# Columbia Power Corporation

# 2016/17 – 2018/19
# SERVICE PLAN

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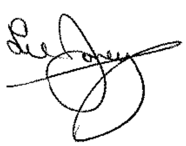
# Accountability Statement

The 2016/17 - 2018/19 Columbia Power Corporation (Columbia Power) Service Plan was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC Reporting Principles. The plan is consistent with government's strategic priorities and fiscal plan. I am accountable for the contents of the plan, including what has been included in the plan and how it has been reported. I am responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of January 27, 2016, have been considered in preparing the plan. The plan contains estimates and interpretive information that represents the judgement of management as to the financial outcome and the risks associated with meeting those targets.

The performance measures presented are consistent with the Taxpayer Accountability Principles (TAP), Columbia Power's mandate and its goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of Columbia Power's operating environment, forecast conditions, risk assessment and past performance.

Signature



Lee Doney,

Board Chair

# Table of Contents

**Accountability Statement** ..... **i**

**Strategic Direction and Context** ..... **1**

**Performance Plan** ..... **2**

**Financial Plan** ..... **9**

Summary of Financial Outlook ..... 9

Capital Plan and Major Projects ..... 12

**Appendices** ..... **13**

Appendix A: Hyperlinks to Additional Information ..... 13

Appendix B: Subsidiaries and Operating Segments ..... 14

# Strategic Direction and Context

Columbia Power Corporation (Columbia Power), a commercial Crown corporation, operates under an agency agreement with the Province to develop power projects within British Columbia. Columbia Power owns and operates hydro power assets in the Columbia Basin. This service plan foresees the continued safe and reliable operation of existing facilities, the generation of clean hydropower, and support for Columbia Power's continued reinvestment in clean energy projects utilizing cash flow from its investments. This service plan provides continued support for community sponsorship and a dividend return to the Province of British Columbia.

Each year, Columbia Power receives a Mandate Letter (the Letter) from the Minister of Energy and Mines, which sets out the corporate mandate, including high-level performance expectations, public policy issues and strategic priorities. The Letter directs Columbia Power to conduct its operations and financial activities in a manner that is consistent with the legislative, regulatory and policy framework established by government including Taxpayer Accountability Principles. Columbia Power's 2016/17 Mandate Letter outlines three priorities:

1. Efficiently operate commercially viable, environmentally sound and safe power project investments for the benefit of the Province of British Columbia and act as the manager of power project ventures with Columbia Basin Trust.
2. Act as the Owner's Representative for the Waneta Expansion Project.
3. Explore, with BC Hydro, opportunities for selective investment.

Columbia Power, in consultation with its shareholder, also selectively evaluates industry, community and First Nations energy-related development initiatives.

# Operating Environment

Columbia Power's operating facilities, as well as Independent Power Producers (IPPs), provide energy to a domestic power market where there is a single dominant wholesale purchaser. Availability of transmission capacity to adjacent power markets in Alberta and the US Pacific Northwest is constrained due to limited transmission capacity and limited demand for power in the near term. The operating environment is complex and includes federal and provincial regulators, an international treaty, as well as local, regional, American, and First Nations stakeholders. There are no anticipated changes to Columbia Power's operating environment that would significantly affect the results from operations for its existing investments. Columbia Power is also focused on developing economically viable power projects in collaboration with existing partners.

Columbia Power actively assesses its operating environment to ensure risks that could impact performance are identified and addressed with appropriate mitigation actions. For the fiscal 2016/17 planning period, Columbia Power has evaluated its risks and how to manage these risks using a variety of strategies, as outlined in its Risk Matrix/Management Table.

# Performance Plan

# Goals, Strategies, Measures and Targets

The purpose of this section is to provide a clear understanding of how Columbia Power's goals and strategies ensure the company meets its three mandated priorities while supporting Government's strategic direction. Columbia Power's goals include: the successful completion of the Waneta Expansion Project; efficient and reliable plant operations; effective financial planning; and the continued pursuit of selective investment opportunities.

Columbia Power's performance measures framework follows the *Budget Transparency and Accountability Act* requirements for performance measures, benchmarks and targets, and is linked to the specific goals, objectives and strategies outlined in this service plan. The framework also reflects Columbia Power's commitment to Taxpayer Accountability Principles (TAP) of cost consciousness, accountability, and appropriate compensation, and adheres to the Office of the Auditor General's Performance Reporting Principles for the BC public sector. The company made significant progress last fiscal year incorporating TAP throughout the organization according to the TAP Action Plan. Ongoing activities include strategic engagement with staff, Board of Directors, and Ministry of Energy and Mines and the refinement of an evaluation plan with focus on efficiency and performance measures.

Columbia Power believes the performance measures are appropriate for its activities and present the results of the company's performance against its mandate. Where possible, performance targets are verified by external benchmarks. The data underlying the company's performance is, in almost all cases, independently audited or verified by a third party or parties. The performance measures can be found in the following document: Source & Reliability of Performance Plan Data.

The changes in targets from previous years to current year are as follows:

- **Goal 1:** The Waneta Expansion project commenced commercial operation in April 2015. The project team is focusing on ensuring there is a positive revenue stream and continued operations in future years by addressing deficiencies, warranty issues and outstanding deliverables under the Design-Build Contract. The targets for the construction phase of the project have ended as the facility is now operating. Performance targets and measures for Waneta Expansion are now reflected in Goal 3 – Effective Financial Planning.
- **Goal 2:** The Equivalent Reliability Rate (ERR) in hours and MWh targets have been revised to reflect the most current projections of planned outages. Operations, Maintenance and Administration (OMA) targets have been revised to reflect the most current estimates of budgets and resources required for each of the operating facilities.
- **Goal 3:** Annual revisions to Columbia Power's financial projections include all known and anticipated events that may affect revenues and expenditures. Targets in Goal 3 are adjusted annually to reflect the most recent forecasts for each joint venture entity and Columbia Power's consolidated financial position.
- **Goal 4:** Changes to the goals and targets are updated to reflect progress on development projects.

# Goal 1: Successful close-out of the Waneta Expansion Project

- Act as an Owner's Representative for the Waneta Expansion Project to ensure a positive revenue stream and continued operations in future years by successfully closing out the Design-Build Contract, including management of deficiencies, warranty items and all other responsibilities to Final Acceptance, targeted for April 2018.

- Complete the transition to Waneta Expansion Limited Partnership Operating Committee and provide operational and financial oversight.

## Strategies

- Monitor and administer the Design-Build Contract to ensure the Waneta Expansion Project is delivered according to schedule, while meeting scope and quality expectations to protect future income.
- Continue to perform monthly forecast and risk registry reviews to provide early detection of potential budget variances.
- Meet or exceed all Environmental Assessment Certificate commitments and permit conditions.

## Performance Measure 1: Waneta Expansion is on-schedule

| Performance Measure | 2016/17 Benchmark | 2014/15 Actual | 2015/16 Forecast | 2016/17 Target | 2017/18 Target | 2018/19 Target |
|---|---|---|---|---|---|---|
| 1.1 Waneta Expansion (WAX) construction completed early and Contract Closeout On-Schedule to Final Acceptance | Early or On-Schedule Final Acceptance (no negative variance from schedule) | WAX On-Schedule | WAX Construction Completed six weeks ahead of schedule | Contract Close-out On-Schedule to Final Acceptance | Contract Close-out On-Schedule to Final Acceptance | N/A[1] |

## Discussion

Waneta Expansion achieved Substantial Completion six weeks before the Substantial Completion Milestone Date of May 17, 2015, as specified in the Design-Build Contract. The subsequent benchmark is for Waneta Expansion to achieve Final Acceptance by the Final Acceptance Milestone Date of April 1, 2018. The target is to achieve no negative variance from schedule, indicating the project is proceeding with closeout of the Design-Build Contract on schedule to Final Acceptance. Schedule delays may increase the cost of the Design-Build Contract and other contracts and may increase the risk of the Owner and Design-Build Contractor entering into dispute and have an adverse financial impact on Columbia Power's financial results.

[1] Final acceptance targeted for April 1, 2018. This target will no longer be valid after fiscal 2017/18.

### Performance Measure 2: Waneta Expansion is on-budget

| Performance Measure | 2016/17 Benchmark | 2014/15 Actual | 2015/16 Forecast | 2016/17 Target | 2017/18 Target | 2018/19 Target |
|---|---|---|---|---|---|---|
| 1.2 Waneta Expansion (WAX) is On-Budget | On or under-budget (no negative variance from budget) | WAX On-Budget | WAX Construction Completed On-Budget | On-Budget to Final Acceptance | On-Budget to Final Acceptance | N/A[2] |

### Discussion

The target is to achieve Final Acceptance on or under budget. The fixed price Design-Build Contract provides as much price certainty as possible. Unresolved issues between the Owner and the Design-Build Contractor in carrying out their contractual obligations may potentially increase project costs, and reduce return on investment. Monthly budget forecast and risk register reviews will be performed until Final Acceptance to proactively identify and mitigate budget variances.

## Goal 2: Efficient and reliable plant operations

- Enhance Columbia Power's asset management process to ensure long-term profitability and reliability of its facilities through effective and efficient plant operation and maintenance, including improved performance of third party service providers.

### Strategies

- Maximize availability of the power generation facilities of Arrow Lakes Power Corporation (ALPC) and Brilliant Expansion Power Corporation (BEPC). Agreements with BC Hydro provide both ALPC and BEPC with an energy entitlement based only on availability of the operating units.
- Manage joint ventures effectively and efficiently and achieve Operations, Maintenance and Administration (OMA) costs within industry norms by improving availability of the generating units and financial performance through the application of an Asset Management System.

[2] Final acceptance targeted for April 1, 2018. This target will no longer be valid after fiscal 2017/18.

## Performance Measure: Reliable Plant Operations

| Performance Measure | 2016/17 Benchmark | 2014/15 Actual | 2015/16 Forecast | 2016/17 Target | 2017/18 Target | 2018/19 Target |
|---|---|---|---|---|---|---|
| 2.1 Equivalent Availability Rate (Hours) | ALH[3]: 90.5%<br>BRX[4]: 90.5% | ALH: 88.3%<br>BRX: 88.7% | ALH: 87.7%<br>BRX: 89.2% | ALH: 89.4%<br>BRX: 92.2% | ALH: 88.0%<br>BRX: 89.5% | ALH: 94.2%<br>BRX: 92.2% |
| 2.2 Equivalent Availability Rate (MWh) | ALH: 98.4% [5]<br>BRX: 97.7%[6] | ALH: 98.5%<br>BRX: 96.1% | ALH: 97.2%<br>BRX: 97.0% | ALH: 97.8%<br>BRX: 97.6% | ALH: 97.8%<br>BRX: 97.4% | ALH: 98.4%<br>BRX: 97.6% |
| 2.3 OMA Costs ($ per MWh) | ALH: 10.3[7]<br>BRX: 15.1[8] | ALH: 8.0<br>BRX: 11.7 | ALH: 7.8<br>BRX: 11.6 | ALH: 7.2<br>BRX: 12.1 | ALH: 7.2<br>BRX: 12.2 | ALH: 7.8<br>BRX: 12.0 |

## Discussion

Plant availability benchmarks are a measure for Columbia Power to assess asset reliability performance relative to industry benchmarks as well as internal criteria. Targets reflect Columbia Power's annual performance forecasts based on planned outage durations required for routine maintenance, periods of major maintenance and capital projects.

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

**Measure 2.1 – Equivalent Availability Rate (Hours):**

This measure accounts for the number of hours each generating unit is available annually, including both planned and forced outages, relative to the total number of generating hours available. This metric compares per cent of time the generating unit is available in hours to the benchmark. Over the forecast period, ALH and BRX will experience variability in the duration of planned outages. Longer maintenance duration times are intended to focus on long-term reliability improvements.

The 2015 benchmark is 90.5% and is derived from the five year average equivalent rate for medium-sized hydro plants in operation for less than forty-five years, as provided by the Navigant Study. The ALH unplanned outage rate was adjusted down from 2% to 1.7% for the 2018/19 budget year resulting in a higher availability rate (Hours). The target was adjusted to encourage Columbia Power to strive for better performance.

[3] ALPC holds Arrow Lakes Generating Station (ALH).
[4] BEPC holds Brilliant Expansion Generating Station (BRX).
[5] The unplanned outage assumption for determining the long-term baseline was reduced to 1.66% unplanned outages averaged across all earning months from 1.66% applied in the second worst earning month.
[6] See Footnote 5.
[7] Previous benchmark was blended for ALH and BRX and based on a large sample that was found not to be representative of each individual facility. This is the first year the benchmarks have been split by generation station.
[8] See Footnote 7.

**Measure 2.2 – Equivalent Availability Rate (MWh):**

Columbia Power uses historic and forecasted production levels based on internal data for an internal benchmark. The benchmark reflects an optimal scenario of reliable plant operations while efficiently completing maintenance outages. This metric is the number of entitlement megawatt-hours (MWh) available to each facility annually accounting for both planned and forced (unplanned) outages, relative to the total entitlement MWh available to each facility. This metric allows a comparison of Columbia Power's revenue generating performance to the internal benchmark.

- The long-term target is to meet or exceed the benchmark. The fluctuation of targets is due to the variability in the duration of the planned outages.
- Exceptionally low unplanned/forced outages occurred in 2014/15 allowing ALH to exceed both the target and benchmark. It is anticipated that ALH will be at or near the benchmark by 2018/19.
- At BRX, due to prolonged forced outages, the benchmark and target were missed in 2014/15. By reducing the planned outages and continuing with the advancement of asset management it is expected that the benchmark will be achieved in future periods.

**Measure 2.3 – Operations, Maintenance and Administration Costs (OMA) ($ per MWh)**

This metric is a measure of plant operational cost efficiency which consists of the Operations, Maintenance and Administration (OMA) costs for each facility (net of allowance for outages) divided by entitlement energy for that facility, in dollars per megawatt-hour (MWh). Columbia Power participates in a Navigant Study annually to gauge plant performance relative to industry. The benchmark utilizes the Partial Function Cost benchmark from the Navigant Study as an input to benchmark OMA costs. Advancements in the Navigant Study have resulted in a change in the benchmark sample sizing whereby ALH and BRX now have a separate benchmark based on a targeted sample range of similar sized facilities. The benchmark was established based on a sample range of 16 facilities for ALH and 13 facilities for BRX. The Navigant Study includes a global population base and therefore normalizes regional burdened labour rates and $CAD/$US conversions.

# Goal 3: Effective financial planning

- Deliver effective financial planning as a critical component of optimizing shareholder value. Access to key financial information drives sound decision making for managing existing operations, management of projects and development of projects. Sophisticated financial models are continually advanced and developed to provide sensitivity analysis over short-range and long-range planning.

## Strategies

- Maximize revenue generated through investment in power projects and control costs associated with operations of existing facilities.
- Monitor and control corporate costs in adherence to Taxpayer Accountability Principles through cost control measures and monthly variance reporting.
- Manage working capital to meet Columbia Power's mandate and selective development initiatives while returning free cash-flow to the shareholder through a dividend.

- Invest in management systems necessary to carry out enhancements to the asset management process, including improvements to the financial, asset assessment and performance data required for review, analysis and optimization.

## Performance Measure 1: Net Income

| Performance Measure ($000) | 2014/15 Actual | 2015/16 Forecast | 2016/17 Target | 2017/18 Target | 2018/19 Target |
|---|---|---|---|---|---|
| 3.1 Net Income | 9,649 | 27,428 | 42,885 | 43,718 | 43,943 |

### Discussion

Columbia Power's net income is the most appropriate measure to gauge the company's financial performance. Net income is closely monitored throughout the reporting period and audited annually. All components are rigorously reviewed for reliability and consistency with government reporting standards and the Taxpayer Accountability Principles.

- Net Income is anticipated to grow considerably in 2016/17 as Waneta Expansion will have completed a full year of operation. In addition, increased pricing per the new sales agreement for ALPC commenced in January 2016.

Service plan targets are prepared in adherence to the Taxpayer Accountability Principles of cost consciousness, accountability and appropriate compensation. Variances from targets are reported monthly to the Finance and Audit Committee and on a quarterly basis to the Board of Directors and the Province. Corrective measures are taken to achieve forecast net income if variances are identified.

## Performance Measure 2: EBITDA Growth

| Performance Measure ($000) | 2016/17 Benchmark | 2014/15 Actual | 2015/16 Forecast | 2016/17 Target | 2017/18 Target | 2018/19 Target |
|---|---|---|---|---|---|---|
| 3.2. EBITDA | EBITDA Growth | 20,301 | 38,309 | 53,385 | 54,018 | 53,926 |

### Discussion

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

External benchmarks are difficult to identify because Columbia Power is unique as a small, unregulated commercial Crown working within a largely regulated environment. In terms of financial benchmarks, Columbia Power's corporate characteristics are similar to an independent power producer. The growth targets are based on Columbia Power's historic and forecasted performance. EBITDA is particularly effective as a means to compare the performance of the joint ventures entities.

- EBITDA is anticipated to grow in 2016/17 for the reasons identified under Performance Measure 1: Net Income.

# Goal 4: Continue to pursue selective investment opportunities

- Continue to collaborate with BC Hydro to add incremental value to the Province by advancing the Elko Redevelopment Project (Elko) through Definition Phase.
- Explore, with BC Hydro, other opportunities for redevelopment.

## Strategies

- Actively participate in the Joint Development Committee (JDC) with BC Hydro on the Elko Redevelopment Project and explore other investment opportunities.
- Work through the JDC to identify other potential redevelopment opportunities in BC Hydro's system.
- Collaborate with Government, First Nations, stakeholders and industry partners to identify and selectively evaluate opportunities to utilize Columbia Power's expertise in project development and bring additional value to the shareholder.

## Performance Measure 1: Development of New Projects

| Performance Measure | 2016/17 Benchmark | 2014/15 Actual | 2015/16 Forecast | 2016/17 Target | 2017/18 Target | 2018/19 Target |
|---|---|---|---|---|---|---|
| 4.1 Development of New Projects | Power Projects defined and approved for development | Elko Identification Phase Completed & Early Definition Phase Commenced | Elko Definition Phase<br><br>Continue activities for new project(s) | Elko Definition Phase Complete<br><br>Continue activities for new project(s) | Elko Procurement Complete and Implementation Phase Commences<br><br>Continue activities for new project(s) | Elko Implementation Phase Continues<br><br>Continue activities for new project(s) |

## Discussion

The JDC is committed to identifying and developing existing BC Hydro-owned hydroelectric generating facilities throughout the Province.

The Elko Redevelopment Project is the first identified project by the JDC. The Elko Redevelopment Project advanced to the Definition Phase in 2015/16 with support from the Columbia Power and the BC Hydro Board of Directors.

As per Item 6 of the Amended and Restated Agency Agreement, March 26, 2009, Columbia Power is required to receive authorization from Treasury Board to make a material decision to construct, purchase or otherwise acquire a power project.

Columbia Power's project evaluation process includes, where applicable, decision gates from Boards and regulatory bodies after initiation, identification, definition and implementation phases to ensure technical feasibility, economic viability, risks, First Nations and stakeholder interests are sufficiently addressed and accepted prior to advancing projects to the next phase.

Columbia Power's development opportunities support Government's strategic priorities.

# Financial Plan

The following financial overview presents the actual performance for 2014/15; the forecast for the current year 2015/16; and forecasts for 2016/17, 2017/18 and 2018/19.

## Summary of Financial Outlook: Columbia Power Consolidated

| $ IN THOUSANDS | 2014/15 Actual | 2015/16 Forecast | 2016/17 Budget | 2017/18 Budget | 2018/19 Budget |
|---|---|---|---|---|---|
| Operating Revenue | | | | | |
| Service Agreement | 1,280 | 1,415 | 649 | 445 | - |
| Management Fee | 415 | 368 | 386 | 405 | 425 |
| Income (Loss) From Equity Accounted Investees | | | | | |
| Brilliant Power Corporation | 10,750 | 11,226 | 11,551 | 11,987 | 12,404 |
| Brilliant Expansion Power Corporation | 10,361 | 10,631 | 10,667 | 10,095 | 8,794 |
| Arrow Lakes Power Corporation | 210 | 2,970 | 15,689 | 16,207 | 16,903 |
| Waneta Expansion Power Corporation | 1,113 | 1,176 | 1,242 | 1,312 | 1,386 |
| Waneta Expansion Limited Partnership | - | 15,800 | 18,421 | 18,929 | 19,473 |
| Total Operating Revenue | 24,129 | 43,586 | 58,605 | 59,380 | 59,385 |
| Expenses | | | | | |
| General & Administrative Costs | 3,136 | 4,544 | 3,557 | 3,688 | 3,773 |
| Project Development Cost | 73 | 100 | 750 | 750 | 750 |
| Community Sponsorship | 95 | 110 | 390 | 391 | 392 |
| Grants-in-Lieu of Property Taxes | 524 | 523 | 523 | 533 | 544 |
| Total Operating Expenses | 3,828 | 5,277 | 5,220 | 5,362 | 5,459 |
| EBITDA | 20,301 | 38,309 | 53,385 | 54,018 | 53,926 |
| Amortization and Financing | | | | | |
| Interest Expense | 11,382 | 11,393 | 11,419 | 11,446 | 11,474 |
| Amortization of Property, Plant & Equipment | 211 | 238 | 382 | 451 | 417 |
| Less: Interest Revenue | 941 | 750 | 1,301 | 1,597 | 1,908 |
| Total Amortization & Financial Expenses | 10,652 | 10,881 | 10,500 | 10,300 | 9,983 |
| Net Income | 9,649 | 27,428 | 42,885 | 43,718 | 43,943 |
| Total Liabilities | 298,096 | 298,795 | 299,521 | 300,275 | 301,059 |
| Accumulated Surplus & Retained Earnings | 190,757 | 216,185 | 220,047 | 232,220 | 214,292 |
| Capital Expenditures | 20,795 | 11,834 | 6,183 | 12,176 | 3,536 |

# Key Forecast Assumptions & Financial Risks

- Columbia Power is seeking to grow strategically in the power generation business by utilizing its expertise in all aspects of power project development: feasibility assessment; community and First Nations engagement; permitting; procurement; contract negotiations; risk allocation; construction oversight; commissioning and operation. Columbia Power assumes both human and capital resources will be sufficient to ensure its objectives are attainable but does foresee some challenges in attracting and retaining staff.
- Columbia Power's assets provide stable streams of revenue. Factors that could affect commercial operations include capital and operating requirements of the assets under management, and regulatory and/or legislative changes imposed on existing assets. Operations and maintenance services for ALPC and BEPC are provided by FortisBC Pacific Holdings Inc. under a management agreement. Operational risks experienced by the service provider may impact the provision of services.
- Future dividends to the Province will be determined based on annual earnings, working capital requirements, contingency reserves, reserves for future sustaining capital requirements, and new power project investment opportunities. A dividend policy has been reviewed and approved by the Province and is incorporated into this service plan.

# Forecast Risks & Sensitivities

The financial outlook for the forecast period indicates significant growth in net income in 2016/17 and again in 2017/18. This growth is due to Waneta Expansion being in commercial operation since April 2015 and ALPC receiving higher power prices in January 2016 under the terms of a revised power purchase agreement with BC Hydro.

**Key assumptions affecting the forecasted operations are as follows:**

- Plant availability for ALH, BRX, and Waneta Expansion are as forecasted.
- Capital and operating needs of the assets are as forecasted.
- Development opportunities will continue to be evaluated using Columbia Power's project management process.
- Operating cost inflation, including water rental increases, is approximately 2% per year.
- Columbia Power assumes adequate working capital reserves to maintain operations, meet liabilities from sources outside the Government, and achieve goals within the service plan period and into the future.

The issues, impacts and potential magnitude of the risks associated with the above assumptions and how these risks are managed are provided in the following table: Risk Matrix/Management Table.

Plant availability has a large impact on forecasted revenues. Unanticipated Operations and Maintenance cost increases and capital requirements could impact net revenues. If the ALH plant outage factor were to increase by one percentage point, revenues and net income would decline by $680,000 in 2016/17. If the BRX plant outage factor were to increase by one percentage point, revenues and net income would decline by $362,000 in 2016/17. To compensate for the potential variability of plant availability, a provision for unplanned outages is incorporated into the revenue projections for ALH and BRX. To impact the revenue results from Operations, plant availability will have to fall below the targets presented in Goal 2 of the performance measures.

During project development, meeting regulatory and environmental requirements and securing commercial agreements can be challenging. The inability to secure required agreements could impact future power project viability. Columbia Power's Service Plan includes capital expenditures for new project development. The development costs are deferred and are not anticipated to impact net income in the service plan period. If it is determined that a project is no longer viable, the development costs are fully expensed at that time. Project viability depends on Columbia Power's ability to meet regulatory and environmental standards, obtain project approval from Treasury Board, and to secure commercial agreements required for project implementation.

# Management's Perspective on the Financial Outlook

Management anticipates that the financial performance of the company will meet expectations.

The financial outlook for the planning period includes areas of potential volatility. The primary concern would be the reliability of income from the Waneta Expansion Limited Partnership (WELP). As the Waneta Expansion Project achieved substantial completion and the facility is generating electricity, the income anticipated from WELP could be affected by unforeseen incidents that may impact forecast revenues. As a result of significantly low water levels in 2015/16, the facility is not operating at maximum capacity and latent defects may not be discovered during the warranty period. Greater certainty in the income projection from WELP will be known after final acceptance, anticipated in April 2018.

The development of new projects through the JDC with BC Hydro is evolving. The first project agreement has yet to be finalized and is contingent on agreement on allocation of risk and approval of commercial terms.

# Major Capital Projects

| ($ in millions) | Targeted Completion Date | Approved Anticipated Total Cost of Project | Project Cost to Dec 31, 2015 |
|---|---|---|---|
| Capital Project #1<br>Waneta Expansion Project[9] | April 1, 2018 | 228,783 | 216,009[10] |

## Capital Project #1 – Waneta Expansion Project

The Waneta Expansion Project successfully achieved operational status in April 2015. One of the largest hydroelectric projects recently under construction in British Columbia, it is now generating 335 MW of clean, hydroelectric energy by sharing water from the Waneta Dam.
The project is owned by the Waneta Expansion Limited Partnership (WELP), a limited partnership owned by Fortis Inc. (51 per cent), Columbia Power Corporation (32.5 per cent), and Columbia Basin Trust (the Trust) (16.5 per cent). WELP is managed by a general partner, Waneta Expansion General Partner Ltd. (WEGP), which is also owned by Fortis Inc., Columbia Power, and the Trust. WEGP has a seven-member Board of Directors comprised of four nominees of Fortis Inc., two nominees of Columbia Power, and one nominee of the Trust. Columbia Power will continue to act as an Owner's Representative on behalf of the Waneta Expansion Project until Final Acceptance in April 2018. Management of deficiencies and warranty items will remain a prime focus until Final Acceptance. FortisBC Pacific Holdings Inc. operates and maintains the facility.

The risks associated with the project are disclosed in the following table:
Risk Matrix/Management Table.

[9] Capital spending forecast for Waneta Expansion in 2017/18 reflects costs to final acceptance for the project. Substantial Completion was achieved in 2015, as forecasted in previous service plans.
[10] Actual cost to September 2015 plus forecast expenditures to December 2015.

# Appendix A:

## Hyperlinks to Additional Information

- Corporate Governance
- Organizational Overview
- Mandate Letter
- Risk Matrix/Management Table
- Source & Reliability of Performance Plan Data

# Appendix B:

## Subsidiaries and Operating Segments

Columbia Power owns three hydropower facilities in joint venture partnership with Columbia Basin Trust (the Trust). These facilities are owned by corporations jointly owned by Columbia Power and indirect subsidiaries of the Trust, as follows:

**Arrow Lakes Power Corporation (ALPC)**: owns the Arrow Lakes Generating Station (ALH) and associated 48-kilometre transmission line from the power plant to BC Hydro's Selkirk Substation.

**Brilliant Expansion Power Corporation (BEPC)**: owns the Brilliant Expansion Generating Station (BRX).

**Brilliant Power Corporation (BPC)**: owns the Brilliant Dam and Generating Station (BRD) and the Brilliant Terminal Station.

The Boards of Directors of these corporations are comprised of six Directors, four nominated by Columbia Power and two nominated by the Trust. Columbia Power manages these assets on behalf of the joint ventures. Senior Management for these corporations is consistent with that of Columbia Power Corporation.

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

Most of the power generated at these facilities is committed under long-term sales agreements to two utilities, FortisBC and BC Hydro. Short-term sales of capacity and energy maximize revenue.

# Summary Financial Outlook Table
# Arrow Lakes Generating Station

| ($ in thousands) | 2014/15 Actual | 2015/16 Forecast | 2016/17 Budget | 2017/18 Budget | 2018/19 Budget |
|---|---|---|---|---|---|
| Revenues | 38,571 | 42,890 | 68,098 | 68,951 | 69,815 |
| Expenses | 11,759 | 11,858 | 12,124 | 12,275 | 12,128 |
| Amortization & Financing Expenses | 26,395 | 25,091 | 24,596 | 24,263 | 23,881 |
| Net Income (Loss) | 417 | 5,941 | 31,378 | 32,413 | 33,806 |
| Capital Expenditures | - | 268 | 2,039 | 853 | 879 |

## Capital Expenditures

The ALPC capital plan for the service plan period includes $2 million in capital expenditures for fiscal 2016/17 and $900 thousand for each of fiscals 2017/18 and 2018/19. The most significant costs are related to the replacement of the reservoir debris boom in 2016/17.

# Summary Financial Outlook Table
# Brilliant Expansion Power Corporation

| ($ in thousands) | 2014/15 Actual | 2015/16 Forecast | 2016/17 Budget | 2017/18 Budget | 2018/19 Budget |
|---|---|---|---|---|---|
| Revenues | 35,157 | 35,622 | 36,220 | 35,228 | 32,633 |
| Expenses | 9,610 | 9,411 | 9,918 | 10,066 | 10,043 |
| Amortization & Financing Expenses | 4,826 | 4,949 | 4,968 | 4,972 | 5,003 |
| Net Income | 20,721 | 21,262 | 21,334 | 20,190 | 17,587 |
| Capital Expenditures | - | 338 | 175 | 1,227 | 1,865 |

## Capital Expenditures

The BEPC capital plan for the service plan period includes $175 thousand in capital expenditures for fiscal 2016/17 and $1.2 million for fiscal 2017/18 and $1.9 million in 2018/19. The most significant costs relate to the first ten-year overhaul in 2017-18.

# Summary Financial Outlook Table
# Brilliant Power Corporation

| ($ in thousands) | 2014/15 Actual | 2015/16 Forecast | 2016/17 Budget | 2017/18 Budget | 2018/19 Budget |
|---|---|---|---|---|---|
| Revenues | 43,199 | 44,115 | 45,028 | 45,766 | 45,337 |
| Expenses | 12,355 | 12,739 | 13,545 | 13,984 | 13,257 |
| Amortization & Financing Expenses | 9,344 | 8,924 | 8,381 | 7,807 | 7,273 |
| Net Income | 21,500 | 22,452 | 23,102 | 23,975 | 24,807 |
| Capital Expenditures | 2,482 | 3,432 | 2,029 | 3,662 | 1,774 |

## Capital Expenditures

The BPC capital plan for the service plan period includes $2 million in capital expenditures for fiscal 2016/17, $3.7 million for fiscal 2017/18 and $1.8 million 2018/19. The most significant costs are related to various concrete rehabilitation and spillway gate refurbishment projects accounting for $2.6 million over the next three years.