

March 11, 2004

British Columbia 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: Supplemental to Second Report of the Independent Reviewer

On January 30, 2004, BC Hydro suspended the Call For Tenders for Capacity and Associated Energy Supply on Vancouver Island (“CFT”). The suspension was lifted on March 5th with the issuance of Addendum 10.

Our findings and conclusions with respect to this period follow.

FINDINGS

Suspension and Resumption of CFT

On December 15, 2003, BC Hydro filed its response to bidder comments with the BCUC and issued Addendum 5 which provided bidders with an extended opportunity to reply to the responses and to submit further comments on the evaluation methodology.

On January 13, 2004, BC Hydro filed the bidder replies and further comments with the BCUC and issued Addendum 8 which provided for additional changes to the CFT and related documents. However, BC Hydro did not revise the Pre-Qualification submission date of February 18, 2004.

On January 23, 2004, BCUC responded (the “BCUC Letter”).

Addendum 9, issued on January 30, 2004, suspended the CFT to allow time for BC Hydro to review and consider the BCUC Letter.

Addendum 10, issued on March 5th, resumed the CFT and provided a revised schedule which set the Pre-Qualification Form submission date as March 29, 2004 with revisions to all subsequent CFT Schedule dates.

The original CFT of October 31, 2003 outlined a process to seek registered bidder comments to the CFT design and procedures. This process included various submissions to BCUC noted above so that

BC Hydro and the registered bidders might receive some measure of regulatory certainty with respect to EPA approvals at the conclusion of the CFT. BCUC concurred with this process in its correspondence of October 23, 2003.

The Independent Reviewer is of the view that the BC Hydro's action to suspend and resume the CFT was a reasonable and appropriate action to achieve some measure of regulatory certainty.

Addendum 10 Changes to the CFT

As a result of the BC Hydro review and consideration of the BCUC Letter, BC Hydro has made certain changes to the CFT. Although the comments contained in the BCUC Letter are provided in the spirit of being helpful to BC Hydro and bidders, there are no "determinative" positions taken by BCUC or imposed upon BC Hydro. Notwithstanding the stated context of the BCUC Letter, it is reasonable to expect that BC Hydro would have to consider the BCUC comments with considerable import if some desired measure of regulatory certainty is to be achieved.

Some of the changes to the CFT detailed in Addendum 10 are clarifications of certain previously modified provisions of the CFT, administrative in nature, or are proposed revisions to the EPA and, in our view, do not adversely impact the fairness of the CFT process.

The Independent Reviewer notes the inclusion of a right to BC Hydro to revise the Minimum Portfolio Size at a date prior to the submission of Tenders. Our understanding is that BC Hydro is seeking the ability to better serve the ratepayers of Vancouver Island by assuring the most optimum supply capacity through this CFT. As with all rights provided for in the CFT, the Independent Reviewer will wish to ascertain that if any right is exercised by BC Hydro during the course of the CFT that its use is consistent with the fairness and transparency objectives established for the conduct of the CFT.

There are, however, four changes, namely the:

1. revision to the term of the EPA;
2. deletion of the Transmission Deferral Credit;
3. provision of a partial tolling option; and
4. inclusion of a second tier decision regime,

that warrant further comment by the Independent Reviewer.

These changes in our view are in direct response to the comments provided in the BCUC's Letter of January 23, 2004.

1) Term

Originally the CFT allowed bidders to choose an EPA term ranging from 10 to 25 years. Addendum 10 modifies that provision to a fixed term of 25 years for all EPA's granted under the CFT. Our view is that this change will simplify the Quantitative Evaluation Methodology and contribute to the fairness of the decision process, i.e. by eliminating the need to adjust for different terms.

2) Transmission Deferral Credit (“TDC”)

Originally, the CFT had a credit adjustment for deferred transmission related costs. Addendum 10 removed the TDC from the CFT. Our view, prior to this change, was that the TDC provided a reasonable normalization approach to Quantitative Evaluation Methodology which sought to generate competitive bidder interest from both smaller and larger projects, for the portfolio assembly of Tenders. Our understanding is that TDC is regarded as a “best practice” within power calls in North America to account for such transmission-related costs in the bid evaluation process. The removal of the TDC appears to disconnect future “to-island” transmission expenditures from “on-island” generation. Whether or not this is a proper reflection of the future is not an issue of fairness since all bidders are treated equally.

3) Partial Tolling

Originally the CFT had tolling and no tolling options. Addendum 10 added a partial tolling option. We understand that this option permits all bidders to arrange their own gas transportation from Huntington/Sumas to the burner tip on Vancouver Island. It is also our understanding that bidders considering the partial tolling option would deal with “regulated” entities, such as Terasen. Accordingly, it is our view that this change adds equitable flexibility to all bidders, subject to our assumption that all bidders will be dealt with on an equitable basis by the governing regulatory rules and processes.

The foregoing three changes impact the scope of the CFT. It will be the registered bidders that will self-assess their projects and their ultimate competitiveness within this new scope. Accordingly, with the due notice to registered bidders prior to the Pre-Qualification Form submission date, our view is that these changes will not impact on a fair and objective determination of Pre-Qualified bidders or ultimately, the successful portfolio.

4) Second Decision Tier

Addendum 10 introduced a second decision tier to the Quantitative Evaluation Methodology where no cost effective portfolio is determined under Step 5 of the Quantitative Evaluation Methodology. It is our view that this additional decision step does not impact the fairness or transparency of the evaluation process, and may be viewed as a constructive approach in contrast with simply terminating the CFT. However, BC Hydro will need to clearly define and apply appropriate processes to give effect to this second tier of decision making. Specifically, the IR intends to review the decision rules for moving from the first tier to the second tier.

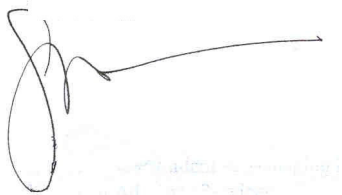
CONCLUSIONS

Experience dictates that regulatory risk can impact a competition and accordingly, it is our view that the review and amendment of the CFT by BC Hydro during this suspension of the CFT Schedule, was appropriate in the pursuit of achieving some measure of regulatory certainty.

Accordingly, PricewaterhouseCoopers LLP renders the following statement:

It is our finding that BC Hydro, with respect to the suspension of the CFT and subsequent amendments to the CFT and related documents and its commitment to certain amendments to the Preliminary Form Agreements and evaluation methodology and spreadsheets, acted appropriately to suspend and carefully consider amendments to the CFT in order to minimize regulatory risk. Our judgment remains that the CFT, as amended by Addendum 10, is capable of producing a result that meets the objectives for a fair, transparent and objective competition.

Yours truly,
PricewaterhouseCoopers LLP



Joe Parker
Partner