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10 January 2005

Mr. Robert J. Pellatt  
Commission Secretary  
British Columbia Utilities Commission  
Sixth Floor – 900 Howe Street  
Vancouver, BC V6Z 2N3

Dear Mr. Pellatt:

**RE: British Columbia Hydro and Power Authority (“BC Hydro”)  
2004/05 to 2005/06 Revenue Requirements Application  
British Columbia Utilities Commission (“BCUC” or “Commission”)  
Decision – 29 October 2004  
Directive 72 (page 212), Directive 73 (page 213)**

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The purpose of this letter is to inform the Commission of BC Hydro's intended response to the BCUC 29 October 2004 directives regarding the provision and use of engineering services within BC Hydro. The directives, at pages 212 and 213 of the Commission's decision regarding BC Hydro's 2004/05 and 2005/06 Revenue Requirements Application, are as follows:

*Directive 72: The Commission Panel requests BC Hydro to re-evaluate its delivery plan for engineering services and directs BC Hydro to file with the Commission by March 1, 2005 an action plan for changes to the delivery of engineering services that starts by allocating an initial target percentage of engineering projects for bid to outside consulting firms (not just low value commodity tasks bid to individual consultants) and culminates in open competitive processes for securing engineering services (either internal or external). Alternatively, BC Hydro may consider outsourcing the engineering function to an outside engineering firm(s), assuming BC Hydro would retain sufficient expertise to manage the procurement and delivery function as well as establishing standards and quality control.*

*Directive 73: The Commission Panel also directs Generation and Distribution to file by March 1, 2005 a business plan that starts immediately and clearly focuses on the ESG acting in the role of service provider rather than asset owner.*

BC Hydro recognizes the importance of the above directives to its purpose of delivering reliable power, at low cost, for generations. Engineering activities are vital to all electric utilities, and can have significant short and long-term impacts on performance and value provided to customers and shareholders. It follows that decisions related to the provision of engineering services within BC Hydro need to be made carefully and with the benefit of a thorough consideration of the options available to the company. For these reasons

BC Hydro believes that an integrated, two-stage response to the directives, as described below, is most useful.

The 01 March 2005 submission will include the following:

1. A summary of fundamental principles related to the provision of engineering services to companies like BC Hydro.
2. A brief summary description of key Generation and Distribution portfolio management practices, and a description of how those practices rely on engineering services.
3. A brief summary description of key Engineering management practices.
4. A summary of Fiscal year 2006 (01 April 2005 to 31 March 2006) business, work and resource plans, including targets for percentage of work being bid to outside consultants.
5. Building on items 1. to 4, descriptions of the spectrum of options and evaluation criteria that will be evaluated for the provision of engineering services within BC Hydro.

A further 01 September 2005 submission would include the following:

1. BC Hydro's final assessment of the options for the provision of engineering services to BC Hydro.
2. Action plans for the provision of engineering services within BC Hydro for fiscal year 2007 and beyond.

BC Hydro believes that the proposed response best responds to the directives articulated by the Commission in its 29 October 2004 decision.

Yours sincerely,



Richard Stout  
Chief Regulatory Officer