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BC Hydro Site C Clean Energy Project
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Attention: Susan Yurkovich / Thomas Assimes

May 9, 2011

Dear Ms. Yurkovich and Mr. Assimes:

Re: Site C Clean Energy Project (the "Project") - Commentary Letter

The BC Hydro Integrated Team ("Project Team") has completed an updated project cost estimate and corresponding financial model ("Financial Model"). Acting in our role as financial advisor to BC Hydro, KPMG LLP ("KPMG") has been asked to review the Financial Model prepared by the Project Team. Specifically, BC Hydro requested our comments on the logical and arithmetic integrity of the Financial Model, as well as the reasonableness and appropriateness of the approach, methods and processes used in developing the assumptions ("Assumptions") transcribed in the Financial Model.

In this context, it is our understanding that the objective of the Financial Model (the "Financial Model Objectives") is to function as a tool to:

1. consolidate key input data with respect to capital costs;
2. calculate interest during construction;
3. assess the financial implications of constructing the Project; and
4. calculate the levelled unit energy cost for the Project.

Our comments are organized as follows:

- A. Scope of Review;
- B. Methodology
- C. Findings; and
- D. Restrictions.

A. Scope of Review

The scope of our commentary is based on reviewing only the project documentation made available to us by the Project Team and interviewing members of the Project Team, BC Hydro, Partnerships BC and Pacific Liaison. Our review focused on the following:

1. the approach, methods and processes followed by the Project Team in developing the Assumptions contained in the financial model;
2. the transcription of Assumptions into the Financial Model; and
3. the construction of the base case Financial Model, insofar as its logical and arithmetic integrity is concerned, as an analytical tool that BC Hydro may use to achieve the Financial Model Objectives.

Our work did not include any of the following:

- assessing or verifying the commercial risks associated with the Project, nor commenting on the possibility of the financial projections contained in the Financial Model of being achieved;
- reviewing consistency of the Financial Model with externally linked files or verification of the contents and calculations of externally linked files in any way;
- considering any formula containing implicit assumptions, external references;
- reviewing the accuracy or appropriateness of visual elements (such as graphs) included within the Financial Model;
- assessing the completeness of the Assumptions or inputs used in the Financial Model;
- reviewing or testing of any sensitivity analysis of the Financial Model, including assessing the impact in the Financial Model of differing assumptions from base case; or
- providing any opinion or assurance regarding the functionality, accuracy or correctness of Microsoft Excel, the software program in which the Model was developed and operates, not the operating system that any users uses to run the Financial Model in Microsoft Excel.

The procedures we used to perform the work set out above do not constitute an audit or review made in accordance with any generally accepted auditing standards or company law or assessment of the technical feasibility or technical engineering review or compliance with applicable legislation.

B. Methodology

Our work is based on the following methodology:

- **Document Review** – reviewing project documents made available to us by the Project Team;
- **Interviews with Project Team Members** – conducting six interview sessions with Project Team Members. The interviews were used to develop an understanding of the process followed in creating the Assumptions contained in the Financial Model;
- **Review the process** employed to develop the Financial Model assumptions;
- **Review the transcription of inputs into the Financial Model** – we compared the Assumptions contained in the project documentation that was made available to us to those inputs used in the Financial Model; and
- **Verification of logical and arithmetic integrity of the Financial Model** – we reviewed the formula contained in the Financial Model for logical and arithmetic integrity.

KPMG employed BTY Group (a cost management and project management consultancy with extensive local experience) to aid in document review and Assumptions process review.

C. Findings

Our comments regarding each item in the scope of our work is addressed as follows:

1. The approach, methods and processes followed by the Project Team in developing the Assumptions

The Financial Model was populated from Assumptions developed by the Project Team for direct, indirect and other costs, contingencies, and reserves.

Various teams were involved in the development of these Assumptions. The teams were comprised of BC Hydro employees and external consultants selected by the Project Team based on their experience and qualifications.

The direct cost estimate was developed by the Site C Integrated Engineering Team. Upon its completion, a peer review was undertaken by BC Hydro's Generation Engineering Cost Estimating Team to verify pricing of the direct construction costs and compliance with BC Hydro's estimating practices. The peer review also served to examine the cost estimate for major scope omissions.

Other Assumptions were developed with assistance from subject-matter experts on the Integrated Project Team, BC Hydro Treasury Group, and Partnerships BC.

For additional oversight, we understand that the process followed by the Site C Project Team also included consultation with its Technical Advisory Board and Executive Project Board.

We have reviewed the Assumption development process and it shows a level of care and diligence consistent with an infrastructure project at this stage of development. Based on our review, it is our view that the Project Team has followed reasonable and appropriate processes for developing the Assumptions used in the Financial Model.

In addition, we found that the Unit Energy Cost calculations are consistent with methodologies described in the project documentation made available to us. It is our understanding that this methodology is approved by the British Columbia Utilities Commission for the evaluation of energy generation options.

2. Transcription of the Assumptions contained in the project documentation into the Financial Model

In respect of this review, our major findings are as follows:

- **Application of inflation rates** – The project documentation made available to us refers to the CPI index of 2.1% for use in the Financial Model. However, we noted in the Financial Model that two inflation rates (2.0% and 2.1%) were used throughout.
- **Reference to Source Documents** - There were some examples where inputs have been hardcoded into the financial model or embedded within formulas of the Financial Model. In some instances no source document was provided to support these hard-coded numbers. One such example is the Forecast Return on Equity contained on the RAW-FN Reserve worksheet.
- **Transposition Error** – There was one instance of a transposition error on cell C13 on Cal-UEC worksheet in the Financial Model, which was inputted as 6.986, but the project documentation made available to us contained an assumption of 6.896.

Based on our review, with the exception of the above, we believe that the Assumptions have been properly transcribed into the Financial Model.

With respect to the exceptions and findings noted, as stated above, we did not calculate the financial effect on the Financial Model as the calculation of such sensitivities is beyond the scope of our work.

3. The construction of the Financial Model, insofar as its logical and arithmetic integrity is concerned

Based on our review of the calculations in the Model, together with management responses to queries, the more substantive issues that we identified related primarily to:

- **Hard Coded Numbers** – Many hard-coded numbers have been included in the Financial Model that do not seem to impact any of the calculations. From a presentation standpoint, these numbers may be confusing to a reviewer of the Financial Model. However, were management to run financial sensitivities in the model based on changes in inputs, confusion may exist in determining which inputs are active inputs in the calculation. Changing an inactive input will not reflect appropriately in the final calculations.

- **Side Calculations** - There were a number of side calculations that do not affect the final calculations. From a presentation standpoint, these numbers may be confusing to a reviewer of the Financial Model but do not appear have an impact on the final numbers calculated.
- **Labeling** – In some instances the labeling contained within the Financial Model was inconsistent with the actual calculation. For example, in the calculation of contingencies the label is, “Last 25% of the Work Package” whereas the actual allocation of the contingency varied from 4-23 months in length. From a presentation standpoint, this labelling may be confusing to a reviewer of the Financial Model but does not have an impact on the final numbers calculated.

Based on the work we have performed and taking into account the above noted findings, the Financial Model appears to have been constructed appropriately, insofar as its logic and arithmetic integrity is concerned.

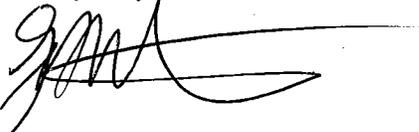
With respect to the exceptions and findings noted, as stated above, we did not calculate the financial effect on the Financial Model.

Restrictions

This report is addressed to BC Hydro. We will not accept responsibility to any other party to whom the report may be shown or who may acquire a copy of the report.

Our review findings, as set out in our report, apply only to the specified version of the Financial Model and that has been made available to us by the Project Team. We will not be under any obligation to perform any work, take account of or comment on any intervening events or model changes after the issue of our report in final form to BC Hydro.

Yours very truly,



Gary Webster
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