

C6-7

---

**Revenue Requirement Application  
2004/05 and 2005/06**

---



---

**Volume 2**

**Appendix K.  
BC Hydro Transfer Pricing Agreement  
Fiscal year 2004**

---

## TRANSFER PRICING AGREEMENT FOR ELECTRICITY AND GAS

This Agreement is dated as of April 1, 2003 and entered into:

BETWEEN:

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**, a  
corporation continued under the Hydro and Power Authority Act

("B.C. Hydro")

AND:

**POWEREX CORP.**, a company duly incorporated under the laws of  
the Province of British Columbia

("Powerex")

WHEREAS:

- A. B.C. Hydro carries on electrical utility operations in the Province of British Columbia and operates the B.C. Hydro System to ensure sufficient energy and capacity is available to meet B.C. Hydro's domestic load and to minimize the cost of serving domestic load and maximize the value of the capability of the B.C. Hydro System to facilitate electricity trading by Powerex in markets outside of British Columbia;
- B. Powerex is engaged in the sale and purchase of electricity and natural gas, principally with customers and suppliers in other Canadian provinces and the United States and purchases transmission and transportation capacity in order to support electricity and gas transactions, respectively;
- C. The parties wish to confirm the exclusive relationship between B.C. Hydro and Powerex under which Powerex will purchase from B.C. Hydro electricity that is surplus to B.C. Hydro's requirements for domestic load and to confirm the manner in which the parties will otherwise purchase and sell electricity to each other to maximize the value of the B.C. Hydro System;

- D. B.C. Hydro is a significant purchaser of natural gas and wishes to enter into an exclusive relationship with Powerex under which B.C. Hydro will purchase its requirements for natural gas from Powerex and sell to Powerex its surplus natural gas; and
- E. Both B.C. Hydro and Powerex wish to set out their respective obligations in connection with the foregoing,

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, the parties hereto represent, warrant, covenant, and agree as follows:

1. **DEFINITIONS**

1.1. **Definitions**

In this Agreement:

- 1.1.1. "Additional Daily Quantity" has the meaning set forth in Section 10.3;
- 1.1.2. "Agreement" means this transfer pricing agreement, together with any Appendices, as amended from time to time;
- 1.1.3. "B.C. Hydro System" means the reservoirs and all generating resources and related facilities that are controlled by B.C. Hydro, and includes present and future contracted long-term supply from independent power producers or others;
- 1.1.4. "Burrard Thermal" means the gas-fired generating plant owned by B.C. Hydro and located in Port Moody, British Columbia;
- 1.1.5. "Domestic Gas Requirements" means the quantity of Gas required by B.C. Hydro for its Thermal Generation Plants to serve Domestic Load and to satisfy its obligations under the Gas Utility Contracts;
- 1.1.6. "Domestic Load" means:

- 1.1.6.1. load that B.C. Hydro is obligated to serve under its electricity tariffs by reason of its status as a public utility; and
- 1.1.6.2. load considered by B.C. Hydro to have equivalent priority of service as load referred to in Section 1.1.6.1 by reason of contract or treaty obligations;
- 1.1.7. "Electricity Transfer Price" means the applicable price (in US\$/MWh) set forth in Appendix A for electricity sold or purchased or deemed to be sold or purchased between B.C. Hydro and Powerex in any hour during the Term of this Agreement, pursuant to any of Sections 5.1, 5.2, 5.3, 6.1 and 6.2;
- 1.1.8. "Force Majeure" means any prevention, delay, stoppage or interruption in the performance of any obligation of a party due to a strike, lockout, labour dispute, act of God, inability to obtain labour or materials, laws, ordinances, rules, regulations or orders of governmental authorities, enemy or hostile action, civil commotion, fire or other casualty, and any condition or cause beyond the reasonable control of the party obligated to perform, but does not include (i) any condition or cause which is the result of the negligence of the claiming party, and which by the exercise of due diligence, the claiming party is unable to avoid, cause to be avoided, or overcome (ii) lack of finances, (iii) any inability of the claiming party to use or resell the electricity or Gas purchased hereunder, or (iv) the loss or failure of the claiming party's supply of electricity or Gas, if the claiming party is the seller;
- 1.1.9. "Fort Nelson" means the gas-fired generating plant owned by B.C. Hydro and located in Fort Nelson, British Columbia;
- 1.1.10. "Gas" means natural gas;
- 1.1.11. "Gas Delivery Point" means:
  - 1.1.11.1. for Gas purchased for use at a Thermal Generation Plant, the recognized custody transfer point between the applicable

Thermal Generation Plant and the gas pipeline that serves it;  
and

- 1.1.11.2. for Gas purchased for the purpose of serving the Gas Utility Contracts, the delivery point(s) specified in the Gas Utility Contracts;
- 1.1.12. "Gas Losses" means for each day, all lost and unaccounted for Gas and Gas burned to fuel compressors, from the applicable Source Point to the applicable Gas Delivery Point;
- 1.1.13. "Gas Transfer Price" means the price determined in accordance with Appendix B;
- 1.1.14. "Gas Utility Contracts" means the agreement dated March 7, 2001 between B.C. Hydro and Centra Gas British Columbia Inc. and the agreement dated as of November 27, 1998 between B.C. Hydro and BC Gas Utility Ltd.;
- 1.1.15. "ICG" means the gas-fired generating plant located at Elk Falls, British Columbia;
- 1.1.16. "Imbalance Charges" means any fees, penalties, costs or charges (in cash or in kind) assessed by the applicable transportation provider(s) in respect of the Transportation Capacity, for failure to satisfy the transportation balance and nomination requirements;
- 1.1.17. "Interutility Agreements" means agreements between B.C. Hydro and third parties related to the coordination of reservoir operations, and agreements between B.C. Hydro and one or more control area operators for the purpose of maintaining transmission and generation system reliability and establishing operating procedures, but excludes agreements whose purpose is the purchase and sale of transmission, capacity or energy for profit;

- 1.1.18. "Net Delivered Quantity to B.C. Hydro" means for any hour, the amount (in MWh) by which the quantity of electricity referred to in Section 3.1.1 exceeds the quantity of electricity referred to in Section 3.1.2;
- 1.1.19. "Net Delivered Quantity to Powerex " means for any hour, the amount (in MWh) by which the quantity of electricity referred to in Section 3.1.2 exceeds the quantity of electricity referred to in Section 3.1.1;
- 1.1.20. "Prime Rate" means the annual rate of interest published by B.C. Hydro's principal banker from time to time as its prime rate;
- 1.1.21. "RPG" means the gas-fired generating plant owned by B.C. Hydro and located in Prince Rupert, British Columbia;
- 1.1.22. "Source Point" has the meaning set forth in Section 10.7;
- 1.1.23. "Specified Contract Quantity" has the meaning set forth in Section 10.2;
- 1.1.24. "Surplus Hydro Electricity" means hydroelectric energy in excess of Domestic Load requirements, that is generated for the purpose of reducing the probability of spill at system reservoirs;
- 1.1.25. "Surplus System Capability" means at any time, the measure of the B.C. Hydro System's capability, while all Domestic Load requirements are being satisfied, to decrease generation in order to allow purchases of electricity to satisfy Domestic Load and/or to increase generation to allow additional sales, as determined by B.C. Hydro;
- 1.1.26. "Thermal Generation Plants" means the gas-fired generation plants owned or under the control of B.C. Hydro including, without limitation, Burrard Thermal, Fort Nelson, ICG and RPG;
- 1.1.27. "Threshold Purchase Price" means the maximum Electricity Transfer Price at which B.C. Hydro will purchase electricity from Powerex in any period to serve Domestic Load, as established by B.C. Hydro from time to time;

- 1.1.28. "Threshold Sale Price" means the minimum Electricity Transfer Price at which B.C. Hydro will sell Surplus Hydro Electricity to Powerex, as established by B.C. Hydro from time to time;
- 1.1.29. "Trade Account" means the account to which electricity sold or deemed to be sold by Powerex to B.C. Hydro pursuant to Section 6.1 is credited and to which electricity sold or deemed to be sold by B.C. Hydro to Powerex pursuant to Sections 6.2 and 6.4 is debited;
- 1.1.30. "Transfer Pricing Principle" means the pricing principles established by Sections 12.1 and 12.2;
- 1.1.31. "Transmission System" means the bulk transmission system owned by B.C. Hydro;
- 1.1.32. "Transportation Capacity" has the meaning set forth in Section 10.7;
- 1.1.33. "Variable Operating Costs" means all incremental costs incurred by B.C. Hydro in respect of increasing or reducing generation at the Thermal Generation Plants at the request of Powerex pursuant to Section 7.1 or 7.2, as determined in good faith from time to time by B.C. Hydro; and
- 1.1.34. "Variable Transportation Costs" means all incremental transportation costs incurred by B.C. Hydro in respect of the use of the Transportation Capacity by Powerex for the purposes of trade.

1.2. **Other Defined Terms**

Capitalized words or phrases appearing in this Agreement that are defined in the Appendices to this Agreement shall have the meanings ascribed to them in the Appendices.

1.3. **Interpretation**

Unless otherwise specified, all references to Sections and Appendices are to those set forth in this Agreement. Reference to any party includes any permitted successor or

assignee. The term "including" followed by descriptive words is used in this Agreement by way of example only and is not intended to limit the scope of the provision. The headings used in this Agreement are for convenience and reference purposes only.

2. **TERM**

2.1. **Term**

The effective date of this Agreement is April 1, 2003, notwithstanding the actual date of execution. This Agreement shall continue in full force and effect until terminated by at least 12 months' written notice provided by one party to the other or otherwise upon mutual agreement of the parties.

3. **ACCOUNTING FOR ELECTRICITY DELIVERED**

3.1. **Accounting for Electricity Delivered**

The parties shall for each hour determine the quantity (in MWh) of:

- 3.1.1. all electricity actually delivered by Powerex to B.C. Hydro under the terms of this Agreement within the hour, including without limitation, electricity purchased by Powerex from independent power producers in British Columbia and sold to B.C. Hydro, but excluding electricity delivered pursuant to Section 7.1; and
- 3.1.2. all electricity actually delivered by B.C. Hydro to Powerex under the terms of this Agreement within the hour, but excluding electricity delivered pursuant to Section 7.2.

For greater certainty, electricity purchased by Powerex in the U.S. for and on behalf of B.C. Hydro and delivered to the City of Seattle to fulfil B.C. Hydro's obligations under agreements entered into pursuant to the Skagit River Valley Treaty is not included in the quantity of electricity calculated pursuant to Section 3.1.1.

3.2. **Allocation of Net Delivered Quantity to B.C. Hydro and Net Delivered Quantity to Powerex**

The parties shall for each hour, allocate:

- 3.2.1. any Net Delivered Quantity to Powerex as a sale under either:
  - 3.2.1.1. Section 5.1 in the case where the Electricity Transfer Price was equal to or greater than the Threshold Sale Price for that hour, subject to any maximum quantity specified by B.C. Hydro pursuant to Section 5.1, or
  - 3.2.1.2. Section 6.2, in all other cases; and
- 3.2.2. any Net Delivered Quantity to B.C. Hydro as a purchase under either:
  - 3.2.2.1. Section 5.2 in the case where the Electricity Transfer Price was equal to or less than the Threshold Purchase Price for that hour, subject to any maximum quantity specified by B.C. Hydro pursuant to Section 5.2, or
  - 3.2.2.2. Section 6.1, in all other cases.

4. **SURPLUS SYSTEM CAPABILITY**

4.1. **Surplus System Capability**

Except as provided by Interutility Agreements, B.C. Hydro shall make the Surplus System Capability exclusively available to Powerex. B.C. Hydro shall purchase electricity from Powerex only to enable it to economically serve Domestic Load and as otherwise contemplated by this Agreement and shall sell all Surplus Hydro Electricity exclusively to Powerex.

5. **PURCHASE AND SALE OF ELECTRICITY - DOMESTIC**

5.1. **Sale and Purchase of Surplus Hydro Electricity**

From time to time, when Surplus Hydro Electricity is available, B.C. Hydro may notify Powerex of the Threshold Sale Price and any maximum quantity of Surplus Hydro Electricity available for sale. If B.C. Hydro does not set a Threshold Sale Price at any time, it will be deemed to not have Surplus Hydro Electricity available for sale. If B.C. Hydro sets a Threshold Sale Price but no maximum quantity of Surplus Hydro Electricity available for sale, then all quantities of electricity available for sale to Powerex by B.C. Hydro shall be subject to this Section 5.1 until different instructions are provided by B.C. Hydro to Powerex. Subject to system constraints, B.C. Hydro shall deliver and Powerex shall use commercially reasonable efforts to schedule and receive Surplus Hydro Electricity at any time when the Electricity Transfer Price is expected by Powerex to be equal to or greater than the Threshold Sale Price, subject to any maximum quantity specified by B.C. Hydro. B.C. Hydro shall sell to Powerex and Powerex shall purchase from B.C. Hydro any Net Delivered Quantity to Powerex allocated as a sale under this Section 5.1 pursuant to Section 3.2.1.

5.2. **Purchase and Sale of B.C. Hydro's Requirements**

Except as provided by Interutility Agreements, B.C. Hydro shall purchase exclusively from Powerex all electricity required by B.C. Hydro to serve Domestic Load that is not supplied from the B.C. Hydro System. From time to time, B.C. Hydro may notify Powerex of the Threshold Purchase Price and any maximum quantity of electricity B.C. Hydro wishes to purchase. If B.C. Hydro does not set a Threshold Purchase Price at any time, it will be deemed to not require electricity from Powerex for the purpose of serving Domestic Load. If B.C. Hydro sets a Threshold Purchase Price but no maximum quantity, then all quantities of electricity available for sale by Powerex to B.C. Hydro shall be subject to this Section 5.2 until different instructions are provided by B.C. Hydro to Powerex. Subject to system constraints, B.C. Hydro shall receive electricity from Powerex and Powerex shall use commercially reasonable efforts to make electricity available to B.C. Hydro at any time when the Electricity Transfer Price is expected by

Powerex to be equal to or less than the Threshold Purchase Price, subject to any maximum quantity requested by B.C. Hydro. B.C. Hydro shall purchase from Powerex and Powerex shall sell to B.C. Hydro any Net Delivered Quantity to B.C. Hydro allocated as a purchase under this Section 5.2 pursuant to Section 3.2.2.

5.3. **Purchases in U.S. to Satisfy B.C. Hydro's Skagit Treaty Obligations**

For each MWh that Powerex delivers to the City of Seattle on behalf of B.C. Hydro to fulfil B.C. Hydro's obligations under agreements entered into pursuant to the Skagit River Valley Treaty from purchases by Powerex in the U.S., B.C. Hydro will pay to Powerex an amount equal to the Electricity Transfer Price in accordance with Section 8.1.3.

6. **PURCHASE AND SALE OF ELECTRICITY - ELECTRICITY TRADE**

6.1. **Sale to B.C. Hydro**

Subject to Section 6.3, at any time when the Electricity Transfer Price is expected by Powerex to be greater than the Threshold Purchase Price or when B.C. Hydro does not require electricity from Powerex to serve Domestic Load, Powerex may schedule and deliver electricity for sale to B.C. Hydro. B.C. Hydro shall purchase from Powerex and Powerex shall sell to B.C. Hydro any Net Delivered Quantity to B.C. Hydro allocated as a purchase under this Section 6.1 pursuant to Section 3.2.2. Such purchases and sales shall be recorded by the parties in the Trade Account as a credit for Powerex's benefit in terms of both quantity of electricity (in MWh) and monetary value (in accordance with Section 8.2.1 or 8.2.2, as applicable).

6.2. **Purchase by Powerex**

Subject to Section 6.3, at any time when the Electricity Transfer Price is expected by Powerex to be less than the Threshold Sale Price or when B.C. Hydro does not have Surplus Hydro Electricity for sale, B.C. Hydro shall at Powerex's request schedule and deliver electricity to Powerex. B.C. Hydro shall sell to Powerex and Powerex shall purchase from B.C. Hydro any Net Delivered Quantity to Powerex allocated as a sale under this Section 6.2 pursuant to Section 3.2.1. Such purchases and sales shall be

recorded by the parties in the Trade Account as a debit to Powerex in terms of both quantity of electricity (in MWh) and monetary value (in accordance with Section 8.2.1 or 8.2.2, as applicable).

6.3. **Purchases and Sales Subject to System Capability**

The right of Powerex to sell electricity to B.C. Hydro under Section 6.1 and purchase electricity from B.C. Hydro under Section 6.2 shall be subject to:

- 6.3.1. Surplus System Capability being available; and
- 6.3.2. the capability of the Transmission System and B.C. Hydro's rights to use the Transmission System.

6.4. **Sale to B.C. Hydro when Spill Conditions probable**

B.C. Hydro will from time to time provide Powerex with a forecast of the maximum positive balance in the Trade Account (in GW.h) for future months that the B.C. Hydro System can reliably carry. B.C. Hydro may from time to time, revise the forecast as required, provided that such revisions will not reduce the maximum positive balance in the Trade Account by more than 200 GW.h in any period of 30 consecutive days and provided further that B.C. Hydro may not revise its forecast at any time during reservoir spill conditions. If Powerex sells electricity to B.C. Hydro pursuant to Section 6.1 at any time resulting in the positive balance in the Trade Account exceeding the forecast maximum positive balance, then the excess electricity will be recorded in the Trade Account as Excess Electricity for so long as the Trade Account balance exceeds the maximum positive balance. If spill conditions actually occur, B.C. Hydro may by notice to Powerex require Powerex to schedule and receive electricity up to the quantity of Excess Electricity. If B.C. Hydro is unable to deliver the electricity due to (i) system constraints, (ii) Powerex's inability to receive the electricity, or (iii) unavailability of the Transmission System, and B.C. Hydro actually spills water over its dams without generating electricity, B.C. Hydro will be deemed to have sold to Powerex the lesser of (A) the quantity (in MWh) of electricity actually spilled, and (B) the quantity (in MWh) of electricity not delivered, up to the quantity of Excess Electricity recorded in the Trade

Account and the Trade Account will be debited in accordance with Section 8.2.1 or 8.2.2, as applicable.

6.5. **Purchases by B.C. Hydro when Negative Balance in Trade Account**

If and to the extent that there is a negative balance in the Trade Account (in MWh), Powerex shall sell electricity to B.C. Hydro pursuant to Section 6.1 to eliminate or reduce the negative balance as may be required to maintain the B.C. Hydro System within its physical constraints, as determined by B.C. Hydro in its sole discretion.

6.6. **Alteration of Maintenance Schedules**

B.C. Hydro will use commercially reasonable efforts to schedule the maintenance of the B.C. Hydro System in as an efficient manner as possible to optimize the capability of the B.C. Hydro System to facilitate electricity trading by Powerex in markets outside of British Columbia. Powerex may from time to time request that B.C. Hydro alter the maintenance schedules for any of B.C. Hydro's generators or request alteration of maintenance schedules of the Transmission System for the purpose of accommodating transactions contemplated by Section 6.1 or 6.2. B.C. Hydro may, in its sole discretion, agree to accommodate Powerex's requests. If B.C. Hydro alters maintenance schedules in response to a Powerex request, Powerex shall reimburse B.C. Hydro for incremental costs associated with the alteration of such maintenance schedules.

7. **GAS-FIRED GENERATION PLANTS**

7.1. **Purchase by Powerex from B.C. Hydro's Gas-Fired Generation Plants**

At any time when electricity generated by any of the Thermal Generation Plants is not required to serve Domestic Load, B.C. Hydro may at the request of Powerex, but in its sole discretion, operate such Thermal Generation Plants to generate electricity, subject to Powerex supplying, at its own cost, all Gas required to generate the requested electricity and paying to B.C. Hydro the Variable Operating Costs to generate the requested electricity. The quantity of electricity generated at Powerex's request at the applicable Thermal Generation Plant from the Gas supplied by Powerex pursuant to this Section 7.1 shall be calculated based on the heat rate applicable to generating the requested

electricity, taking into account any payment or benefit received by B.C. Hydro from the owner or operator of the Thermal Generation Plant as a result of Powerex's use of the Thermal Generation Plant, which quantity of electricity shall be deemed to be purchased by B.C. Hydro from Powerex pursuant to Section 6.1 regardless of the Threshold Purchase Price or the Electricity Transfer Price at the time. Such sales shall be recorded by the parties in the Trade Account as a credit for Powerex's benefit in terms of both quantity of electricity (in MWh) and monetary value (in accordance with Section 8.2.1 or 8.2.2, as applicable).

7.2. **Displacement of Generation at Powerex's Request**

B.C. Hydro may at the request of Powerex, but in its sole discretion, displace generation of electricity at any Thermal Generation Plant, which electricity would otherwise serve Domestic Load, by electricity delivered from the Trade Account and subject to Powerex paying to B.C. Hydro the Variable Operating Costs attributable to such displacement. The parties acknowledge and agree that the quantity of Gas to be delivered by Powerex pursuant to Section 10.1 for the applicable Thermal Generation Plant shall be reduced accordingly during the period of displacement, provided that B.C. Hydro shall nevertheless be required to pay Powerex for the entire quantity of Gas that was to be purchased, absent such displacement. The quantity of electricity delivered from the Trade Account to displace electricity generated at the applicable Thermal Generation Plant shall be deemed to be sold by B.C. Hydro to Powerex pursuant to Section 6.2 regardless of the Threshold Sale Price or the Electricity Transfer Price at the time. Such transactions shall be recorded by the parties in the Trade Account as a debit to Powerex in terms of both quantity of electricity (in MWh) and monetary value (in accordance with Section 8.2.1 or 8.2.2, as applicable).

8. **PAYMENTS FOR ELECTRICITY TRANSACTIONS**

8.1. **Payments for Electricity Transactions**

The parties acknowledge and agree that:

- 8.1.1. Powerex shall pay to B.C. Hydro the amount obtained by multiplying each MWh of Surplus Hydro Electricity sold by B.C. Hydro to Powerex under Section 5.1 by the Electricity Transfer Price applicable thereto;
- 8.1.2. B.C. Hydro shall pay to Powerex the amount obtained by multiplying each MWh of electricity sold by Powerex to B.C. Hydro under Section 5.2 by the Electricity Transfer Price applicable thereto; and
- 8.1.3. B.C. Hydro shall pay to Powerex the amount obtained by multiplying each MWh of electricity delivered by Powerex to the City of Seattle on behalf of B.C. Hydro to fulfil B.C. Hydro's obligations under agreements entered into pursuant to the Skagit River Valley Treaty, from purchases by Powerex in the U.S., by the Electricity Transfer Price applicable thereto.

8.2. **Adjustments to the Trade Account Balance**

The parties acknowledge and agree that:

- 8.2.1. if at the beginning of a calendar month, the opening balance of the Trade Account (in MWh) is zero or a positive amount, then:
  - 8.2.1.1. the monetary value credited to the Trade Account for each MWh of electricity sold or deemed to be sold by Powerex to B.C. Hydro under Section 6.1 during that calendar month, shall be the amount obtained by multiplying each such MWh of electricity sold or deemed to be sold by the Electricity Transfer Price applicable thereto; and
  - 8.2.1.2. the monetary value debited to the Trade Account for each MWh of electricity sold or deemed to be sold by B.C. Hydro to Powerex under Sections 6.2 and 6.4 during that calendar month, shall be the amount obtained by multiplying each such MWh of electricity sold or deemed to be sold by the following amount (in US\$/MWh):

8.2.1.2.1. the sum of the monetary value of (a) the Trade Account at the beginning of the calendar month, and (b) all electricity credited to the Trade Account during that calendar month in accordance with Section 8.2.1.1; divided by

8.2.1.2.2. the sum of the number of MWh (a) in the Trade Account at the beginning of the calendar month, and (b) credited to the Trade Account during that calendar month,

unless and until the balance in the Trade Account during that calendar month becomes negative, in which case, the monetary value debited to the Trade Account for each MWh of electricity thereafter sold or deemed to be sold by B.C. Hydro to Powerex under Sections 6.2 and 6.4 during that calendar month, shall be the amount obtained by multiplying each such MWh of electricity sold or deemed to be sold by the Electricity Transfer Price applicable thereto,

all calculated and determined at the end of each calendar month; and

8.2.2. if at the beginning of a calendar month, the opening balance of the Trade Account (in MWh) is a negative amount, then:

8.2.2.1. the monetary value debited to the Trade Account for each MWh of electricity sold or deemed to be sold by B.C. Hydro to Powerex under Sections 6.2 and 6.4 during that calendar month, shall be the amount obtained by multiplying each such MWh of electricity sold or deemed to be sold by the Electricity Transfer Price applicable thereto; and

8.2.2.2. the monetary value credited to the Trade Account for each MWh of electricity sold or deemed to be sold by Powerex to B.C. Hydro under Section 6.1 during that calendar month, shall be the amount obtained by multiplying each such MWh of electricity sold or deemed to be sold by the following amount (in US\$/MWh):

8.2.2.2.1. the sum of the monetary value of (a) the Trade Account at the beginning of the calendar month, and (b) all electricity debited to the Trade Account during that calendar month in accordance with Section 8.2.2.1; divided by

8.2.2.2.2. the sum of the number of MWh (a) in the Trade Account at the beginning of the calendar month, and (b) debited to the Trade Account during that calendar month,

unless and until the balance in the Trade Account during that calendar month becomes zero or a positive amount, in which case, the monetary value credited to the Trade Account for each MWh of electricity thereafter sold or deemed to be sold by Powerex to B.C. Hydro under Section 6.1 during that calendar month, shall be the amount obtained by multiplying each such MWh of electricity sold or deemed to be sold by the Electricity Transfer Price applicable thereto,

all calculated and determined at the end of each calendar month.

9. **DELIVERY POINT, TRANSMISSION CHARGES, ANCILLARY SERVICES, SCHEDULING**

9.1. **Delivery Point, Title and Risk**

Unless the parties agree otherwise:

- 9.1.1. subject to Section 9.1.3, electricity sold by B.C. Hydro to Powerex under Sections 5.1 and 6.2 and electricity purchased by B.C. Hydro from Powerex under Sections 5.2 and 6.1 shall be made available, and title and risk of loss shall pass from the seller to the buyer, at either the British Columbia--United States border or the British Columbia--Alberta border, as determined by Powerex;
- 9.1.2. electricity delivered by Powerex to B.C. Hydro under Section 7.1 shall be made available and title and risk of loss shall pass from Powerex to B.C. Hydro at the point of interconnection between the applicable Thermal Generation Plant and the Transmission System; and
- 9.1.3. electricity purchased by Powerex from independent power producers in British Columbia and sold to B.C. Hydro under Section 5.2 or 6.1 shall be made available and title and risk of loss shall pass from Powerex to B.C. Hydro at the point of interconnection between the third party and the Transmission System.

9.2. **Transmission Charges and Ancillary Services**

B.C. Hydro shall pay for all transmission charges and shall self-supply all losses and ancillary services charges, on the Transmission System for electricity transactions under this Agreement. Unless otherwise determined by B.C. Hydro, acting reasonably, Powerex will pay to B.C. Hydro an amount equal to the parties' reasonable estimate of:

- 9.2.1. the point-to-point transmission costs incurred by B.C. Hydro presently under Rate Schedule 3000 and 3001 in respect of transactions under this Agreement

other than sales by B.C. Hydro to Powerex of Surplus Hydro Electricity under Section 5.1, excluding

- 9.2.2. the point-to-point transmission costs incurred by B.C. Hydro in respect of transactions under any Interutility Agreements, to fulfill any of B.C. Hydro's treaty obligations and transactions in respect of the Canadian Entitlement,

in accordance with Section 15. Such amount is the parties' reasonable allocation of the point-to-point transmission costs incurred by B.C. Hydro in respect of Powerex's trading activities other than in respect of the Canadian Entitlement.

9.3. **Scheduling**

All electricity delivered by Powerex to B.C. Hydro or by B.C. Hydro to Powerex under this Agreement shall be delivered in accordance with standard scheduling practices applicable to the Transmission System.

10. **GAS MARKETING**

10.1. **Purchase and Sale of B.C. Hydro's Gas Requirements**

Powerex shall use commercially reasonable efforts to make available to B.C. Hydro, and B.C. Hydro shall purchase exclusively from Powerex B.C. Hydro's Domestic Gas Requirements. B.C. Hydro shall purchase from Powerex and Powerex shall sell to B.C. Hydro all Gas requested by B.C. Hydro under this Agreement from time to time.

10.2. **Notification of Monthly Requirements**

B.C. Hydro will notify Powerex by the 15<sup>th</sup> day of each month during the Term (or if that day is not a business day, then the next ensuing business day), of its Domestic Gas Requirements (in GJ/day) for each day of the next following month (or months), specifying the quantity of Gas (in GJ/day) required for each Thermal Generation Plant and for the Gas Utility Contracts (in each case, the "Specified Contract Quantity"). B.C. Hydro agrees to purchase the Specified Contract Quantity from Powerex.

### 10.3. Notification of Daily Requirements

B.C. Hydro may notify Powerex at any time during a month, of the Domestic Gas Requirements (in GJ/day) in addition to the Specified Contract Quantity, that it projects will be required during any remaining day in the month specified by B.C. Hydro. B.C. Hydro's notice shall specify the quantity of Gas (in GJ/day) required for each Thermal Generation Plant and for the Gas Utility Contracts (in each case, the "Additional Daily Quantity"). B.C. Hydro agrees to purchase the Additional Daily Quantity from Powerex.

### 10.4. Market Indices

B.C. Hydro may in a notice contemplated by Section 10.2 specify which of the Monthly Index Prices are to be used for the purposes of determining the Gas Transfer Price applicable for such transactions. Such determination shall be for pricing purposes only and shall in no way determine the source from which Powerex is to purchase the Gas to be sold by Powerex to B.C. Hydro hereunder. Powerex shall use commercially reasonable efforts to purchase Gas for delivery to B.C. Hydro under this Agreement at the most favourable Monthly Index Price (if B.C. Hydro does not specify any such Monthly Index Price) or Daily Index Price, as the case may be, taking into account transportation costs and availability.

### 10.5. Payments for Domestic Gas Requirements

B.C. Hydro shall pay to Powerex the amount obtained by multiplying the applicable Gas Transfer Price by:

- 10.5.1. the Specified Contract Quantity actually delivered by Powerex to B.C. Hydro each day (in GJ) in accordance with this Agreement plus all Gas Losses applicable to such quantities of Gas actually delivered; and
- 10.5.2. the Additional Daily Quantity actually delivered by Powerex to B.C. Hydro each day (in GJ) in accordance with this Agreement plus all Gas Losses applicable to such quantities of Gas actually delivered.

All quantities of Gas delivered during any day by Powerex to B.C. Hydro under the terms of this Agreement shall be deemed for the purpose of this Agreement to be delivered firstly on account of the Specified Contract Quantity up to the Specified Contract Quantity, and thereafter on account of the Daily Additional Quantity.

10.6. **Title and Risk**

Possession to, title to and all risk of loss respecting the Gas delivered under this Agreement shall pass from Powerex to B.C. Hydro, at the applicable Gas Delivery Point.

10.7. **Gas Transportation and Storage**

B.C. Hydro shall be responsible for obtaining all third-party Gas transportation and storage capacity required to deliver B.C. Hydro's Domestic Gas Requirements from the point of purchase of the Gas by Powerex from third parties (the "Source Point") to the applicable Gas Delivery Point (such transportation and storage capacity referred to herein as the "Transportation Capacity"). All costs and expenses of transporting and delivering the Gas to the Source Point shall be borne by Powerex and all costs and expenses of transporting the Gas beyond the Source Point shall be borne by B.C. Hydro, including without limitation, all reservation, demand and other charges. Powerex will assist B.C. Hydro, as and when requested by B.C. Hydro and at B.C. Hydro's cost and expense, to obtain the Transportation Capacity. B.C. Hydro hereby grants to Powerex the exclusive right and authority to use any of the Transportation Capacity and B.C. Hydro shall take all necessary steps to enable Powerex to fully use and nominate such Transportation Capacity for Powerex's own account, when not required to deliver B.C. Hydro's Domestic Gas Requirements. Powerex shall pay to B.C. Hydro the Variable Transportation Costs, if applicable, for such use by Powerex of the Transportation Capacity. Powerex shall be responsible for arranging all third-party Gas transportation required to sell Gas that is surplus to B.C. Hydro's Domestic Gas Requirements.

**10.8. B.C. Hydro's Failure to Receive Gas**

If B.C. Hydro fails to receive all or part of the Specified Contract Quantity or Additional Daily Quantity, unless excused by Powerex's failure to perform, then:

10.8.1. B.C. Hydro will pay to Powerex an amount for each GJ of such Gas not received by B.C. Hydro, equal to the positive difference, if any, obtained by subtracting the Sales Price from the applicable Gas Transfer Price; or

10.8.2. Powerex will pay to B.C. Hydro an amount for each GJ of such Gas not received by B.C. Hydro, equal to the positive difference, if any, obtained by subtracting the applicable Gas Transfer Price from the Sales Price,

where "Sales Price" for the purpose of this Section 10.8, means the Daily Index Price contemplated by Section 1.1.3(b) of Appendix B (or otherwise as specified in any amendment thereto).

**10.9. Gas Imbalance Inventory**

B.C. Hydro acknowledges and agrees that all Gas imbalance inventories in the Transportation Capacity recorded with the applicable transportation providers, shall belong to Powerex, to use as it may determine in its sole discretion. If and to the extent that any Thermal Generation Plant consumes in any day, more Gas than has been requested by B.C. Hydro, and such excess quantity of Gas is delivered to the Gas Delivery Point from the Gas imbalance inventories of Powerex on an unscheduled basis, B.C. Hydro shall pay to Powerex the Daily Index Price (which Daily Index shall be determined by Powerex in its sole discretion) for such excess quantity of Gas. Otherwise, Gas scheduled and delivered by Powerex to B.C. Hydro from the Gas Imbalance Inventories shall be priced in accordance with Section 10.4.

**10.10. Imbalance Charges**

The parties shall use commercially reasonable efforts to avoid imposition of any Imbalance Charges. If Imbalance Charges are incurred as a result of B.C. Hydro's actions or inactions (which shall include, but shall not be limited to, B.C. Hydro's failure

to accept quantities of Gas equal to the quantities requested by B.C. Hydro), then B.C. Hydro shall pay such Imbalance Charges, or reimburse Powerex for such Imbalance Charges paid by Powerex to the applicable transportation provider. If the Imbalance Charges were incurred as a result of Powerex's actions or inactions (which shall include, but shall not be limited to, Powerex's failure to deliver quantities of Gas equal to the quantities requested by B.C. Hydro), then Powerex shall pay for such Imbalance Charges or reimburse B.C. Hydro for such Imbalance Charges paid by B.C. Hydro to the applicable transportation provider.

10.11. **Taxes**

B.C. Hydro shall pay or reimburse Powerex for all sales, motor fuel, transfer and other taxes incurred by Powerex in connection with the purchase of Gas by Powerex from third parties for sale to B.C. Hydro under the terms of this Agreement or otherwise applicable to the purchase of Gas by B.C. Hydro from Powerex under the terms of this Agreement.

11. **FORWARD PURCHASES AND SALES FOR B.C. HYDRO**

11.1. **Forward Purchases and Sales for B.C. Hydro**

B.C. Hydro and Powerex may from time to time enter into forward fixed-price, fixed-volume contracts for the purpose of managing market risk associated with purchases of electricity or Gas to meet Domestic Load, or sales of Surplus Hydro Electricity. Such forward contracts will be executed at agreed-upon prices based on prevailing market conditions and will be financially-settled against an agreed-upon market index. B.C. Hydro and Powerex may agree to wholly or partially close any resulting forward position by entering into an offsetting forward contract at an agreed-upon fixed price based on then prevailing market conditions.

12. **TRANSFER PRICING PRINCIPLES**

12.1. **Electricity Transfer Pricing Principle**

The parties acknowledge and agree that all electricity sold and purchased or deemed to be sold and purchased between B.C. Hydro and Powerex pursuant to Sections 5 and 6 of this

Agreement are deemed for transfer pricing purposes to occur at the British Columbia-United States border. B.C. Hydro and Powerex declare that the Electricity Transfer Price is intended to be established as a sale price that reflects the fair market value of electricity delivered at the British Columbia-United States border during heavy load hours in a day or light load hours in a day, whichever is applicable, at which parties acting on an arms-length basis would be willing to transact.

#### 12.2. Gas Transfer Pricing Principle

The parties acknowledge and agree that all Gas sold to B.C. Hydro by Powerex pursuant to Section 10 of this Agreement is deemed for transfer pricing purposes to occur at the Source Point corresponding to the applicable index price specified by B.C. Hydro or determined by Powerex in accordance with Section 10.4. B.C. Hydro and Powerex declare that the Gas Transfer Price is intended to be established as a sale price that reflects the fair market value of Gas delivered at such applicable Source Point on a monthly or daily basis, as applicable, at which parties acting on an arms-length basis would be willing to transact.

#### 12.3. Electricity Transfer Price and Gas Transfer Price

The parties agree that the initial pricing methodology for determining the Electricity Transfer Price is as set forth in Appendix A and the Gas Transfer Price is as set forth in Appendix B.

#### 12.4. Pricing Methodology

B.C. Hydro and Powerex acknowledge that from time to time during the term of this Agreement different methods for determining the Electricity Transfer Price or Gas Transfer Price, as the case may be, may be appropriate to meet the applicable Transfer Pricing Principle. No earlier than April 1, 2004 or 12 months since the pricing methodology was last established, if a party believes that the then current pricing methodology for determining the Electricity Transfer Price or the Gas Transfer Price, as the case may be, (including any values established under it) would produce a price that does not meet the Transfer Pricing Principle during the next 12 months, the party may, by

notice to the other party, seek to renegotiate the then current pricing methodology. The parties shall negotiate in good faith to establish, within 90 days of such notice, a new pricing methodology for determining the Electricity Transfer Price or the Gas Transfer Price, as the case may be, to replace the then current methodology. If the parties are unable to negotiate a new pricing methodology for determining the Electricity Transfer Price or the Gas Transfer Price, as the case may be, within such time, either party may submit the matter to dispute resolution pursuant to Section 19. Upon agreement or determination of the new pricing methodology by dispute resolution, the new pricing methodology shall become effective at the beginning of the month immediately following the 90th day after the initial notice and the parties shall adjust amounts paid from that date. In no event shall the parties adjust the amounts paid or payable for any period prior to the effective date of the new pricing methodology.

### 13. **INFORMATION AND FORECASTS**

#### 13.1. **Information and Forecasts**

The parties shall provide information to each other on system and market conditions, including, without limitation, the forecasts (and revisions thereof) to be provided by B.C. Hydro to Powerex pursuant to Sections 6.4 and 13.2; provided, however that the foregoing and any information sharing with respect to the transmission capabilities of the B.C. Hydro System shall be done only within the information sharing limits set forth in the Standards of Conduct for Grid Operations and InterUtility Affairs or successor policies of B.C. Hydro published from time to time by B.C. Hydro and the information sharing limits imposed by pertinent Canadian and United States regulatory authorities.

#### 13.2. **Gas Information and Forecasts**

B.C. Hydro shall provide to Powerex, in accordance with North American industry standards, ongoing forecasts regarding B.C. Hydro's surplus Gas position, demand for Gas and the status of physical storage and delivery for B.C. Hydro's Gas, and shall coordinate and cooperate with Powerex regarding the same; provided, however that the foregoing shall be done only within the information sharing limits imposed by pertinent Canadian and United States regulatory authorities.

14. **CONFIDENTIAL INFORMATION**

14.1. **Powerex Information Is Confidential**

B.C. Hydro acknowledges that Powerex operates in a highly competitive market and that disclosure of information relating to Powerex, its business and operations could be reasonably expected to significantly harm the competitive position of Powerex or interfere with the negotiating position of Powerex with trading counterparties. Accordingly, information provided by Powerex at the request of B.C. Hydro, including information in connection with B.C. Hydro's audit from time to time, is proprietary and is provided only on condition that it shall be kept confidential by B.C. Hydro and not disclosed to any third party.

14.2. **B.C. Hydro Information Is Confidential**

Powerex acknowledges that disclosure of information relating to B.C. Hydro, its business and operations could be reasonably expected to significantly harm the competitive position of B.C. Hydro. Accordingly, information provided by B.C. Hydro at the request of Powerex is proprietary and is provided only on condition that it shall be kept confidential by Powerex and not disclosed to any third party.

15. **BILLING; PAYMENTS.**

15.1. **Powerex to Provide Statement for Electricity and Gas Transactions**

Powerex shall send to B.C. Hydro for each calendar month statements setting forth:

15.1.1. the total electricity that was delivered during that month, and

15.1.2. the total Gas that was delivered during that month,

in each case with sufficient detail to enable the parties to determine the amount received and the payments due in connection therewith. Statements shall be sent within 10 days of the end of the month.

15.2. **B.C. Hydro to Provide Statement**

B.C. Hydro shall send to Powerex for each calendar month statements setting forth the amount owing by Powerex to B.C. Hydro or by B.C. Hydro to Powerex pursuant to Sections 6.6, 7.1 (Variable Operating Costs), 7.2 (Variable Operating Costs), 9.2 and 10.7 (Variable Transportation Costs) for that month, with sufficient detail to enable the parties to determine the payment due in connection therewith. Statements shall be sent within 10 days of the end of the month.

15.3. **Netting and Payment**

The amounts that each party owes to the other for electricity and Gas under this Agreement for each month shall be aggregated and the party, if any, owing the greater aggregate amount shall pay to the other party the difference between the amounts owed. Unless otherwise agreed between the parties, payments shall be due on or before the 25th day of the month, or if such day is not a business day, the immediately following business day, and shall be made by wire transfer or other agreed manner. Unless otherwise agreed between the parties, overdue payments shall accrue interest from, and including, the due date to, but excluding, the date of payment at the Prime Rate plus 2%. US dollars shall be converted to Canadian dollars using the Bank of Montreal, Toronto, monthly average noon-rate of the month during which the payment obligations were incurred.

15.4. **Dispute of Invoices**

Each party shall have the right to dispute any amount which is set out in any statement or invoice in accordance with the procedure set out in Section 19. All statement and invoice amounts shall be paid pending resolution of any dispute.

16. **REPRESENTATIVES OF THE PARTIES**

16.1. **Designated Representatives**

B.C. Hydro and Powerex may from time to time designate representatives for the purpose of giving or confirming any approval required pursuant to this Agreement. As of the date

hereof, the representative of B.C. Hydro shall be its President or delegate, and the representative of Powerex shall be its President or delegate.

17. **FORCE MAJEURE**

17.1. **Suspension for Force Majeure**

If either party is or was wholly or partly unable because of a Force Majeure, to perform an obligation arising from this Agreement and claims that a Force Majeure is occurring or has occurred and reasonably establishes that fact, then the performance of the obligation shall be deemed to be suspended provided always that:

- 17.1.1. the suspension shall be of no greater scope and no longer duration than the Force Majeure,
- 17.1.2. the non-performing party shall make its best efforts to counter the Force Majeure or to otherwise remedy its inability to perform the obligation,
- 17.1.3. a performance required at a time other than when the Force Majeure is occurring shall not be excused by the Force Majeure,
- 17.1.4. an obligation to pay any fees when due shall not be excused by the Force Majeure; however, to the extent that there are any savings to either party as a result of the Force Majeure, that party shall pass on any savings to the other party so as to reduce its obligation accordingly.

18. **INDEMNITY AND CONSEQUENTIAL DAMAGES**

18.1. **Indemnity**

Each party shall indemnify the other party and its employees, agents and subcontractors from and against any and all claims, demands, losses, costs, damages, actions, suits or other proceedings made, sustained, brought or prosecuted which such other party may incur, suffer or be put to arising out of, or in any way based upon, any act or omission of such other party performing its obligations under this Agreement unless such act or

omission constitutes gross negligence or wilful misconduct on the part of such other party.

18.2. **Consequential Damages**

In no event shall either party be liable to the other or to any third party for incidental, indirect, special or consequential damages, howsoever caused and on any theory of liability, arising out of or related to the performance of this Agreement.

19. **DISPUTE RESOLUTION**

19.1. **Disputes Defined**

For purposes of this Section 19, "Dispute" means any dispute that arises under or in connection with this Agreement and includes any failure to agree upon the Electricity Transfer Price, the Gas Transfer Price or the amounts contemplated by Section 9.2, from time to time or any of the factors that go into determining such prices.

19.2. **Senior Executives**

The parties shall use reasonable efforts to settle all Disputes. In the event any such Dispute is not settled within 30 days after the date such Dispute arises, each party shall within 10 days refer the matter in dispute to its Chief Executive Officer (the "Senior Executives). The Senior Executives shall meet within 21 days to attempt to negotiate a resolution of the Dispute. Settlement offers shall not be admissible in any subsequent dispute resolution process.

19.3. **Arbitration**

If the parties have not succeeded in negotiating a resolution of the Dispute within 30 days after the first meeting of the Senior Executives or if the Senior Executives do not meet within 10 days, the parties shall be deemed to be at an impasse and either party may commence arbitration procedures in accordance with this Section. Unless the parties otherwise agree, any arbitration commenced in accordance with this Section 19 shall be determined by a single arbitrator and shall proceed in accordance with the Domestic

Commercial Arbitration Rules of Procedure of the British Columbia International Commercial Arbitration Centre, as they may be in force at the time of the arbitration.

19.4. **Sole Means of Resolving Dispute**

The parties declare that arbitration pursuant to this Section 19 shall be the exclusive means of resolving any Dispute and the determination of the arbitrator shall be final and binding. The parties expressly declare that the arbitrator shall have the express authority to determine the Electricity Transfer Price, the Gas Transfer Price or the amounts contemplated by Section 9.2, from time to time in the event of a Dispute.

20. **NOTICES**

20.1. **Notices**

Any notice or other communication provided for herein or given hereunder to a party shall be in writing and shall be delivered by facsimile transmission, or in person to the individual listed below:

20.1.1. **to Powerex:**

Powerex Corp.  
Suite 1400, Park Place  
666 Burrard Street  
Vancouver, British Columbia  
V6C 2X8

**Attention: President**

20.1.2. **to B.C. Hydro:**

British Columbia Hydro and Power Authority  
333 Dunsmuir Street  
Vancouver, British Columbia  
V6B 5R3

**Attention: President**

or such other address with respect to a party as such party shall notify the other in writing as above provided. Notices by facsimile transmission shall be deemed given upon

verification of successful transmission and notice in person shall be deemed given upon actual delivery.

21. **MISCELLANEOUS**

21.1. **Waiver by Agreement**

This Agreement and any provision hereof may only be amended, waived, discharged, or terminated by an instrument in writing signed by the party against whom enforcement of the amendment, waiver, discharge, or termination is sought.

21.2. **Non-Waiver**

No waiver or successive waivers by a party of any provision of this Agreement shall operate as a discharge of such covenant, agreement, or condition or render the same invalid or impair the right of one party to enforce the same in the event of any subsequent breach or breaches by the other.

21.3. **Amendments**

If at any time during this Agreement the parties consider it necessary or expedient to make an amendment, supplement, waiver, or other modification to this Agreement they may do so only by means of a written agreement between them.

21.4. **Severability**

If any term, covenant, or condition of this Agreement or application thereof to any person or circumstances shall to any extent be invalid, illegal, or unenforceable in any respect, the remainder of this Agreement or application of such term, covenant, or condition to such person or circumstance other than those as to which it is held invalid, illegal or unenforceable shall not be affected thereby, and each term, covenant, or condition of this Agreement and this Agreement shall be valid and legal and shall be enforced to the fullest extent permitted by law.

21.5. **Complete Agreement**

This Agreement represents the entire agreement of the parties with respect to the subject matter hereof.

21.6. **Other Agreements**

If there is any conflict between the provisions of this Agreement and any other agreement entered into prior to this Agreement, then the provisions of this Agreement shall control.

21.7. **Governing Laws**

This Agreement and the rights and obligations of the parties hereto shall be governed by and be construed in accordance with the laws of the Province of British Columbia.

21.8. **Headings**

The headings in this Agreement have been inserted for reference only and do not define, limit, alter, or enlarge the meaning of any provision of this Agreement.

21.9. **Assignment**

This Agreement may not be assigned, in whole or in part, by Powerex without the prior written consent of B.C. Hydro.

21.10. **Successors And Assigns**

This Agreement is binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

21.11. **Counterparts**

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute but one instrument.

21.12. **Third Party Beneficiaries**

Except as provided expressly by this Agreement, nothing in this Agreement nor its performance shall be relied upon by third parties or create any rights or obligations to third parties.

21.13. **Non Restriction**

Nothing in this Agreement is intended to limit Powerex from conducting transactions outside of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**BRITISH COLUMBIA HYDRO AND  
POWER AUTHORITY**

By: \_\_\_\_\_

**POWEREX CORP.**

By: \_\_\_\_\_

## APPENDIX A

### CALCULATION OF ELECTRICITY TRANSFER PRICE

#### 1. INTERPRETATION

##### 1.1. Definitions

For purposes of this Appendix A the following words and terms shall have the following meanings:

- 1.1.1. "Agreement" means the transfer pricing agreement to which this Appendix A is attached and of which it forms a part.
- 1.1.2. "BPA" means Bonneville Power Administration.
- 1.1.3. "DJMC" means the relevant index published by DowJones for transactions reported at Mid-Columbia.
- 1.1.4. "Losses" means the BPA average system-wide loss factor (as a percentage) charged under BPA's tariff multiplied by the On-Peak Price or the Off-Peak Price, as the case may be, for the applicable hour, plus any other charges for ancillary services.
- 1.1.5. "NERC" means the North American Electric Reliability Council or any successor organization
- 1.1.6. "Off-Peak Hours" means the hours ending 1 through 6 and the hours ending 23 and 24, Monday through Saturday, and hours ending 1 through 24 on Sunday and NERC holidays.
- 1.1.7. "Off-Peak Price" means, for an Off-Peak Hour:
  - 1.1.7.1. for days other than Sundays and NERC holidays, the DJMC Firm Off-Peak Index price (in US\$/MWh) for that hour; or

- 1.1.7.2. for Sundays and NERC holidays, the DJMC Sunday 24-hour Firm Index price (in US\$/MWh) for that hour.
- 1.1.8. "On-Peak Hours" means the hours ending 7 through 22, Monday through Saturday, excluding NERC holidays.
- 1.1.9. "On-Peak Price" means, for an On-Peak Hour, the DJMC Firm On-Peak Index price (in US\$/MWh) for that hour.
- 1.1.10. "Transmission Costs" means the rate under the prevailing BPA tariff for hourly non-firm transmission.

## 1.2. Interpretation

In this Appendix A, references to Sections are references to Sections of this Appendix unless otherwise specified.

## 1.3. DowJones Telerate Index Price

For purposes of the calculations in this Appendix A, it is assumed that the Mid-Columbia DowJones telerate index price is determined in the manner specified in the DowJones "Wholesale Electricity Price Indexes - Mid-Columbia (Mid-C definition - A/O 6/1/98, revised 12/31/98 and the Electricity Price Indexes calculations revised 12/31/98). In the event that the index prices referred to in this Appendix A are no longer determined in the manner described in the foregoing publications, then, if the change is material, either party may, by notice to the other party, seek to renegotiate the then current pricing methodology, failing which the matter shall be resolved by dispute resolution in accordance with Section 19 of the Agreement.

## 2. ELECTRICITY TRANSFER PRICE

### 2.1. Sales by B.C. Hydro to Powerex

The Electricity Transfer Price payable by Powerex to B.C. Hydro for electricity sold or deemed to be sold to Powerex under Section 5.1 and 6.2 of the Agreement shall be:

- 2.1.1. for each On-Peak Hour, the price in (US\$/MWh) obtained by subtracting from the On-Peak Price for that hour, the Transmission Costs and Losses applicable to the electricity delivered in that hour; and
- 2.1.2. for each Off-Peak Hour, the price (in US\$/MWh) obtained by subtracting from the Off-Peak Price for that hour, the Transmission Costs and Losses applicable to the electricity delivered in that hour.

2.2. **Purchases by B.C. Hydro from Powerex**

The Electricity Transfer Price payable by B.C. Hydro to Powerex for electricity sold or deemed to be sold to B.C. Hydro under Sections 5.2 and 6.1 of the Agreement shall be:

- 2.2.1. for each On-Peak Hour, the sum (in US\$/MWh) of the On-Peak Price for that hour plus the Transmission Costs and Losses applicable to the electricity delivered in that hour; and
- 2.2.2. for each Off-Peak Hour, the sum (in US\$/MWh) of the Off-Peak Price for that hour plus the Transmission Costs and Losses applicable to the electricity delivered in that hour.

2.3. **US Purchases to Meet B.C. Hydro Obligations**

If and to the extent that Powerex purchases electricity in the U.S. for delivery to fulfil B.C. Hydro's obligations under agreements entered into pursuant to the Skagit River Valley Treaty, the Electricity Transfer Price payable by B.C. Hydro to Powerex for such electricity shall be:

- 2.3.1. for each On-Peak Hour, the sum (in US\$/MWh) of the On-Peak Price for that hour, plus Losses applicable to the electricity delivered in that hour; and
- 2.3.2. for each Off-Peak Hour, the sum (in US\$/MWh) of the Off-Peak Price for that hour, plus Losses applicable to the electricity delivered in that hour.

## APPENDIX B

### CALCULATION OF GAS TRANSFER PRICE

#### 1. INTERPRETATION

##### 1.1. Definitions

For purposes of this Appendix B the following words and terms shall have the following meanings:

- 1.1.1. "Agreement" means the Transfer Pricing Agreement to which this Appendix B is attached and of which it forms a part.
- 1.1.2. "Bid-Week" means the last 5 business days of each calendar month.
- 1.1.3. "Daily Index Price" means any one of the following daily index prices applicable to the sale of Gas from Powerex to B.C. Hydro pursuant to this Agreement, as determined by Powerex in accordance with Section 10.4 of the Agreement:
  - (a) The Midpoint of Westcoast, Station 2 index price set out in Gas Daily, as published by Platts, a division of The McGraw-Hill Companies Inc., being the weighted average of all daily fixed price trades at Station 2 daily, reported by index participants.
  - (b) The Midpoint of Northwest, Canadian border (Sumas) index price set out in Gas Daily, as published by Platts, a division of The McGraw-Hill Companies Inc., being the weighted average of all daily fixed price trades at Sumas daily, reported by index participants.
  - (c) The AECO-NIT Daily Spot gas index price set out in the Canadian Gas Price Reporter, as published by Canadian Enerdata Ltd., being the volume-weighted average of all gas trades that occur on the

NGX trading platform for a particular delivery day.

- (d) The Midpoint of PG&E-GTNW, Kingsgate index price, set out in Gas Daily as published by Platts, a division of The McGraw-Hill Companies Inc. being the weighted average of all daily fixed trades at Kingsgate daily, reported by index participants.

1.1.4. "Monthly Index Price" means any one of the following monthly index prices applicable to the sale of Gas from Powerex to B.C. Hydro pursuant to this Agreement, as specified by B.C. Hydro or determined by Powerex in accordance with Section 10.4 of the Agreement:

- (a) The Station 2 one-month spot gas index price as set out in Canadian Gas Price Reporter, published by Canadian Enerdata Ltd., being the volume-weighted average of all monthly fixed price trades as reported by index participants.
- (b) The Northwest Pipeline Corp., Canadian Border Index price as set out in inside FERC's gas market report monthly prices of spot gas delivered to pipelines at Sumas, as published by Platts, a division of the McGraw-Hill Companies Inc., being the weighted average of all monthly fixed price trades reported at Sumas during the Bid-Week prior to the month of delivery.
- (c) The AECO-NIT One-Month spot gas index price set out in the Canadian Gas Price Reporter, as published by Canadian Enerdata Ltd., being a volume-weighted average of all gas trades that occur on the NGX trading platform for a particular prompt delivery month.

## 1.2. **Interpretation**

In this Appendix B, references to Sections are references to Sections of this Appendix unless otherwise specified.

1.3. **Conversion**

Any references to mmBtu's in any Daily Index Price or Monthly Index Price, shall be converted to GJ on the basis that one mmBtu equals 1.055056 GJ's.

1.4. **Index Prices**

In the event that a Monthly Index Price or Daily Index Price, or any other published index price on which the Gas Transfer Price may be based ceases to exist, or ceases to be representative of the price for daily or monthly, as the case may be, fixed price Gas trades, at the applicable trading hub, or the manner of determining such index price materially changes, then either party may, by notice to the other party, seek to renegotiate the applicability of that Monthly Index Price or Daily Index Price and a suitable replacement therefore. Failing which the matter shall be resolved by dispute resolution in accordance with Section 19 of the Agreement.

1.5. **Gas Transfer Price**

The Gas Transfer Prices payable by B.C. Hydro to Powerex are as follows:

- 1.5.1. the Monthly Index Price as specified by B.C. Hydro or determined by Powerex in accordance with Section 10.4, for each day in which B.C. Hydro has requested a Specified Contract Quantity for use at a Thermal Generation Plant or for the purpose of serving a Gas Utility Contract, as the case may be; and
- 1.5.2. the Daily Index Price as specified by B.C. Hydro or determined by Powerex in accordance with Section 10.4, for each day in which B.C. Hydro has requested an Additional Daily Quantity for use at a Thermal Generation Plant or for the purpose of serving a Gas Utility Contract, as the case may be.