilities. Columbia Power conducts studies to understand the impacts of facility operations on listed species and their habitat.
Regulatory Risk	Regulatory and/or legislative changes can impact existing assets.	<ul style="list-style-type: none"> Columbia Power proactively intervenes in regulatory proceedings as required to protect its interests and monitors regulatory and legislative developments, and provides input into the development of legislation relevant to Columbia Power's interests.

	Issue/Impact	How Managed
Plant Reliability	<p>Plant availability has a large impact on forecast revenues. Unanticipated Operations and Maintenance cost increases and capital requirements will impact net revenues.</p> <p>If ALH plant outage factor were to increase by one percentage point, revenues and net income would decline by \$366,000 in 2012/13.</p> <p>If BRX plant outage factor were to increase by one percentage point, revenues and net income would decline by \$354,000 in 2012/13.</p>	<ul style="list-style-type: none"> Plant outage risk for the Brilliant Generating Station is transferred to FortisBC as the power purchaser/plant operator. ALH and BRX plant management, operations and maintenance is performed under long-term agreement by FortisBC Generation with oversight and due diligence performed by Columbia Power. ALH and BRX reliability risks are identified through monitoring programs and annual planned inspections. Non-routine and capital projects are developed and implemented to effectively mitigate the risks. All power projects carry business interruption, property and liability insurance, subject to deductibles including a 30-day waiting period for business interruption.
Attracting and Maintaining Key Staff	<p>Columbia Power requires the organizational capacity to effectively manage all existing facilities and the Waneta Expansion.</p>	<ul style="list-style-type: none"> Columbia Power has established HR strategies including: competitive compensation and benefits plans, a performance management program, and training and development opportunities to attract and retain key staff.
First Nations and Community	<p>Relationships with First Nations and local communities should be enhanced to ensure Columbia Power's social licence in Region.</p>	<ul style="list-style-type: none"> Both groups are the focus of Columbia Power's Stakeholder Relations activities and are regularly engaged. Community Benefits Agreements with key First Nations groups are executed and adhered to. Community sponsorship program has been established to support community and First Nations activities and events. Community Impact Management Committees established for each project and monthly meetings held with key stakeholders and local government representatives. Regular participation in community activities, events and local government conferences and ongoing liaison with First Nations and key stakeholders.
Geographical Challenge	<p>Maintaining connections with government and industry.</p>	<ul style="list-style-type: none"> Given the location of Columbia Power's head office in the Kootenay region, Columbia Power staff maintain regular contact with representatives of government by holding regular conference calls and in-person meetings on a quarterly and as-required basis. Ministry of Energy and Mines staff are kept apprised of developments with Columbia Power's projects and advised of potential issues and/or challenges. Regular liaison occurs with partners and industry representatives via one on one discussion and collaboration and participation in associations such as the Canadian Hydropower Association and Canadian Electricity Association.

Capital Plan

PROFORMA CONSOLIDATED BALANCE SHEET

\$ in thousands

	2011	2012	2013	2014	2015
ASSETS					
Current Assets	\$ 10,689	\$ 130,160	\$ 69,662	\$ 45,511	\$ 47,711
Non-current Assets					
Investment in equity accounted investees	375,432	315,867	390,562	428,456	439,882
Property, plant and equipment	2,195	1,546	1,268	1,190	1,073
Investment in new projects	-	-	1,570	4,170	7,840
Due from investee	32,818	-	-	-	-
	410,445	317,413	393,400	433,816	448,795
Total Assets	\$ 421,134	\$ 447,573	\$ 463,062	\$ 479,327	\$ 496,506
LIABILITIES AND SHAREHOLDER'S EQUITY					
Long-Term Debt (see Note below)	\$ -	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Equity					
Contributed surplus	275,925	275,925	275,925	275,925	275,925
Retained surplus	145,209	151,648	167,137	183,402	200,581
	421,134	427,573	443,062	459,327	476,506
Total Liabilities & Shareholder's Equity	\$ 421,134	\$ 447,573	\$ 63,062	\$ 479,327	\$ 496,506

Note:

Debt issued by joint ventures (includes current portion:

ALPC	45,551	350,000	350,000	350,000	350,000
BPC	140,807	135,787	130,385	124,571	118,312
	186,358	485,787	480,385	474,571	468,312

CONSOLIDATED CAPITAL SPENDING (FORECAST)

\$ in thousands

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Forecast			
Arrow Lakes Power Corporation	\$ 258	\$ 436	\$ 445	\$ 150	\$ 150
Brilliant Expansion Power Corporation	287	728	556	334	341
Brilliant Power Corporation	1,722	1,189	1,049	1,204	991
Waneta Expansion	36,370	63,085	76,790	38,631	12,350
Columbia Power Corporate	351	129	105	306	312
Other Development	-	-	1,570	2,600	3,670
Total	38,988	65,567	80,515	43,225	17,814

Liquidity and Sources of Capital

In 2011/12, Columbia Power implemented a Financing Plan for the Waneta Expansion through its share of the \$350 million Series B bonds issue by Arrow Lakes Power Corporation and supplemented by Columbia Power borrowing \$20 million from CBT Energy and utilizing internal cash flows. Columbia Power has created a \$30 million contingency reserve to cover risks related to Waneta Expansion construction and/or operating assets. In addition, Columbia Power has established an investment reserve for investment in other power project development. This Plan was approved by the Minister of Finance in December 2010.

All other cash flow requirements comes from internal cash flows.

SUBSIDIARY TABLE - ARROW LAKES POWER CORPORATION

ARROW LAKES POWER CORPORATION
STATEMENT OF INCOME FORECAST (IFRS)

\$ in thousands

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Forecast			
REVENUES					
Power Sales to BC Hydro	\$ 34,232	\$ 35,246	\$ 35,188	\$ 36,365	\$ 37,406
Grants-In-Lieu Recovery	243	248	253	258	263
Total Revenues	34,475	35,494	35,441	36,623	37,669
OPERATING EXPENSES					
Operations & Maintenance	2,317	3,671	4,276	3,641	3,082
Administration/Management	1,059	1,438	1,335	1,429	1,472
Insurance	446	456	465	475	485
Environmental	392	380	404	399	398
Grants-In-Lieu of Property Taxes	243	248	253	258	263
Water Rental	4,433	5,000	4,621	4,718	4,817
Other Professional Services	204	182	186	190	194
Operating Expenses	9,094	11,375	11,540	11,110	10,711
EBITDA	25,381	24,119	23,901	25,513	26,958
AMORTIZATION & FINANCING					
Amortization of Power Sales Agreement	1,890	1,890	1,890	1,890	1,890
Amortization of Power Facility	6,148	5,900	5,922	5,941	5,949
Interest - Series A	2,614	-	-	-	-
Financing Expense - Series A	374	768	-	-	-
Bondholder Redemption Costs	-	2,837	-	-	-
Interest - Series B	-	19,306	19,306	19,306	19,306
Financing Expense - Series B	-	509	121	121	121
Less: Interest revenue	67	528	476	424	382
Amortization & Financing Expenses	10,959	30,682	26,763	26,837	26,887
NET INCOME (Loss)	\$ 14,422	\$ (6,563)	\$ (2,862)	\$ (1,324)	\$ 71

BRILLIANT POWER CORPORATION
STATEMENT OF INCOME FORECAST (IFRS)

\$ in thousands

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Forecast			
REVENUES					
Lease Revenue:					
Brilliant Plant Capital Charges	\$ 26,222	\$ 26,683	\$ 27,079	\$ 27,494	\$ 27,946
Brilliant Terminal Station Capital Charges	2,259	2,242	2,207	2,171	2,139
Market Sales (Reg U/G)	1,367	1,381	1,395	1,409	1,423
Operating Revenue	9,963	10,922	11,151	11,386	11,625
Total Revenues	39,811	41,228	41,832	42,460	43,133
OPERATING EXPENSES					
Operations & Maintenance	1,869	1,889	1,928	1,969	2,011
Administration/Management	415	1,172	1,075	1,222	1,248
Insurance	398	415	424	433	442
Property Taxes	2,164	2,254	2,301	2,349	2,398
Water Rentals	5,597	5,630	5,748	5,869	5,992
Other Professional Services	201	275	281	287	293
Operating Expenses	10,644	11,635	11,757	12,129	12,384
EBITDA	29,167	29,593	30,075	30,331	30,749
AMORTIZATION & FINANCING EXPENSES					
Interest on Bonds	10,908	10,498	10,100	9,671	9,206
Amortization of Rights	60	60	60	60	60
Amortization of Debt Issue Costs	236	207	207	207	207
Less: Interest revenue	115	173	125	125	125
Amortization & Financing Expenses	11,089	10,592	10,242	9,813	9,348
NET INCOME	\$ 18,078	\$ 19,001	\$ 19,833	\$ 20,518	\$ 21,401

SUBSIDIARY TABLE - BRILLIANT EXPANSION POWER CORPORATION

BRILLIANT EXPANSION POWER CORPORATION
STATEMENT OF INCOME FORECAST (IFRS)

\$ in thousands

	2010/11	2011/12	2012/13	2013/14	2014/15
	Actual	Forecast			
REVENUES					
Power Sales - BC Hydro	\$ 27,589	\$ 24,673	\$ 26,699	\$ 26,982	\$ 27,268
Power Sales - Market	1,888	1,908	1,928	1,948	1,969
EcoEnergy Grant	4,459	3,822	4,127	4,124	4,122
Grants-In-Lieu of Property Tax Recovery	176	177	181	185	189
Total Revenues	34,112	30,580	32,935	33,239	33,548
EXPENSES					
Operations & Maintenance	2,632	3,262	2,717	2,140	2,293
Power Purchases	1,322	1,381	1,396	1,410	1,425
Administration/Management	1,433	1,559	1,580	1,549	1,596
Insurance	331	361	386	376	384
Environmental	250	100	459	410	387
Grants-In-Lieu of Property Taxes	173	177	181	185	189
Water Rentals	2,289	2,346	2,396	2,446	2,497
Other Professional Services	153	356	160	163	166
Operating Expenses	8,583	9,542	9,257	8,679	8,937
EBITDA	25,529	21,038	23,678	24,560	24,611
AMORTIZATION & FINANCING EXPENSES					
Amortization of Expansion Rights	523	523	523	523	523
Amortization of Power Facility	4,567	4,240	4,276	4,303	4,321
Interest expense	338	300	-	-	-
Less: Interest revenue	78	105	50	50	50
Amortization & Financing Expenses	5,350	4,958	4,749	4,777	4,794
NET INCOME	\$ 20,179	\$ 16,080	\$ 18,929	\$ 19,783	\$ 19,817

Glossary

Benchmarking

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

Bond rating

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

Canadian Electricity Association (CEA)

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

Capacity

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

Debt service coverage ratio (DSCR)

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

Department of Fisheries and Oceans (DFO)

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

Design/build contract

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

Entitlement agreement

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

Green Power

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

Limited-recourse project debt

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

Megawatt (MW)

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

Megawatt-hour (MWh)

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

Operation, maintenance and administration (OMA)

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

Owner’s Representative

The Owner’s Representative is designated by the Owner to act as a single point of contact for the Contractor with respect to all matters under the Design/build contract and oversees the design and construction of the work.

Return on investment

Income available to shareholders as a percentage of their investment.

Water rental

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

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