

APPENDIX C: HERITAGE CONTRACT

WHEREAS on November 25, 2002, the Province of British Columbia announced its new Energy Plan; and

WHEREAS the Energy Plan outlines several Policy Actions designed to ensure British Columbians have continued access to sufficient supplies of dependable low-cost electricity; and

WHEREAS the Energy Plan provides in Policy Action #1 that a legislated heritage contract will be created between BC Hydro's generation line of business and its distribution line of business for a term of ten years initially.

THEREFORE, BCH Distribution and BCH Generation agree as follows.

Definitions

1. In this Agreement:

- (a) "BC Hydro" means the British Columbia Hydro and Power Authority;
- (b) "Commission" means the British Columbia Utilities Commission;
- (c) "BCH Distribution" means BC Hydro's distribution line of business;
- (d) "BCH Generation" means BC Hydro's generation line of business;
- (e) "Heritage Electricity" means the capacity, energy and ancillary services that BCH Generation is required to supply to BCH Distribution under this Agreement;
- (f) "Heritage Energy" means 49,000 GWh per year, less the energy delivered under the Skagit Valley Treaty, as may be adjusted from time to time in accordance with Section 8;
- (g) "Heritage Payment Obligation" means the annual payment determined in accordance with the procedure set out in Schedule A to this Agreement, as may be adjusted from time to time in accordance with Section 8;
- (h) "Heritage Resources" means the Electric Facilities and Thermal Facilities prescribed in Schedule A to the Terms of Reference, together with the related civil works and plant;
- (i) "Agreement" means this Heritage Contract including Schedule A;
- (j) "Terms of Reference" means Schedule A, Terms of Reference, to British Columbia Order in Council No. 0253, Approved and Ordered March 25, 2003; and
- (k) "Year" means fiscal year.

Electricity Supply

2. BCH Generation will provide the full capacity of the Heritage Resources to BCH Distribution on a priority call basis.

3. BCH Generation will supply up to the Heritage Energy to BCH Distribution, as required by BCH Distribution.
4. BCH Generation will deliver the Heritage Energy to BCH Distribution at the various points of interconnection of the generating stations included in the Heritage Resources with the BC Hydro transmission grid or at points of interconnection with other utilities, as appropriate.
5. BCH Distribution will be responsible for obtaining transmission services.

Ancillary Services

6. BCH Distribution may use the capacity available to it under Section 2 to either deliver energy to meet customer demand or to satisfy its ancillary service obligations.

Payment

7. On an annual basis, BCH Distribution will pay BCH Generation an amount equal to the Heritage Payment Obligation.

Adjustment

8. The parties acknowledge that the Commission may, by Order, adjust the Heritage Energy or Heritage Payment Obligation and any such adjustment will automatically adjust the Heritage Energy or Heritage Payment Obligation, respectively, under this Agreement without further action by the parties.

Information Exchange and Cooperation

9. Each party will continue to freely provide the other with any requested information to facilitate the coordinated and optimal operation of the BC Hydro system.

Dispute Resolution

9. In the spirit of coordinated operation of the BC Hydro system, the parties will make reasonable efforts to resolve disputes arising in relation to this Agreement at the staff level through implementation planning, cooperation and consultation. Issues will be elevated to more senior management levels within each party as needed to achieve timely resolution.

Term and Termination

11. This Agreement is effective for a minimum of 10 years, and thereafter until terminated by a government policy direction, with 4 years notice.

Dated this ____ day of _____, 2004.

BC Hydro Distribution

BC Hydro Generation

SCHEDULE A HERITAGE PAYMENT OBLIGATION

The Heritage Payment Obligation is the sum of the following cost and revenue components related to the Heritage Resources actually incurred by BCH Generation in a Year:

- (i) cost of energy: the cost of water fees and energy purchases (gas and electricity) required to supply Heritage Electricity;
- (ii) operating costs: all costs of operating and maintaining the Heritage Resources, including an allocation of corporate costs;
- (iii) asset related expenses: the costs of owning the Heritage Resources including depreciation, interest, finance charges and other asset related expenses;
- (iv) generation-related transmission assets: all costs or payments related to any generation-related transmission required by the Heritage Resources;
- (v) return on equity: the appropriate return on equity, currently based on Special Direction #8, on investments in Heritage Resources;

less,

- (vi) other revenues: any revenues BCH Generation receives from other services provided from the Heritage Resources including revenues related to Skagit Valley Treaty obligations, revenues from provision of ancillary services to the transmission operator in respect of third party use of the transmission system, revenues from sales of surplus hydro energy, and other miscellaneous revenues.