

# COLUMBIA POWER CORPORATION

2010/11 ANNUAL REPORT





Top: The historic Brilliant Bridge was illuminated in December 2010 following a grant from Columbia Power.  
(Photo compliments of Columbia Basin Trust)

Bottom: CPC staff members volunteered their time to help with CPC's 5th Annual Community Christmas event.

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Appendix A: [www.columbiapower.org/pdf/company/CPC\\_Service%20Plan\\_2011-2013\\_Appendix\\_A\\_FINAL.pdf](http://www.columbiapower.org/pdf/company/CPC_Service%20Plan_2011-2013_Appendix_A_FINAL.pdf)

Appendix B: [www.columbiapower.org/media/documents/CPC\\_ServicePlan\\_2010\\_AppendixB.pdf](http://www.columbiapower.org/media/documents/CPC_ServicePlan_2010_AppendixB.pdf)

## Message From the Board Chair

I am pleased to submit Columbia Power Corporation's 2010/11 Annual Report. The 2010/2011 year was an active and successful one for Columbia Power Corporation (Columbia Power, CPC or "the corporation"). The \$900 million Waneta Expansion Project was successfully restructured and construction commenced in the fall of 2010; our joint venture assets continued to perform well and we completed a very successful financing to fund our investment in the Waneta project and future project development.

The Waneta Expansion is the construction of a new 335MW hydroelectric facility located on the Pend d'Oreille River, just south of Trail. As the largest and most complex of our three mandated projects, the Waneta Expansion involved significant effort to define and structure a viable project. The parties concluded that developing the Waneta Expansion would not be possible under the joint venture model used for our previous projects. Our provincial shareholder and the Board of Directors recognized the importance of the project to the communities of the region and the potential for the project to contribute to a clean energy future for BC. Following a thorough review, and through the efforts of many, Columbia Power and its long-time partner, Columbia Basin Trust (CBT) entered into a partnership with the Canadian company, Fortis Inc., to construct and operate the Project. Fortis' financial capacity, technical experience and investment in the region were a good fit. In addition, Fortis is well known to Columbia Power—their subsidiary, FortisBC, operates the joint venture facilities owned by Columbia Power and CBT. In recognition of its experience in building these facilities, Columbia Power is managing construction on behalf of the Partnership.



During the four-year construction period, the Project will provide opportunities for over 400 workers, the majority of whom live in the local communities. Representatives of the Ktunaxa and Okanagan Nations have been active participants and First Nations workers are employed on the Project. In addition to direct employment, the city of Trail and surrounding communities are enjoying the economic boost that accompanies a project of this size.

Bringing the Waneta Expansion to fruition involved the efforts of many. I wish to acknowledge in particular the support of the Provincial and local governments. We also thank the local community stakeholders for their active participation—without our community partners the success of the Project would not be possible. Working together, we have been able to continue the tradition of hydroelectric project development in the region.

Throughout the construction period, the Partnership and its contractor, SNC- Lavalin Inc., will focus on worker and public safety and on our long-standing commitment to the environment. I am pleased to acknowledge that over 100,000 man-hours of work have been completed to date without any lost time injuries and with no major environmental incidents.

In addition to the Waneta Expansion, Columbia Power, in joint venture with CBT, owns the Brilliant Dam and Generating Station, the Brilliant Expansion Generating Station and the Brilliant Terminal Station, as well as the Arrow Lakes Generating Station, our first major project. The operations and management of these facilities is undertaken by Columbia Power on behalf of the joint venture. The ongoing, effective management of these assets remains a key priority for Columbia Power.

We are very pleased with the overall performance of our assets this year. However, we achieved mixed results relative to our 2010/11 performance targets, in large part because we failed to achieve our financial target. This was due to a \$14 million write-down related to an amount owing to Columbia Power from the Waneta project, which will be paid in 2020. The circumstances that gave rise to the write-down are described in the Management Discussion and Analysis. In addition, Brilliant Expansion had higher than targeted operation, maintenance and administration costs due to a scheduling anomaly that resulted in the facility experiencing two annual planned outages in 2010/11 versus the normal of one.

Now that the Waneta Expansion is underway, and consistent with the Shareholder's Letter of Expectations, Columbia Power will be embarking on a strategic planning process. This is an exciting opportunity for CPC. In developing its plan, CPC looks forward to working closely with staff at the Ministry of Energy and Mines to determine a direction that takes advantage of the expertise and experience at CPC to support British Columbia's energy objectives, as set out in the *Clean Energy Act*, and related provincial policy directions.

I am very pleased to announce a new President and Chief Executive Officer for CPC. Jane Bird joined Columbia Power in this role on September 1, 2010. Jane has worked with all levels of government and the private sector. She is familiar with large construction projects—prior to joining CPC, she was the Chief Executive Officer of Canada Line Rapid Transit Inc., responsible for the Canada Line. Prior to her involvement in large infrastructure projects, Jane was in private law practice.

The 2010/11 Columbia Power Corporation annual report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

The information presented reflects the actual performance of Columbia Power Corporation for the twelve months ended March 31, 2011 in relation to the service plan published in March 2010.

I am responsible for ensuring internal controls are in place to ensure information is measured and reported accurately and in a timely fashion. All significant assumptions, policy decisions, events and identified risks, as of May 18, 2011, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgement of management. Any changes in mandate direction, goals, strategies, measures or targets made since the 2010/11-2012/13 service plan was released and any significant limitations in the reliability of data are identified in the report.

In closing, I would like to acknowledge the board of directors of Columbia Power, and our employees. Together we are continuing to build on the strong legacy of hydroelectric expertise in the Columbia Basin. It has been an extraordinary year—thank you.



Lee Doney, Chair

## Organizational Overview

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

Columbia Power's mandate is to:

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

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

Columbia Power has historically undertaken power projects through joint ventures with subsidiaries of the Columbia Basin Trust ("CBT") and manages all of the assets of the joint ventures. With regard to the joint ventures, 50 per cent of the shares are owned by CPC and 50 per cent by CBT. Under this model, Columbia Power managed the construction and oversees the current operations of the 185 MW Arrow Lakes Generating Station, the 120 MW Brilliant Expansion Generating Station and the Brilliant Terminal Station. CPC also oversees the operations of the 145 MW Brilliant Dam and Generating Station, which the partners purchased from Cominco (now Teck) in 1996.

CPC's key relationships include CBT, BC Hydro, Teck, Fortis Inc., First Nations, Columbia Basin regional districts, local communities, private-sector engineering and environmental firms, environmental groups and financial and legal advisors. Columbia Power intercedes in regulatory proceedings as needed to ensure joint venture and partnership interests are appropriately addressed.

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

The Brilliant Dam and Generating Station, the Arrow Lakes Generating Station, the Brilliant Expansion Generating Station and Brilliant Terminal Station are operated and

maintained under agreement by FortisBC (a subsidiary of Fortis Inc.) or its related company, Fortis Pacific Holdings Inc., under the oversight of CPC staff.

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

Returns from Columbia Power's share of the power projects are distributed to the Province. Columbia Basin Trust uses its 50 per cent share to deliver economic, social and environmental benefits to the residents of the Columbia Basin.

The history of Columbia Power Corporation can be read online at:  
[www.columbiapower.org/company/companyhistory.asp](http://www.columbiapower.org/company/companyhistory.asp)



Above - the Brilliant Dam underwent a major capital refurbishment project.

Left - Bill Clark, CPC's Senior Projects Engineer.

## Sustainability Report

Columbia Power is committed to sustainable development, which has been defined by the Canadian Electricity Association as “pursuing innovative business strategies and activities that meet the needs of members, stakeholders and the communities in which we operate today, while protecting and enhancing the human and natural resources that will be needed in the future.” Sustainable development has been a key aspect of Columbia Power’s project development and has been continued with the Waneta Expansion Project.

Columbia Power’s commitment to sustainability principles during 2010/11 resulted in the following:

- Environment - CPC managed projects had no major environmental incidents over the past year. Improvements were made to the Brilliant Expansion sturgeon risk mitigation plan in 2010 and there have been no further incidents since 2009.
- Stewardship and Biodiversity - Post-project monitoring of fish use in the Kootenay River below Brilliant was completed in 2010. The results show that the Brilliant Expansion Project did not negatively impact fish use and that by reducing spill, there is greater habitat availability for white sturgeon. Sturgeon spawning was also detected below the Arrow Lakes Generating Station for the first time in 2010. Further investigation of the spawning site will be conducted in 2011.
- Health and Safety - CPC personnel had no Health and Safety incidents in 2010. The corporation has developed and is implementing the Environmental, Health and Safety Management system. CPC’s contractors’ recordable incident rate (RIR) for the Operating Facilities (FortisBC) and the Waneta Expansion Project (SNC-Lavalin Inc.) for 2010 was zero.
- Communications and Engagement – CPC maintains support for its facilities and current construction project through on-going stakeholder engagement activities. In 2010, these included:
  - Regular meetings with municipal and regional government representatives to provide updates on the development and construction of the Waneta Expansion Project.
  - Worked with the former Arrow Lakes Generating Station (ALGS) Community Impact Management Committee to complete a reclamation project at the site of the former ALGS construction laydown area.
  - Worked with the Regional District of Central Kootenay on the renovation of the historic Brilliant Bridge and provided funding for illumination of the bridge. As well, CPC facilitated the participation of First Nations and key community stakeholders in the grand opening ceremonies.
  - Formed a Community Impact Management Committee for construction of the Waneta Expansion Project.
  - Continued as a member of the Canadian Hydropower Association (CHA); a CPC staff member sits on the CHA Board of Directors and another is Chair of the Hydro Caucus.
  - Aboriginal Relations - CPC staff had on-going liaison with First Nations representatives and actively participated in a number of First Nations organized activities including the annual Okanagan Nation Salmon Feast, Shuswap Nation sturgeon release and pow wow, Ktunaxa Nation golf tournament, and various other events. Columbia Power’s dedicated sponsorship funding program supported a variety of activities including business development, youth education and training and cultural events.

This past year, Columbia Power was a recipient of the Canadian Electricity Association President’s Award of Excellence for employee safety, winning a bronze award for Group III utilities. This award was a tribute to the newly implemented health and safety management system and reinforced the corporation’s commitment to health and safety.

## Mandate, Vision And Values

### MANDATE

The mandate of Columbia Power Corporation is to:

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

### VISION

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

### VALUES

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

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

## CPC’s Relationships

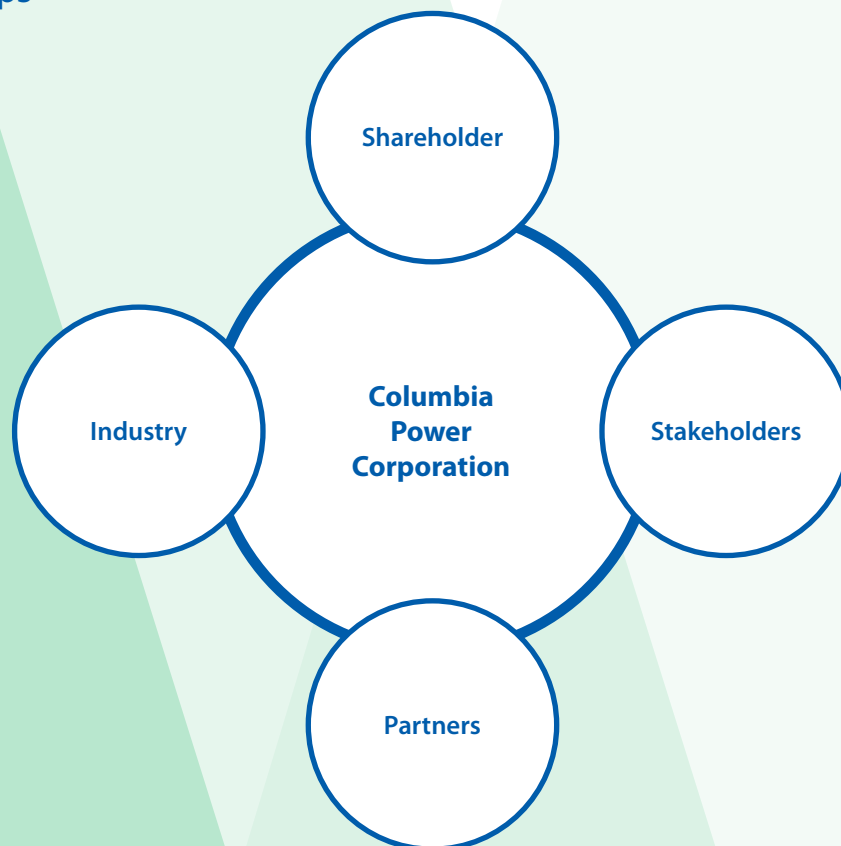
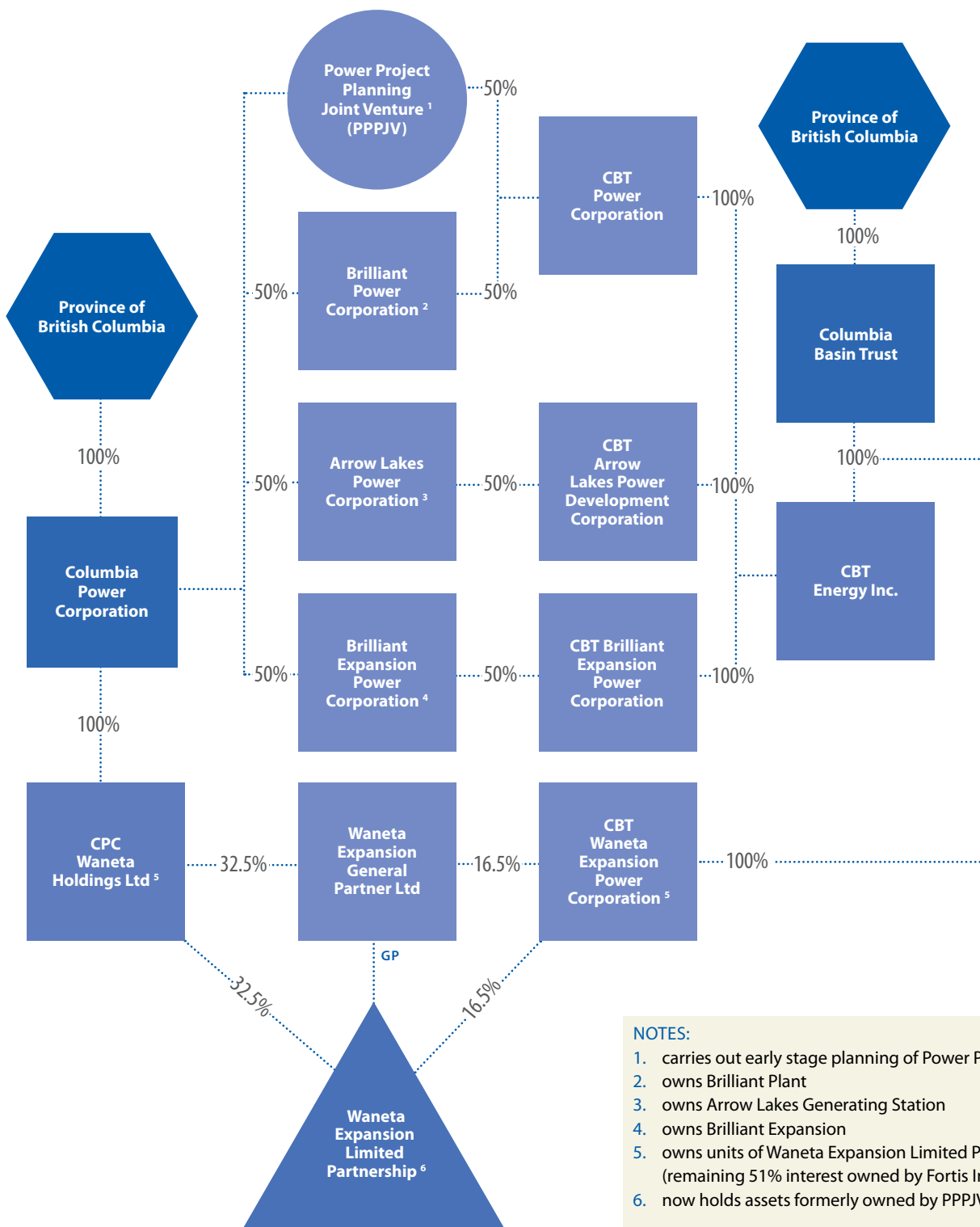


FIGURE 1 – CORPORATE STRUCTURE OF THE COLUMBIA POWER/CBT JOINT VENTURES



- NOTES:**
1. carries out early stage planning of Power Projects
  2. owns Brilliant Plant
  3. owns Arrow Lakes Generating Station
  4. owns Brilliant Expansion
  5. owns units of Waneta Expansion Limited Partnership (remaining 51% interest owned by Fortis Inc.)
  6. now holds assets formerly owned by PPPJV

## Corporate Governance

### ROLE OF THE COLUMBIA POWER CORPORATION BOARD

The Board has a primary responsibility to foster the Corporation's short and long-term success; consistent with the Board's responsibility to the Corporation's shareholder, the Province of British Columbia, while giving consideration to the legitimate interests held by other stakeholders including employees, customers, suppliers, communities and the public.

The directors are stewards of the Corporation. The Board has the responsibility to oversee the conduct of the Corporation's business and management, which is responsible for the day to day operation of the Corporation. In overseeing the conduct of the business, the Board, through the President and Chief Executive Officer will set the standards of conduct for the Corporation.

### PRINCIPLES

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

#### Integrity: Best Interests of the Corporation

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

#### Direction with Oversight: Support Management

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

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

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

#### Skill Development: Continuous Improvement

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

#### Communication

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

#### Respect

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

### DIRECTORS

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

### BOARD COMMITTEES

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

The Finance and Audit Committee is responsible for financial and compliance oversight. Members: Lillian White (Chair), Lee Doney and Ron Miles.

The Human Resources and Governance Committee assists the board in matters of human resources and compensation, including establishing a plan for continuity and development of senior management. Members: Gerry Duffy (Chair), Greg Deck and Lee Doney.

The Major Capital Projects Committee assists the board in its oversight responsibilities with respect to the corporation's major capital projects. Members: Tim Stanley (Chair), Gerry Duffy and Ron Miles.

### OFFICERS OF THE COMPANY

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

### SENIOR MANAGEMENT

Gene Anderson, Director, Operations & Environment  
Llewellyn Matthews, Director, Environment  
Glenn MacIntyre, Director, Planning and Business Development  
Audrey Repin, Director, Stakeholder Relations and Communications  
Janice Hardy, Manager, Compensation and Benefits.

### KEY ACCOUNTABILITY RELATIONSHIPS

The Shareholder's Letter of Expectations (the "letter") between the Minister of Energy and Mines and the Board Chair (a copy of which is posted on the Corporation's website ([http://www.columbiapower.org/media/documents/Shareholder\\_Letter\\_of\\_Expectations\\_2011.pdf](http://www.columbiapower.org/media/documents/Shareholder_Letter_of_Expectations_2011.pdf)) sets out the corporate mandate, including high-level performance expectations, public policy issues and strategic priorities. Pursuant to the Shareholder's Letter of Expectations, the Board Chair communicates regularly with the Minister of Energy and Mines or with



representatives of the Ministry, to report on implementation of the letter. The letter directs the Corporation to conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by government. As required by the letter and *The British Columbia Financial Administration Act*, the Corporation posts on its website its annual report, annual *Financial Information Act Report* and interim financial reports on a quarterly basis. The Auditor General of British Columbia is the external auditor for the Corporation.

Board members are (left to right)- Ron Miles, Lillian White, Lee Doney (Chair), Greg Deck and Tim Stanley. Missing from photo is Gerry Duffy.

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

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

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

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

#### WANETA EXPANSION LIMITED PARTNERSHIP

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

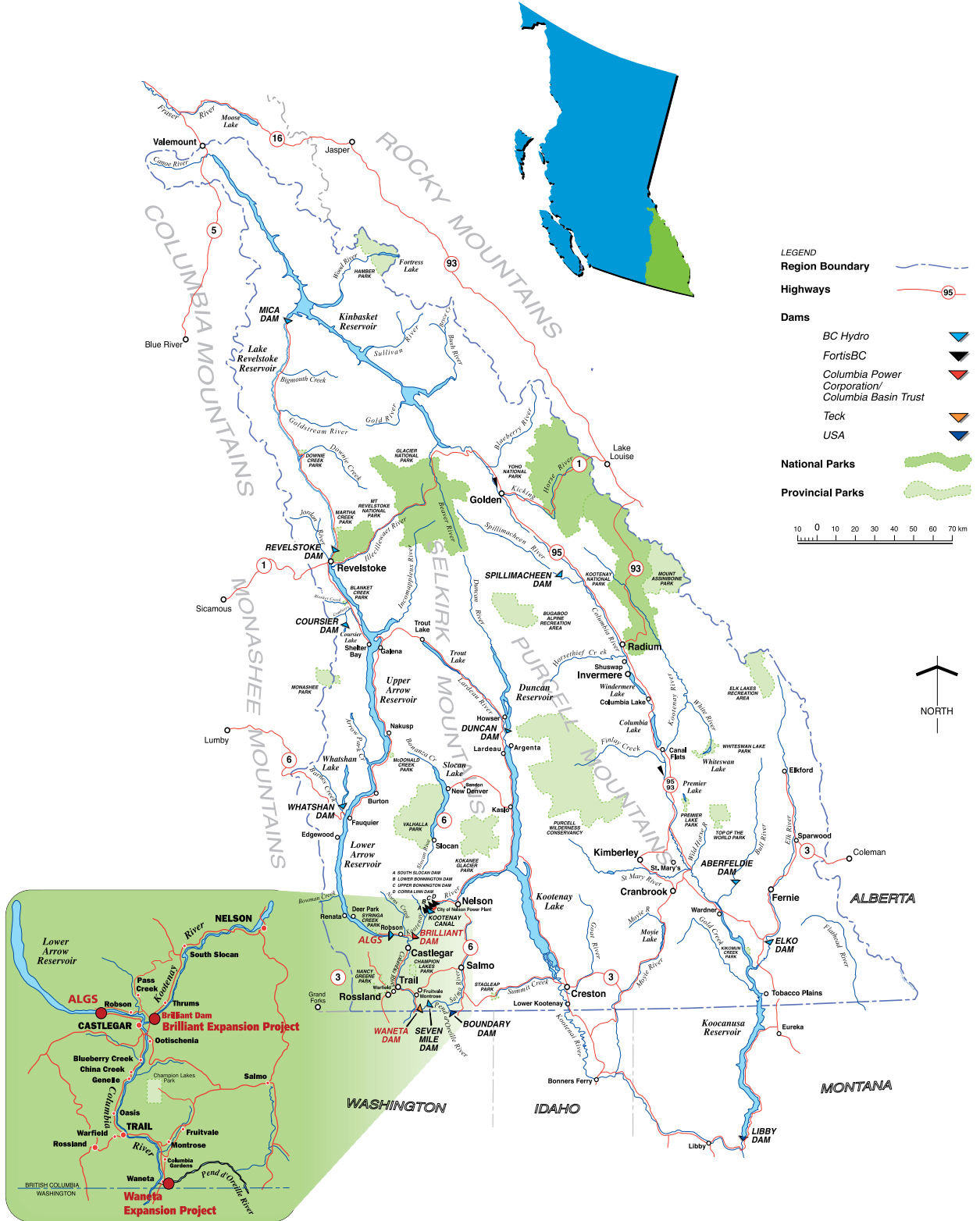
#### COMPLIANCE

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

Use the link below to learn more about CPC's Corporate Governance and about our board of directors: [www.columbiapower.org/content/corporate\\_governance.asp](http://www.columbiapower.org/content/corporate_governance.asp)

Use the link below to learn more about the Province of British Columbia's Board Resourcing and Development Office: [www.fin.gov.bc.ca/brdo/](http://www.fin.gov.bc.ca/brdo/)

COLUMBIA POWER CORPORATION PROJECT LOCATIONS IN THE COLUMBIA BASIN



## Review Of Power Projects

Columbia Power is a joint venture owner of three operating hydro power generating facilities totaling 450 megawatts (MW). In addition, Columbia Power has a 32.5% interest in the Waneta Expansion Project and is managing construction of the project for its partners. Scheduled for completion in 2015, this project will provide an additional 335MW of clean, renewable power.

The past year has been dedicated to improving long- term plant reliability while maintaining our commitment to life safety, dam safety and the environment.

Following the 2003 Northeast blackout, the Government of Canada and the US Government concluded that reliability standards for the bulk power system in North America should be made mandatory and enforceable. In 2005, the Council of Energy Ministers, including BC's Minister of Energy, endorsed a resolution to implement mandatory reliability standards in all interconnected jurisdictions. This international initiative was a reflection of the growing recognition that, given the interconnected nature of the transmission systems across large geographic regions in North America, an event or failure on one part of the interconnected bulk power system can have broader implications throughout the region. In 2009, the Mandatory Reliability Standard (MRS) Regulation was issued under the *Utilities Commission Act*. This regulation applies reliability standards to applicable entities utilizing the bulk power system in British Columbia. Columbia Power has assigned the responsibility to comply with MRS to our 3rd party operator FortisBC.



Left: Maintenance is undertaken during the Annual Planned Outage (APO) at the Arrow Lakes Generating Station in the spring of 2011. APO's involve considerable coordination between CPC, FortisBC and BC Hydro in order to complete the work as efficiently as possible.

### 185MW Arrow Lakes Generating Station

The Arrow Lakes Generating Station is a two-unit Kaplan turbine hydroelectric facility with a maximum capacity of 185 megawatts. It is located adjacent to and 400 metres downstream of the pre-existing BC Hydro Hugh Keenleyside Dam, impounding the Arrow Reservoir and discharging into the upper Columbia River. The Arrow Lakes Generating Station and related assets are owned by Arrow Lakes Power Corporation (ALPC), a company jointly owned, on a 50/50 basis, by Columbia Power and CBT Arrow Lakes Power Development Corp., an indirect subsidiary of the Columbia Basin Trust.

The Hugh Keenleyside Dam was constructed in the 1960s by BC Hydro under the terms of the Columbia River Treaty. The dam was built to store and regulate water releases for downstream flood control and power generation benefits in the United States. Construction of the Arrow Lakes Generating Station between 1999–2002 realized power benefits in British Columbia by utilizing water releases for generation that would otherwise be spilled through the dam’s discharge facilities. The reduction of spill through utilizing water for power generation has also improved water conditions for fish by reducing the dissolved gas pressure levels downstream. The Arrow Lakes Generating Station is operated and maintained under a management agreement with Fortis Pacific Holdings Inc., a corporation related to FortisBC Inc.

The net income from Arrow Lakes Generating Station, for the year ended March 31, 2011, was \$15.1 million compared with \$13.7 million the previous year. This results from achieving over 99% availability at the facility and exceeds ALPC’s expectations for its annual availability target. Facility generation also exceeded the expected average amounts which provided excellent benefits to the customer of the power, BC Hydro. A new commercial agreement with BC Hydro upon which the energy credits to the Arrow Lakes Generating Station are based has been renegotiated and takes effect in 2016.

ALPC’s sustaining capital expenditures are funded by cash flow from operations. 2010/11 capital projects included upgrades to the shaft seal cooling water filtering system and updating the protection relays on the control system. Both projects will be completed next year.

ALPC paid a dividend of \$13.7 million for fiscal 2010/11.



## Arrow Lakes Generating Station Operations Summary Information

(\$ in thousands unless otherwise stated)

	2010/11	2009/10	2008/09	2007/08	2006/07
Power Sales Revenue	\$ 34,414	\$ 33,207	\$ 32,354	\$ 32,325	\$ 29,548
Interest Revenue	92	77	293	513	441
Operating Expenses	3,882	3,889	3,611	2,718	3,227
Water Rentals	4,420	4,124	4,051	3,604	3,546
Interest Expense	2,615	3,086	3,530	3,957	4,357
Amortization (includes debt issue)	8,461	8,480	8,546	8,644	8,348
Net Income Before Channel Repairs	15,128	13,705	12,909	13,915	10,493
Channel Repair Costs	-	-	184	833	6,030
Recovery of Repair Costs and Losses	-	-	-	8,583	14,423
Net Income	15,128	13,705	12,725	21,665	18,886
Equity	228,693	227,271	226,066	239,841	242,333
Dividend Payments	13,706	12,500	26,500	23,546	1,700
Capital Expenditures	529	330	74	207	3,983
Long-term Debt	-	45,551	54,447	62,883	70,882
Current Portion of Long-term Debt	45,551	8,896	8,436	7,999	7,584
Total Sales (megawatt-hours)	765,013	759,941	762,949	763,078	739,148
Average Price (\$/megawatt-hour)	44.98	43.68	42.41	41.17	39.98
Annual Return on Equity	6.6%	6.0%	5.6%	9.0%	7.8%
Debt Service Coverage Ratio	2.24	2.16	2.12	2.93	2.74

### 145MW Brilliant Dam And Generating Station

The Brilliant Dam and Generating Station is a four-unit Francis turbine facility with a combined capacity of 145 megawatts. It is located on the Kootenay River, three kilometres upstream of the confluence with the Columbia River. The dam and related assets are owned by Brilliant Power Corporation, which is jointly owned on a 50/50 basis by Columbia Power and CBT Power Corp., an indirect subsidiary of the Columbia Basin Trust.

The original 125 megawatt facility was purchased from Cominco Ltd. (now Teck) in 1996. Between 2000 – 2003, a significant upgrade and life extension program was conducted on the four units, resulting in an additional 25 megawatts of facility capacity, 120 gigawatt hours of additional energy, and modernization of all equipment for long-term reliability.

All of the energy from Brilliant is sold to FortisBC under the terms of the 60-year Brilliant Power Purchase Agreement, except for approximately 60 gigawatt hours of Brilliant Upgrade energy which is currently being sold to Powerex. The Brilliant Dam and Generating Station is operated and maintained by FortisBC on behalf of Brilliant Power Corporation.

The net income from Brilliant Power Corporation, for the year ended March 31, 2011, was \$11.0 million compared with \$11.1 million the previous year. The capital expenditures during the year were \$3.4 million compared with \$2.9 million in the previous year. Work is still being completed on a major 50-year refurbishment of the eight spillgates to ensure reliable operation and flood passage. This work is expected to be completed by August 2011. A major project to refurbish the anchors stabilizing the Brilliant Dam continued through fiscal 2010/11 and is expected to be completed in April 2011. The project to refurbish the concrete abutments of the dam was completed in November 2010.



Right: Forebay wall stabilization work was undertaken at the Brilliant Dam during the winter of 2010/11.

## Brilliant Dam and Generating Station Operations Summary Information

(\$ in thousands unless otherwise stated)

	2010/11	2009/10	2008/09	2007/08	2006/07
Power Sales Revenue	\$ 34,410	\$ 34,552	\$ 33,696	\$ 33,908	\$ 33,076
Brilliant Terminal Station Revenue	3,289	3,130	3,073	3,073	3,052
Interest Revenue	126	59	449	582	634
Operating Expenses	2,883	2,778	2,412	2,436	2,576
Taxes and Water Rentals	7,761	7,381	6,832	7,139	6,955
Interest Expense	10,908	11,267	11,535	11,853	12,114
Amortization	5,277	5,191	5,111	5,034	4,888
Net Income	10,996	11,124	11,328	11,101	10,229
Equity	80,826	76,330	74,306	73,577	67,693
Dividends	6,500	9,100	10,600	10,700	11,600
Capital Expenditures	3,444	2,868	2,918	2,313	1,101
Long-term Debt	135,786	140,807	145,473	149,811	153,845
Current Portion of Long-term Debt	5,020	4,666	4,338	4,034	3,752
Total Sales (megawatt-hours)	981,696	982,095	979,875	974,717	980,431
Average Price (\$/megawatt-hour)	35.05	35.26	34.39	34.79	33.74
Annual Return on Equity	13.6%	14.6%	15.3%	15.1%	15.0%
Debt Service Coverage Ratio	1.73	1.76	1.78	1.78	1.75



### 120MW Brilliant Expansion Generating Station

The Brilliant Expansion Generating Station (Brilliant Expansion) is a single unit, 120 megawatt Kaplan turbine facility located on the Kootenay River adjacent to and 160 metres downstream of the pre-existing Brilliant Dam and Generating Station. The unit is connected to Brilliant Terminal Station (BTS) located approximately 0.5 km away via a 230 kilovolt transmission line.

The Brilliant Expansion and related assets are owned by Brilliant Expansion Power Corporation, a company jointly owned, on a 50/50 basis, by Columbia Power and CBT Brilliant Expansion Power Corp., an indirect subsidiary of the Columbia Basin Trust. Brilliant Expansion was commissioned in 2007. Approximately 90% of the Brilliant Expansion energy and capacity is sold under two long-term agreements to BC Hydro. Operation and maintenance of the Brilliant Expansion is conducted under contract to Fortis Pacific Holdings Inc., a corporation related to FortisBC Inc.

Brilliant Expansion's net income for the fiscal year ended March 31, 2011 was 20.2 million compared with \$17.2 million the previous year. The facility's third anniversary occurred in September 2010 and CPC is currently in the process of closing out the construction phase of the project by addressing the remaining warranties and deficiencies. The facility's maintenance outage held in January 2011 addressed a number of outstanding items and the facility is well-positioned to transition to long-term reliable operation.

Major projects in fiscal 2010/11 included an emergency gate close test and a leaking shaft seal repair.

### Brilliant Terminal Station

The Brilliant Terminal Station (BTS) is a 230 kilovolt switchyard which interconnects the Arrow Lakes Generating Station, Brilliant Expansion and Brilliant Dam and Generating Station to the integrated BC transmission system, including BC Hydro's Selkirk Substation, BC Hydro's Kootenay Canal, and FortisBC's Warfield Substation. BTS is the electrical hub of the existing powerplants. It is owned by Brilliant Power Corporation and earns revenue under the same terms as the Brilliant Power Purchase Agreement. It is operated and maintained by FortisBC under separate agreement. Columbia Power jointly manages the BTS with FortisBC through a management committee. Connector replacements conducted at BTS in 2008 have helped ensure future reliability and performance of the substation. For the upcoming fiscal year, requirements from the Mandatory Reliability Standards legislation will be a key focus for the substation.



## Brilliant Expansion Generating Station Operations Summary Information

(\$ in thousands unless otherwise stated)

	2010/11	2009/10	2008/09	2007/08
Power Sales Revenue	\$ 29,477	\$ 26,282	\$ 21,103	\$ 11,199
Eco Energy Grant	4,459	4,220	4,832	-
Interest and US Exchange Gain	78	24	1,310	294
Purchase of Power	1,322	2,075	2,805	2,637
Operating Expenses	4,746	4,056	4,979	2,808
US Exchange Loss	50	347	-	-
Water Rentals	2,289	1,732	386	258
Interest Expense	338	197	554	301
Amortization	5,090	4,940	4,766	2,645
Net Income	20,179	17,179	13,756	2,766
Equity	231,476	235,227	238,248	234,292
Dividend Payments	23,930	9,200	-	-
Capital Expenditures	586	1,136	17,507	23,158
Long-term Debt	-	-	-	-
Current Portion of Long-Term Debt	-	-	-	-
Total Sales (megawatt-hours)	504,451	482,228	404,089	186,729
Average Price (\$/megawatt-hour)	58.43	57.37	53.09	64.66
Annual Return on Equity	8.7%	7.3%	5.8%	1.2%
Debt Service Coverage Ratio	n/a	n/a	n/a	n/a

### Waneta Expansion Project

The Waneta Expansion Project involves the construction of a second powerhouse immediately downstream of the existing Waneta Dam on the Pend d'Oreille River, south of Trail, BC. When completed in 2015, the new facility will share the existing dam's hydraulic head and make use of water flows 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 from Cominco Ltd. (now Teck) in 1994.

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 being 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 the Selkirk Substation.

The addition of 335 megawatts of capacity at Waneta will achieve balance with upstream generation at the Seven Mile Dam (BC Hydro) and the Boundary Dam in the U.S. (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.

For construction of the Waneta Expansion, Columbia Power and Columbia Basin Trust have entered into a partnership agreement with Fortis Inc., who has a 51 per cent share in the project. Columbia Power and Columbia Basin Trust have a 32.5 per cent and 16.5 per cent share, respectively. Columbia Power is acting as the Owner's Representative and is managing construction of the project.

Construction of the site office complex and mobilization for project construction began in the fall of 2010. In January 2011, construction commenced, beginning with the removal of overburden at the powerhouse site and the intake area. By the end of March 2011, work was well underway on construction of a berm which will isolate the powerhouse excavation from the Pend d'Oreille River and provide vehicle access to the Waneta dam.

When the project is completed, BC Hydro will purchase the energy from the project; FortisBC will purchase the capacity.

SNC-Lavalin Inc. is the contractor for project construction.



From conception...



...to reality

## Stakeholder Relations

In an effort to foster continued positive relationships with local stakeholders, including First Nations, and in keeping with our commitment to translate power project investments into benefits for Columbia Basin residents, Columbia Power provides sponsorship funding for community services, regional events and scholarships and bursaries in the Columbia Basin. Examples of projects, programs and events that were funded in 2010/11 include:

- Environmental and conservation
- Health, wellness and safety
- Arts and culture
- Community
- Sports and recreation
- Youth and education
- Heritage
- First Nations

In addition, Columbia Power provides scholarships to graduating classes of all 19 secondary schools in the Columbia Basin. Bursaries are also available to students enrolled in the three post-secondary institutions in the Basin: College of the Rockies, Selkirk College and Kootenay School of the Arts.

Columbia Power prides itself on stakeholder relations and makes a concerted effort to work together with various stakeholders. For example, prior to the start of construction on the Waneta Expansion Project, Columbia Power formed a Community Impact Management Committee for the duration of the project. Members—including stakeholders, local and regional government representatives, First Nations, owners, and contractor—will meet monthly to provide input to encourage positive community impacts and relay concerns resulting from the project.

Below: The Waneta Expansion Project's Community Impact Management Committee.

Below right: CPC's Audrey Repin poses with Okanagan Nation Alliance elder Madeleine Gregoire during the Sturgeon Gathering in Revelstoke.



## Report On Performance

Columbia Power's performance in meeting its goals for 2010/11 is summarized in Figure 2, Performance Measures at a Glance. The performance measures are more fully described in Appendix A, which is accessible on the company's website at:

[www.columbiapower.org/pdf/company/CPC\\_Service%20Plan\\_2011-2013\\_Appendix\\_A\\_FINAL.pdf](http://www.columbiapower.org/pdf/company/CPC_Service%20Plan_2011-2013_Appendix_A_FINAL.pdf)

### PERFORMANCE PLAN SUMMARY

Columbia Power achieved mixed results relative to its 2010/11 performance targets. The following targets were met:

- The Waneta Expansion partnership was restructured with Fortis Inc. joining CPC and CBT as a partner. The construction of the Waneta Expansion commenced in October 2010.
- Achieved reliable plant operations for the Brilliant Generating Station, Brilliant Expansion and Arrow Lakes Generating Station, confirmed by strong energy entitlement ratios.
- Maintained investment grade bond ratings, coverage ratios and a capital structure that will allow further bond issues and other borrowing as required for project investment, including the ALPC Series A bonds and a loan from CBT Energy to CPC that occurred subsequent to year end;
- The Arrow Lakes Generating Station and the Brilliant powerplant had lower than targeted operation, maintenance and administration (OMA) unit costs.
- Achieved environmental targets.

Targets not met:

- Brilliant Expansion had higher than targeted operation, maintenance and administration (OMA) unit costs due to two annual planned outages occurring in 2010/11.
- Return on equity was lower than targeted due to the write-down of a non-interest bearing promissory note as further described in the Management Discussion and Analysis.

### 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'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'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.



Above: Excavation of the powerhouse begins.

Columbia Power 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 (see Appendix B):

[www.columbiapower.org/media/documents/CPC\\_ServicePlan\\_2010\\_AppendixB.pdf](http://www.columbiapower.org/media/documents/CPC_ServicePlan_2010_AppendixB.pdf)

#### Source of Data and Reliability

Columbia Power 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's performance targets are based on forecasts of future events. They were estimated using assumptions that reflect Columbia Power's planned courses of action and judgments 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.

Below: Berm construction at the Waneta Expansion Project.



## Performance Measures At A Glance

FIGURE 2 - PERFORMANCE MEASURES AT A GLANCE

The annual report reflects the Corporation's performance compared to the 2010/11 - 2012/13 Service Plan.

	Benchmark	2010/11 (actual)	2010/11 (target)	Result	Significance
<b>1.1 Variance In Project Development Time</b>	On Schedule (no negative variance from schedule)	WAX restructured, construction commenced in 2010, construction schedule developed	Restructure WAX for 2010 construction, develop new schedule	Achieved	Restructuring WAX with new partnership & commencement of construction allows CPC to achieve future revenue from a significant past investment.
<b>2.1 Variance From Project Budgets</b>	On Budget (no negative variance from budget)	WAX restructured, construction commenced in 2010, development costs within budget, construction budget developed	WAX development Variance < or = 0	Achieved	Restructuring WAX with new partnership & commencement of construction allows CPC to achieve future revenue from a significant past investment.
<b>3.1 Plant Availability</b>	> 95%	ALGS: > 99% BRD: > 95% BRX: > 98%	ALGS: > 95% BRD: > 95% BRX: > 91%	Achieved Achieved Achieved	Reliable operations have been achieved earning near maximum amount of available revenue.
<b>4.1 Bond Rating</b>	Investment Grade Bond Ratings	Investment Grade Ratings Maintained	Maintain Investment Grade Ratings for All Bonds	Achieved	Positive track record supported ALPC seeking new bond issue shortly after year end.
<b>4.2 Debt Service Coverage Ratio</b>	Greater Than or Equal to 1.3	ALGS: 2.2 BRD: 1.8	ALGS: 2.3 BRD: 1.7	Achieved Achieved	Debt Service Coverages were well above amounts required to maintain investment grade bond rating.
<b>4.3 Capital Structure</b>	CEA Composite Performance Measure for 2006 = 77:23	20:80	18:82	Achieved	CPC has significant capacity for future financing - debt was issued at joint venture level and through CPC after year end.
<b>5.1 Return On Equity</b>	Over the Life of a Project, Comparable to Regulated Utilities	2.2%	5.2%	Not Achieved	Significant write-down of Promissory Note in 2010/11 reduced CPC's return on equity; future returns will be increased by accrued interest revenue from Promissory Note
<b>6.1 OMA Unit Cost For Assets In Service</b>	OMA Benchmark being updated	ALGS: \$ 4.50 BRD: \$ 2.53 BRX: \$10.23	ALGS: \$5.40 BRD: \$2.84 BRX: \$9.82	Achieved Achieved Not Achieved	Although BRX achieved higher than forecast availability, two annual planned outages were incurred when normally there is only one. This significantly increased OMA costs.
<b>7.1 Environmental Compliance</b>	Baseline Information to be Developed	Zero Material Non-Compliance Notices	Zero Material Non-Compliance Notices	Achieved	

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

NOTE: Performance metrics reflect the March 2010 Service Plan.

## Alignment With Shareholder's Letter Of Expectations

On an annual basis, Columbia Power receives a Shareholder's Letter of Expectations (the "letter") from the Provincial government (the "Shareholder"). The letter is an agreement between both parties and outlines their respective roles and responsibilities, as well as corporate mandate, including high level strategic priorities, public policy issues and performance expectations. The letter is the basis for the development of the Corporation's Service Plans and Annual Service Plan Reports.

In January 2010, the Honourable Blair Leckstrom, former Minister of Energy, Mines and Petroleum Resources, signed the Shareholder's Letter of Expectations for 2010. The expectations and CPC's alignment are summarized in the table below.

A copy of the January 2010 Shareholder's Letter of Expectations is available for viewing at: [http://www.gov.bc.ca/caro/attachments/shareholders/2009/cps\\_sle.pdf](http://www.gov.bc.ca/caro/attachments/shareholders/2009/cps_sle.pdf)

Shareholder's Letter of Expectations	CPC Alignment
<b>Waneta Expansion Project</b>	
Explore alternative design, sales and partnership structures for the Waneta Expansion Project.	A partnership structure between Fortis Inc., CPC and CBT allowed the Waneta Expansion Project to proceed. Long-term sales agreements were negotiated with BC Hydro and FortisBC.
<b>Energy Policy</b>	
Support the Shareholder's clean energy powerhouse objectives by helping to identify strategies aimed at developing British Columbia's clean, renewable, low-carbon energy potential to stimulate new investment, industry and employment in the Province.	The Waneta Expansion project brings 335 MW of clean, renewable power to the Province. Construction of the project will bring significant economic stimulus to the Kootenays and yield long-term benefits to the Province and the Columbia Basin. The Waneta Expansion Project will add to CPC's three operating hydro facilities, which generate 450 MW of clean and renewable power.
Ensure self-sufficiency to meet electricity needs including "insurance".	Long-term power sales agreements contribute to meeting BC's electricity needs. The Waneta Expansion, and the existing CPC/CBT joint venture assets, will contribute to meeting BC self-sufficiency and insurance requirements.
All new electricity generation projects will have zero net greenhouse gas emissions.	All of the CPC/CBT joint venture assets and the Waneta Expansion are hydroelectric projects and have zero greenhouse emissions.
<b>Carbon Neutrality</b>	
Comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010.	CPC is carbon neutral, accomplished by purchasing offsets from Pacific Carbon Trust. During 2010/11, CPC verified the corporation's greenhouse gas emissions and continued with previous initiatives including maintaining a minimal vehicle fleet and using recycled paper.
<b>Management Activities</b>	
Ensure all management activities are efficient and cost-effective.	CPC continues to be vigilant in ensuring all management activities are efficient and cost-effective. In 2010/11, CPC formed specific committees to address overall asset planning and cost-effectiveness, and to refine internal reporting processes for management performance and improved communications.
<b>Strategic Plan and Enterprise Risk Management</b>	
Bring forward for consideration and review by the Shareholder an update on the status of the Corporation's strategic planning process and enterprise risk management assessment by March 31, 2010.	An update was provided to the Shareholder on the status of strategic planning and enterprise risk management. Both of these activities are included in the 2011/12 Shareholder's Letter of Expectations.

## Management Discussion And Analysis

### RESULTS OF OPERATIONS

Net income earned by Columbia Power Corporation in 2010/11 was \$8.2 million, compared with planned net income for the year of \$20.4 million and net income of \$19.8 million in the previous year. Net income of Columbia Power includes the consolidated 50% share of the net income of Arrow Lakes Power Corporation, Brilliant Expansion Power Corporation and Brilliant Power Corporation. Revenues were not significantly affected by foreign exchange volatility or by fluctuations in electricity markets, as most power sales are under long-term contracts in Canadian dollars.

On October 1, 2010 the Waneta Expansion development assets of the Waneta Expansion Power Corporation (WEPC) were transferred to the Waneta Expansion Limited Partnership (WELP), in exchange for a non-interest bearing \$72 million promissory note that will be repaid five years after the commercial operation date of the Waneta Expansion. The promissory note has been discounted at 5.5% for 10 years resulting in a write-down in WEPC of approximately \$28 million shared between CPC and CBT. Net income decreased due to CPC's \$14 million share of the write-down. WEPC will accrue interest revenue annually which will offset the write-down by the time the promissory note is realized in 2020.

Arrow Lakes Power Corporation recorded net income of \$15.1 million in 2010/11 compared to planned income of \$14.0 million and net income of \$13.7 million in 2009/10. The increase was due to increasing power sales revenue as a result of the annual escalation in the power sales agreement. Interest expense also decreased.

Brilliant Power Corporation recorded net income of \$11.0 million in 2010/11 compared to planned income of \$11.9 million and net income of \$11.1 million in 2009/10. The decrease compared to the prior year is primarily due to lower prices received from market sales and higher operating costs. This was partially offset by higher revenue from long-term sales and reduced interest expense during the year. Brilliant Terminal Station revenues of \$3.3 million were in line with the prior year and forecasts and are included in Brilliant Power Corporation's financial results.

Brilliant Expansion Power Corporation recorded net income of \$20.2 million in 2010/11 compared to planned net income of \$16.9 million and \$17.2 million net income in 2009/10. Revenue was \$3.3 million higher than forecast primarily due to higher plant availability than forecast. Operating costs for the Brilliant Expansion were about \$1.0 million less than forecast and interest costs were \$500,000 less than forecast.



The debt service coverage ratio for Brilliant Power Corporation remained the same as the prior year while the debt service coverage ratio for Arrow Lakes Power Corporation increased as a result of higher net income. The investment grade bond ratings for the two corporations were maintained. Brilliant Expansion Power Corporation has no long-term debt and therefore no debt service coverage ratio.

During 2010/11, CPC's return on equity was 2.2% compared with the planned return of 5.2% for the year and actual performance of 5.4% in the previous year. This reflected the significant write-down related to the promissory note.

### FINANCING ACTIVITIES

Investing activities were funded from Columbia Power's cash reserves and cash from operations. The use of internal sources of cash had a positive impact on financing costs. Columbia Power declared a dividend of \$2 million for 2010/11, payable to the Province of British Columbia, the same amount as in the previous year.

Subsequent to the fiscal year end, Arrow Lakes Power Corporation issued \$350 million 5.516% Series B bonds. A special dividend was paid from ALPC to its shareholders to provide cash to finance the Waneta Expansion. CPC also borrowed \$20 million from CBT Energy, a subsidiary of Columbia Basin Trust, on similar terms to the ALPC debt issue.

### INVESTING ACTIVITIES

Capital spending during 2010/11 was \$39.0 million, compared with planned expenditures of \$5.9 million and expenditures of \$6.9 million in 2009/10. The major component of the capital expenditures was the investment in the Waneta Expansion limited partnership. Columbia Power used cash reserves accumulated from dividends from its interest in the operating power projects to pay for capital spending in 2010/11.

### POWER SALES ACTIVITIES

For Columbia Power, a high priority in 2010/11 was to secure markets for Waneta Expansion power and capacity. An EPA was signed with BC Hydro for Waneta Expansion energy and a capacity agreement with FortisBC is substantially complete.

The sale of generation from the Arrow Lakes Generating Station is fully subscribed under a long-term sales agreement with BC Hydro, which expires in 2015.

Under a 60-year power purchase agreement, 94% of the power from the Brilliant Dam is sold to FortisBC. The remainder was sold on a market basis to Brilliant Expansion Power Corporation.

Brilliant Expansion Power Corporation sells its power to BC Hydro under the 2002/03 Green Power Generation Electricity Purchase Agreement and under a 2006 Electricity Purchase Agreement which commenced in 2010/11. Brilliant Expansion power not sold to BC Hydro in 2010/11 is sold on a short-term basis to Powerex Ltd.

### LIQUIDITY AND SOURCES OF CAPITAL

Future operational cash is earmarked to fund sustaining capital for operating plants and, subject to the dividend requirements of the Province and Columbia Basin Trust, to provide equity for the Waneta Expansion.

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 other projects.

### CRITICAL ACCOUNTING ESTIMATES

Disclosure of CPC'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 (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Columbia Power'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 significantly reducing annual hydrology risk. As a result, Columbia Power believes it is not exposed to the same number of critical accounting estimates that may be required of management of other independent power producers with hydroelectric operations of comparable size. Columbia Power'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.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The *Budget Transparency and Accountability Act* specifies that the Government and government organizations conform to the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, unless otherwise directed by Treasury Board. Accounting standards for senior government are understood to mean standards established by the Public Sector Accounting Board (PSAB), which directs Government Business Enterprises (GBE) to adhere to International Financial Reporting Standards (IFRS). Treasury Board has directed CPC to adopt IFRS.

CPC is adopting IFRS effective April 1, 2011. CPC will implement the required accounting policy changes under IFRS and CPC's financial statements for the year ended March 31, 2012 (with comparative financial results for 2011) will be prepared in accordance with IFRS.

## Strategic Context

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

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

### KEY STRATEGIC ISSUES

The key strategic issues facing CPC include:

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

## Risk Management by CPC in 2010/11

Risk	Issue/Impact	Results During 2010/11
<b>Waneta Expansion Construction Decision</b>	In November, 2009 the restructuring of the Waneta Expansion was announced to look at other avenues and potential partners to make the project move forward.	Construction of the Waneta Expansion project has commenced. Partnership structure between Fortis Inc., CPC, and CBT developed. Capacity and energy long-term sales negotiated with FortisBC and BC Hydro.
<b>Waneta Expansion Entitlement/ Canal Plant Agreement Renegotiations</b>	The renewed and extended Canal Plant Agreement between BC Hydro, CPC, FortisBC Inc. and Teck, which came into effect in April 2006, provides for the Waneta Expansion. The Agreement runs until at least December 31, 2035.	Negotiations with BC Hydro continued through 2010/11 for an entitlement agreement for the Waneta Expansion, which may entail amendments to the Canal Plant Agreement.
<b>Availability of Funds</b>	Leveraging of the Arrow Lakes joint venture asset required for completion of the Waneta Expansion and future projects.	The Waneta Expansion financing plan has been approved by the Province and financing includes debt from Arrow Lakes Power Corp. and use of operating cash flows. The Arrow Lakes energy purchase agreement and entitlement agreement with BC Hydro has been extended until the year 2045.
<b>Waneta Expansion impact on Communities.</b>	A positive relationship with local communities must be maintained during construction.	A Community Impact Management Committee has been established to deal with any community issues with respect to the project that may arise.
<b>Waneta Expansion Commercial Operation Date</b>	Project delays can push back the receipt of revenues and can impact project economics.	CPC actively manages the progress of construction. CPC has established benchmarks to ensure the project will be completed on-schedule and on-budget.
<b>Interest Rate Risk</b>	Higher interest rates could negatively impact the cost of new project debt, project net income and the economics and ability to finance the Waneta Expansion. A percentage point interest rate rise could reduce annual net income by up to \$7 million.	During 2010/11, CPC/CBT continued to pursue debt management strategies and use interest rate hedges to manage risk to acceptable levels, as appropriate.
<b>Counter-party Credit Risks</b>	Bond ratings and interest costs for project debt are affected by the creditworthiness of the buyer.	CPC's marketing efforts were directed at selling power to purchasers with high credit ratings and entering backstop arrangements as appropriate.

<p><b>Plant Reliability</b></p>	<p>Plant outage risk for the Brilliant facility is transferred to FortisBC Inc. as the power purchaser/plant operator.</p> <p>If the Arrow Lakes plant outage factor were to increase by 1 percentage point, revenues and net income would decline by \$327,000 in 2010/11.</p> <p>If the Brilliant Expansion outage factor were to increase by 1 percentage point, revenues and net income would decline by \$327,000 in 2010/11.</p>	<p>All power projects also carry business interruption, property and liability insurance.</p> <p>Optimal plant operations and maintenance is overseen by CPC, including the planning and execution of annual maintenance outages during low revenue periods. During 2010/11, CPC commenced planning activities in preparation for a 10-year condition assessment program at Arrow Lakes Generating Station. Also during 2010/11, CPC facilitated and coordinated the completion of warranty repair activities at Brilliant Expansion.</p>
<p><b>Regulatory Risk</b></p>	<p>Columbia Power / Columbia Basin Trust power projects are subject to regulatory risk due to a changing regulatory environment.</p> <p>Project operations are subject to risks associated with implementation of new regulations, evolving interpretation of existing regulations and changes to industry standards. For example, policy for the protection of Critical Habitat under the <i>Species at Risk Act</i> has not yet been developed which could impact project minimum flows and therefore revenue.</p>	<p>CPC monitors and participates in the regulatory proceedings of BC Hydro, British Columbia Transmission Corporation and FortisBC Inc. and others as needed to ensure joint venture interests are appropriately addressed.</p> <p>CPC is involved in industry association and policy groups to proactively manage regulatory risks related to the <i>Fisheries Act</i>, <i>Species at Risk</i> legislation and dam safety.</p>
<p><b>Attracting and Maintaining Key Staff</b></p>	<p>CPC requires the organizational capacity to effectively manage all existing and new facilities.</p> <p>If CPC's mandate to develop projects extends beyond the Waneta Expansion, it will need organizational capacity to identify and develop projects.</p>	<p>CPC has developed Human Resource strategies and compensation plans to keep and attract key staff to its head office in Castlegar.</p>

## Five-Year Comparative Data

(\$ in thousands unless otherwise stated)

	2010/2011	2009/10	2008/09	2007/08	2006/07	2005/06
<b>Power Sales (including Ecoenergy &amp; transmission)</b>	\$ 52,365	\$ 49,659	\$ 46,127	\$ 38,896	\$ 31,312	\$ 28,438
<b>Interest and Other Earnings</b>	2,378	1,907	3,391	2,906	3,732	3,247
<b>Net Income</b>	8,183	19,786	18,335	15,876	14,794	3,138
<b>Dividend Payments</b>	2,000	2,000	2,000	2,000	2,000	2,000
<b>Capital Assets and Deferred Costs</b>	337,868	362,744	364,131	388,554	381,279	377,311
<b>Long-term Debt (includes current portion)</b>	93,179	99,961	106,348	112,363	118,031	123,374
<b>Equity</b>	373,203	367,020	347,234	330,899	317,350	304,557
<b>Capital and Deferred Spending</b>	3,862	\$ 6,900	\$ 16,190	\$ 15,226	\$ 10,426	\$ 17,343
<b>Debt-to-Equity Ratio</b>	21:79	22:78	27:73	28:72	26:74	29:71

## Consolidated Statement of Income Forecast

FOR THE YEAR ENDED MARCH 31

(\$ in thousands)

	2011/12	2012/13	2013/14
<b>Revenue</b>			
Sale of Power	\$ 52,892	\$ 53,708	\$ 54,831
Interest and Other Charges	5,027	4,263	**3,575
	57,919	57,971	58,406
<b>Expenses</b>			
Taxes and Water Rentals	7,378	7,534	7,692
Operations and Other	9,899	9,963	10,132
	17,277	17,497	17,824
<b>EBITDA</b>	40,642	40,474	40,582
Amortization	6,912	6,980	7,045
Finance Charges	15,633	15,434	***15,220
<b>Net Income</b>	\$ 18,097	\$ 18,060	\$ 18,317

### Notes:

\*\*Differs from Service Plan due to Interest Revenue (Promissory Note)

\*\*\*Differs from Service Plan due to final terms and size of ALPC Debt Issue and loan from CBT to CPC

**COLUMBIA POWER CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

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**COLUMBIA POWER CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**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.



Jane Bird  
 President and Chief Executive Officer



David de Git, CMA  
 Director, Finance

May 18, 2011



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Columbia Power Corporation, and  
To the Minister of Energy and Mines, Province of British Columbia

### Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Columbia Power Corporation (“the entity”) and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2011, and the consolidated statements of income, retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines, is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In my view, the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Columbia Power Corporation and its subsidiaries as at March 31, 2011, 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, 2011

John Doyle, MAcc, CA  
Auditor General

**COLUMBIA POWER CORPORATION**

**CONSOLIDATED BALANCE SHEET**

**AS AT MARCH 31**

**(in thousands)**

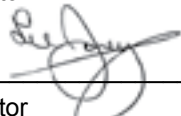
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and temporary investments (Note 4)	\$ 26,909	\$ 44,008
Accounts receivable and unbilled revenue (Note 5)	9,904	8,446
Prepaid expenses and deposits	1,972	2,251
Due from joint venture partner (Note 9)	11,087	16,252
	<u>49,872</u>	<u>70,957</u>
<b>Capital assets (Note 6)</b>	<u>337,868</u>	<u>343,660</u>
<b>Intangibles</b>		
Expansion rights (Note 7)	12,052	25,082
Power sales right (Note 8)	4,066	5,028
	<u>16,118</u>	<u>30,110</u>
<b>Other assets</b>		
Deferred bond issue costs (Note 13)	396	-
Deferred costs (Note 10)	-	19,084
Promissory note receivable (Note 11)	24,795	-
Investment in Waneta Expansion Limited Partnership	35,125	-
Restricted cash (Note 4)	6,767	6,559
	<u>67,083</u>	<u>25,643</u>
	<u>\$ 470,941</u>	<u>\$ 470,370</u>

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

APPROVED ON BEHALF OF THE BOARD:

  
\_\_\_\_\_

Director

  
\_\_\_\_\_

Director

**COLUMBIA POWER CORPORATION**

**CONSOLIDATED BALANCE SHEET**

**AS AT MARCH 31**

**(in thousands)**

	<u>2011</u>	<u>2010</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,476	\$ 2,304
Interest payable on long term bonds	2,309	2,467
Current portion of long term bonds (Note 12)	25,286	6,781
Due to related parties (Note 22)	604	165
Deferred revenue	609	471
	<u>31,284</u>	<u>12,188</u>
<b>Long term bonds (Note 12)</b>		
Project bonds	67,893	93,179
Financing costs	(1,720)	(2,017)
	<u>66,173</u>	<u>91,162</u>
<b>Equity</b>		
Share capital (Note 14)		
Contributed surplus (Note 15)	276,065	276,065
Retained earnings	97,419	90,955
	<u>373,484</u>	<u>367,020</u>
	<u>\$ 470,941</u>	<u>\$ 470,370</u>

**Commitments (Note 17)**

**Contingencies (Note 18)**

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

**COLUMBIA POWER CORPORATION**

**CONSOLIDATED STATEMENT OF INCOME**

**FOR THE YEAR ENDED MARCH 31**

**(in thousands)**

	<b>2011</b>	<b>2010</b>
<b>REVENUES</b>		
Sale of power	\$ 48,771	\$ 45,984
EcoEnergy grant	2,230	2,110
Transmission facility revenue	1,645	1,565
Interest	499	264
Management fee	1,146	1,643
Other	733	-
	<u>55,024</u>	<u>51,566</u>
<b>EXPENSES</b>		
Water rentals	6,154	5,545
Amortization of capital assets in service	8,409	8,287
Amortization of rights	1,293	1,280
Property tax	1,082	1,074
Operations and maintenance	3,190	2,531
Administration and management	4,268	4,208
Insurance	596	603
Community sponsorship	82	82
Grants-in-Lieu (Note 19)	407	461
US\$ exchange loss	25	174
Expensed development costs (Note 10)	13,994	37
	<u>39,500</u>	<u>24,282</u>
<b>INCOME FROM OPERATIONS</b>	<u>15,524</u>	<u>27,284</u>
<b>FINANCE CHARGES</b>		
Interest expense	6,762	7,177
Financing expense	298	321
	<u>7,060</u>	<u>7,498</u>
<b>NET INCOME</b>	<u>\$ 8,464</u>	<u>\$ 19,786</u>

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

**COLUMBIA POWER CORPORATION**

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

**FOR THE YEAR ENDED MARCH 31**

**(in thousands)**

	<u>2011</u>	<u>2010</u>
<b>RETAINED EARNINGS - beginning of year</b>	\$ 90,955	\$ 71,169
<b>Add:</b> Net income	8,464	19,786
<b>Deduct:</b> Dividends	(2,000)	-
<b>RETAINED EARNINGS - end of year</b>	<u>\$ 97,419</u>	<u>\$ 90,955</u>

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

**COLUMBIA POWER CORPORATION**
**CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED MARCH 31**
**(in thousands)**

	<b>2011</b>	<b>2010</b>
<b>OPERATING ACTIVITIES:</b>		
Net income for the year	\$ 8,464	\$ 19,786
Adjustments to reconcile cash flow from operations:		
Amortization of capital assets in service	8,409	8,287
Amortization of rights	1,293	1,280
Amortization of financing costs	297	322
Development costs expensed	13,994	-
Net change in non-cash working capital balances (Note 20)	(1,183)	(276)
	<u>31,274</u>	<u>29,399</u>
<b>FINANCING ACTIVITIES:</b>		
Deferred bond issue costs	(396)	-
Dividends paid	(2,000)	(2,000)
Principal repayment of Project Bonds	(6,781)	(6,387)
	<u>(9,177)</u>	<u>(8,387)</u>
<b>INVESTING ACTIVITIES:</b>		
Advance to joint venture partner	-	(984)
Deferred costs	(1,245)	(4,302)
Investment in Limited Partnership	(35,125)	-
Additions to Brilliant power facility and terminal station	(1,722)	(1,434)
Additions to ALGS power facility	(258)	(165)
Additions to Brilliant Expansion	(287)	(568)
Purchase of furniture, equipment and vehicles	(351)	(431)
	<u>(38,988)</u>	<u>(7,884)</u>
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>(16,891)</b>	<b>13,128</b>
<b>CASH AND EQUIVALENTS - beginning of year</b>	<b>50,567</b>	<b>37,439</b>
<b>CASH AND EQUIVALENTS - end of year</b>	<b>\$ 33,676</b>	<b>\$ 50,567</b>
<b>CASH AND EQUIVALENTS CONSIST OF:</b>		
Restricted cash and temporary investments	6,767	6,559
Cash and temporary investments available for operations	26,909	44,008
	<u>\$ 33,676</u>	<u>\$ 50,567</u>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ 6,920	\$ 7,314

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

## **COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED MARCH 31, 2011**

#### **1. Columbia Power Corporation**

##### **(a) Structure and Financing**

Columbia Power Corporation (CPC) is wholly owned by the Province of British Columbia (the Province). 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.

Prior to October 2010, PPPJV held beneficial interest to assets related to the Waneta Expansion project, although legal title was held by Waneta Expansion Power Corporation (WEPC) also a jointly owned corporation, on a 50/50 basis by CPC and an indirect subsidiary of the Trust. WEPC does not prepare financial statements. CPC continues to hold an interest in the assets related to the Waneta Expansion project through a promissory note due to WEPC for \$72 million due 5 years after the commencement of

## COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

**(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) CPC Waneta Holdings Ltd.**

CPC Waneta Holdings Ltd. (CPC Waneta) is solely owned by CPC. Its purpose is to be party to the investment in the Waneta Expansion Limited Partnership through the Amended and Restated Waneta Expansion Limited Partnership Agreement and the Waneta Expansion General Partner Shareholder Agreement.

**(g) 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, the Brilliant Expansion and ALGS, and receives all of the resulting electrical power. In return, BC Hydro provides BPC, BEPC and ALPC with a fixed amount of capacity and energy from the BC Hydro system.

## COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2011

#### (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 test.

#### (iii) Facilities Interconnection and Investment Agreement (FIIA)

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(g)(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 Ltd. (Powerex), (a subsidiary of BC Hydro) 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 and Services 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(g)(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.

##### BEPC

Under a Services Agreement, Fortis Pacific operates and maintains the Brilliant Expansion on behalf of BEPC.

## COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

**(vi) 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. The Final Acceptance Date for the Brilliant Expansion is pending the satisfactory resolution of all project deficiencies.

**(vii) 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.

**(viii) 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.

**(ix) 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 1, 2010. Power sales under the agreement commenced in August 2009.

**(x) Confirmation of Sale of Unit Commitment Service (Confirm)**

Upon commencement of commercial operation of the Brilliant Expansion under the Confirm, regulated upgrade energy is sold from Brilliant Power Corporation to Brilliant Expansion Power Corporation, on a market basis.

**(xi) Electricity Purchase Agreement 2010**

In October 2010, a new agreement was signed with BC Hydro to continue to provide 100% of the entitlement of ALGS to BC Hydro for the period January 2016 to December 2045. This agreement also extends the 1998 agreement to December 2015.

**(xii) Partnership Agreements**

The General Partner Shareholder Agreement between Fortis Inc., CPC Waneta, CBT Waneta Expansion Power Corp. and Waneta Expansion General Partner Ltd. (WEGP) sets out certain rights and obligations in respect of the conduct of WEGP including representation on WEGP's Board of Directors.

Waneta Expansion Amended and Restated Limited Partnership Agreement (Limited Partnership Agreement) between Fortis Inc., CPC Waneta, CBT Waneta Expansion Power Corp. and WEGP sets out that the business and purpose of the Partnership will be to own, develop, design, construct, operate and maintain the Waneta Expansion Project and to do all things necessary to accomplish this purpose. The agreement sets out the ownership structure whereby the partnership has issued to Fortis Inc. 510 units, to CPC Waneta 325 units and to CBT Waneta Expansion Power Corp. 165 units.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**(xiii) CPC Services Agreement**

The CPC Services Agreement between CPC and the Waneta Expansion Limited Partnership (WELP) sets out the services performed by CPC for WELP in the management of the Waneta Expansion project and establishes the process for how CPC will be reimbursed for costs incurred in the provision of the services.

**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:

**(a) Consolidated Financial Statements**

These consolidated financial statements and notes include CPC's operations and interests in CPC Waneta, and its joint ventures PPPJV, BPC, BEPC and ALPC. Given that CPC is the sole shareholder of CPC Waneta, CPC Waneta is fully consolidated in CPC's financial statements. 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, CPC Waneta, and the joint ventures have been eliminated.

**(b) Temporary Investments**

Temporary investments are recorded at 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 capital 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.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**(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) Brilliant Expansion**

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
----------------	---------

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

**(iv) 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 term of lease
Vehicles	-	straight line over 8 years

**(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) Financing Costs**

Expenditures incurred in issuing the Series A, B and C Brilliant Project Bonds and Series A Arrow Lakes Project Bonds are recorded with the Bonds and amortized using the effective interest method.

## COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

**(f) EcoEnergy Grants**

The ecoEnergy for Renewable Power is a program operated by the Government of Canada to invest in Canada's supply of clean energy. The ecoEnergy Program provides Brilliant Expansion Power Corporation a grant of \$10.00 per megawatt-hour of eligible production. The ecoEnergy grant earned through eligible production in 2009/10 and 2010/11 is recorded as revenue.

**(g) 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(g)(ii)) and FIIA (Note 1(g)(iii)). Regulated upgrade revenues, revenues from the Brilliant Expansion and ALGS revenues are recognized when entitlements are delivered. Deferred revenue arises in BPC when prepaid expenses cannot be recognized as revenue under the Brilliant Power Purchase Agreement until expensed.

**(h) Financial instruments**

Canadian generally accepted accounting principles require financial instruments be classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available for sale or other financial liabilities. CPC designated its financial instruments as follows:

Cash and temporary investments include deposits in banks and short-term money market instruments. They are classified as held-for-trading and measured at fair value and all gains and losses are included in the Statement of Income in the period in which they occur. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties under no compulsion to act. CPC invests funds with the British Columbia Investment Management Corporation and has funds in the ST2 pooled investment portfolio that holds Canadian money market investments maturing within 15 months.

Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities and project bonds are classified as other financial liabilities and are also measured at amortized cost.

CPC's financial instruments and their carrying values compared to their fair values are as follows:

The fair values of cash, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short term maturity of these instruments.

Since CPC has classified Long term bonds as "Other Financial Liabilities", CPC has measured these at amortized cost using the effective interest method as required under CICA Handbook Section 3855.

## COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

**(i) 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.

**(j) Taxes**

CPC is exempt from corporate income taxes.

**(k) 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. Foreign exchange gains and losses are included in the determination of net income.

**(l) 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. Items requiring the use of significant estimates include the amortization of capital assets and rights, and the valuation of the promissory note. Actual results could differ from these estimates.

**(m) International Financial Reporting Standards (IFRS)**

The Budget Transparency and Accountability Act specifies that the Government and government organizations conform to the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, unless otherwise directed by Treasury Board. Accounting standards for senior government are understood to mean standards established by the Public Sector Accounting Board (PSAB), which directs Government Business Enterprises (GBE) to adhere to International Financial Reporting Standards (IFRS). Treasury Board has directed CPC to adopt IFRS.

CPC is adopting IFRS effective April 1, 2011. CPC will implement the required accounting policy changes under IFRS and CPC's financial statements for the year ended March 31, 2012 (with comparative financial results for 2011) will be prepared in accordance with IFRS.

## COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2011

### 3. Risk Management and Financial Instruments

CPC is exposed to a number of financial risks in the normal course of its operations, including market risks resulting from fluctuations in commodity prices, interest rates and foreign currency exchange rate risks, as well as credit risks and liquidity risks. The nature of the risks and CPC's strategy for managing these risks has not changed significantly from the prior period.

The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under section 3862 of the CICA Handbook.

During 2009, section 3862 was amended to require disclosures about the inputs to fair value measurements, including classification within a hierarchy that prioritizes inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices); and Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

CPC considers its fair valued assets, cash and temporary investments, to meet the Level 1 criteria.

#### (a) Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. CPC does not consider itself to be significantly exposed to credit risk since its power sales are mainly to BC Hydro and Powerex, both Provincial Crown Corporations. Other power sales are with FortisBC, a regulated utility. CPC's loan receivable is due from BEPC, a related company jointly owned with CBT, also a Provincial Crown Corporation. The promissory note receivable also does not expose CPC to credit risk given that it is due from WELP, with its shareholders (CPC, CBT, and FortisBC) responsible for the repayment equal to their proportionate share.

#### (b) Liquidity risk

Liquidity risk refers to the risk that CPC will encounter difficulty in meeting obligations associated with financial liabilities. CPC regularly monitors its cash flows and balances and maintains a cash surplus which can be utilized by the joint ventures of CPC/CBT for short-term financing. CPC does not believe that it will encounter difficulty in meeting its obligations associated with financial liabilities.

#### (c) Market Risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: exchange rate risk, interest rate risk and price risk. CPC does not use derivative products to manage these risks.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEAR ENDED MARCH 31, 2011****i) Exchange rate risk**

Exchange rate risk refers to the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. CPC realizes most revenues and all significant expenses in Canadian dollars and is therefore not significantly exposed to currency fluctuations. Some of the power sales in Brilliant Expansion Power Corporation joint venture are transacted at short-term market prices in US dollars. Consolidated revenue from these short-term market sales equaled \$1.3 million for 2010/11 (2009/10 - \$2.2 million) and is included in the "Sale of power" line item in the Consolidated Statement of Income. A one cent change in the Canadian dollar relative to the US dollar represents an impact of approximately \$6,000 in revenue.

**ii) Interest rate risk**

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. CPC's debt is at a fixed interest rate and is therefore not exposed to interest rate risk.

**iii) Price risk**

Price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The majority of CPC's power sales agreements are at long-term fixed rates and are therefore not exposed to price risk. Some of the power sales in Brilliant Expansion Power Corporation joint venture are transacted at short-term market prices and are therefore subject to price risk. Consolidated revenue from these short-term market sales equaled \$1.3 million for 2010/11 (2009/10 - \$2.2 million) and is included in the "Sale of power" line item in the Consolidated Statement of Income. A one dollar per megawatt-hour change in the short-term market price of power represents approximately \$40,000 in revenue.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**4. 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.

BEPC cash includes a US dollar account and a letter of credit account. The US dollar account is for collection of US dollar sales to Powerex. The letter of credit account secures letters of credit issued to BC Hydro for development security under the GPG EPA and 2006 EPA (notes 1(g)(viii) and 1(g)(ix)).

(\$ in thousands)	<u>2011</u>	<u>2010</u>
<b>Restricted</b>		
Debt service reserve fund		
Canadian dollar bank account	\$ 3,931	\$ 3,926
Operating reserve account		
Canadian dollar bank account	1,361	1,348
Letter of credit		
Canadian dollar bank accounts	1,475	1,285
	<u>6,767</u>	<u>6,559</u>
<b>Available for operations</b>		
Canadian dollar money market fund	7,315	39,920
Canadian dollar bank accounts	18,881	4,082
US dollar bank accounts	803	6
	<u>26,909</u>	<u>44,008</u>
	<u>\$33,676</u>	<u>\$50,567</u>

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**5. Accounts receivable and unbilled revenue**

(\$ in thousands)	<u>2011</u>	<u>2010</u>
Accounts receivable	\$ 4,926	\$ 3,249
Unbilled revenue	4,978	5,196
	<u>\$ 9,904</u>	<u>\$ 8,445</u>

Accounts receivable consists of CPC's share of the sale of power revenue receivable in Arrow Lakes Power Corporation and Brilliant Expansion Power Corporation, ecoENERGY grant receivable in Brilliant Expansion Power Corporation, Management fees receivable and recovery of operating expenses from the Trust's share of the joint ventures.

Unbilled revenue consists of CPC's share of earned revenue in Brilliant Power Corporation that has not yet been billed to FortisBC as of year-end. The billing occurs semi-annually in May and November of each year.

**6. Capital Assets**

(\$ in thousands)	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>NBV 2011</u>	<u>NBV 2010</u>
BPC power facility	\$109,511	\$25,252	\$ 84,259	\$ 84,561
BPC terminal station	13,551	3,267	10,284	10,712
BPC lands	2,509	-	2,509	2,509
ALPC power facility	137,811	24,764	113,047	115,493
ALPC transmission	10,745	3,017	7,728	8,106
ALPC lands	3,679	-	3,679	3,679
BEPC power facility	121,956	7,789	114,167	116,158
Computer systems	1,409	858	551	613
Furniture and equipment	1,164	531	633	678
Leasehold improvements	1,798	818	980	1,096
Vehicles	210	179	31	55
	<u>\$404,343</u>	<u>\$66,475</u>	<u>\$337,868</u>	<u>\$343,660</u>

**7. Expansion Rights**

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. In October 2010, the Waneta Expansion right (CPC's share was \$12.7 million) was transferred to WELP in exchange for a non-interest bearing Promissory Note (see Note 11).

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**7. Expansion Rights (continued)**

(\$ in thousands)	<u>2011</u>	<u>2010</u>
Expansion right	\$13,225	\$25,925
Less: Accumulated amortization	<u>(1,173)</u>	<u>(843)</u>
	<u>\$12,052</u>	<u>\$25,082</u>

**8. Power Sales Right**

CPC's 50% share of the ALPC 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.

(\$ in thousands)	<u>2011</u>	<u>2010</u>
Power sales right	\$11,376	\$11,376
Accumulated amortization	<u>(7,310)</u>	<u>(6,348)</u>
	<u>\$ 4,066</u>	<u>\$ 5,028</u>

**9. Due from Joint Venture Partner**

During the year, CPC advanced no (2010 - \$11.0 million) cash reserves to BEPC to allow the venturers' equity invested in BEPC to be transferred to PPPJV for Waneta Expansion development purposes. The loan balance includes \$684,000 (2010 - \$527,500) of accrued interest. 50% of this related party loan relates to the Trust's share of BEPC and is considered due from CPC's joint venture partner. The loan will be repaid after year end. CPC has also reached an agreement with CBT to adjust its interest in WEPC to 58% from 50% in exchange for \$5.76 million to reflect the ownership structure as a result of the WELP investment.

**10. Deferred Costs**

Deferred costs consisted of CPC's share of project development costs related to the Waneta Expansion project. These were mainly costs related to design engineering, environmental assessment, legal, financing, management and overhead items and were carried on the balance sheet based on management's judgment of anticipated future events. In October 2010 Waneta Expansion development costs were transferred to WELP in exchange for a non-interest bearing Promissory Note (see Note 11).

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

(\$ in thousands)	<u>Deferred Costs at March 31, 2010</u>	<u>2010/11 Changes</u>	<u>Deferred Costs at March 31, 2011</u>
Development costs Waneta Expansion	\$ 19,084	\$ (19,084)	\$ -

## COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED MARCH 31, 2011

#### (b) Waneta Expansion Project Status

The Waneta Expansion project is a project to install an additional power generation facility with a capacity of 335 megawatts at the existing Waneta dam and to build a 10 km transmission line from the new facility to the Selkirk substation. The Waneta dam is owned by Teck Resources Ltd. (Teck) (formerly Teck Cominco Metals Ltd.) and British Columbia Hydro and Power Authority (BC Hydro). The Selkirk substation is owned by BC Hydro.

In 1994, CPC purchased from Teck the rights to undertake an expansion. One half of the rights were transferred to CBT in 2000.

In October 2010, CPC Waneta Holdings Ltd. (32.5% interest), CBT Waneta Expansion Power Corp. (16.5% interest), and Fortis Inc. (51% interest) formed a limited liability partnership called the Waneta Expansion Limited Partnership (WELP). On October 1, 2010, all deferred development costs and expansion rights related to the Waneta Expansion Project were transferred to WELP in exchange for a \$72 million non-interest bearing Promissory note to WEPC (see Note 11).

The power generation facility is being constructed under a \$587 million Design-Build Contract between WELP and SNC-Lavalin Inc.

#### 11. Promissory Note

On October 1, 2010, all expansion rights and deferred development costs related to the Waneta Expansion Project were transferred to WELP in exchange for a \$72 million Promissory Note payable to WEPC. The Promissory Note is non-interest bearing and is payable on the fifth anniversary of the commercial operation date of the Waneta Expansion Project. The commercial operation date is estimated to occur in 2015, therefore the Promissory Note is estimated to be repaid in 2020, ten years from the date of issuance. The \$72 million Promissory Note was discounted, using an effective interest rate of 5.5%, to its present value at March 31, 2011 of \$42,750,000 (CPC's 58% share \$24,795,000).

CPC has recorded a write-down equivalent to the difference between its 50% share of the carrying value of the development costs and expansion right prior to the transfer and the present value of its 58% share of the Promissory Note (after adjusting its interest in WEPC - see Note 9).

#### 12. Long Term Bonds

##### BPC 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%.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

ALPC Bonds

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%.

As described in note 13, ALPC exercised the option to redeem the Bonds in April 2011. Therefore, the full amount of the debt, as well as the deferred financing charges, are shown as current at March 31, 2011.

Series	Coupon rate	Effective rate	Maturity date	CPC's Portion of Principal Outstanding	
				2011	2010
(\$ in thousands)					
BPC A	8.93%	9.06%	May 31, 2026	\$ 38,486	\$ 39,606
BPC B	6.86%	7.00%	May 31, 2026	11,277	11,675
BPC C	5.67%	6.39%	May 31, 2026	20,641	21,455
ALPC A	5.39%	6.27%	March 31, 2015	22,775	27,224
				93,179	99,960
		Current portion		(25,286)	(6,781)
				67,983	93,179
		Less: financing costs		(1,720)	(2,017)
				\$66,173	\$91,162
<b>Principal repayments next five years:</b>					
		2012		\$ 25,285	
		2013		2,701	
		2014		2,907	
		2015		3,130	
		2016		3,370	
		<b>Subsequent years</b>		55,786	
				\$ 93,179	

**13. Subsequent Event and Deferred Bond Issue Costs**

On April 5, 2011, ALPC exercised its option to redeem its Series A Bonds. The proposed redemption date is May 5, 2011 and the total redemption price will be \$48.4 million which includes interest and a redemption premium of \$2.8 million.

On the same date, ALPC issued \$350 million principal amount of Series B Bonds with a coupon rate of 5.516% which is due April 5, 2041. The proceeds from the Series B Bond issue will be used to pay for amounts owing on the Series A Bond redemption.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**13. Subsequent Event and Deferred Bond Issue Costs (continued)**

The above transactions will impact ALPC's financial results as follows:

- The debt associated with the Series A Bonds will be redeemed.
- The current portion of the debt associated with the Series B Bonds will be included in current liabilities.
- The long term portion of the debt associated with the Series B Bonds will be included in long term liabilities.
- The net proceeds of the Series B Bond issue will be distributed to the owners, CPC and CBT Arrow Lakes.

The Series B Bonds are secured on a limited recourse basis by charges against the ALGS Facility and Transmission assets related material contracts, licenses, permits, approvals, authorizations and insurance coverages.

Certain costs associated with obtaining the new debt were incurred prior to March 31, 2011. They have been included in CPC's other assets as Deferred Bond Issue Costs for \$396,000. In fiscal 2012, these deferred costs will be presented as an offset to the cost of the new debt.

**14. Share Capital**

Authorized:

6 common shares, no par value

Issued:

6 common shares                      \$6

**15. Contributed Surplus**

Contributed surplus represents \$250,000,000 in cash contributions and \$25,925,000 in expansion rights granted by the Province, and \$140,000 contributed in kind by BC Hydro between 1996 and 2000 to allow CPC to invest in power projects.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**16. Capital Disclosures**

CPC's capital management objectives are to:

- o Target a long-term capital structure with sufficient debt to finance the Waneta Expansion project;
- o Finance the debt portion of the capital structure with fixed rate, longer term debt approximately matching the term of relevant power sales agreements;
- o Maintain investment grade credit ratings to support continued access to cost effective capital.

CPC's capital consists of shareholder's equity plus debt.

(\$ in thousands)	<b>2011</b>	<b>2010</b>
Debt	\$ 93,179	\$ 99,963
Shareholder's equity	373,484	367,011
	<b>\$ 466,663</b>	<b>\$ 466,974</b>

**17. 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 to the Columbia Basin Fish and Wildlife Compensation Program to compensate for fish entrainment for as long as fish are entrained in the ALGS. In 2010/11 the contribution was \$204,000 (2009/10 - \$227,000). This funding will be 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 which are being actively managed by BEPC.

**(d) Office Long Term Lease Commitment**

CPC has entered into operating leases for office premises for the next eight years. The minimum annual lease payments total is currently \$147,000 per year and continues to increase incrementally each year until it reaches \$167,000 by March 31, 2019.

## **COLUMBIA POWER CORPORATION NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**(e) Commitment to WELP**

Under the Limited Partnership Agreement, CPC Waneta has committed to fund its obligations to WELP to carry out the Waneta Expansion project.

**18. Contingencies**

CPC's operating and project construction management 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. The impact, if any, of future legislative or regulatory requirements on specific projects and their related deferred costs cannot currently be estimated.

**19. Grants-in-Lieu of Property Taxes**

ALPC and BEPC are exempt from property taxes but pay grants-in-lieu of property taxes to host and impacted local governments based on the 185 and 120 megawatt capacities of the ALGS and Brilliant Expansion respectively. In 2010/11 the charge per megawatt was \$1,428 (2009/10 - \$1,327).

Columbia Power Corporation was directed by the Province to make payments of the grants-in-lieu of property taxes to the host and impacted local governments.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**20. Changes in Non-cash Working Capital**

(\$ in thousands)	2011	2010
<b>Changes in non-cash working capital:</b>		
Accounts receivable	\$ (1,458)	\$ 2,144
Due from joint venture partner	(595)	-
Prepaid expense	279	(119)
Accounts Payable and Accrued Liabilities	172	(1,982)
Accounts Payable to Related Parties	439	(54)
Accrued Interest	(158)	(143)
Deferred Revenue	138	(124)
Other	-	2
	\$ (1,183)	\$ (276)

**21. Pension Plans**

CPC and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plan Act*. The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the act applies. The Public Service Pension Plan is a multi-employer defined benefit pension plan. Under joint trusteeship, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in future contributions. The most recent actuarial valuation (March 31, 2008) determined the Plan had a surplus. Despite the surplus, the Public Service Pension Board of Trustees was required to implement a contribution rate increase of 0.15% each, for plan members and employers to meet the funding requirements of the Pension Benefits Standards Act. The increases went into effect April 1, 2009. Contributions to the Plan by CPC in 2010/11 were \$268,000 (2009/10 - \$346,000).

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, 2011 as \$192,000 (2010 - \$201,000) on a discounted cash flow basis.

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

**22. Related Party Transactions**

CPC is related through common ownership to its joint ventures with the Columbia Basin Trust. CPC is also related through indirect common ownership to all Province of British Columbia ministries, agencies, Crown Corporations and public sector organizations that are included in the provincial government reporting entity.

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 considered to possess commercial substance and are consequently recorded at the exchange amount. Related party transactions and balances are summarized in the following table:

<b>Related Party</b>	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
<b>BC Hydro</b>		
Accounts Receivable	1,600	1,500
Accounts Payable	10	-
Sales of Power	30,523	27,400
Administration and Management	93	124
Operations and Maintenance	88	8
<b>BCTC (combined with BC Hydro July 2010)</b>		
Prepaid Expenses	-	30
Operations and Maintenance	-	38
Deferred Development Costs	7	16

**COLUMBIA POWER CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED MARCH 31, 2011**

<b>Related Party</b>	<b>2011</b>	<b>2010</b>
	(\$ in thousands)	
<b>Powerex</b>		
Accounts Receivable	20	170
Sales of Power	1,246	2,132
Administration and Management	45	49
<b>Province of BC</b>		
Prepaid Expenses	1,641	1,561
Deferred Development Costs	137	88
Water Rental Fees	4,842	4,765
Administration and Management	247	359
Operations and Maintenance	4	4
<b>Columbia Basin Trust</b>		
Capital Assets	137	-
Deferred Development Costs	85	108
Accounts Payable	284	-
Administration and Management	849	965
Operations and Maintenance	4	-
<b>Joint Ventures</b>		
Accounts Receivable	704	646
Management fee	1,040	1,643

**23. Comparative Figures**

Certain 2010 figures have been reclassified to conform with the current year's presentation.

## Glossary

### BENCHMARKS

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

### BOND RATING

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

### CANADIAN ELECTRICITY ASSOCIATION (CEA)

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

### CANAL PLANT AGREEMENT

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

### CAPACITY

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

### COLUMBIA RIVER TREATY

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

### DEBT SERVICE COVERAGE RATIO (DSCR)

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

### DEBT-TO-EQUITY RATIO

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

### 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, HEALTH AND SAFETY MANAGEMENT SYSTEM

The part of the overall management system that includes organizational structures,

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planning activities, responsibilities, practices, procedures, processes and resources for developing, implementing, achieving, reviewing and maintaining the environmental and health and safety policies.

#### GREEN POWER

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

#### MEGAWATT-HOUR (MWH)

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

#### MEGAWATT (MW)

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

#### OPERATION, MAINTENANCE AND ADMINISTRATION (OMA)

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

#### OWNER'S REPRESENTATIVE

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

#### VERTICALLY INTEGRATED UTILITY

A utility that provides generation, transmission and distribution services to its customers.

#### WATER RENTAL

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



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