

July 13, 2004

BC Hydro and Power Authority
10th Floor – 333 Dunsmuir Street
Vancouver, BC
V6B 5R3

Attention: Ms. Mary Hemmingsen
Manager, Power Planning & Portfolio Management

Dear Ms. Hemmingsen:

Re: Issue Report of the Independent Reviewer

I. Background

The Vancouver Island Call For Tenders (“VICFT”) sets out the requirements and guidelines for the conduct of bidders, particularly in respect of restrictive communications during the transaction period. Specifically, Sections 15.3, 15.5, 18.1, 18.20 and Addendum 5 provide a regime for BC Hydro to receive input from and provide responses to registered and pre-qualified bidders.

On June 30, 2004, the Independent Reviewer was provided copies of correspondence that were sent to pre-qualified bidders by BC Hydro at the request of the BCUC. These letters are summarized below:

- A letter dated June 22 from BCUC to BC Hydro requesting that copies of five different letters (described below) BCUC received in May and June, 2004 be provided to pre-qualified bidders;
- Two letters from two pre-qualified bidders on certain concerns relating to the VICFT and the Preliminary Form Agreements;
- Two letters from two registered bidders that failed the pre-qualification on certain concerns with the prequalification process; and
- A letter from a party that is neither a registered bidder nor a pre-qualified bidder on various concerns with the VICFT.

II. Our Observations

Copies of the letter from BCUC and five attachment letters (collectively the “Letter”) were received by BC Hydro’s regulatory group via regular mail on June 28. As requested by BCUC, BC Hydro sent the Letter by fax to each pre-qualified bidder on June 29, 2004. The Independent Reviewer was made aware of these events and provided with a copy of the Letter on June 30, 2004.

The VICFT communication regime has the intent of providing a transparent and objective treatment of all communications between bidders and BC Hydro. In our view, BC Hydro has implemented a sound process where submissions, comments or questions have been consistently dealt with in a “bidder blind” format, which affords a high level of objectivity and transparency to the deliberations and decisions.

III. Comments

We offer the following specific comments on each type of letter:

- **Two letters from pre-qualified bidders** – The process of BC Hydro administering the VICFT in an objective and unbiased manner, through the use of the “bidder blind” protocol, has potentially been impaired by the public receipt and release of these two letters. The impact of this potential impairment could be viewed as minimal because BC Hydro had issued the final form EPA to pre-qualified bidders prior to its receipt of the Letter from BCUC; therefore it is unlikely that the correspondence received from the two pre-qualified bidders could have influenced the EPA revisions through what appears to be lobbying to the BCUC:
- **Two letters from bidders that did not pre-qualify** – The release of these letters caused us no specific concern with respect to the fairness of the process, and may have served to help increase the transparency of the process;
- **Letter from a party that is neither a registered bidder nor a pre-qualified bidder** – The release of this letter by BC Hydro from a party with no standing in the VICFT may be considered inappropriate;
- **Letter from BCUC** – This letter, dated June 22 and received by BC Hydro on June 28, informs originators of the letters that BCUC is not responding to any matter but simply conveys a request and copies to BC Hydro. As this letter was received after the issuance of the Final Form Agreements on June 23, we have no specific concerns with it.

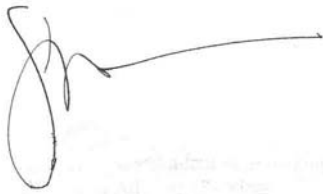
With respect to the above, the Independent Reviewer has two (2) areas of concern:

1. Whether there has been a breach of the “no lobbying” provision in the VICFT, and
2. Whether BC Hydro conducted sufficient internal due diligence on the request of BCUC to send copies of all five (5) letters to pre-qualified bidders.

We ask BC Hydro to review whether forwarding the Letter to pre-qualified bidders is in compliance with the terms of the VICFT. If there is a determination that there has been a breach of the terms of the VICFT, we further ask that this letter and the remedial actions taken by BC Hydro be disclosed to bidders.

Yours truly,

PricewaterhouseCoopers LLP



Joe Parker
Partner