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1.0 Reference P.2.32

- 1.1.1 Does the proposed change for calculating the finance costs during construction not artificially increase the actual cost of new projects, particularly long duration projects which then leads to higher depreciation as well as interest and return on equity costs?

RESPONSE:

No, it appropriately allocates interest expense to the cost of new projects.

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2.0 Reference P.2.36, L17

- 1.2.1 Will this new capitalized cost for Site C be amortized from the beginning or will it just build up with costs and interest until Site C is either built or abandoned? Will BC Hydro absorb the loss of this fund if the Site C project is refused permission to proceed?

RESPONSE:

Please refer to the responses to SCCBC IR 1.23.3 and SCCBC IR 1.23.7.

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3.0 Reference P. 2-39, L52

- 1.3.1 Please list the major projects above \$1 mil. contributing to the increase in the Contributions in Aid during 2007.

RESPONSE:

BC Hydro cannot release details of individual customer projects due to confidentiality reasons.

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4.0 Reference P. 2-41, L.4 and P.2-55, L.15

- 1.4.1 Please explain why the net income requirement for 2007 is based on the equity at the end of 2007 rather than an amount somewhere near the mid-point between the end of 2006 and the end of 2007.

RESPONSE:

Please refer to the response to BCUC IR 1.225.3.1.

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5.0 Reference P.2-50, L.16

- 1.5.1 When was the sinking fund requirement first instituted? Briefly, what is the sinking fund requirement? List the investments held in the sinking fund. What rate of return is generated by the sinking fund compared to the average interest rate BC Hydro pays on its borrowing? What is the net cost of having the sinking fund to the ratepayers in 2007?

RESPONSE:

The sinking fund requirement was introduced with the Hydro & Power Authority Act (section 21, paragraph 18) in 1964. The requirement directed BC Hydro to set aside funds for any loan over 5 years that together with interest, is sufficient to provide for full repayment over a pre-specified period of time not exceeding 50 years. Accordingly, BC Hydro was directed to set aside 0.8278 per cent of the principal amount per year of any loan greater than 5 years as sinking fund installments. The sinking fund requirement for new loans and for future sinking fund payments on existing loans was eliminated in December 2005.

Investments within the sinking fund are limited to debt securities issued, insured, or guaranteed by the Government of Canada, a Canadian provincial government, or the US Federal Government. For short-term cash management purposes, sinking funds may also be invested in bcIMC's Short-term Canadian or US Fund, which are restricted to high-grade Canadian or US Dollar denominated short-term commercial paper issued by Canadian corporations.

Compliance with the sinking fund requirement was previously legislated and necessary to access the Province's borrowing program, along with their cost of debt. Borrowing through the Province or with the Provincial guarantee has provided a net benefit to ratepayers.

For forecasting purposes, BC Hydro assumes the sinking funds will earn a return equal to the Canadian long-term interest rate.

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6.0 Reference P.2-54, L.12

- 1.6.1 The amortization of Contributions in Aid (CIA) for 2007 is listed as \$21 mil, yet in the depreciation study, the lowest rate of the 99400 series (CIA) is 2.2%, which would amount to about \$23 mil on an opening balance of \$1079 original value of Contributions in Aid of Construction. Please explain the \$21 figure.

RESPONSE:

CIA amortization is calculated on all CIA assets, which have the same lives as their related assets. The \$21 million in CIA amortization for F2007 reflects the various rates for all CIA assets and not just the 99400 series.

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7.0 Reference Appendix F Revised

- 1.7.1 The 99400 series accounts for Contributions in Aid refer to pre 1996. What are the balances for the CIA accounts post 1995, and what is the amortization rate on each of these post 1995 amounts?

RESPONSE:

The balances for CIA accounts post 1995 are based on the same Profile IDs as their related assets. The amortization rate for each CIA account is the same as the amortization rate for the asset to which it is associated.

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8.0 Reference Powerex

- 1.8.1 Please provide a table for the years F2000 to F2006 showing the Powerex profits, as well as annual trading sales volumes in dollars and gigawatt hours.

RESPONSE:

Please refer to the response to BCUC IR 1.284.0.

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9.0 Reference Powerex

- 1.9.1 Explain precisely how the Powerex profit or loss on a trade of power sold by BC Hydro, as well as power purchased by BC Hydro is calculated.

RESPONSE:

The sale or purchase of power between Powerex and BC Hydro is governed by the Transfer Pricing Agreement (included in response to BCUC IR 1.68.0). The profit or loss on trading is calculated by subtracting the amount paid for all purchases from the amount received for all sales.

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10.0 Reference Powerex

- 1.10.1 Explain how a Powerex profit or loss is calculated on a sale of Columbia River Downstream Benefits to BC Hydro, and to third parties.

RESPONSE:

Powerex does not calculate profit or loss on the sale of Columbia River Downstream Benefits (“Canadian Entitlement”). The purchase price paid to the Province of B.C. for the Canadian Entitlement is added to the purchase price paid for all other Powerex purchases. That total is subtracted from the amount received from all sales (see the response to WAIT IR 1.9.1).

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11.0 Reference P.7-95 to 97

- 1.11.1 Is the BC Hydro Skagit Treaty yearly revenue payment recalculated periodically with the summation formula on page 7-97 to take into consideration changing inflation and interest rates? If so, how often is it being recalculated?

RESPONSE:

Yes, the yearly revenue payment takes into consideration changing inflation and interest rates. It is being recalculated every five years as per the first paragraph in Schedule A of the agreement.

It is noted that the first page of schedule A is missing from the application. A copy is attached for insertion at page 7-95.

SCHEDULE "A"

The annual amount to be accrued as revenue by B.C. Hydro pursuant to paragraph 10 of the Agreement will be established by the Province and B.C. Hydro every five years, commencing in 1991, in accordance with the following formulae. For the first five years of this Agreement, the actual amounts to be accrued as revenue by B.C. Hydro pursuant to paragraph 10 of the Agreement will be:

- (a) 1986- \$12.535 million U.S.;
- (b) 1987- \$12.974 million U.S.;
- (c) 1988- \$13.428 million U.S.;
- (d) 1989- \$13.898 million U.S.; and
- (e) 1990- \$14.384 million U.S.

i. The annual amount to be accrued as revenue from the Account will be in accordance with the calculations set forth below.

1. Solve for PV in the following formulae.

Prior to 2021:

$$PV = \left[\sum_{n=1}^{36-t} \frac{21,848}{(1+i)^n} + \sum_{n=1}^{81-t} \frac{1}{((1+i)/(1+p))^n} \right] + ACCT BAL_{t-1}$$

For 2021, and thereafter:

$$PV = \left[\sum_{n=1}^{81-t} \frac{1}{((1+i)/(1+p))^n} \right] + ACCT BAL_{t-1}$$

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12.0 Reference P.7-95, L.20

- 1.12.1 Does the interest credited to the Skagit Account form part of the annual BC Hydro revenue requirements in that this money is lent to BC Hydro for its operations?

RESPONSE:

By the Agreement with the Province, the balance in the deferred revenue account (Skagit Account) is to be either invested or used to offset long term borrowing at the prevailing market interest rates. The interest earned, or saved, is to be credited to the deferred revenue account.

BC Hydro credits the interest to the deferred revenue account and records the expense to finance charges. Finance charges are part of the revenue requirements.

Correspondingly, revenue recognized from the Skagit Agreement is included in BC Hydro revenues and is debited to the deferred revenue account. The following table shows the forecast interest and revenue included in the application.

Skagit Forecast Revenue and Interest recognized (in millions CDN \$)

| | <u>F07</u> | <u>F08</u> |
|-------------------------|------------|------------|
| Interest | 13 | 16 |
| Revenue | 19 | 19 |
| Revenue net of interest | <u>6</u> | <u>3</u> |

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13.0 Reference P.7-96 & 97

- 1.13.1 Please provide a table showing the present calculation of the Skagit Account from now until expiration of the contract in nominal dollars, with Annual payment received, the annual payment to BC Hydro, the balance of the account and the interest rate expected on the account funds. Indicate whether it is in Canadian or US dollars.

RESPONSE:

Please refer to the attached table.

**Skagit Deferral Account
Calculation of Revenue Recognition
Based on Calendar Year (in US\$)**

Calculation Every Five Years as per Schedule A of the Agreement between the Province and BC Hydro

Assumptions: 5 Year Average Interest Rate - 5.0%; 5 Year Average CPI - 2.6%

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| First calendar year in five year period minus | 1986 |
| First calendar year in next five year period = | 2006 (Period: 2006 - 2010) |
| Time expired in years (t) = | 20 |
| Time remaining to end of payments is 35 - t = | 15 |
| Time remaining to expiration of agreement = | 60 |

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| Annual Payment from Seattle City Light (SCL) | \$ 21,848,000 |
| Annual Operating & Maintenance (OM) Payment | \$ 175,876 |

Average 5 Year Short Term Interest/CPI = 2.3547%

| | |
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| Present Value of Cash Payments from SCL | \$ (227,158,468) |
| Present Value of OM Payment | (5,620,698) |
| Total | (232,779,166) |
| Deferral Account Balance - Dec 31, 2005 | (261,793,641) |
| Total Present Value of Deferral Account | \$ (494,572,807) |

Calculation of Revenue Recognized \$ 15,475,591

| Calendar Year | Deferral Account Opening Balance | Revenue Recognized (Inflated) | Annual Payment | Annual OM Payment (Inflated) | Interest on Deferral Account | Deferral Account Ending Balance |
|---------------|----------------------------------|-------------------------------|----------------|------------------------------|------------------------------|---------------------------------|
| 2006 | (261,793,641) | 15,871,766 | (21,848,000) | (180,379) | (13,024,234) | (280,974,487) |
| 2007 | (280,974,487) | 16,278,083 | (21,848,000) | (184,996) | (13,978,481) | (300,707,881) |
| 2008 | (300,707,881) | 16,694,802 | (21,848,000) | (189,732) | (14,960,217) | (321,011,028) |
| 2009 | (321,011,028) | 17,122,189 | (21,848,000) | (194,589) | (15,970,299) | (341,901,727) |
| 2010 | (341,901,727) | 17,560,517 | (21,848,000) | (199,571) | (17,009,611) | (363,398,392) |
| 2011 | (363,398,392) | 18,010,066 | (21,848,000) | (204,680) | (18,079,070) | (385,520,075) |
| 2012 | (385,520,075) | 18,471,124 | (21,848,000) | (209,920) | (19,179,624) | (408,286,495) |
| 2013 | (408,286,495) | 18,943,985 | (21,848,000) | (215,294) | (20,312,253) | (431,718,057) |
| 2014 | (431,718,057) | 19,428,951 | (21,848,000) | (220,805) | (21,477,973) | (455,835,885) |
| 2015 | (455,835,885) | 19,926,332 | (21,848,000) | (226,458) | (22,677,835) | (480,661,846) |
| 2016 | (480,661,846) | 20,436,446 | (21,848,000) | (232,255) | (23,912,927) | (506,218,582) |
| 2017 | (506,218,582) | 20,959,619 | (21,848,000) | (238,201) | (25,184,374) | (532,529,538) |
| 2018 | (532,529,538) | 21,496,185 | (21,848,000) | (244,299) | (26,493,345) | (559,618,996) |
| 2019 | (559,618,996) | 22,046,488 | (21,848,000) | (250,553) | (27,841,045) | (587,512,106) |
| 2020 | (587,512,106) | 22,610,878 | (21,848,000) | (256,967) | (29,228,727) | (616,234,923) |
| 2021 | (616,234,923) | 23,189,716 | (21,848,000) | (263,545) | (30,657,687) | (623,966,439) |
| 2022 | (623,966,439) | 23,783,373 | (21,848,000) | (270,292) | (31,042,330) | (631,495,689) |
| 2023 | (631,495,689) | 24,392,227 | (21,848,000) | (277,212) | (31,416,911) | (638,797,584) |
| 2024 | (638,797,584) | 25,016,668 | (21,848,000) | (284,308) | (31,780,180) | (645,845,404) |
| 2025 | (645,845,404) | 25,657,095 | (21,848,000) | (291,587) | (32,130,809) | (652,610,704) |
| 2026 | (652,610,704) | 26,313,917 | (21,848,000) | (299,051) | (32,467,383) | (659,063,221) |
| 2027 | (659,063,221) | 26,987,553 | (21,848,000) | (306,707) | (32,788,395) | (665,170,770) |
| 2028 | (665,170,770) | 27,678,434 | (21,848,000) | (314,559) | (33,092,246) | (670,899,140) |
| 2029 | (670,899,140) | 28,387,002 | (21,848,000) | (322,611) | (33,377,232) | (676,211,981) |
| 2030 | (676,211,981) | 29,113,710 | (21,848,000) | (330,870) | (33,641,546) | (681,070,688) |
| 2031 | (681,070,688) | 29,859,020 | (21,848,000) | (339,340) | (33,883,267) | (685,434,275) |
| 2032 | (685,434,275) | 30,623,411 | (21,848,000) | (348,028) | (34,100,355) | (689,259,246) |
| 2033 | (689,259,246) | 31,407,371 | (21,848,000) | (356,937) | (34,290,647) | (692,499,460) |
| 2034 | (692,499,460) | 32,211,399 | (21,848,000) | (366,075) | (34,451,848) | (695,105,983) |
| 2035 | (695,105,983) | 33,036,011 | (21,848,000) | (375,446) | (34,581,523) | (697,026,941) |
| 2036 | (697,026,941) | 33,881,733 | (21,848,000) | (385,058) | (34,677,090) | (698,207,356) |
| 2037 | (698,207,356) | 34,749,106 | (21,848,000) | (394,915) | (34,735,816) | (698,588,981) |
| 2038 | (698,588,981) | 35,638,683 | (21,848,000) | (405,025) | (34,754,802) | (698,110,125) |
| 2039 | (698,110,125) | 36,551,033 | (21,848,000) | (415,394) | (34,730,979) | (696,705,464) |
| 2040 | (696,705,464) | 37,486,739 | (21,848,000) | (426,028) | (34,661,097) | (694,305,850) |
| 2041 | (694,305,850) | 38,446,400 | (21,848,000) | (436,934) | (34,541,716) | (690,838,100) |
| 2042 | (690,838,100) | 39,430,628 | (21,848,000) | (448,119) | (34,369,195) | (686,224,787) |
| 2043 | (686,224,787) | 40,440,052 | (21,848,000) | (459,591) | (34,139,683) | (680,384,009) |
| 2044 | (680,384,009) | 41,475,317 | (21,848,000) | (471,357) | (33,849,104) | (673,229,154) |
| 2045 | (673,229,154) | 42,537,085 | (21,848,000) | (483,424) | (33,493,150) | (664,668,642) |
| 2046 | (664,668,642) | 43,626,035 | (21,848,000) | (495,799) | (33,067,265) | (654,605,672) |
| 2047 | (654,605,672) | 44,742,861 | (21,848,000) | (508,492) | (32,566,632) | (642,937,935) |
| 2048 | (642,937,935) | 45,888,278 | (21,848,000) | (521,509) | (31,986,162) | (629,557,328) |
| 2049 | (629,557,328) | 47,063,018 | (21,848,000) | (534,860) | (31,320,477) | (614,349,646) |
| 2050 | (614,349,646) | 48,267,832 | (21,848,000) | (548,552) | (30,563,895) | (597,194,261) |
| 2051 | (597,194,261) | 49,503,488 | (21,848,000) | (562,595) | (29,710,415) | (577,963,783) |
| 2052 | (577,963,783) | 50,770,777 | (21,848,000) | (576,997) | (28,753,698) | (556,523,701) |
| 2053 | (556,523,701) | 52,070,509 | (21,848,000) | (591,769) | (27,687,054) | (532,732,015) |
| 2054 | (532,732,015) | 53,403,514 | (21,848,000) | (606,918) | (26,503,418) | (506,438,836) |
| 2055 | (506,438,836) | 54,770,644 | (21,848,000) | (622,455) | (25,195,332) | (477,485,979) |
| 2056 | (477,485,979) | 56,172,773 | (21,848,000) | (638,390) | (23,754,927) | (445,706,523) |
| 2057 | (445,706,523) | 57,610,796 | (21,848,000) | (654,733) | (22,173,900) | (410,924,360) |
| 2058 | (410,924,360) | 59,085,632 | (21,848,000) | (671,494) | (20,443,487) | (372,953,708) |
| 2059 | (372,953,708) | 60,598,224 | (21,848,000) | (688,684) | (18,554,447) | (331,598,615) |
| 2060 | (331,598,615) | 62,149,539 | (21,848,000) | (706,314) | (16,497,031) | (286,652,422) |
| 2061 | (286,652,422) | 63,740,567 | (21,848,000) | (724,396) | (14,260,958) | (237,897,209) |
| 2062 | (237,897,209) | 65,372,325 | (21,848,000) | (742,940) | (11,835,386) | (185,103,210) |
| 2063 | (185,103,210) | 67,045,857 | (21,848,000) | (761,960) | (9,208,885) | (128,028,197) |
| 2064 | (128,028,197) | 68,762,231 | (21,848,000) | (781,466) | (6,369,403) | (66,416,835) |
| 2065 | (66,416,835) | 70,522,544 | (21,848,000) | (801,471) | (3,304,238) | 0 |

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14.0 Reference Skagit Treaty 2007 Payment

- 1.14.1 Please show how the 2007 Skagit payment from Seattle City Light is divided up between, generation, transmission and the Skagit account.

RESPONSE:

The payment is not allocated between business areas. The payment is recorded in the Skagit deferral account.

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15.0 Reference Appendix D, Schedule C-2

1.15.1 Briefly explain the Alcan settlement details.

RESPONSE:

Please refer to the response to BCUC IR 1.284.0.

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16.0 Reference Appendix F, P.IV-82 to IV-84

- 1.16.1 Please explain the logic of using a 50 year amortization on the distribution power poles (App. F III item 25201), when the original life table shows only 82% of poles surviving 49.5 years and 0% surviving 52.5 years.

RESPONSE:

Please refer to the response to BCUC IR 1.221.9.1.

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17.0 Reference Appendix F iv, Revised

- 1.17.1 The revised summary of amortization rates eliminated the negative salvage values shown on the original summary. Please explain how negative salvage values could be present in the existing rates, as per the original App. F iv, but in the new revised App. F iv the existing amortization rates don't include negative salvage.

RESPONSE:

Please refer to the response to BCUC IR 1.220.1.

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18.0 Reference Appendix F item: Meters 59401

- 1.18.1 Please explain The 25 year amortization rate when only about 50% of the meters last 12.5 years according to P. IV-156?

RESPONSE:

When developing an average service life estimate, a number of factors are considered. These factors include the mortality analysis as represented by the x's on page IV-155, the conversations by Gannett Fleming with the company operational staff and management, the general assessment of the plant as observed through site and facility tours, and on the judgement of Gannett Fleming.

An average service life selection based only on a fit to the historic retirement experience would have resulted in an average service life of 12 years. However, after discussions with company operating representatives it was considered by Gannett Fleming that the historic retirement data was influenced by accounting practices and treatments, resulting in life indications that were not consistent with the actual physical life characteristics.

In developing the recommended average service life for this account Gannett Fleming specifically considered the following factors in addition to the 12 year life indication of the historic mortality experience:

- Operating staff indicated that it is expected that meters should have a 25 to 30 year life.**
- BC Hydro had previously used a 30 year life for meters.**
- Gannett Fleming experience from other peer electric utilities of average service life for meters in the 20 to 30 year range.**
- The company plans to convert to electric/digital meters which tend to have a shorter average service life.**

Based on all of the above factors, Gannett Fleming considers the reduction from a 30 year to 25 year average service life to be reasonable.

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19.0 Reference Appendix H, Mica Stators

- 1.19.1 Will there be any loss of total power generated by the repair of stators at Mica, or will BC Hydro be able to manage the water flows to prevent spilling water during the stator repair work?

RESPONSE:

Assuming average annual inflows, it expected that the Mica stator replacements will be completed without the need to spill water past the Mica Generating Station.

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20.0 Reference Appendix H

- 1.20.1 Would the turbine upgrades proposed for units 1 & 2 at Mica be able to be carried out without the loss of total power generated, or will some water have to be spilled? If, some generation is lost please quantify.

RESPONSE:

Pending the approval of the business case, the outages for Units 1 and 2 will be coordinated with the Mica stator replacements.

Please refer to the response to WAIT IR 1.19.1.

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21.0 Reference Appendix I, item 2.3.3

- 1.21.1 Does BC Hydro have a ramping rate which it tries to follow for flows below the Peace Canyon Dam? Please explain the constraints which BC Hydro now uses on Peace Canyon Dam flows.

RESPONSE:

BC Hydro does not have a ramping rate restriction below the Peace Canyon Dam under the current Water License or the draft Water Use Plan.

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22.0 Reference Appendix R, P.32

- 1.22.1 Under the existing DSM plan what incentives would a home owner be eligible for, if the owner is renovating a 1950's home in the lower mainland, replacing a natural gas furnace of that vintage with an air source heat pump, adding insulation to the attic and replacing single pane windows with energy star windows?

RESPONSE:

BC Hydro Power Smart does not offer any incentives for replacing a gas furnace with an air source heat pump as this would add additional electric load to the BC Hydro system. There is presently a \$100 incentive offered by BC Hydro and NRCAN as part of the Terasen Gas ENERGY STAR Furnace Upgrade Program for including an energy-efficient variable speed motor as part of a gas furnace upgrade. For upgrading new windows from industry standard to ENERGY STAR models, BC Hydro offers \$1.00 per square foot installed, averaging \$200-\$300 per home.

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23.0 Reference the Canal Plant Agreement

- 1.23.1 Under the new Canal Plant Agreement, is FortisBC able to operate their Kootenay River power plants at 100% of capacity within the limits of their energy entitlement, if FortisBC were to provide their required reserves at another power plant?

RESPONSE:

Section 6.7 (b) of the Canal Plant Agreement dated 1 July 2005 (the “CPA”) provides:

“For those ancillary services requirements that can be provided through the use of Aggregate Entitlement (such as reserves and regulation and frequency response), the Entitlement Parties may satisfy ancillary services requirements either from Aggregate Entitlement or otherwise in their discretion. The parties acknowledge that as of the date of this Agreement the regulation and frequency response requirement of the Entitlement Parties is 2% of the Aggregate Entitlement.”

As a result, if the Entitlement Parties were to provide their required reserves (including spinning reserves, and supplemental reserves) via sources other than Entitlement Capacity, they would be able to use their Entitlement Capacity up to 100 per cent of the agreed amounts as provided in the CPA. BC Hydro notes that Entitlement Capacity is as defined in the CPA and is not necessarily dependent on how an Entitlement Party operates its Plants.