

# COLUMBIA POWER CORPORATION ANNUAL REPORT 2006/07



clean, green Columbia Power



Cover photo: Kootenay River, with  
Brilliant dam and Brilliant Expansion  
(under construction) in foreground

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C O L U M B I A P O W E R C O R P O R A T I O N

ANNUAL REPORT • 2006/07

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## Message from the Chair

Since its inception in 1994, Columbia Power Corporation and its partner, the Columbia Basin Trust, have purchased and upgraded the 145-megawatt Brilliant Dam and Generating Station and constructed the 185-megawatt Arrow Lakes Generating Station and the 120-megawatt Brilliant Expansion. The partners are currently planning the Waneta Expansion, near Trail, B.C. Returns from the Columbia Basin Trust's 50% share of power projects are available to provide benefits to the people of the Columbia Basin in accordance with the *Columbia Basin Trust Act*. This 2006/07 annual report highlights the activities of Columbia Power Corporation during the past year in fulfilling its mandate to plan, construct and operate power projects in a cost-effective manner.

Columbia Power Corporation oversees the operations of the Brilliant powerplant and Arrow Lakes Generating Station and the construction of the Brilliant Expansion. Project planning and environmental permitting is underway for the Waneta Expansion. Most of the power generated at the current operating projects is committed under long-term sales contracts to two utilities, FortisBC Inc. and BC Hydro. Two long-term contracts with BC Hydro are also in place for the sale of 90% of the output of the Brilliant Expansion.

The Brilliant Dam, powerhouse and Terminal Station continue to perform at a high level, with earnings from these assets maintaining their upward trend. Profits of the Brilliant powerplant have been enhanced through a new short-term market-based power sales agreement.

On May 3, 2004, Columbia Power Corporation discovered damage to the concrete lining of the Arrow Lakes Generating Station approach channel following unstable hydraulic conditions. Power generation was suspended while emergency repairs were performed to ensure 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. Permanent channel repairs began in late 2005 and commercial operation resumed in May 2006. The financial information in this report reflects recovery of Arrow Lakes Generating Station channel repair costs as agreed with the project's insurer, but does not include future recoveries from other parties, given uncertainties regarding the amount and timing of such recoveries.

In 2005 and 2006, Columbia Power Corporation engaged Haddon Jackson Associates, Inc., a leading management consulting firm specializing in hydro performance improvement, to provide benchmarking services for power project operating and maintenance performance, compared to similar facilities across North America. The findings of this analysis showed that in all major areas, Columbia Power Corporation/Columbia Basin Trust powerplants performed well relative to their peers, and the Brilliant Dam and powerhouse was awarded "leading performer" status in the plant maintenance category in 2005 and 2006.

The 120-megawatt Brilliant Expansion is more than four years into construction. As a result of construction delays, commercial operation (originally scheduled for August 2006) is now scheduled for June 2007. The design-build contractor for the Brilliant Expansion has submitted significant claims against the project. Columbia Power Corporation is conducting a review of these claims. The final impact of the claims cannot be reliably estimated at this time.

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As with the Arrow Lakes Generating Station and the Brilliant Expansion, the Waneta Expansion will use the hydraulic head and seasonal spills at an existing dam, thereby avoiding the environmental impacts that would be associated with new dam construction. The project will be built adjacent to Teck Cominco Metals Ltd.'s Waneta Dam on the Pend d'Oreille River south of Trail, B.C. Subject to the results of construction feasibility and viability studies and the receipt of regulatory approvals, the year ahead will see the start of a design build proposal competition, leading to project groundbreaking in 2008. This will contribute long-term economic benefits to residents of the Columbia Basin and environmental benefits to the Pacific Northwest in the form of reduced dissolved gas levels in the Columbia River and greenhouse gas offsets. During construction, the project is expected to provide nearly 700 person-years of direct employment (75% local hires), \$65 million in direct and indirect income, and over \$30 million in local project spending.

Development phase activities for the Waneta Expansion during 2006/07 focused on the review of the project's Environmental Assessment Certificate Application and on inviting Expressions of Interest from qualified engineer/constructor teams. The environmental assessment of the project has been delayed pending a review by Fisheries and Oceans Canada of the impact on white sturgeon, which is listed under the federal *Species at Risk Act*.

The Honourable Richard Neufeld, Minister of Energy, Mines and Petroleum Resources, announced the new *BC Energy Plan: A Vision for Clean Energy Leadership*, in February 2007. The plan aims to put British Columbia at the forefront of environmental and economic leadership and looks to all forms of clean, alternative energy in meeting British Columbia's needs. Columbia Power Corporation will ensure that its activities support the policy actions outlined in the plan.

Columbia Power Corporation has received a *Shareholder's Letter of Expectations* from the Province, defining primary responsibilities and setting out the expectations of government and the Minister of Energy, Mines and Petroleum Resources. Consistent with best practices guidelines issued by the Province, Columbia Power Corporation has completed work on board sub-committee structures and an overall board governance model.

During the year, Columbia Power Corporation also tracked the goals set out in its service plan. Although commencement of commercial operation of the Brilliant Expansion is behind schedule and the Waneta Expansion is encountering environmental assessment delays, the company was largely successful in meeting its objectives. Income was in excess of the target for the year by \$10.9 million, primarily as a result of the recovery from the insurer of Arrow Lakes channel permanent repair costs.

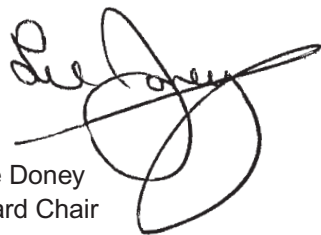
The key risks to Columbia Power Corporation's development activities include the escalating costs of construction, the limited availability of labour, the uncertain price of future power sales and the variable cost of financing – all of which could affect the commercial viability of the Waneta Expansion. The short-term goals of Columbia Power Corporation include: pursuing the recovery of the Arrow Lakes channel repair costs; completing construction of, and managing claims on, the Brilliant Expansion; and advancing development of the Waneta Expansion sufficiently to allow a decision to be made on project construction.

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Future company successes depend largely on staff knowledge and the ability to garner expertise from the private sector. The company's small staff contingent and the private sector contractors providing services to the company are commended for their management of plant operations, construction of the Brilliant Expansion and development of the Waneta project. Columbia Power Corporation has implemented a staff performance-based compensation system aligning the achievement of corporate, business unit and individual objectives.

Columbia Power Corporation is pleased to announce the appointment of Barry Chuddy as Chief Executive Officer (CEO), effective June 1, 2007. Mr. Chuddy, a seasoned utility executive with almost two decades of electricity industry experience, comes to Columbia Power from Mississauga, Ontario, where he has worked as the Vice-President of Business Development and Marketing for Enersource Corporation since 2003. His extensive experience in the electricity industry will be a major benefit to the company as it achieves operation of the Brilliant Expansion and starts construction of the Waneta Expansion. Mr. Chuddy will be responsible for leading efforts to fulfill Columbia Power Corporation's mandate to produce clean, green hydroelectricity in the Columbia Basin.

The *2006/07 Columbia Power Corporation Annual Report* was prepared under my direction and in accordance with the *Budget Transparency and Accountability Act*. I am accountable for what has been included in the report and how it is reported. The information presented reflects the actual performance of Columbia Power Corporation for the 12 months ended March 31, 2007, in relation to the *February 2006 Service Plan*. The measures presented are consistent with Columbia Power Corporation's mandate, goals and objectives, and focus on aspects critical to the organization's performance. I am responsible for ensuring that internal controls are in place so that performance information can be measured accurately and in a timely fashion. All significant decisions, events and identified risks as of May 18, 2007 have been considered in preparing this report. All estimates and interpretive information contained here represent the best judgement of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets since the February 2006 Service Plan was released and any significant limitations in the reliability of data are identified in the report.



Lee Doney  
Board Chair



*Arrow Lakes Generating Station*

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## Organizational Overview

### Introduction

Columbia Power Corporation is a Crown corporation wholly owned and controlled by the Province of British Columbia, existing under the *Business Corporations Act* and reporting to the Minister of Energy, Mines and Petroleum Resources. Under the terms of its agency agreement with the Province, Columbia Power Corporation must obtain the approval of the Province's Treasury Board for all budgets and material decisions. 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, Columbia Power Corporation's goal is to support the employment, economic development and resource management objectives of the Province and the Columbia Basin Trust, within the constraints of a commercial enterprise.

Columbia Power Corporation undertakes power projects through joint ventures with subsidiaries of the Columbia Basin Trust and manages the joint ventures. Columbia Power Corporation is a small organization, with approximately 50 full-time equivalent positions, located in Castlegar and Victoria. Columbia Power Corporation focuses on asset management activities while engaging private-sector firms to provide construction, plant operation and specialist consulting services. Through its joint ventures, Columbia Power Corporation is one of the largest producers of electricity in British Columbia.

Columbia Power Corporation oversees the operations of the Brilliant powerplant and Arrow Lakes Generating Station, and the construction of the Brilliant Expansion. Environmental permitting is being pursued for the Waneta Expansion and the design-evaluate-build process (see the "Business Model" section) has commenced.

Most of the power generated at the current operating projects is committed under long-term sales contracts to two utilities, FortisBC Inc. and BC Hydro. Two long-term contracts with BC Hydro are also in place for the sale of 90% of the output of the Brilliant Expansion.

Returns from Columbia Power Corporation's 50% share of the power projects are available to be distributed to the Province. Returns from the Columbia Basin Trust's 50% share of the power projects are available to be used by the Columbia Basin Trust to provide benefits to the people of the region, in accordance with the *Columbia Basin Trust Act*.

### Historic Context

In 1964, Canada and the United States ratified the Columbia River Treaty. Under the Treaty, Canada, through the Province of British Columbia, 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 that would control flooding in Washington and Oregon and allow hydroelectric facilities in these states to produce about 2,000 megawatts of additional electricity capacity (BC Hydro has about 11,000 megawatts of capacity). This additional power is referred to as the downstream benefits. In exchange, the Province received \$64.4 million plus one-half of the downstream benefits, which it sold to a consortium of United States utilities for a period of 30 years from the completion dates of the three Canadian dams.

The construction of the three Treaty dams brought not only 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. Approximately 2,300 residents were displaced, communities were lost, lands were expropriated and properties were flooded. There continue to be negative environmental effects from reservoir and river-flow fluctuations.

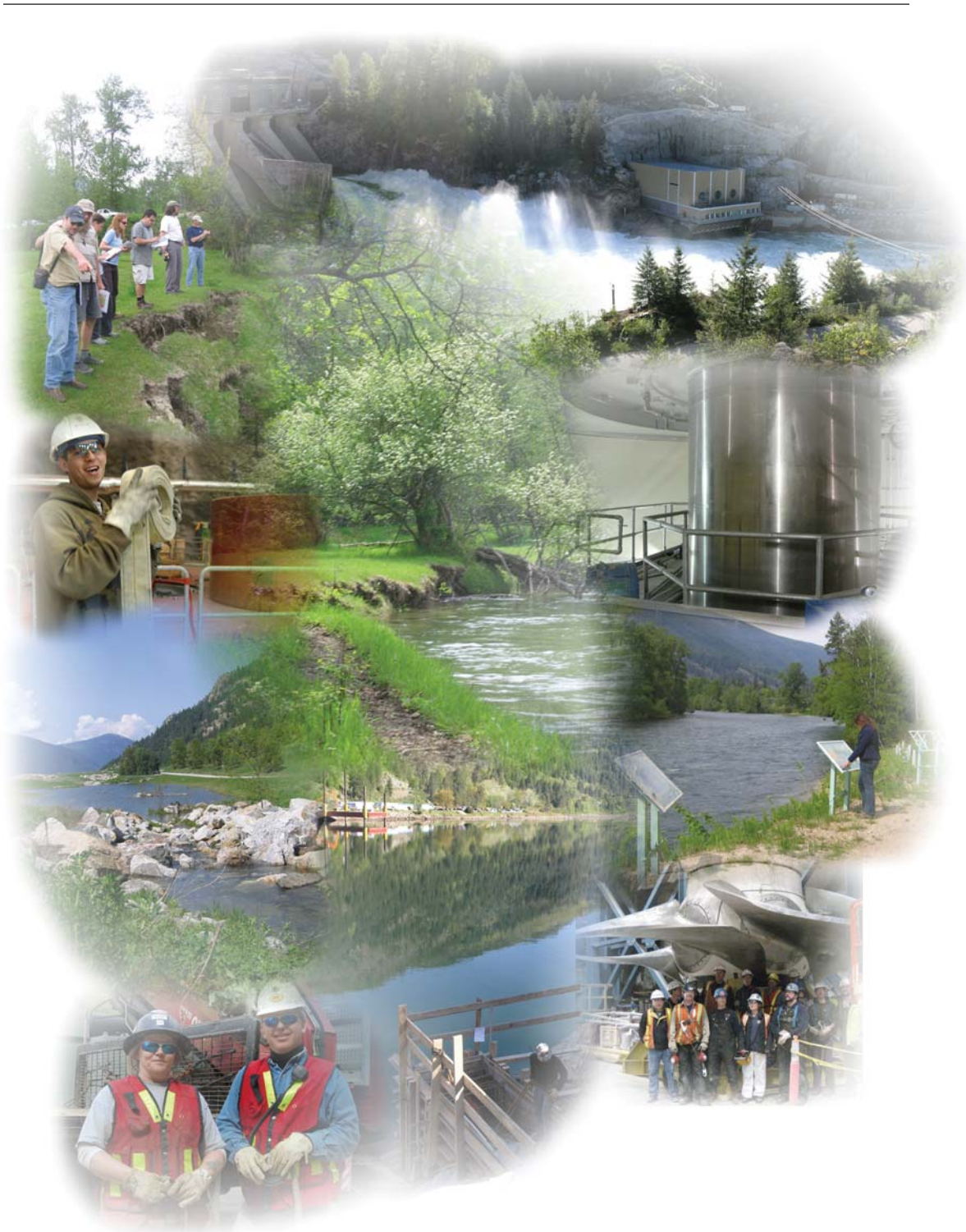
In 1995, the Province, through legislation and contractual arrangements, created a unique model in recognition of the costs borne by the Columbia Basin as a result of the Treaty dams. Through the Columbia Basin Initiative, the Province agreed to allocate a share (about 8%) of the value of future downstream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

Under the Financial Agreement, the Columbia Basin Trust and Columbia Power Corporation each received \$250 million over 10 years to provide equity for qualifying power project developments in the region. Three core projects were designated: Keenleyside (subsequently renamed Arrow Lakes Generating Station); Brilliant Expansion; and Waneta Expansion. The Brilliant Expansion and Waneta Expansion make use of development rights purchased by Columbia Power Corporation in 1994 from Cominco Ltd. (now Teck Cominco Metals Ltd.). Other generation, distribution and transmission projects can be carried out by Columbia Power Corporation and the Columbia Basin Trust, provided both parties agree and the projects meet the same commercial and other tests as the core projects do.

In 1996, the joint venturers made their first investment with the purchase of the Brilliant Dam and powerplant from Teck Cominco Metals Ltd., and subsequently carried out a substantial sustaining capital and upgrade program. Construction of the Arrow Lakes Generating Station began in 1999 and start-up was achieved in 2002. Construction of the Brilliant Expansion began in 2003, with start-up scheduled for 2007.



*Artist's rendition of Waneta dam and proposed Waneta Expansion*



*From left to right: Steering Committee tours eroding lands along the Slocan River to review sites for Riparian Restoration projects; Brilliant Dam spilling water which, following completion of the Brilliant Expansion project, will be harnessed to provide additional hydro-electricity; construction worker at the Brilliant Expansion Project; turbine shaft installed at the Brilliant Expansion Project; Arrow Lakes Generating Station wetlands; a visitor enjoys information available at a demonstration area developed in conjunction with the Slocan River Rainbow Trout Enhancement Project; local workers pose at the Brilliant Expansion Project.*

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## **Mandate, Vision and Values**

In January 2005, the Province confirmed the mandate of Columbia Power Corporation to continue, as manager of the joint ventures with the Columbia Basin Trust, planning, developing and operating power projects. The mandate, vision and values of Columbia Power Corporation 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.

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## **Business Model**

The business of Columbia Power Corporation is to plan, develop and operate commercially viable, environmentally sound and safe power projects in the Columbia Basin. In carrying out its business, Columbia Power Corporation relies, to a great extent, on the private sector. Project planning, design, financing, construction, operation and power sales involve private-sector firms wholly or in part. As a Crown corporation, Columbia Power Corporation follows a public-private partnership model for the design, procurement and operation of the joint venture power projects. This allows Columbia Power Corporation to properly allocate and manage risks and realize innovation and efficiency through competition. The model has five distinct components: design, evaluate, build, operate and manage.

### Design

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

### Evaluate

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

### Build

With the signing of a design-build contract, many responsibilities are transferred to the design-build contractor. Columbia Power Corporation, however, engages an “Owner’s Consultant” to ensure compliance with contract terms, including monitoring of quality control and environmental permit requirements.

### Operate

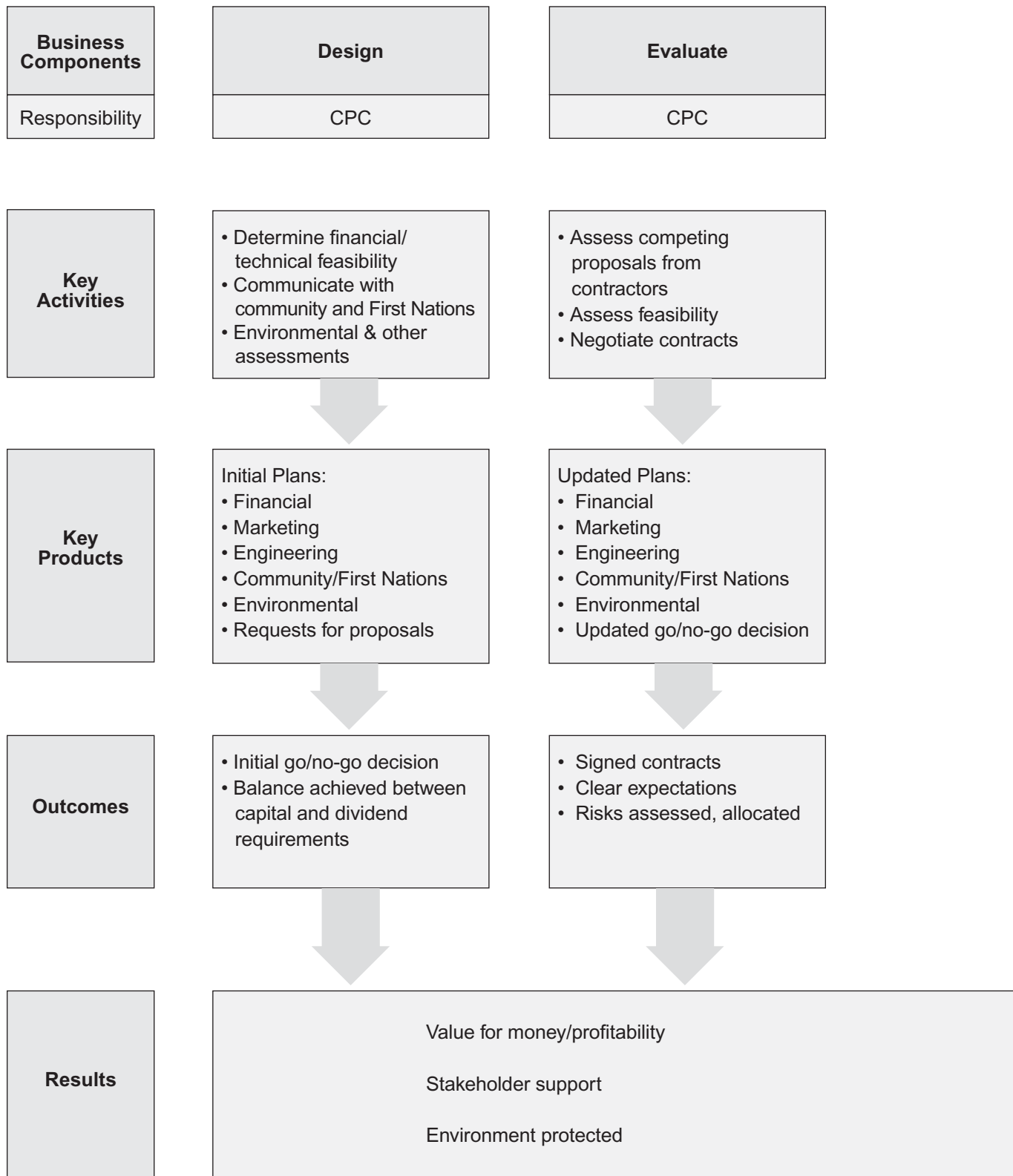
Once a project has been completed and commissioned, operations and power sales begin and further due diligence is undertaken to ensure all deficiencies are resolved and the facility is “fit for purpose.” Columbia Power Corporation has in-house engineers knowledgeable in plant operations and maintenance,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

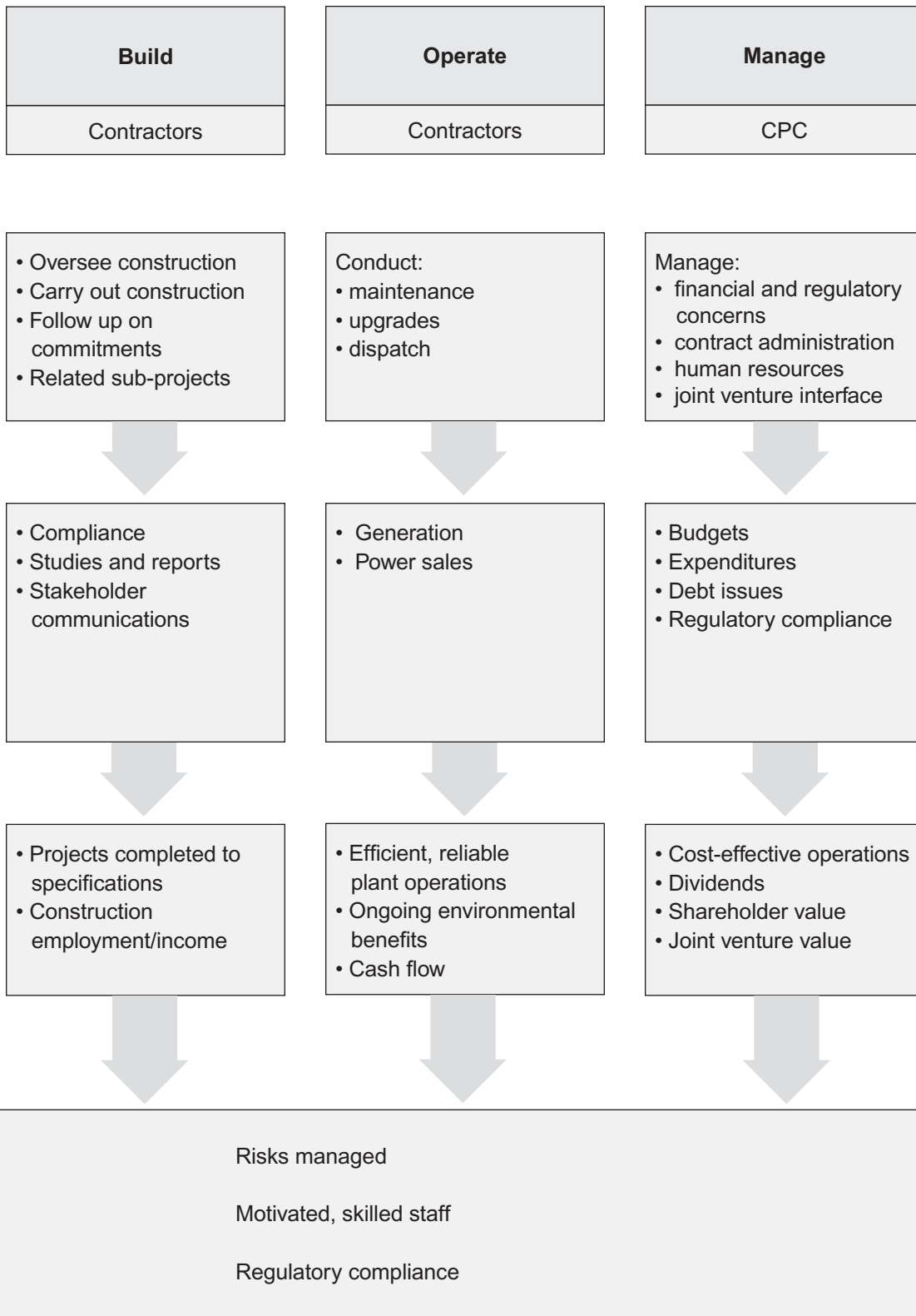
### Manage

Columbia Power Corporation, the manager for the joint ventures, is responsible for all activities in the business model components: negotiating and administering agreements; raising financing; paying lenders; paying taxes; complying with approvals; employing qualified staff and advisors; and, above all, serving the public interest.

The Columbia Power Corporation business model is shown in Figure 1.

**Figure 1. Columbia Power Corporation (CPC) Business Model**





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In carrying out its business model, Columbia Power Corporation has two roles:

- It is an owner with a 50% interest, along with the Columbia Basin Trust, in joint venture power projects. Power projects are established as separate corporations for the purpose of securing limited-recourse 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.

## Key Relationships

The joint venture power project companies owned by Columbia Power Corporation and the Columbia Basin Trust are wholesalers of power, primarily under long-term purchase agreements with regulated utilities. A 12-year power purchase agreement (expiring in 2015) is in place with BC Hydro for the output of the Arrow Lakes Generating Station; a 60-year power purchase agreement (expiring in 2056) is in place with FortisBC for most of the output of the Brilliant Dam; and two 20-year purchase agreements (expiring in 2027 and 2030) are in place with BC Hydro for 90% of the output of the Brilliant Expansion.

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

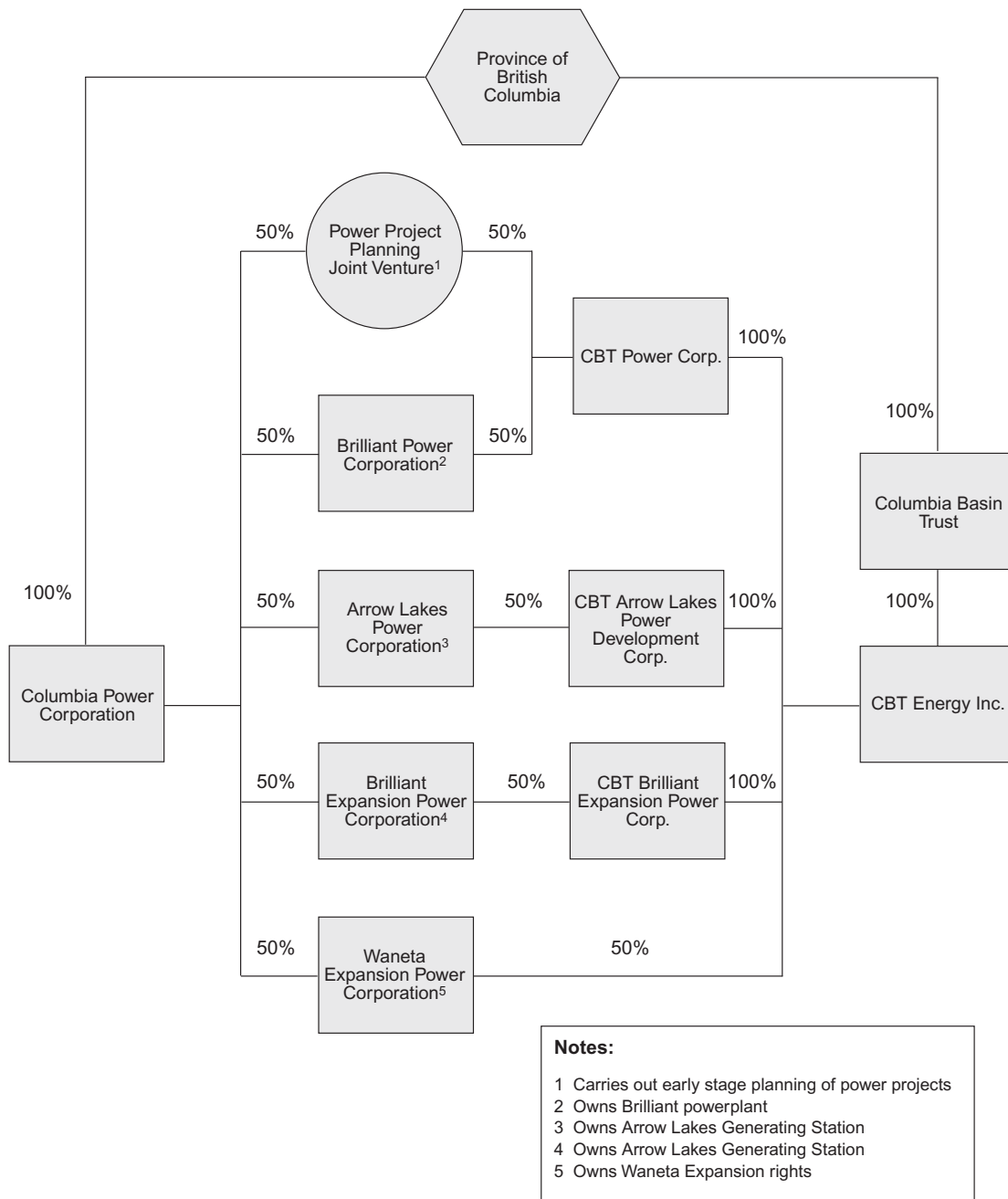
The Arrow Lakes Generating Station was constructed by Peter Kiewit Sons Co. under a fixed-price design-build contract. Peter Kiewit Sons Co. was also contracted to perform the channel permanent repair work.

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

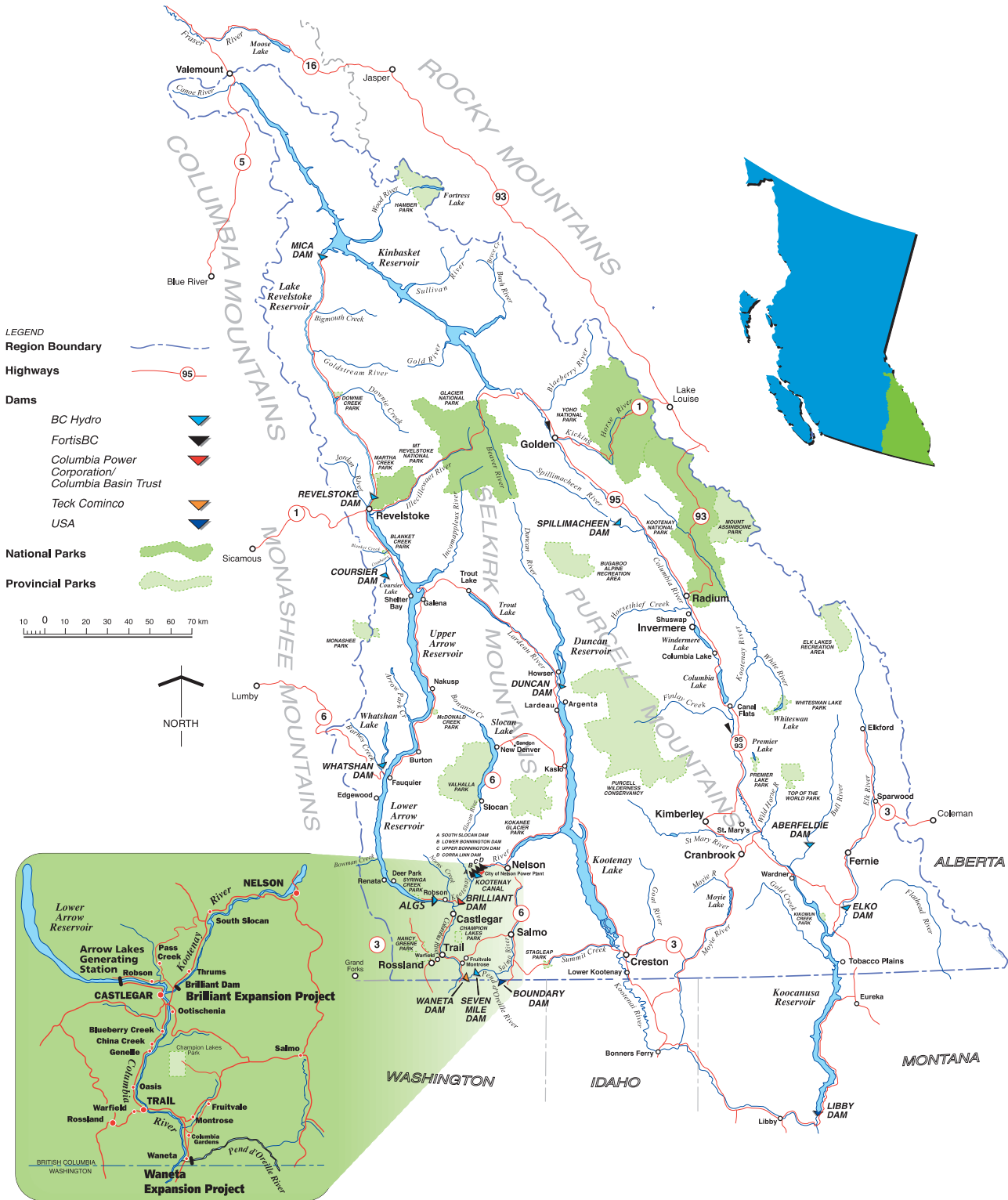
The Brilliant Dam, the related Brilliant Terminal Substation and the Arrow Lakes Generating Station are operated and maintained by FortisBC or a related entity under contract. A similar operation and maintenance contract is being negotiated for the Brilliant Expansion. FortisBC also operates and maintains Teck Cominco Metals Ltd.’s Waneta powerplant and its related transmission facilities. FortisBC is an integrated electric utility with approximately 500 employees. It generates, transmits and distributes electricity throughout south-central British Columbia, serving approximately 150,000 customers.

The British Columbia Utilities Commission is a regulatory agency of the provincial government, operating under and administering the *Utilities Commission Act*. It approves the construction of new facilities planned by utilities and their issuance of securities. The Commission’s function is quasi-judicial and it has the power to make legally binding rulings. While Columbia Power Corporation has obtained exemptions from utilities regulation, it interacts with many entities regulated by the BC Utilities Commission and hence monitors the hearings and proceedings to ensure Columbia Power Corporation’s interests are protected.

**Figure 2. Corporate Structure of the Columbia Power Corporation / Columbia Basin Trust (CBT) Joint Ventures**



# Columbia Basin Power Projects



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## **Review of Power Projects**

Columbia Power Corporation and the Columbia Basin Trust (through its indirect subsidiary, CBT Power Corp.) have formed the Power Project Planning Joint Venture for the purpose of assessing and advancing power projects. The joint venture is owned on a 50/50 basis by the two parties, which direct its activities through a management committee composed of three members from each party. Columbia Power Corporation is the joint venture manager. When a decision is made to proceed with construction of a power project, the project assets are transferred to a separate, jointly owned company. Currently, the Waneta Expansion is the focus of activities of the Power Project Planning Joint Venture, while other projects have been transferred to separate jointly owned companies, as set out on the following pages.

### **Arrow Lakes Generating Station**

The Arrow Lakes Generating Station is a hydroelectric facility with a capacity of 185 megawatts, located at the Keenleyside Dam on the Columbia River and connected by a 48-kilometre, 230-kilovolt transmission line to the BC Hydro power grid at the Selkirk Substation. The powerplant is situated 400 metres downstream of the Keenleyside Dam and is connected to the Arrow Lakes reservoir by a 1,500-metre intake channel that bypasses the dam. The Arrow Lakes Generating Station and related assets are owned by Arrow Lakes Power Corporation, a company jointly owned, on a 50/50 basis, by Columbia Power Corporation and CBT Arrow Lakes Power Development Corp., an indirect subsidiary of the Columbia Basin Trust. Columbia Power Corporation is the manager of Arrow Lakes Power Corporation.

The Keenleyside Dam was constructed in the 1960s by BC Hydro under the terms of the Columbia River Treaty. The dam was built to store water in Arrow Lakes and to regulate water flows for the purpose of providing downstream flood control and power generation benefits in the United States. Construction of the Arrow Lakes Generating Station allows power generation benefits to be realized in British Columbia by taking advantage of otherwise unutilized water releases at the dam. Generation of power at the dam also improves fish habitat by reducing dissolved gas pressure levels downstream.

In selecting a contractor for the construction of the project, Columbia Power Corporation established the design-evaluate-build process to ensure that the most cost-effective and innovative construction methods were used. Construction of the project began in March 1999. The first generating unit achieved start-up status in February 2002, followed by the second unit in May 2002. These milestones were reached on budget and ahead of schedule. The owner assumed responsibility for operation of the generating station on January 1, 2003. Operation and maintenance of the generating station is performed on behalf of the owner by Fortis Pacific Holdings Inc., a corporation related to FortisBC Inc.

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Construction of the Arrow Lakes Generating Station and transmission line was financed with equity from Columbia Power Corporation and CBT Arrow Lakes Power Development Corp. and with interest-bearing advances from Columbia Power Corporation. In August 2003, Arrow Lakes Power Corporation issued \$100 million of 5.39% Series A project bonds, maturing on March 31, 2015. The bonds are rated A (high) by Dominion Bond Rating Services. The proceeds of the bond issue were used to refinance construction expenditures and to facilitate a transfer of equity to the Brilliant Expansion.

The net income for Arrow Lakes Power Corporation for the year ended March 31, 2007, was \$18.9 million, compared to a net loss of \$2.8 million in the previous year. The increase in income over the prior year was due to: the resumption of normal operations, which increased operating income by \$4.5 million; a decrease in channel repair expenditures of \$8.7 million, as most of the channel repairs were completed in 2005/06; and an \$8.5 million increase in the recovery of channel repair costs.

The amount of power sold by Arrow Lakes Power Corporation during the year, as determined by the energy entitlement received under the *Keenleyside Entitlement Agreement* with BC Hydro, was 739,148 megawatt-hours, compared with 613,343 megawatt-hours in the previous year. The amount of power sold during the year increased due to the resumption of normal operations in May 2006. From late November 2005 until mid-May 2006, operations were suspended to allow permanent channel repairs to be carried out. All power from the Arrow Lakes Generating Station is sold to BC Hydro under a 12-year contract that began on January 1, 2003.

Arrow Lakes Power Corporation's insurer, Factory Mutual Insurance Company (FMIC), provided Arrow Lakes Power Corporation with a \$12.8 million recovery of costs and losses in 2006/07. Arrow Lakes Power Corporation estimates it will receive at least \$7.7 million when recovery proceedings against the contractor are settled. The total cost of the channel repair damage to March 31, 2007, was \$50.6 million, which includes lost revenues and capitalized costs. The final financial impact of the channel damage cannot be determined with certainty at this time.

Arrow Lakes Power Corporation's sustaining capital expenditures are funded by cash flow from operations. Arrow Lakes Power Corporation paid a dividend of \$1.7 million in December 2006. Dividends had been suspended since May 2004 as a result of the Arrow Lakes approach channel incident.



*Arrow Lakes Generating Station wetlands*

## Arrow Lakes Generating Station Operations Summary Information

(\$ in thousands unless otherwise stated)

	2006/07	2005/06	2004/05	2003/04	2002/03
Power Sales Revenue	\$ 29,548	\$ 23,724	\$ 21,974	\$ 26,597	\$ 61,990
Interest Revenue	441	727	1,485	1,945	-
Power Sales Revenue Sharing	-	-	-	-	29,779
Operating Expenses	3,227	2,755	3,543	3,255	2,338
Water Rentals	3,564	3,120	3,512	3,009	812
Interest Expense	4,357	4,738	5,097	3,197	474
Amortization	8,348	7,854	8,478	8,653	5,764
Net Income Before Channel Repairs	10,493	5,984	2,829	10,428	22,823
Channel Repair Costs	6,030	14,722	7,853	-	-
Recovery of Repair Costs and Losses	14,423	5,929	10,778	-	-
Net Income	18,886	(2,809)	5,754	10,428	22,823
Equity	242,333	225,147	227,956	258,847	276,176
Dividend Payments	1,700	-	-	4,290	-
Capital Expenditures	3,983	6,481	2,446	2,343	20,686
Long-term Debt	70,882	78,467	85,658	92,477	-
Current Portion of Long-term Debt	7,584	7,192	6,819	6,466	-
Advance from Columbia Power Corporation	\$ -	\$ -	\$ -	\$ -	\$ 31,834
Total Sales (megawatt-hours)	739,148	613,343	582,707	726,868	663,746
Average Price (\$/megawatt-hour)	39.98	38.68	37.71	36.59	93.39
Annual Return on Equity	7.8%	-1.2%	2.4%	3.9%	9.0%
Debt Service Coverage Ratio	2.74	.85	1.67	-	-



Arrow Lakes Generating Station located at the Keenleyside Dam on the Columbia River

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## Brilliant Dam and Powerplant

The Brilliant Dam and powerplant is a power generation facility with a capacity of 145-megawatts, located on the Kootenay River just upstream of the confluence with the Columbia River. The facility, constructed in 1944, was purchased from Cominco Ltd. (now Teck Cominco Metals Ltd.) in 1996. The dam, powerplant and related assets are owned by Brilliant Power Corporation, which is jointly owned, on a 50/50 basis, by Columbia Power Corporation and CBT Power Corp., an indirect subsidiary of the Columbia Basin Trust. Columbia Power Corporation is the manager of Brilliant Power Corporation.

Most of the power entitlement for the Brilliant Dam and powerplant is sold under the 60-year Brilliant Power Purchase Agreement with FortisBC. The Brilliant facility is operated by FortisBC on behalf of Brilliant Power Corporation. The company has largely completed a multi-year capital program, including upgrades and life extension work for each of the four generating units.

Net income for Brilliant Power Corporation for the year ended March 31, 2007, was \$10.2 million, compared with \$9.7 million in the previous year. The increase in income was due primarily to reduced interest requirements on bonds and an increase in interest income. Total power sales decreased due to lower prices for power sold to Powerex, although revenue from sales to FortisBC increased as expected.

The amount of power sold by Brilliant Power Corporation during the year (as determined by the Brilliant energy entitlement received under the *Canal Plant Agreement*) was 980,431 megawatt-hours, compared with 989,538 megawatt-hours in the previous year. All sales were made to FortisBC under the terms of the Brilliant Power Purchase Agreement, except for approximately 60 gigawatt-hours of Brilliant upgrades energy sold to Powerex Corp. (a subsidiary of BC Hydro), under a short-term contract.

Capital expenditures during the year were \$1.1 million, compared with \$1.8 million in the previous year. Capital expenditures are expected to total \$12.5 million over the next three years, primarily addressing capital projects which were deferred during the construction of the Brilliant Expansion project. As of March 31, 2007, Brilliant Power Corporation had invested \$108 million in the project, including the construction of the Brilliant Terminal Station, since purchasing the assets from Teck Cominco Metals Ltd. This investment will be recovered through increased revenues under the power sales agreement with FortisBC.

The new *Canal Plant Agreement* became effective as of April 12, 2006. The new agreement, which stays in force until at least December 31, 2035, replaced the original *Canal Plant Agreement* and confirms the entitlement of the Brilliant plant.

## Brilliant Dam Operations Summary Information

(\$ in thousands unless otherwise stated)

	<u>2006/07</u>	<u>2005/06</u>	<u>2004/05</u>	<u>2003/04</u>	<u>2002/03</u>
Power Sales Revenue	\$ 33,076	\$ 33,219	\$ 30,986	\$ 29,563	\$ 27,310
Brilliant Terminal Station Revenue	3,052	2,937	2,822	1,567	-
Interest Revenue	634	429	366	282	300
Operating Expenses	2,576	2,643	2,689	2,413	2,089
Taxes and Water Rentals	6,955	7,012	6,764	5,984	5,798
Interest Expense	12,114	12,363	12,348	11,612	10,368
Amortization	4,888	4,845	5,364	4,841	3,821
Net Income	10,229	9,722	7,009	6,562	5,534
Equity	67,693	68,993	67,395	66,966	58,836
Dividends	11,600	9,200	8,900	8,530	6,250
Capital Expenditures	1,101	1,851	4,012	24,174	18,681
Long-term Debt	153,845	157,597	161,088	114,524	116,384
Current Portion of Long-term Debt	3,752	3,491	3,248	1,858	1,712
Advance from Related Corporations	\$ -	\$ -	\$ -	\$ 42,439	\$ 23,921
Total Sales (megawatt-hours)	980,431	989,538	980,848	975,182	822,739
Average Price (\$/megawatt-hour)	33.74	33.57	31.59	30.32	33.19
Annual Return on Equity	15.0%	14.3%	10.4%	10.4%	9.8%
Debt Service Coverage Ratio	1.75	1.72	1.64	1.67	1.63



*Brilliant Dam and Brilliant Expansion (under construction)*

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## Brilliant Expansion

The Brilliant Expansion project consists of the construction of a new power generation facility adjacent to the Brilliant Dam on the Kootenay River. The objective of the project is to take advantage of unused hydraulic potential at the Brilliant Dam which was purchased by Columbia Power Corporation and the Columbia Basin Trust from Cominco in 1996 by making use of water flows that would otherwise be spilled.

The project includes a short open channel leading to an intake structure, a power tunnel, a surface powerhouse and an access tunnel linking the powerhouse area to the intake area. Tailrace improvements will provide additional power benefits. The project is owned by Brilliant Expansion Power Corporation, which is jointly owned, on a 50/50 basis, by Columbia Power Corporation and CBT Brilliant Expansion Power Corp., an indirect subsidiary of the Columbia Basin Trust. Columbia Power Corporation is the manager of Brilliant Expansion Power Corporation.

The Brilliant Expansion will have a capacity of 120 megawatts, generating approximately 500 gigawatt-hours of energy annually. The construction budget has been set at \$205 million. Construction will create over 450 person-years of direct employment (85% local hires).

The project will be connected to the transmission grid by a 410-metre, 230-kilovolt line to the Brilliant Terminal Station, located uphill from the Brilliant Dam. It will be connected to BC Hydro's Selkirk Substation through the Arrow Lakes transmission line, and to the FortisBC transmission system.

The Brilliant Expansion is being developed using Columbia Power Corporation's design-evaluate-build strategy, as successfully applied in the development of the Arrow Lakes Generating Station. This approach was chosen to ensure that the most cost-effective construction methods are used for the project, while most of the construction risk is transferred to the contractor.

Expressions of interest were received from three international teams of construction, engineering and turbine/generator supply firms, two of which submitted proposals in July 2002. These were reviewed and scored by an expert technical evaluation panel, and then ranked on the basis of that score and the proposal price. This resulted in the selection of the Brilliant Expansion Consortium as the winning bidder, formed by SNC-Lavalin Inc. and a joint venture of Skanska International Civil Engineering AB and Chant Construction Limited, with Alstom Canada as the subcontractor for turbine/generator supply. A design-build contract was signed in February 2003. Construction of the project began in April 2003.

Project construction is being funded by equity provided by Columbia Power Corporation and the Columbia Basin Trust using contributions from the Province and the proceeds of a bond issue by Arrow Lakes Power Corporation.

In the past year, work on the project has been behind schedule. Commercial operation, originally scheduled for August 2006, is now scheduled for June 2007. The design-build contractor of the Brilliant Expansion has submitted significant claims against the project. Columbia Power Corporation is conducting a review of these claims. The final impact of the claims cannot be reliably estimated at this time.

Approximately 90% of the Brilliant Expansion plant output will be sold under two long-term contracts with BC Hydro. A short-term agreement is being finalized for the output that is not sold under these contracts.

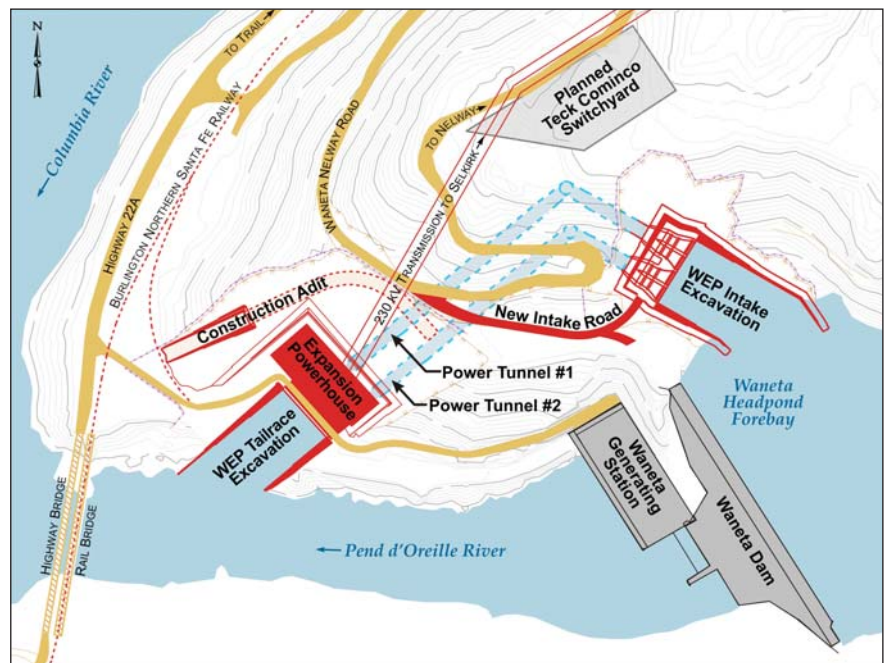
## Waneta Expansion

The Waneta Expansion is a project to construct a second powerhouse at the Waneta Dam on the Pend d'Oreille River south of Trail, B.C. The expansion project will share the dam's hydraulic head and make use of waterflows that would otherwise be spilled. The rights to use this hydraulic head, as well as the land necessary to build the expansion project, were acquired by Columbia Power Corporation from Teck Cominco Metals Ltd. in 1994. These rights are now held by Waneta Expansion Power Corporation, the company formed jointly by Columbia Power Corporation and the Columbia Basin Trust to develop, construct and operate the project.

The base concept for the Waneta Expansion has been structured to avoid potential environmental impacts on white sturgeon habitat in the Columbia–Pend d'Oreille confluence area. Water will be conveyed through two large-diameter tunnels from the Waneta forebay into a two-unit powerhouse to be built “in the dry” on the right bank of the Pend d'Oreille River, between the Waneta Dam and Highway 22A. Output from the units will be stepped up to 230 kilovolts and connected through powerhouse switching equipment to a new 10-kilometre transmission line that will join the project to Selkirk Substation.

The addition of 435 megawatts of capacity at Waneta will achieve balance with upstream generation at the Seven Mile Dam (BC Hydro) and the Boundary Dam (Seattle City Light). This hydraulic balance will allow flows released from the Boundary Dam to travel the Canadian section of the Pend d'Oreille River without the need for reservoir re-regulation to avoid spill. Minimizing re-regulation will increase the productivity of reservoir aquatic habitat. In addition, diverting otherwise unavoidable spill through the Waneta Expansion will reduce harmful dissolved gas supersaturation in waters below the Waneta Dam and down the Columbia River into the United States.

The Environmental Assessment Certificate Application for the project was submitted in March 2006. As a prerequisite to completion of the review process, discussions are being held with the Department of Fisheries regarding effects of the project on sturgeon downstream of the Waneta Dam. Three engineer/constructor teams submitted expressions of interest in 2006 to prepare and submit partially funded design-build proposals. Construction is expected to begin in 2008, subject to environmental approvals, the receipt of acceptable design-build bids, arrangements for marketing of the project output and confirmation of viability in the final evaluation.



Plan view of Waneta Expansion design base concept

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## Report on Performance

Columbia Power Corporation's mandate, which was established by agreements between the Province and the Columbia Basin Trust, drives Columbia Power Corporation's line of business (see the sequential business model in Figure 3). Projects move through the planning, construction and operations phases, with Columbia Power Corporation providing overall management. The organization's values are applied in setting goals and objectives and conducting business activities. Performance measures are the scorecards for measuring the achievement of Columbia Power Corporation's vision.

Figure 4 illustrates how Columbia Power Corporation's mandate, vision and values are linked to its business model and performance. Columbia Power Corporation's performance measurement framework, current-year results and future targets are more fully described in Appendix A (see [www.columbiapower.org/07appendix\\_a.pdf](http://www.columbiapower.org/07appendix_a.pdf)).

### Performance Plan Summary

Columbia Power Corporation achieved mainly positive results relative to its 2006/07 performance targets. On the positive side, the following objectives were realized:

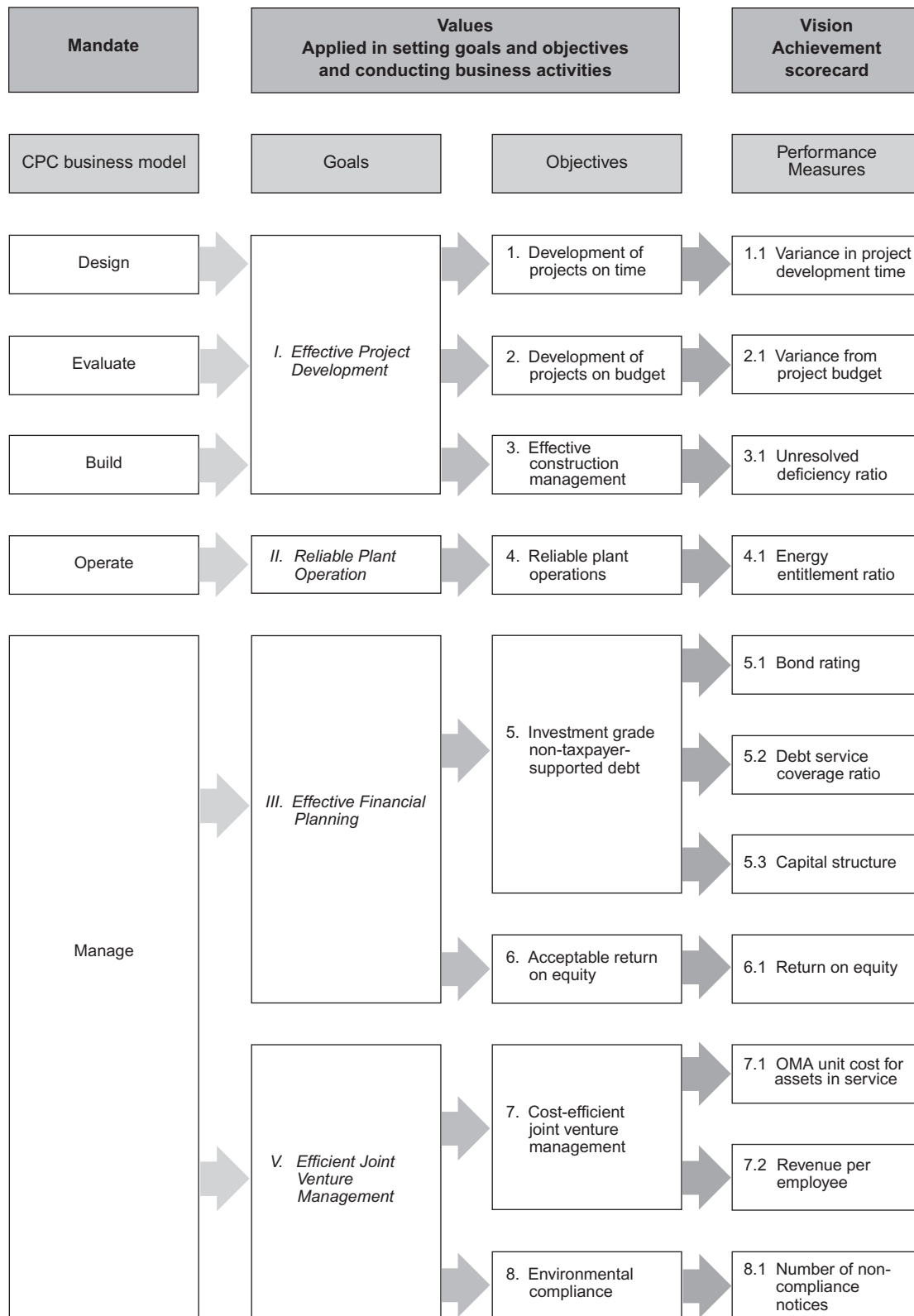
- Developed projects on budget.
- Achieved effective construction management by managing project deficiencies.
- Achieved reliable plant operations for the Brilliant powerplant and Arrow Lakes Generating Station, confirmed by strong energy entitlement ratios. The plant operations and the future direction for operations performance measures are further discussed in Appendix B (see [www.columbiapower.org/07appendix\\_b.pdf](http://www.columbiapower.org/07appendix_b.pdf)).
- Maintained investment grade bond ratings and a capital structure that will allow further bond issues as required for project investment.
- Achieved a return on equity greater than planned for the period.
- Achieved cost-effective joint venture management, demonstrated by lower-than- expected operation, maintenance and administration (OMA) unit costs.

On the negative side, as a result of the discovery of a dead white sturgeon at the Brilliant Expansion facility, Columbia Power Corporation did not meet its goal of zero material non-compliance notices.

Columbia Power Corporation's results were affected by the construction delays at the Brilliant Expansion, offset by the recovery at Arrow Lakes Generating Station of channel repair costs from the insurer. Columbia Power Corporation and the insurer will jointly seek recovery of costs from the contractor.

The objective of developing projects on time will not be achieved for the Brilliant Expansion, as the construction contractor's current schedule forecasts commercial operation 10 months after the target. The late completion has reduced revenue forecasts for 2007/08.

**Figure 3: Performance Plan Summary**



**Figure 4: Performance Measures at a Glance**

	Benchmark	2006/07 Actual	2006/07 Target	Achievement	Significance
<b>1.1 Variance in project development time</b>	ALGS: 7 months early BTS: On time	BRX: Delayed until after end of year	BRX operations late in 2006/07	X	Negative impact on timing of future BRX power sales
<b>2.1 Variance from project budgets</b>	ALGS: On budget BTS: On budget	BRX: On budget	BRX: On budget	✓	Scarce capital is maintained
<b>3.1 Unresolved deficiency ratio</b>	Baseline to be developed	ALGS and BRX: Deficiencies actively monitored	BRX: Less than or equal to 1	✓	Receive fit for purpose projects
<b>4.1 Energy entitlement ratio</b>	1st Quartile: See Benchmarking Appendix B	ALGS: 96% BRD: 99%	ALGS: >91% BRD: >95%	ALGS: ✓ BRD: ✓	Limited Outages
<b>5.1 Bond rating</b>	Investment grade bond ratings	Maintained ratings for all bonds	Maintain or improve ratings for all bonds	✓	Maintain lowest possible cost of debt
<b>5.2 Debt service coverage ratio</b>	Greater than or equal to 1.3	ALGS: 2.7 BRD: 1.8	ALGS: 1.0 BRD: 1.7	ALGS: ✓ BRD: ✓	Maintain lowest possible cost of debt
<b>5.3 Capital structure</b>	CEA composite measure for 2005 - 76:24	27:73	28:72	✓	Future borrowing potential maintained
<b>6.1 Return on equity</b>	Over the life of the project comparable to regulated utilities	4.7%	1.3%	✓	Return on equity above target due to ALGS insurance recovery
<b>7.1 OMA unit cost for assets in service</b>	1st Quartile: See Benchmarking Appendix B	ALGS: \$3.77 BRD: \$2.10	ALGS: \$4.10 BRD: \$2.30	ALGS: ✓ BRD: ✓	Operations, maintenance and admin costs lower than target
<b>7.2 Revenue per employee</b>	CEA composite average for 2005: \$502,000	\$847,000	\$665,000	✓	Revenue per employee above target due to ALGS resuming operations
<b>8.1 Environmental compliance</b>	Baseline information to be developed	Deceased Sturgeon found at Brilliant Expansion	Zero material non-compliance notices	X	Manage in accordance with environmental values

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

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## Performance Measures Framework

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

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

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

## Source of Data and Reliability

Columbia Power Corporation believes its performance measures are reliable and valid. Although current and historical performance measures are not audited, they are derived largely from audited information, information subject to third-party verification and information independently provided.

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



*Adit plug formwork crew at Brilliant Expansion*

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## Alignment with Government's Strategic Plan

The government's 2007/08–2009/10 *Strategic Plan* has five “Great Goals” for the next decade, which were originally enumerated in the *Throne Speech* of February 2005:

- Goal 1:** To make British Columbia 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.

The joint venture power projects owned by Columbia Power Corporation and the Columbia Basin Trust make significant contributions directly to Goals 4 and 5 and indirectly to Goals 1, 2 and 3.

Goals 1, 2 and 3 – Best educated, healthiest, most fit population with the best social support system

Through the payment of dividends to the Province and the Columbia Basin Trust, taxes to the Province and local governments, and water rentals to the Province, the joint venture power projects help fund: education, healthcare and other provincial social support programs and services; the Columbia Basin Trust social programs in the Columbia Basin; and local government services in the City of Castlegar and Regional District of Central Kootenay. Over the period 2007/08 to 2009/10, the joint venture power projects are expected to generate \$90 million of net income for their shareholders, the Province and the Columbia Basin Trust. The projects will also contribute \$41 million in taxes and water rentals during this period.

In keeping with its commitment to share the benefits of power project investments with Columbia Basin residents, Columbia Power Corporation 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. Columbia Power Corporation provides scholarships to graduating classes of all 23 secondary schools in the Columbia Basin, and 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.



*College of the Rockies student is presented a Columbia Power Corporation scholarship*

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#### Goal 4 – Sustainable environmental management and the best fisheries management

Columbia Power Corporation finished the implementation of its environmental management system in 2006/07, with an internal audit completed in March 2007. The focus for 2007/08 will be to correct minor deficiencies identified by the internal audit, as well as improving the system overall.

The Brilliant upgrades, Arrow Lakes Generating Station and Brilliant Expansion will displace more than 1,140,000 tonnes per year of carbon dioxide, compared with an equivalent amount of electricity produced in a coal-fired generating plant in Alberta. The Waneta Expansion will displace an additional 550,000 tonnes.

One major environmental benefit of the power projects is the reduction of supersaturated dissolved gas levels in the Columbia River. High supersaturated levels can cause gas bubble trauma in fish. Water can become supersaturated when it flows over a waterfall or the spillway of a dam. By passing water through a turbine instead of spilling it, the joint venture projects have resulted in a significant improvement to this important water quality parameter.

As a result of the Waneta Expansion, the average number of days that the provincial total dissolved gas water quality guideline of 110% is exceeded will be reduced by 54% at Birchbank, located between Castlegar and Trail, B.C. The Waneta Expansion will result in a further water quality improvement at the United States/Canada border. This will benefit the United States, which spends millions of dollars annually to reduce total gas pressure. For this reason, nine United States federal and state agencies (including the Environmental Protection Agency, the Fish and Wildlife Service, and the Colville Confederated Tribes) have endorsed the power projects. Columbia Power Corporation also participates in the Columbia River Integrated Environmental Monitoring Program and the Transboundary Gas Group to discuss and coordinate measures to address dissolved gas issues on the Columbia River.

The power projects are involved in two major fish compensation projects:

- One is the Arrow Lakes Reservoir Fertilization program. Annual contributions of about \$200,000 (a quarter of the program cost) are made to the program. The fertilization program involves adding a mixture of liquid nitrogen and phosphorus to the water to increase fish productivity through the food chain. A five-year review of the program has just been completed. It concluded that the bottom-up approach to restoring kokanee has been successful, and that the objectives of the fertilization experiment have been met.
- The second program is the *Slocan River Rainbow Trout Habitat Enhancement Program*. The riparian restoration component of this program addresses long-term habitat requirements by providing grants (\$20,000 annually) to landowners and community groups conducting riparian restoration work along the Slocan River. A second component to the program that provides short-term habitat benefits is the construction of in-stream fish habitat structures. Five structures were built in 2005 as a demonstration phase and have been evaluated. Plans to build 11 more structures in 2008 have been developed for discussion with the fisheries agencies and the public.

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Columbia Power Corporation also participates in discussions on fisheries issues associated with the operation of the power projects. One major forum for these discussions is the Columbia Operations Fisheries Advisory Committee, which consists of hydro facility owners and operators, fisheries agencies and First Nations. Issues such as fish stranding on the lower Columbia River are addressed through this forum. Recovery of white sturgeon and salmon are other issues that Columbia Power Corporation will discuss.

#### Goal 5 – Job creation

Over the period 1999/00 through 2002/03, with the construction and commissioning of the Arrow Lakes Generating Station, Columbia Power Corporation had the third largest hydro project under construction in North America and the largest industrial project in British Columbia. During the three-year construction period, the project created 750 person-years of direct employment (with 85% local hires), \$60 million in direct and indirect income, and \$20 million in regional procurement.

Construction of the 120-megawatt Brilliant Expansion, which began in the first quarter of 2003/04, will create more than 450 person-years of direct employment (with 85% local hires), \$30 million in direct and indirect income, and \$15 million in local procurement.

Subject to the requisite reviews and approvals, construction of the Waneta Expansion is scheduled to begin in 2008 and take three and a half years to complete. The Waneta Expansion construction is estimated to create 680 person-years of direct employment (with 75% local hires), \$65 million in direct and indirect income, and \$25 million in local procurement.

Supply of competitively priced and reliable power to BC Hydro and FortisBC helps maintain British Columbia's low energy costs and support economic development and job creation. The joint venture power projects also help fund the Columbia Basin Trust economic programs and related job creation in the Columbia Basin.

### **BC Energy Plan**

In February 2007, the provincial government released its updated *BC Energy Plan: A Vision for Clean Energy Leadership* which contains British Columbia's plan to make the province energy self-sufficient while taking responsibility for the natural environment and climate. Many policy actions are outlined in the plan. A full listing of these can be found online at [www.energyplan.gov.bc.ca/](http://www.energyplan.gov.bc.ca/). Among the policy actions that relate directly to Columbia Power Corporation:

- The Province will aim to ensure electricity self-sufficiency by 2016, as well as creating "insurance" power.
- A review of the BC Utility Commission's role in considering social and environmental costs and benefits will be undertaken.
- BC Transmission Corporation will ensure that its transmission technology and infrastructure remains at the leading edge and has the ability to deliver power efficiently and reliably to meet growing demand.
- All new electricity-generating facilities constructed in British Columbia will be required to achieve zero net greenhouse gas emissions.
- The Province will aim to ensure that clean or renewable electricity generation continues to account for at least 90% of total generation.

Columbia Power Corporation will continue to assist the Province to meet the plan goals.

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## Management Discussion and Analysis

### Results of Operations

Net income earned by Columbia Power Corporation in 2006/07 was \$14.8 million, compared with planned net income for the year of \$3.9 million and net income of \$3.1 million in the previous year. Net income of Columbia Power Corporation includes the consolidated 50% share of the net income of Arrow Lakes Power Corporation and Brilliant Power Corporation. Revenues were not significantly affected by foreign exchange volatility or fluctuations in electricity markets, as most power sales were under long-term contracts in Canadian dollars.

Arrow Lakes Power Corporation recorded net income of \$18.9 million in 2006/07 compared to a loss of \$2.8 million in 2005/06, primarily as a result of a significant insurance recovery of the cost of permanent repairs and losses, combined with lower-than-expected repair expenses, related to the Arrow Lakes Generating Station approach channel. Higher power sales revenues, higher operating expenses and lower interest expense also had an impact on the operating results.

Brilliant Power Corporation earned increased profits primarily as a result of reduced interest expense and an increase in interest income. Total power sales degraded due to lower prices for power sold to Powerex, although revenue from sales to FortisBC increased as expected. The debt service coverage ratio at Brilliant Power Corporation was maintained at a satisfactory level, while Arrow Lakes Power Corporation recorded a positive correction from the prior year as a result of the Arrow Lakes Generating Station channel recovery. The investment grade bond ratings for the two corporations were retained.

During 2006/07, Columbia Power Corporation's return on equity was 4.7% compared with the planned return of 1.3% for the year and actual performance of 1.0% the previous year. This reflected the approach channel insurance recovery from Arrow Lakes Power Corporation and improved operating income.



*Crew installing turbine runner at Brilliant Expansion*

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## Financing Activities

Investing activities were funded from the residual cash from the final \$50 million contribution from the Province to the Columbia Basin Trust; received in 2005/06 and cash from operations. The use of internal sources of cash had a positive impact on financing costs. Columbia Power Corporation declared a dividend of \$2 million for 2006/07, the same amount as in the previous year.

## Investing Activities

Capital spending during the year was \$10.4 million, compared with planned expenditures of \$18.7 million for the year and expenditures of \$17.3 million in the previous year. Almost all of this expenditure was invested in power projects undertaken jointly with the Columbia Basin Trust, and represents Columbia Power Corporation's 50% portion of joint venture capital spending. The major area of expenditure was construction of the Brilliant Expansion, followed by additions to the Arrow Lakes Generating Station and the Brilliant powerplant and Terminal Station.

Capital was also invested for Waneta Expansion development activities. Columbia Power Corporation used distributions from the power projects to pay for corporate asset additions.

## Power Sales Activities

The sale of generation from the Arrow Lakes Generating Station is fully subscribed under a long-term sales agreement with BC Hydro. Under a 60-year power purchase agreement, 94% of the power from the Brilliant Dam is sold to FortisBC Inc.

For Columbia Power Corporation, a high priority in 2007/08 is to secure markets for the Waneta Expansion, provided terms and conditions are acceptable. Activities related to the Waneta Expansion also include development work on product definition and undertaking preliminary discussions with a number of potential buyers.

Upon Brilliant Expansion completion, Columbia Power Corporation will market 40% of the power to BC Hydro under the *F2002/03 Green Power Generation Electricity Purchase Agreement*. Columbia Power Corporation has entered into a long-term sales agreement with BC Hydro under a *F2006 Electricity Purchase Agreement* for most of the Brilliant Expansion residual power, starting in 2009/10. Brilliant Expansion power not sold to BC Hydro in 2007/08 will be marketed on a short-term basis during the year.

Columbia Power Corporation will continue to monitor market energy prices and market developments. Columbia Power Corporation subscribes to news services and participates in Pacific Northwest marketing and trading conferences. Columbia Power Corporation is also a Western System Power Pool member.

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## Liquidity and Sources of Capital

Columbia Power Corporation has set aside cash and temporary investment reserves to complete the Brilliant Expansion and partially fund Brilliant Dam capital spending and the development of the Waneta Expansion.

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

Columbia Power Corporation has access to the Province's fiscal agency loan program, which can potentially be used to finance a portion of the Waneta Expansion during construction. Subject to the creditworthiness of future power sales contracts, considerable long-term and short-term borrowing capacity is also available from the existing power projects to finance the Waneta Expansion and other projects. CIBC World Markets has been retained as Financial Advisor to develop a financing plan for Waneta Expansion and provide a recommendation on the optimum capital structure for Columbia Power Corporation/Columbia Basin Trust power projects.

## Critical Accounting Estimates

Disclosure of Columbia Power Corporation's critical accounting policies is contained in Note 2 to the consolidated financial statements. Preparing financial statements in accordance with *Canadian Generally Accepted Accounting Principles* requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Columbia Power Corporation's investments in power projects operate primarily under long-term contracts in Canadian dollars with high credit-rated counterparties; and receive power entitlements in exchange for actual electrical power generation, thereby removing annual hydrology risk. As a result, Columbia Power Corporation believes it is not exposed to the same number of critical accounting estimates that may be required of management of other hydroelectric operations of comparable size. Columbia Power Corporation's amounts recorded for amortization are based on estimates of economic service life. By their nature, these estimates are subject to measurement uncertainty. Changes to these estimates may impact the consolidated financial statements of future periods.

A significant accounting estimate in the consolidated financial statements relates to the future recovery of Arrow Lakes channel repairs costs and losses. Arrow Lakes Generating Station estimates it will receive at least \$7.7 million when recovery proceedings against the contractor are settled. Arrow Lakes has recorded \$4.3 million as a current recovery on a discounted cash flow basis to recognize that the timing of recovery is uncertain.



*Removing berm at Brilliant Expansion*

## Consolidated Results of Operations and Forecasts

(\$ in thousands unless otherwise stated)

	2006/07 Budget	2006/07 Actual	2006/07 Variance	2007/08 Forecast	2008/09 Forecast	2009/10 Forecast
<b>Revenues</b>						
Sale of Power and						
Transmission	\$ 32,825	\$ 32,838	\$ 13	\$ 44,650	\$ 50,250	\$ 51,246
Other	1,078	2,206	1,128	1,075	1,282	1,385
	33,903	35,044	1,141	45,725	51,532	52,631
<b>Expenses</b>						
Operating	16,615	15,923	692	21,969	22,608	22,832
Financing	8,559	8,524	35	10,652	13,581	13,040
	25,174	24,447	727	32,621	36,189	35,872
<b>Net Income Before Channel</b>						
Expenses and Recoveries	8,729	10,597	1,868	13,104	15,343	16,759
Channel Expenses	(5,500)	(3,015)	2,485	(342)	-	-
Channel Recoveries	701	7,212	6,511	-	-	-
<b>Net Income</b>	<b>3,930</b>	<b>14,794</b>	<b>10,864</b>	<b>12,762</b>	<b>15,343</b>	<b>16,759</b>
Capital Spending	\$ 18,654	\$ 10,426	\$ 8,228	\$ 14,925	\$ 74,157	\$ 99,651
Full-time Equivalents	51	40	11	51	52	53

## Capacity, Outlook and Risks

The key strategic issues facing Columbia Power Corporation include:

- Obtaining federal and provincial approvals, permits and licences to develop and operate power projects on international rivers within a complex environmental regulatory system, which includes federal and provincial regulators, an international treaty and local, regional, United States and First Nations stakeholders.
- Developing regional support for the joint venture power projects through consultation with local and regional community stakeholders, negotiating land issues with owners and addressing First Nations issues related to the power projects.
- Securing power sales contracts for the Waneta Expansion in a domestic market where the joint venture power projects represent a relatively low-cost source of new power supply, but also where there is one dominant wholesale buyer, and where retail access to large ("transmission voltage") customers is being developed but is not yet a practical reality.
- Achieving commercial operation of the Brilliant Expansion and ensuring the project is fit for purpose.
- Adjusting to a higher Canadian dollar, which has lowered the value of power sales tied to United States market prices, and to higher construction, machinery and equipment costs, which have increased in response to escalating labour rates and global prices for commodities such as concrete, steel, copper and fuel.

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- Implementing a plan to finance the construction of the Waneta Expansion by utilizing the substantial borrowing capacity of the existing projects, managing the uncertainty of future interest rates (thus the cost of debt financing), and determining the appropriate capital structure for the joint ventures.
  - Developing human resources strategies to ensure appropriate succession planning, recruitment and staff retention for Columbia Power Corporation in a labour market that is expected to become increasingly competitive due in part to an aging population.
  - Determining the appropriate long-term strategic direction for Columbia Power Corporation beyond the development of the Arrow Lakes Generating Station, Brilliant Expansion and Waneta Expansion.
  - Pursuing recoveries related to Arrow Lakes Generating Station channel repairs and managing contractor claims related to the Brilliant Expansion.

Columbia Power Corporation has a mandate to develop and operate powerplants at existing dams on the Columbia, Kootenay and Pend d'Oreille Rivers using water that would otherwise be spilled. The three "core" new power projects (Arrow Lakes Generating Station, Brilliant Expansion and Waneta Expansion) have relatively low capacity utilization factors and rely primarily on spring run-off water and upstream flow regulation. While these new power projects create significant net environmental benefits in the form of greenhouse gas offsets and reduced dissolved gases harmful to fish, it can be difficult to translate these benefits (particularly benefits to fish) into higher power prices. The joint venture power projects operate in a domestic power market where there is a single dominant wholesale purchaser and constrained long-term firm transmission capacity to adjacent power markets in Alberta and the U.S. Pacific Northwest. Accordingly, Columbia Power Corporation, as joint venture manager, must be efficient and innovative to achieve its goals and objectives. The expertise of Columbia Power Corporation staff and their relationships with private-sector engineering, environmental, financial and legal advisors are critical to the success of Columbia Power Corporation.

The Brilliant powerplant, Brilliant Terminal Station and the Arrow Lakes Generating Station are operated and maintained by FortisBC or its related company under long-term service agreements. FortisBC will also provide operating and maintenance services for the Brilliant Expansion once completed. FortisBC's operating and maintenance experience and capacity are key to future plant operations.

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

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Columbia Power Corporation's net income and return on equity will increase over time as projects now under development enter the operating phase and begin to generate power and revenue following years of 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 *BC Energy Plan: A Vision for Clean Energy Leadership* released in February supports the development of Columbia Power Corporation's projects by requiring self sufficiency by 2016, ensuring adequate transmission system capacity, improving the procurement process for electricity and promoting clean or renewable energy.

Future dividends will be determined based on annual cash earnings, recovery of Arrow Lakes Generating Station approach channel repairs, claims from the Brilliant Expansion contractor, working capital requirements, reserves for future capital replacement, and new power project investment opportunities.

The major source of recent operational uncertainty for Columbia Power Corporation has been the damage to the approach channel at the Arrow Lakes Generating Station. With resolution of the Arrow Lakes Generating Station channel problem, Columbia Power Corporation's outlook for the future is for stable earnings growth. At the Brilliant powerplant and Terminal Station and the Arrow Lakes Generating Station, 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 removing annual hydrology risk. Interest costs for projects in operation are fixed through the issuance of long-term bonds. At the Brilliant Dam, earnings stability is further enhanced by the cost-of-service nature of the power sales agreement with FortisBC. Although the power sales agreement with BC Hydro for the Arrow Lakes Generating Station does not have this feature, the plant is relatively new and operating costs are low relative to revenues, as is typical in a hydroelectric-generating plant.

The construction of the Brilliant Expansion is scheduled to be completed in June 2007. The fixed-price nature of the design-build contract, along with the built-in performance guarantees, has the effect of transferring most of the construction risk to the contractor. The design-build contractor of the Brilliant Expansion has submitted significant claims against the project. Columbia Power Corporation is conducting a review of these claims. The final impact of the claims cannot be reliably estimated at this time.

With the extension of the *Canal Plant Agreement* to include Brilliant Expansion Power Corporation, an entitlement agreement is now in place for the Brilliant Expansion, which will remove annual hydrology risk.

With approximately 90% of the Brilliant Expansion plant output sold under two long-term contracts with BC Hydro, Brilliant Expansion Power Corporation is making arrangements for the sale of the remaining output. Columbia Power Corporation is undertaking preliminary discussions with potential purchasers for sale of power from the Waneta Expansion.

The following table presents an analysis of the primary risks that Columbia Power Corporation faced and the strategies implemented during 2006/07 to address these risks.

## Risk Management by Columbia Power Corporation in 2006/07

Risk	Issue/Impact	Results During 2006/07
<b>Waneta Expansion Construction Decision</b>	<p>Construction of Waneta Expansion is subject to: environmental permitting, design-build bids, entitlement negotiations, power marketing and long-term borrowing costs. Each could affect project timing, cost, scale and viability.</p>	<p>The Waneta Expansion is awaiting federal and provincial environmental approval which is expected in mid-2007.</p> <p>The Waneta Expansion expression of interest stage started in October 2006. Completion of the design-build competition and final bid evaluation is planned for 2008.</p> <p>CPC has achieved a transfer of the Waneta Water Reserve to CPC/CBT, and has also signed a <i>Waneta Co-operation Agreement</i> and a <i>Transmission Rights Agreement</i> with Teck Cominco Metals Ltd.</p>
<b>Waneta Expansion Entitlement / Canal Plant Agreement Renegotiations</b>	<p>BC Hydro, CPC, FortisBC and Teck Cominco Metals Ltd. have negotiated a renewed and extended <i>Canal Plant Agreement</i> that includes the Brilliant Expansion and provisions for the Waneta Expansion. The agreement runs until at least December 31, 2035.</p>	<p>The renewed and extended <i>Canal Plant Agreement</i> came into effect in April 2006.</p> <p>Negotiations are continuing with BC Hydro for an entitlement agreement for the Waneta Expansion.</p>
<b>Brilliant Expansion Commercial Operation Date</b>	<p>The scheduled commercial operation date has been delayed until June 2007. Estimated forgone net income from September 2006 to June 2007 is \$11.6 million. Missing that date would have a further negative impact on project revenues</p>	<p>CPC actively monitored the progress of construction. The corporation is continuing to work with the design-build contractor to ensure commercial operation begins as planned in June 2007. The design-build contract specifies a project completion date, with penalties for late completion.</p>

<sup>1</sup> CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

## Risk Management by Columbia Power Corporation in 2006/07 (continued)

Risk	Issue/Impact	Results During 2006/07
<b>Plant Reliability</b>	If the Brilliant Expansion and Arrow Lakes Generating Station plant outage factor were to increase by 1 percentage point, revenues and net income would decline by \$650,000 in 2007/08.	<p>Plant outage risk for the Brilliant Dam is transferred to FortisBC as the power purchaser/plant operator.</p> <p>Design-build contracts are secured by: performance, labour and materials bonds; either cash holdbacks or letters of credit; and parent company guarantees.</p> <p>Machinery and equipment have manufacturer warranties.</p> <p>All power projects also carry business interruption, property and liability insurance.</p>
<b>Availability of Funds</b>	Debt funding is required for completion of current and future projects.	<p>The final \$50 million power project equity contribution from the Province was received by CBT on April 1, 2005.</p> <p>Key project agreements are structured to achieve financeable projects with a high credit rating.</p> <p>CPC/CBT may retain cash from operations to lessen the borrowing burden for Waneta Expansion, which may allow more flexible Waneta Expansion power marketing.</p> <p>CPC is also reviewing other borrowing alternatives. CIBC World Markets has been retained (through a Request for Quotes) as Financial Advisor to develop a financing plan for Waneta Expansion and provide a recommendation on the optimum capital structure for the CPC/CBT power projects.</p>

<sup>1</sup> CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

## Risk Management by Columbia Power Corporation in 2006/07 (continued)

Risk	Issue/Impact	Results During 2006/07
<b>Brilliant Expansion and Waneta Expansion Power Marketing</b>	<p>Ninety percent of the Brilliant Expansion output has been marketed to BC Hydro under two 20-year contracts. The availability of a long-term sales arrangement for the Waneta Expansion could affect project financing and the final go-no/go decision.</p>	<p>CPC is finalizing negotiations to sell the remaining Brilliant Expansion output and Brilliant Dam upgrade regulated energy.</p> <p>CPC is also pursuing sales contracts for the output from Waneta Expansion.</p>
<b>Transmission and Market Access</b>	<p>CPC/CBT power projects are located in a region with limited long-term firm transmission capacity to access adjacent markets in Alberta and the U.S.</p>	<p>CPC has signed a long-term <i>Transmission Rights Agreement</i> with Teck Cominco Metals Ltd.</p> <p>CPC monitors BC Utilities Commission hearings and intervenes in BC Transmission Corporation tariff and capital plan hearings.</p> <p>CPC also pursues sales contract opportunities, with delivery at CPC/CBT points of interconnection.</p>
<b>Regulatory Risk</b>	<p>CPC/CBT power projects come under the <i>Utilities Commission Act</i> definition of public utilities.</p>	<p>CPC has obtained a Ministerial Order exempting CPC/CBT power projects from regulation.</p> <p>Where appropriate, CPC also intervenes in the regulatory proceedings of BC Hydro and FortisBC.</p> <p>The renewed and extended <i>Canal Plant Agreement</i> has been exempted from the provisions of the <i>Utilities Commission Act</i>.</p>

<sup>1</sup> CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

## Risk Management by Columbia Power Corporation in 2006/07 (continued)

Risk	Issue/Impact	Results During 2006/07
<p><b>Property Taxation</b></p>	<p>Taxing Arrow Lakes Generating Station and the Brilliant Expansion at current property tax rates would reduce annual project net income by about \$6 million and \$3 million, respectively. The Waneta Expansion would be similarly impacted. This would affect the economic viability of the power projects and the ability to raise debt to fund the Waneta Expansion.</p>	<p>CPC has previously obtained Orders in Council exempting Arrow Lakes Generating Station and the Brilliant Expansion from property tax. CPC will seek a similar tax exemption for the Waneta Expansion.</p> <p>The Province recently announced a tax policy confirming that Arrow Lakes Generating Station, the Brilliant Expansion and (once approved for exemption) the Waneta Expansion will pay grants in lieu of property tax, on a similar basis to the existing practice for BC Hydro Columbia River Treaty facilities and generation plants on the Peace, Columbia and Pend d'Oreille Rivers. CPC has included such grants in lieu in its forward planning.</p>
<p><b>Water Use Planning and Columbia River Treaty Operations Risk</b></p>	<p>Constraints imposed by BC Hydro water use planning and changes in upstream flow regulation associated with the Columbia River Treaty could adversely affect powerplant operations and project revenues, unless CPC/CBT are saved harmless.</p>	<p>CPC has obtained an indemnity from BC Hydro saving harmless CPC/CBT power projects from the effects of water use planning.</p> <p>CPC is also monitoring changes to U.S. regulation of the Libby Dam and has registered CPC/CBT interests with the U.S. Army Corps of Engineers and BC Hydro (respectively, the designated U.S. and Canadian Entities under the <i>Columbia River Treaty</i>).</p>
<p><b>Foreign Exchange Risk</b></p>	<p>A 1¢ change in the Canadian dollar relative to the US dollar represents about \$40,000 per year for the 10% of Brilliant Expansion power entitlement not under long-term contract.</p>	<p>Sales to BC Hydro and FortisBC are in Canadian dollars. Ten percent of Brilliant Expansion power and all of Waneta Expansion power are potentially subject to this risk. Hedging instruments are being considered for potential US\$ sales contracts.</p>

<sup>1</sup> CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

## Risk Management by Columbia Power Corporation in 2006/07 (continued)

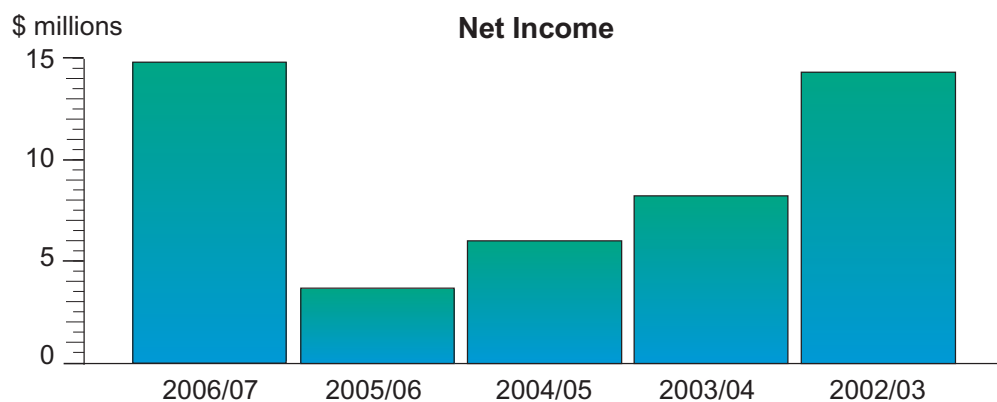
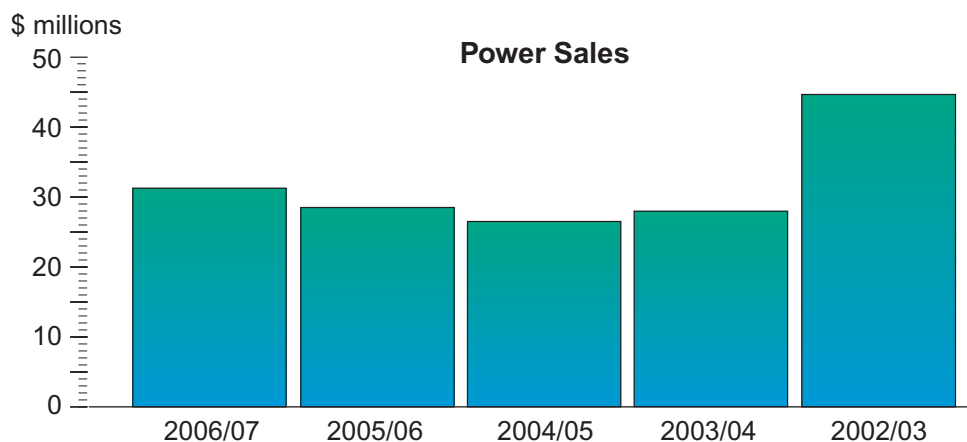
Risk	Issue/Impact	Results During 2006/07
<b>Counter-party Credit Risks</b>	Bond ratings and interest costs for CPC/CBT project debt are affected by the credit-worthiness of the buyer. Power purchasers may also require CPC to post security.	CPC's marketing efforts are directed at selling power to purchasers with high credit ratings and entering backstop arrangements as appropriate. CPC will negotiate with purchasers to minimize or, if possible, eliminate the requirement to post security.
<b>Interest Rate Risk</b>	Higher interest rates could negatively impact the cost of new project debt, project net income and the economics and financeability of the Waneta Expansion. A 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.  CIBC World Markets has been retained as Financial Advisor to develop a financing plan for Waneta Expansion and provide a recommendation on the optimum capital structure for the CPC/CBT power projects.
<b>Organizational Capacity</b>	Key CPC employees are eligible to retire in the near future. The potential loss through retirement of key employees and the corporate knowledge they possess poses a risk to CPC's ongoing ability to manage and deliver projects.	CPC will continue to develop human resources strategies to ensure appropriate succession planning, recruitment and staff retention.  CPC has completed development of its Performance Management Plan for all staff and has tied achievement of Corporate, Departmental and Individual Objectives to part of employee compensation. Where appropriate, objectives have focused on the need to transfer corporate knowledge as part of succession planning.

<sup>1</sup> CPC – Columbia Power Corporation; CBT – Columbia Basin Trust

## Five-Year Comparative Data

(\$ in thousands unless otherwise stated)

	2006/07	2005/06	2004/05	2003/04	2002/03
Power Sales	\$ 31,312	\$ 28,438	\$ 26,480	\$ 28,081	\$ 44,650
Interest and Other Earnings	3,732	3,247	2,721	1,892	700
Net Income	14,794	3,138	5,744	8,262	13,438
Dividend Payments	2,000	2,000	2,000	2,000	2,000
Capital Assets and Deferred Costs	381,279	377,311	365,234	330,852	287,296
Short-term Debt	-	-	-	-	47,254
Long-term Debt	118,304	123,374	128,407	107,664	59,049
Equity	317,350	304,557	303,417	299,673	293,411
Capital and Deferred Spending	\$ 10,426	\$ 17,343	\$ 41,865	\$ 50,460	\$ 26,601
Debt-to-Equity Ratio	27:73	29:71	30:70	26:74	27:73



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# **COLUMBIA POWER CORPORATION**

## **CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED MARCH 31, 2007

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## COLUMBIA POWER CORPORATION

### CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2007

#### Statement of Management Responsibility

The consolidated financial statements of Columbia Power Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles and fairly present Columbia Power Corporation's consolidated financial position and results of operations. The integrity of the information presented in the consolidated financial statements, including estimates and judgements relating to matters not concluded by fiscal year end, is the responsibility of management.

Management is responsible for establishing and maintaining appropriate systems of internal control (which include policies and procedures) to provide reasonable assurance that Columbia Power Corporation's assets are safeguarded and that reliable financial records are maintained.

The Auditor General of British Columbia has been appointed by the Board of Directors to audit the consolidated financial statements. The report of the Auditor General of British Columbia is attached, outlining the scope of his examination and providing his opinion on the consolidated financial statements.



Ed Pietraszek  
Acting President



David de Git, CMA  
Corporate Controller

May 18, 2007



Report of the  
Office of the Auditor General  
of British Columbia

*To the Board of Directors of  
Columbia Power Corporation and*

*To the Minister of Energy, Mines and Petroleum Resources,  
Province of British Columbia:*

I have audited the consolidated balance sheet of *Columbia Power Corporation* as at March 31, 2007 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of *Columbia Power Corporation* as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia  
May 18, 2007*

Errol S. Price, CA  
Acting Auditor General

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# COLUMBIA POWER CORPORATION

## CONSOLIDATED BALANCE SHEET

AS AT MARCH 31

(in thousands)

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	2007	2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and temporary investments (Note 3)	\$ 50,377	\$ 56,588
Accounts receivable and unbilled revenue	6,112	6,534
Prepaid expenses and deposits	1,695	1,761
Recoverable channel repair costs and losses (Note 4)	-	1,379
	<u>58,184</u>	<u>66,262</u>
<b>Capital assets (Note 5)</b>	<u>237,643</u>	<u>240,507</u>
<b>Other assets</b>		
Hydroelectric power expansion rights (Note 6)	25,925	25,925
Deferred costs (Note 7)	109,777	102,016
Power sales right (Note 8)	7,934	8,863
Recoverable channel repair costs and losses (Note 4)	2,159	-
Deferred debt issue costs (Note 9)	3,360	3,648
	<u>149,155</u>	<u>140,452</u>
	<u>\$ 444,982</u>	<u>\$ 447,221</u>

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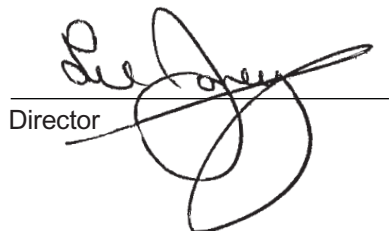
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*The accompanying notes are an integral part of the financial statements*

APPROVED ON BEHALF OF THE BOARD:



Director



Director

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## COLUMBIA POWER CORPORATION

### CONSOLIDATED BALANCE SHEET

AS AT MARCH 31

(in thousands)

	2007	2006
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,844	\$ 12,881
Dividend payable	2,000	2,000
Interest payable on long term bonds	2,890	3,014
Current portion of long term bonds (Note 11)	5,668	5,342
Due to related parties (Note 17)	90	606
	<u>14,492</u>	<u>23,843</u>
<b>Deferred revenue</b>	<u>777</u>	<u>791</u>
<b>Long term bonds (Note 11)</b>	<u>112,363</u>	<u>118,031</u>
<b>Equity</b>		
Share capital (Note 13)		
Contributed surplus (Note 14)	276,065	276,065
Retained earnings	41,285	28,491
	<u>317,350</u>	<u>304,556</u>
	<u>\$ 444,982</u>	<u>\$ 447,221</u>

**Commitments** (Note 16)

**Contingencies** (Note 19)

*The accompanying notes are an integral part of the financial statements*

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**COLUMBIA POWER CORPORATION****CONSOLIDATED STATEMENT OF INCOME****FOR THE YEAR ENDED MARCH 31**

(in thousands)

	<u>2007</u>	<u>2006</u>
<b>REVENUES</b>		
Sale of power	\$ 31,312	\$ 28,438
Transmission facility revenue	1,526	1,502
Interest	1,433	1,074
Management fee	773	671
	<u>35,044</u>	<u>31,685</u>
<b>EXPENSES</b>		
Water rentals	4,225	4,005
Amortization of capital assets in service	5,529	5,482
Amortization of power sales right	930	772
Property tax	1,035	1,061
Operations and maintenance	1,474	1,140
Administration and management	2,166	1,989
Insurance	482	553
Community sponsorship	82	84
Restructuring and development costs	-	225
	<u>15,923</u>	<u>15,311</u>
<b>INCOME FROM OPERATIONS</b>	<u>19,121</u>	<u>16,374</u>
<b>FINANCE CHARGES</b>		
Interest expense	8,236	8,551
Amortization of deferred debt issue costs	288	288
	<u>8,524</u>	<u>8,839</u>
<b>NET INCOME BEFORE CHANNEL REPAIR COSTS</b>	10,597	7,535
<b>CHANNEL REPAIR COSTS</b>	(3,015)	(7,361)
<b>RECOVERY OF REPAIR COSTS AND LOSSES</b> (Note 4)	7,212	2,964
<b>NET INCOME FOR THE YEAR</b>	<u>\$ 14,794</u>	<u>\$ 3,138</u>

*The accompanying notes are an integral part of the financial statements*

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## COLUMBIA POWER CORPORATION

### CONSOLIDATED STATEMENT OF RETAINED EARNINGS

#### FOR THE YEAR ENDED MARCH 31

(in thousands)

	<b>2007</b>	<b>2006</b>
<b>RETAINED EARNINGS - beginning of year</b>	\$ 28,491	\$ 27,353
<b>Add:</b> Net income	14,794	3,138
<b>Deduct:</b> Dividends declared	(2,000)	(2,000)
<b>RETAINED EARNINGS - end of year</b>	<u>\$ 41,285</u>	<u>\$ 28,491</u>

*The accompanying notes are an integral part of the financial statements*

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## COLUMBIA POWER CORPORATION

### CONSOLIDATED STATEMENT OF CASH FLOWS

#### FOR THE YEAR ENDED MARCH 31

(in thousands)

	<u>2007</u>	<u>2006</u>
<b>OPERATING ACTIVITIES:</b>		
Net income for the year	\$ 14,794	\$ 3,138
Adjustments to reconcile cash flow from operations:		
Amortization of capital assets in service	5,529	5,482
Amortization of deferred debt issue costs	288	288
Amortization of power sales right	930	772
Recoverable channel repair costs and losses (Note 4)	(780)	1,010
Net change in non-cash working capital balances	(9,204)	2,242
	<u>11,557</u>	<u>12,932</u>
<b>FINANCING ACTIVITIES:</b>		
Dividends paid	(2,000)	(2,000)
Principal repayment of Project Bonds	(5,342)	(5,033)
	<u>(7,342)</u>	<u>(7,033)</u>
<b>INVESTING ACTIVITIES:</b>		
Repayment from joint venture partner	-	25,000
Deferred costs	(7,761)	(13,031)
Additions to Brilliant power facility and terminal station	(551)	(926)
Additions to ALGS power facility	(1,992)	(3,241)
Purchase of furniture, equipment, vehicles and land	(122)	(145)
	<u>(10,426)</u>	<u>7,657</u>
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>(6,211)</b>	<b>13,556</b>
<b>CASH AND EQUIVALENTS - beginning of year</b>	<b>56,588</b>	<b>43,032</b>
<b>CASH AND EQUIVALENTS - end of year</b>	<b>\$ 50,377</b>	<b>\$ 56,588</b>
<b>CASH AND EQUIVALENTS CONSIST OF:</b>		
Restricted cash and temporary investments	9,966	10,814
Cash and temporary investments available for operations	40,411	45,774
	<u>\$ 50,377</u>	<u>\$ 56,588</u>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ 8,342	\$ 8,668

*The accompanying notes are an integral part of the financial statements*

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# COLUMBIA POWER CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2007

#### 1. Columbia Power Corporation

##### (a) Structure and Financing

Columbia Power Corporation (CPC) is wholly owned by the Province of British Columbia. As an agent for the Province, CPC is committed to entering into joint ventures to develop hydroelectric power projects as set out in the Agreement signed in 1995 (the Agreement) between the Province and the Columbia Basin Trust (the Trust), also wholly owned by the Province.

The Agreement anticipates that several power projects will be undertaken through joint ventures between CPC and subsidiaries of the Trust (the Venturers). The cost of all projects under consideration is expected to exceed \$1 billion. Under the Agreement between the Province and the Trust, the Province committed to make \$500 million in capital contributions for the purpose of funding capital costs of power projects, with the remaining capital costs to be financed through joint venture borrowings by CPC and the Trust's subsidiaries.

The Venturers each hold a 50% interest in the joint ventures and direct their activities through Management Committees with an equal number of members appointed by each Venturer. All decisions of the Management Committees require the unanimous approval of their members.

CPC is appointed the Manager of the joint ventures with the authority to manage the day-to-day activities of the joint ventures, subject to the direction of their Management Committees and annual capital and operating budgets approved by the committees. CPC's material transactions and agreements require the approval of the Province's Treasury Board.

##### (b) Power Project Planning

In 1996, CPC and CBT Power Corp. (CBT Power), a subsidiary of CBT Energy Inc. (CBT Energy), a subsidiary of the Trust, entered into the Power Project Planning Joint Venture (PPPJV) Agreement. Under this Agreement, the parties formed an unincorporated joint venture, primarily for the purpose of assessing and determining the feasibility of power projects pursuant to the Agreement between the Province and the Trust.

The Agreement provides for the Venturers to conduct work on specific power projects up to the date that an existing project is acquired, construction has commenced on a new project, or a project is no longer feasible or is abandoned. Prior to a project's acquisition or commencement of construction, approval must be received from the Directors of both CPC and the Trust. The project must also meet financial viability tests consistent with those of a commercial lender. When a project is acquired, or project construction is commenced, the project is transferred to a separate joint venture.

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## COLUMBIA POWER CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED MARCH 31, 2007

**(c) Brilliant Power Facility and Brilliant Terminal Station**

Brilliant Power Corporation (BPC) is jointly owned, on a 50/50 basis, by CPC and CBT Power. The Shareholders direct BPC's activities through a Management Committee, with an equal number of members appointed by each Shareholder. All decisions of the Management Committee require the unanimous approval of the members. The purpose of the corporation is to operate the Brilliant Power Facility and Brilliant Terminal Station.

**(d) Arrow Lakes Generating Station**

Arrow Lakes Power Corporation (ALPC) is jointly owned, on a 50/50 basis, by CPC and CBT Arrow Lakes Power Development Corp., (CBT Arrow Lakes), a subsidiary of CBT Energy. The purpose of the corporation is to construct and operate the 185 megawatt (MW) Arrow Lakes Generating Station (ALGS) adjacent to the Hugh Keenleyside Dam at Castlegar, British Columbia and a 48 kilometre transmission line from the powerplant to BC Hydro's Selkirk substation.

**(e) Brilliant Expansion**

Brilliant Expansion Power Corporation (BEPC) is jointly owned, on a 50/50 basis, by CPC and CBT Brilliant Expansion Power Corporation, a subsidiary of CBT Energy. The purpose of the corporation is to construct and operate the Brilliant Expansion Project, a 120 MW power generation development adjacent to the Brilliant Dam at Castlegar, British Columbia.

**(f) Significant Agreements**

**(i) Entitlement Agreements**

Under Entitlement Agreements, British Columbia Hydro and Power Authority (BC Hydro), a Crown Corporation of the Province, coordinates the operations of the Brilliant power facility and ALGS, and receives all of the resulting electrical power. In return, BC Hydro provides BPC and ALPC with a fixed amount of capacity and energy from the BC Hydro system.

**(ii) Brilliant Power Purchase Agreement**

Under the Brilliant Power Purchase Agreement, FortisBC Inc. (FortisBC), a regulated utility operating in British Columbia, will purchase the power under the Brilliant Entitlement, excluding the portion attributable to the regulated flows through the upgraded turbines. The term of the Agreement is 60 years.

In the first 30 years, the power will be sold on a "take or pay" basis with the price payable by FortisBC composed of an operation and maintenance cost charge and a return on capital charge. In the second 30 years of the contract with FortisBC, there will be an annual market-related price adjustment.

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## COLUMBIA POWER CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED MARCH 31, 2007

**(ii) Brilliant Power Purchase Agreement (continued)**

Prior to November 2005, FortisBC purchased the Brilliant Power Facility upgrades regulated entitlement at a price equal to the greater of \$26 per megawatt-hour and Fortis's cost of purchasing power from BC Hydro.

An agreement was signed with Powerex Corp. (Powerex), a subsidiary of BC Hydro, effective November 1, 2005 to purchase this output under a short-term contract. The price used to determine this revenue is based on market prices.

**(iii) Facilities Interconnection and Investment Agreement (FIA)**

FortisBC operates and manages the Brilliant Terminal Station on behalf of BPC. A Management Committee with an equal number of members from BPC and FortisBC must unanimously approve all expenditures. Brilliant Terminal Station operating and capital costs are recovered from FortisBC through operations and maintenance and return on capital charges as described in Note 1(f)(ii). The term of the Agreement is coincident with the term of the Brilliant Power Purchase Agreement.

**(iv) Powerex Backstop Agreement**

This agreement provides for Powerex to purchase the Brilliant entitlement, excluding the portion attributable to the regulated flows through the upgraded turbines, if BPC terminates the Brilliant Power Purchase Agreement by reason of default by FortisBC.

**(v) Management Agreements**

**BPC**

FortisBC operates and manages the Brilliant Power Facility on behalf of BPC. The management fee and other amounts payable under the Agreement form part of the operation and maintenance cost component described under Note 1(f)(ii).

The Brilliant Management Agreement provides for a Management Committee with an equal number of members from BPC and FortisBC who must unanimously approve all expenditures. The term of the Agreement is coincident with the term of the Brilliant Power Purchase Agreement.

**ALPC**

Under a Management Agreement, Fortis Pacific Holdings Inc. (Fortis Pacific - the unregulated parent company of FortisBC) operates and manages ALGS on behalf of ALPC.

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# COLUMBIA POWER CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2007

**(vi) Design-Build Contract - ALGS**

In 1998, ALPC entered into a turn-key, design-build contract for approximately \$210 million with Peter Kiewit Sons Co. Ltd. (PKS) for the construction of ALGS. Final Acceptance of the powerplant awaits the resolution of a number of outstanding contractual issues. Terms of the contract include performance guarantees and significant liquidated damages for failure to achieve performance guarantees.

**(vii) Design-Build Contract - Brilliant Expansion**

In 2003, BEPC entered into a turn-key, design-build contract for approximately \$167 million with Brilliant Expansion Consortium for the construction of the Brilliant Expansion. Under the contract, commercial operations were scheduled to begin in August 2006. As a result of construction delays, commercial operation is now expected to begin in June 2007. Terms of the contract include performance guarantees and significant liquidated damages for failure to achieve performance guarantees; a contractor bonus for early completion; a milestone schedule and a schedule of payments to the contractor.

**(viii) Power Sales Right**

In 1997, the Venturers acquired the right and obligation to provide up to 86 average megawatts to BC Hydro during the period January 2003 to December 2014. ALPC uses the Arrow Lakes entitlement to meet its obligations under the contract.

**(ix) Green Power Generation Electricity Purchase Agreement (GPG EPA)**

In 2003, BEPC entered into the GPG EPA with BC Hydro obtaining the right and obligation to provide 23.12 average annual megawatts from the Brilliant Expansion to BC Hydro for a 20 year period starting with commercial operation of the Brilliant Expansion.

**(x) Electricity Purchase Agreement 2006 (EPA 2006)**

In 2006, BEPC entered into the EPA 2006 with BC Hydro obtaining the right and obligation to provide 25.75 average annual megawatts from the Brilliant Expansion to BC Hydro for a 20 year period starting not later than February 2010.

## 2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

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# COLUMBIA POWER CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2007

**(a) Consolidated Financial Statements**

These consolidated financial statements and notes include CPC's operations and interests in PPPJV, BPC, BEPC and ALPC. The joint ventures are consolidated using the proportionate consolidation method, whereby CPC's accounts are combined on a line by line basis with its proportionate share (in this case 50%) of the joint ventures' assets, liabilities, revenues, expenses and cash flows. Intercompany balances and transactions between CPC and the joint ventures have been eliminated.

**(b) Temporary Investments**

Temporary investments are recorded at the lower of cost and market value.

**(c) Capitalization and Amortization**

Capital assets are recorded at cost and are amortized annually at rates calculated to expense the cost of assets over their estimated useful lives. Amortization begins when assets are placed into service. The corporation includes, as part of the costs of its fixed assets, interest charges incurred during construction.

**(i) Brilliant Power Facility and Brilliant Terminal Station**

Capital assets are recorded at cost and depreciated on a straight line basis over their expected useful lives. The expected useful lives of capital assets, in years, are:

Power facility	40 - 80
Terminal station	30 - 60

The estimates for asset life-spans are consistent with industry norms.

**(ii) Arrow Lakes Generating Station**

Capital assets are recorded at cost and depreciated on a straight line basis over their expected useful lives. The expected useful lives, in years, are:

Field and office equipment	5
Power facility	40 - 80
Transmission	30 - 50

The estimates for asset life-spans are consistent with industry norms.

**(iii) CPC Offices and Equipment**

Computer systems	-	straight line over 3 years
Office furniture and equipment	-	straight line over 5 years
Leasehold improvements	-	straight line over 5 years
Vehicles	-	straight line over 8 years

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## COLUMBIA POWER CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED MARCH 31, 2007

**(d) Deferral of Power Project Costs**

Costs incurred in determining the feasibility of acquiring power projects or undertaking preliminary development work on power projects and construction expenditures are deferred. Deferred power project costs include all costs attributable to a project as well as capitalized interest and taxes.

When a project is acquired or construction commences, the related deferred costs of that project form part of its capital cost. When a project is abandoned, the costs deferred for that project are expensed. When a project's costs exceed those likely to be recovered, the excess is expensed.

**(e) Deferred Debt Issue Costs**

Expenditures incurred in issuing the Series A, B and C Brilliant Project Bonds and Series A Arrow Lakes Project Bonds are deferred and amortized on a straight-line basis over the term of the bonds.

**(f) Revenue Recognition**

FortisBC is the purchaser of all power received under the Brilliant Entitlement, except for the regulated upgrades, and has the right to the shared use of the Brilliant terminal station. Revenues are recognized when operating and maintenance costs are incurred and as the return on capital is earned in accordance with the Brilliant Power Purchase Agreement (Note 1(f)(ii)) and FIIA (Note 1(f)(iii)). Regulated upgrade revenues and ALGS revenues are recognized when entitlements are delivered.

**(g) Asset Retirement Obligations**

Canadian generally accepted accounting principles require CPC to determine the fair value of the future expenditures required to settle legal obligations to remove capital assets on retirement. If a reasonable estimate can be determined, a liability is recognized equal to the present value of the estimated future removal costs, and an equivalent amount is capitalized as an inherent cost of the associated capital asset.

Some of CPC's assets may have asset retirement obligations. As CPC expects to use the majority of its assets for an indefinite period, no removal date can be determined and, consequently, an estimate of the fair value of any asset retirement obligation has not been made at this time.

**(h) Taxes**

CPC is exempt from corporate income taxes.

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# COLUMBIA POWER CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2007

(i) **Foreign Currency Translation**

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date.

(j) **Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

### 3. Cash and Temporary Investments

BPC and ALPC must apply the payments they receive from the sales of power as set out under agreements with the Project Bondholders.

Under its agreements with Bondholders, BPC has established a debt service reserve fund in which it maintains cash or cash equivalents equal to one semi-annual payment on the Series A, B and C Brilliant Project Bonds. BPC also maintains an operating reserve account in an amount equal to one-quarter of annual operating expenses.

A Canadian dollar bank account is held for future payment of ALPC's commitment for fish entrainment compensation as per Note 16(b).

BEPC cash includes construction trust and letter of credit accounts. The construction trust account is a holding account for scheduled payments to the design-build contractor. The letter of credit account secures letters of credit issued to BC Hydro for development security under the GPG EPA and 2006 EPA.

(\$ in thousands)	<u>2007</u>	<u>2006</u>
<b>Restricted</b>		
Debt service reserve fund		
Canadian dollar bank account	\$ 3,964	\$ 3,955
Operating reserve account		
Canadian dollar bank account	1,251	1,200
Project construction commitments		
US dollar money market fund	-	4,665
Canadian dollar bank accounts	4,751	994
	<u>9,966</u>	<u>10,814</u>
<b>Available for operations</b>		
Canadian dollar money market fund	37,073	29,657
Canadian dollar bank accounts	3,070	16,117
US dollar bank account	268	-
	<u>40,411</u>	<u>45,774</u>
	<u>\$ 50,377</u>	<u>\$ 56,588</u>

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## COLUMBIA POWER CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED MARCH 31, 2007

#### 4. Recoverable Channel Repair Costs and Losses

On May 3, 2004, ALPC discovered damage caused by unstable hydraulic conditions to the concrete lining of the approach channel. Power generation was suspended while investigations took place and repairs were made to the channel. Repairs were undertaken in three stages, namely:

- (i) immediate temporary repair to stop the ingress of water into the channel underdrainage system;
- (ii) intermediate repairs to enable the safe resumption of power generation until long-term repairs required to ensure the integrity of the approach channel were undertaken, all subject to the approval of the Comptroller of Water Rights and BC Hydro; and
- (iii) permanent repairs to ensure the integrity of the approach channel and prevent reoccurrence of the incident, which required a further suspension of generation.

The first two stages of repair, which involved placing a high-density polyethylene liner over the damaged area and then covering the liner with a layer of concrete, were completed, and production of power was resumed in August 2004. Permanent repairs commenced in November 2005 and commercial operation resumed on May 18, 2006.

ALPC's insurer provided a \$6.4 million recovery of costs and losses to CPC in 2006/07, of which \$1.4 million was recorded as a receivable in the prior fiscal year, in addition to the \$7.0 million received in the prior fiscal year. CPC estimates its 50% share of further proceeds is \$3.9 million or more when recovery proceedings against the contractor are settled. CPC has recorded \$2.2 million as a current recovery on a discounted cash flow basis to recognize that the timing of recovery is uncertain. CPC's 50% share of the cost of the channel repair damage to March 31, 2007 was \$25.3 million, including lost revenues and capitalized costs.

CPC's 50% share of the total cost of the channel damage during the year included \$4.9 million in repairs (2006 - \$10.4 million) and \$460,000 in lost revenue from power generation (2006 - \$3.1 million). \$1.9 million of this cost is recorded as a capital expenditure subject to future recovery (2006 - \$3.0 million). CPC's 50% share of advances to date from its property insurer toward the settlement of its insurance claim totals \$13.4 million (2006 - \$7 million). The final financial impact of the channel damage can not be determined with certainty at this time.

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## COLUMBIA POWER CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2007

#### 5. Capital Assets

(\$ in thousands)	Cost	Accumulated Amortization	NBV 2007	NBV 2006
Brilliant power facility	\$104,240	\$17,415	\$ 86,825	\$ 88,224
Brilliant terminal station	13,100	1,493	11,607	12,081
Brilliant lands	2,459	-	2,459	2,386
ALPC power facility	137,436	13,920	123,516	124,109
ALPC transmission	10,745	1,526	9,219	9,590
ALPC lands	3,679	-	3,679	3,773
Computer systems	527	356	171	144
Furniture and equipment	311	261	50	57
Leasehold improvements	459	446	13	15
Vehicles	188	84	104	128
	<u>\$273,144</u>	<u>\$35,501</u>	<u>\$237,643</u>	<u>\$240,507</u>

#### 6. Hydroelectric Power Expansion Rights

Hydroelectric power expansion rights are recorded at cost and include options to acquire lands near the Waneta and Brilliant dams at no additional cost and the right to develop and operate new hydroelectric facilities on these lands. The fair value of these rights may differ from cost. A fair value is not readily determinable due to the unique nature of the expansion rights.

#### 7. Deferred Costs

Deferred costs are comprised of deferred development costs and construction-in-progress. Deferred costs are carried on the balance sheet based on management's judgment of anticipated future events. A number of significant estimates and qualitative factors are considered by management in determining the reported amounts of deferred project costs. Costs of the Brilliant Expansion construction contract are recorded according to the schedule of payments under the contract as this schedule is intended to reflect the progress of various activities of the work and the general values assigned to those activities.

# COLUMBIA POWER CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2007

(a) **Deferred Costs Comprise the Following:**

(\$ in thousands)	<b>Deferred Costs at March 31, 2006</b>	<b>2006/07 Additions</b>	<b>Deferred Costs at March 31, 2007</b>
Development costs Waneta Expansion (WAX)	\$ 6,202	\$ 2,423	\$ 8,625
Development costs Brilliant Expansion (BRX)	6,376	-	6,376
Construction-in-progress BRX	89,438	5,338	94,776
	<u>\$102,016</u>	<u>\$ 7,761</u>	<u>\$109,777</u>

(b) **Deferred Costs by Expenditure Category**

(\$ in thousands)

	<b>Project Design &amp; Construction</b>	<b>Environmental Assessment</b>	<b>Socio- economic Assessment</b>	<b>Finance/ Legal Analysis</b>	<b>CPC/CBT Management</b>	<b>Total March 31, 2007</b>
WAX	\$ 1,777	\$2,145	\$217	\$ 761	\$3,725	\$ 8,625
BRX	91,139	1,868	516	1,654	5,975	101,152
	<u>\$92,916</u>	<u>\$4,013</u>	<u>\$733</u>	<u>\$2,415</u>	<u>\$9,700</u>	<u>\$109,777</u>

## 8. Power Sales Right

The power sales right is recorded at cost. Amortization is recorded on the basis of power sold to BC Hydro over the year compared to the total power sales under the agreement. The fair value of the power sales right may differ from its cost. A fair value is not readily determinable due to the unique nature and the extended term of the power sales right.

## 9. Deferred Debt Issue Costs

Debt issue costs incurred by BPC and ALPC in issuing long term debt:

(\$ in thousands)	<b>2007</b>	<b>2006</b>
Deferred debt issue costs	\$4,465	\$4,465
Accumulated amortization	(1,105)	(817)
	<u>\$3,360</u>	<u>\$3,648</u>

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## **COLUMBIA POWER CORPORATION**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED MARCH 31, 2007**

#### **10. Pension Plans**

CPC and its employees contribute to the Public Service Pension Plan in accordance with the Public Sector Pension Plan Act. The plan is a multi-employer defined benefit pension plan and is reported separately by the Province.

Employees of CPC are eligible for the same post retirement healthcare benefits as other members of the Public Service Pension Plan. No provision, other than CPC's required employer pension contributions, has been made in the accounts of CPC for this liability.

CPC maintains an executive pension benefit plan (EPBP). Pension payments from the EPBP commenced in January 2006 upon retirement of CPC's former President. CPC valued the pension liability at March 31, 2007 as \$218,000 (2006 - \$223,000) on a discounted cash flow basis.

#### **11. Long Term Bonds**

The Series A, B and C Brilliant Project Bonds are secured on a limited recourse basis by charges against the Brilliant power facility including related material contracts, licences, permits, approvals, authorizations and insurance coverages.

The Bonds are redeemable by BPC in whole or in part at any time before May 31, 2026 at a price equal to the greater of the principal amount then outstanding, and a price calculated to provide a yield to maturity based on the current yield of a matching duration Government of Canada bond plus 0.30%.

The Series A Arrow Lakes Project Bonds issued on August 28, 2003 are secured on a limited recourse basis by charges against the ALGS Facility and Transmission assets including related material contracts, licences, permits, approvals, authorizations and insurance coverages.

The Bonds are redeemable by ALPC in whole or in part at any time before March 31, 2015 at a price equal to the greater of the principal amount then outstanding, and a price calculated to provide a yield to maturity based on the current yield of a matching duration Government of Canada bond plus 0.23%.

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## COLUMBIA POWER CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED MARCH 31, 2007

#### 11. Long Term Bonds (continued)

Series	Interest rate	Maturity date	CPC's Portion of Principal Outstanding	
			2007	2006
BPC A	8.93%	May 31, 2026	\$ 42,435	\$ 43,225
BPC B	6.86%	May 31, 2026	12,723	13,028
BPC C	5.67%	May 31, 2026	23,640	24,291
ALPC A	5.39%	March 31, 2015	39,233	42,829
			118,031	123,373
	Current portion		(5,668)	(5,342)
			<u>\$112,363</u>	<u>\$118,031</u>

#### Principal repayments next five years:

2008	\$ 5,668
2009	6,017
2010	6,386
2011	6,782
2012	7,202
Subsequent years	85,976
	<u>\$118,031</u>

#### 12. Credit Facility

In accordance with its agreements with Bondholders, BPC has secured a \$10 million credit facility with the CIBC, which would rank equally with the Series A, B and C Bonds. The facility was deactivated on April 1, 2005. Subject to an annual credit review the facility continues to be available.

#### 13. Share Capital

Authorized:

6 common shares, no par value

Issued:

6 common shares \$6

#### 14. Contributed Surplus

Contributed surplus represents the contributions made by the Province to permit CPC to purchase hydroelectric power expansion rights and to fund power project costs.

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## **COLUMBIA POWER CORPORATION**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2007**

#### **15. Financial Instruments**

CPC's financial instruments consist of cash and temporary investments, accounts receivable and unbilled revenue, accounts payable and long term debt. Unless otherwise noted, it is management's opinion that CPC is not exposed to significant interest, currency or credit risks arising from these financial instruments.

#### **16. Commitments**

##### **(a) Plant Operations**

Under its agreements with Bondholders, BPC and ALPC have committed to keep the Brilliant power facility, Brilliant terminal station and the ALGS in good operating condition and to effect all necessary repairs and replacements according to the requirements of good industry practice.

##### **(b) ALPC Fish Entrainment Compensation**

ALPC has made a commitment to contribute \$175,000 annually, adjusted for inflation, to compensate for fish entrainment for as long as fish are entrained in ALGS. CPC's 50% inflation adjusted portion for 2007 was \$100,000 (2006 - \$99,000). This funding is being used for fertilizing fish stocks in the Upper and Lower Arrow reservoirs.

##### **(c) BEPC Project Approval Certificate**

The project approval certificate issued for the Brilliant Expansion by the BC Environmental Assessment Office contains a number of commitments during pre-construction, construction, post-construction and operations phases which are being actively managed by BEPC.

##### **(d) Facilities Long Term Lease Commitment**

CPC has entered into operating leases for office premises that provide for minimum annual lease payments totaling up to \$252,000 per year for the next four years.

#### **17. Related Party Transactions**

These consolidated financial statements include amounts receivable from, amounts payable to and transactions with BC Hydro and its affiliates; the Trust and its affiliates; and the Province. Other than the Trust, which charges the joint ventures on a cost recovery basis, all related party transactions are at market rates.

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## COLUMBIA POWER CORPORATION

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE YEAR ENDED MARCH 31, 2007

(a) Due from and sales to related parties

(\$ in thousands)	2007 Due from Related Party	2007 Sales to Related Party	2006 Due from Related Party	2006 Sales to Related Party
BC Hydro	\$ 35	\$15,660	\$ -	\$12,697
Powerex	126	1,554	147	1,533
Province	-	-	145	160
CBT and affiliates	-	9	-	8
	<u>\$ 161</u>	<u>\$17,223</u>	<u>\$292</u>	<u>\$14,398</u>

(b) Due to and purchases from related parties

(\$ in thousands)	2007 Due to Related Party	2007 Purchases from Related Party	2006 Due to Related Party	2006 Purchases from Related Party
Province	\$ 13	\$5,305	\$ 23	\$4,515
BC Hydro	26	1,259	2	800
Powerex	-	47	-	48
BC Transmission Corp.	-	37	-	254
CBT and affiliates	51	588	581	926
	<u>\$ 90</u>	<u>\$7,236</u>	<u>\$606</u>	<u>\$6,543</u>

#### 18. Subsequent Event

On May 1, 2007 CPC announced the appointment of Barry Chuddy as Chief Executive Officer effective June 1, 2007.

#### 19. Contingencies

(a) Power Projects

CPC's operating and development power project activities are affected by federal, provincial and local government laws and regulations. Under its agreements with its Bondholders, BPC and ALPC have agreed to comply or cause compliance in all material respects with such laws and regulations as well as to maintain all material franchises. Under current regulations, the Venturers are required to meet performance standards to minimize or mitigate negative impacts of their proposed projects. The impact, if any, of future legislative or regulatory requirements on specific projects and their related deferred costs cannot currently be estimated.

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# COLUMBIA POWER CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2007

**(b) Arrow Lakes Power Corporation**

Under the design-build contract at Final Acceptance, all deficiencies of the ALGS must be completed by the construction contractor or liquidated damages will be owed by the contractor to ALPC.

**(c) Recovery Proceeds**

ALPC will receive additional proceeds in the future from its insurer and/or contractor arising from damage to the ALGS approach channel. Management used its best estimate to determine the proceeds to record. However if the proceeds are greater or less than the estimate, this difference will be recognized in future years.

**(d) Brilliant Expansion Power Corporation**

In the course of project construction, BEPC is subject to the potential for future claims from its contractor. The final impact, if any, of future claims cannot currently be estimated.

The design-build contractor of the Brilliant Expansion has submitted significant claims against the project. CPC is conducting a review of these claims. The final impact of the claims cannot be reliably estimated at this time.

**20. Comparative figures**

Certain 2006 figures have been reclassified to conform with the current year's presentation.

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## Board of Directors and Officers

### Board of Directors

Lee Doney  
Chair

Jane Fleming

Ron Miles

Charles Reid

Josh Smienk

Art Willms

### Officers

Ed Pietraszek  
Acting President

Giulio Ambrosone  
Vice President, Engineering & Construction

Bruce Duncan  
Vice President, Strategic Planning & Regulatory Affairs

Bill Freeman  
Vice President, Planning & Development

Victor Jmaeff  
Vice President, Power Supply & Marketing

Randall Smith  
Corporate Secretary/Treasurer

David de Git  
Corporate Controller

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## Corporate Governance

Columbia Power Corporation 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, Columbia Power Corporation must obtain the approval of the Province's Treasury Board for all budgets and material decisions. Its directors are appointed annually by the Province. All employees are bound by Columbia Power Corporation's Standards of Conduct.

As a government corporation under the *British Columbia Financial Administration Act*, Columbia Power Corporation 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 Columbia Power Corporation.

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 Columbia Power Corporation and three members appointed by the Columbia Basin Trust.

The power project investments of Columbia Power Corporation and the Columbia Basin Trust are guided by the principle, as stated in the *Financial Agreement* between the Province and the Columbia Basin Trust, that the joint venture management committee formed for a power project will authorize the start of the power project only if:

- such a start is approved by the respective boards of directors of Columbia Power Corporation and the Columbia Basin Trust; and
- such a power project would meet conditions as would be set by a reasonable lender for the financing of a similar power project, including conditions related to debt servicing, return on equity, permits, construction agreements, contracts for the sale or distribution of electricity, and similar matters.

Columbia Power Corporation's mandate and governance model continue to evolve. Consistent with best practices guidelines issued by the Province, work is complete on board sub-committee structures and an overall board governance model. The Columbia Basin Trust and the region now have a greater role in the management of the power assets, via a one-third representation on the Columbia Power Corporation Board of Directors. A *Shareholder's Letter of Expectations*, dated October 24, 2006, confirmed Columbia Power Corporation as the manager of the power projects. The letter directs Columbia Power Corporation to: conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by government; undertake recruitment of a President for Columbia Power Corporation; continue to work with the Columbia Basin Trust to increase efficiency and reduce costs of power development and management activities; and develop and bring forward an interim plan for development of the Waneta Expansion. In November 2006, an interim plan for the Waneta Expansion was submitted to the Province for consideration.

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## Glossary

### **Benchmarking**

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

### **Bond rating**

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

### **Canal Plant Agreement**

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

### **Capacity**

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

### **Columbia River Treaty**

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

### **Comptroller of Water Rights**

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

### **Debt service coverage ratio**

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

### **Debt-to-equity ratio**

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

### **Design-build contract**

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

### **Downstream benefits**

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

### **Energy entitlement ratio**

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

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**Entitlement agreement**

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

**Environmental approval**

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

**Environmental management system**

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

**Final acceptance date**

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

**First quartile**

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

**Green power**

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

**Investment grade credit rating**

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

**ISO 14001 standard**

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

**Limited-recourse project debt**

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

**Megawatt (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.

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

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

**Public-private partnership**

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

**Return on investment**

Income available to shareholders as a percentage of their investment.

**Water rental**

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



*Montage of Columbia Power Corporation and  
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