

## Ferguson, Susan M MEM:EX

---

**From:** Minister, MEM MEM:EX  
**Sent:** Tuesday, August 20, 2013 4:56 PM  
**To:** MEM Correspondence MEM:EX  
**Subject:** FW: POWEREX

DM response please

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**From:** S22  
**Sent:** Saturday, August 17, 2013 10:19 AM  
**To:** Minister, MEM MEM:EX  
**Subject:** POWEREX

I feel BC's descision to settle on this matter is totally offside. Bottom line is we are admitting, and now paying for, the suggestion, that we are/were manipulating prices; here is a very informative New York Times break Down of "tax credits" in the US; please note California's estimated \$4.17 billion annual subsidy that we are competing with.: [http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html?\\_r=0#CA](http://www.nytimes.com/interactive/2012/12/01/us/government-incentives.html?_r=0#CA)

I understand that the suggestion was that we are cutting our losses. Is this now a precedent in matters where we are up against goliath?

Please explain this.

Regards,

--

S22

## Ferguson, Susan M MEM:EX

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**From:** Minister, MEM MEM:EX  
**Sent:** Wednesday, August 28, 2013 12:59 PM  
**To:** MEM Correspondence MEM:EX  
**Subject:** FW: Who is held accountable?

---

**From:** S22  
**Sent:** Wednesday, August 28, 2013 8:58 AM  
**To:** OfficeofthePremier, Office PREM:EX  
**Cc:** Minister, MEM MEM:EX  
**Subject:** Who is held accountable?

### Premier

Who is the government, representing the taxpayers, holding accountable for this travesty? Are criminal charges being undertaken? Please specify if civil claims for reimbursement are being brought against those responsible?

How, exactly, are the perpetrators being held accountable?

Gary

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Vaughn Palmer: \$750-million surrender on energy-trading infractions triggers political spin cycle

Vancouver Sun August 27, 2013

Energy Minister Bill Bennett and Powerex president and CEO Teresa Conway appear at a press conference in Vancouver Aug. 16 to announce an out-of-court settlement with the state of California on energy-trading infractions.

Photograph by: NICK PROCAYLO , PNG

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Page 003 to/à Page 004

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vpalmer@vancouver.sun.com

S22

S22

S22

August 17, 2013

Teresa Conway  
President  
Powerex  
1300 - 666 Burrard St  
Vancouver, BC V6C 2X8

Re: Powerex \$750 million California Settlement

Ms. Conway

Let me see if I understand the facts behind the settlement in the Sunday Vancouver Sun:

Powerex made 5.5 billion in 2010 (the year Powerex ripped California off) and made 1.73 billion in 2013 (my guess is the later is close to 2011 and 2012). You then paid \$68 million in Attorneys Fees (did they see you coming or what) trying to show the difference (5x) was due to the Tooth Fairy.

BC taxpayer paid \$113 million this year and \$101 million next year BUT there will be no rate increase (Tooth Fairy to the rescue again) to cover the settlement.

BUT BUT BUT Powerex *saved* the taxpayer \$50 million in Attorney Fees and a larger settlement (Billions). Your buddy Bill Bennett says the "Folks" should be throwing a party and giving Powerex Bonuses for such profound wisdom. Oh and how could I forget the best part of the settlement - "Expressly recognizes that Powerex admits **no wrongdoing**" Halleluiah and praise be to the Tooth Fairy! That' worth the price of the Lipstick for the Powerex Pig, really!

Ms. Conway I suffered through those blackouts in California. I hated Powerex (among others) for their greed then and I hate it more for not having the Balls to stand up and take the medicine it rightly deserves. And tell your buddy Bill Bennett to drop the feigned "Ah shucks" routine towards the taxpayers (they get it). He looks like a bigger fool than Powerex!

Disgusted

MINISTRY OF ENERGY AND MINES  
REFERRAL NUMBER \_\_\_\_\_  
REFER TO: \_\_\_\_\_  
DRAFT REPLY ☐ INFO FILE ☐ REPLY DIRECT ☐  
RECEIVED AUG 23 2013  
REMARKS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

MINISTRY OF ENERGY AND MINES  
RECEIVED  
AUG 22 2013  
DEPUTY MINISTER'S OFFICE  
LOU 80992

## BC Hydro Briefing Note

### California Litigation Settlement Mandate

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#### Summary

- Powerex is involved in an on-going legal dispute with the California Parties (CP)<sup>1</sup> related to the 2000-2001 California energy crisis. In 2014, the U.S. Federal Energy Regulatory Commission (FERC) will likely order refunds and/or penalties or Powerex could settle with the CP. An adverse FERC order could result in a significant financial impact to Powerex and the Province of B.C. The US Federal Court wants to mediate a settlement of the dispute in late July 2013. Powerex is seeking a mandate to settle the dispute for up to US \$750 million.
- 

#### Background

- In 1998, wholesale energy prices in California were deregulated to allow increased competition and a greater supply of lower priced energy. Deregulation was unsuccessful because of a tremendous demand for power in 2000 and 2001, which led to an energy shortfall and record high prices (the California Crisis).
- A number of factors came together to create the California Crisis. They include:
  - few power plants being built in California in preceding years making the state dependent on electricity imports
  - drought conditions resulting in lower than expected water runoff for power generation
  - rupture and capacity constraints on natural gas pipelines to the California markets
  - increased demand for electricity
  - unusually high temperatures, and
  - Enron market manipulation
- Powerex sold substantial amounts of energy into the California market in 2000 and 2001, earning significant returns for BC Hydro and the Province. The power crisis resulted in Powerex having outstanding receivables from California of about US \$265 million<sup>2</sup>, which never were paid. Powerex has recorded an offsetting provision for this amount. This amount will largely be required to pay expected (FERC) mandated market wide refunds in the current amount of US \$406 million, including interest.

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<sup>1</sup> The CP consists of: the California Public Utilities Commission (CPUC), California Attorney General for the state of California (CAG) and for the California Department of Water Resources (CDWR), Pacific Gas & Electric Company (PG&E) and Southern California Edison (SCE).

<sup>2</sup> All amounts are in US dollars.

## CONFIDENTIAL

- Since 2001, various CP have commenced numerous lawsuits and regulatory proceedings in the U.S. against Powerex and approximately 60 other market participants alleging that their profits were the result of market manipulation, tariff violations, fraud, and other illegal activities. Many companies have already settled with the CP, however, Powerex, TransAlta, TransCanada and Bonneville Power Administration (BPA, a U.S. Federal agency) form part of the remaining group of 14 defendants that have not settled.
- The total claims against Powerex are approximately US \$1.7 billion plus accrued interest of approximately US \$1.5 billion, totaling US \$3.2 billion.
- Powerex and other entities will be required to pay market wide refunds for October to December 2000 transactions. Powerex's market wide refund amount is US \$406 million including interest. These refunds were ordered by FERC, using a formula of what market prices should have been had the market not been found to be "broken". The total claim of US \$3.2 billion less the market wide refund amount of US \$406 million is US \$2.8 billion. There is a significant chance of Powerex being liable for a portion of the remaining US \$2.8 billion if the disputes are not settled.

S17, S21

- Powerex's annual income varies significantly year to year. Since 2003 Powerex has earned over CAD \$1.7 billion for the benefit of BC Hydro ratepayers.
- California is an important market for BC Hydro surplus energy and for trading to continue to earn significant returns for BC Hydro ratepayers. Since 2003 Powerex's revenues with California counterparties have totalled over CAD \$3.5 billion.

## Discussion

### Financial Impact to Powerex, BC Hydro and the Province of BC

17, 21



Page 3 redacted for the following reason:

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s.17, s.21

CONFIDENTIAL

S17, S21

S13, S14, S17, S21

S17, S21

Pages 5 through 9 redacted for the following reasons:

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S17, S21



**SPEAKING POINTS FOR**

**HON. Bill Bennett**

**MINISTER OF ENERGY AND MINES**

**Priorities and Planning Committee**

**BC Hydro/Powerex Potential California  
Settlement**

**Tuesday, June 16 2013**

**Time TBD**

**Please check against delivery**

***Proposed List of Attendees:***

***Dave Nikolejsin, Deputy Minister***

***Charles Reid, CEO, BC Hydro***

***Teresa Conway, CEO, Powerex***

***Keith Mitchell, Lawyer for Powerex***

***Les MacLaren, ADM***

## **SLIDE 1**

- Issues related to the so-called California Energy Crisis in 2000-2001 have a long and complex history and have been to this Committee before, most recently in February.

## **SLIDE 2 - History**

- For those of you who are not familiar with the history, it started in 2000 when prices went crazy in the poorly designed California market, resulting in rolling blackouts.
- BC Hydro made over a billion dollars, but some of the California entities went bankrupt and defaulted on about \$300 million owed to Powerex.
- It turns out that some parties, most notoriously Enron, manipulated the market.
- This has led to lots of regulatory actions and lawsuits.

- Current claims against Powerex including interest total \$3.2 billion.
- Powerex played by the rules, and until recently has been fully exonerated in all proceedings.
- A 2004 review of Powerex's behaviour by staff from the US Federal Energy Regulatory Commission concluded that there was:
  - no evidence that Powerex engaged in any gaming practices, and
  - that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the period.

### **SLIDE 3 – History (2)**

- What we call the California Parties, led by the State Attorney General, have settled with many of the participants.

- Powerex, along with TransAlta, TransCanada and the Bonneville Power Administration, is part of the group of 16 suppliers that have not yet settled.
- One thing that is not widely known, even though it has been disclosed in BC Hydro's financial statements, is that we are going to have to pay back some of the profits from 2000/01.
- The US Federal Energy Regulatory Commission, or FERC, after concluding that the California market was manipulated, used natural gas prices with the efficiency of a modern gas-fired generator to determine what power prices should have been in the market.
- Suppliers will have to refund amounts above this price.
- Amounts owing from California parties plus interest can off-set the refund amounts, and Powerex has made provisions on its books to cover the balance.



## **SLIDE 4 - Mediation**

- We have tried to settle in the past.
- In 2007, the California parties were asking for \$1.3 billion and we strongly refused.

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## **SLIDE 5 – FERC Advisory Ruling**

- In February Powerex had its first set back – a FERC judge issued an advisory ruling that found that Powerex and other suppliers violated market rules.

- All parties, including FERC trial staff, have appealed the advisory ruling, and it is now up to the FERC Commissioners to make a ruling, which we expect in early 2014.

## **SLIDE 6 - Assessment**

- The February advisory ruling means that our risk has increased and the California Parties believe they have a better chance of success.
- Another regulatory hearing is scheduled to begin in August, and the court appointed mediator wants to take another look at a settlement later this month.
- We need to make a business decision on whether to keep fighting, which will take years and \$10s of millions, or to try to settle.

- If we keep fighting, there is a chance that we will get another bad decision, which could require us to book a loss in the \$100s of millions, even if we plan to appeal.
- A settlement could take all of these legal and regulatory proceedings off the table.

## **SLIDE 7 – No Fiscal Impact**

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## **SLIDE 8 – Powerex's Refund Obligation**

- The first line of this table sets out the refund obligation I spoke to earlier – we have to pay that.
- For a \$655 million settlement, we would be resolving the outstanding claims at less than 10 cents on the dollar, and total claims at less than 20 cents.
- I am told that this is a reasonable range compared to other settlements.

## **SLIDE 9 – Dealing with the Impact of Settlement Over \$655M**

- We have also looked at how we might be able to go higher if required to settle, but this would require action by government.

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## SLIDE 10 - Options

S13

- The BC Hydro and Powerex Boards have approved option three, subject to final approval of a settlement by the Chairs of BC Hydro and Powerex and government's delegate.
- The Ministry of Energy and Mines is also recommending option three.
- Of course Powerex will seek the lowest possible settlement, but we want them to be able to go to the level recommended by their US counsel if required.
- We recommend the Deputy Minister of Finance as government's delegate to approve a final settlement.

## **SLIDE 11 - Messaging**

- If we do reach a settlement, communications will be challenging. We will need to position this as a business decision.
- Even though we did nothing wrong, we don't want to have \$3.2 billion in legal claims hanging over our heads, and incur the legal and interest costs of fighting this for another five or more years.
- Thank you — any questions?

-30-

Pages 22 through 32 redacted for the following reasons:

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S12, S14, S16, S17



## MacLaren, Les MEM:EX

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**From:** MacLaren, Les EMNG:EX  
**Sent:** Monday, February 4, 2013 3:42 PM  
**To:** Dyble, John C PREM:EX  
**Cc:** Carr, Steve EMNG:EX; Wieringa, Paul EMNG:EX  
**Subject:** Powerex

Hi John:

S13, S17

### **Background:**

In 1998 wholesale energy prices in California were deregulated to allow increased competition and a greater supply of lower priced energy. Deregulation was unsuccessful because of a tremendous demand for power in 2000 and 2001 which led to an energy shortfall and record high prices (the California Crisis). A number of factors came together at that time to create the California Crisis, such as: few power plants having been built in California in preceding years making the State dependent on imports of electricity; drought conditions resulting in lower than expected water runoff for power generation; rupture and capacity constraints on natural gas pipelines to the California markets; increased demand for electricity; and unusually high temperatures.

In the summer of 2000, energy reserves dropped in California, resulting in rolling blackouts. During this time period, to meet demand, California utilities bought power in the wholesale market at much higher prices but by law (with customer rate increases not approved) were unable to pass the cost on to retail consumers, thus becoming financially unstable, and in some cases, bankrupt. The financial crisis in the industry intensified the shortfall and led to more rolling blackouts in the spring of 2001.

Powerex sold substantial amounts of energy into the California market in 2000 and 2001 because of their urgent needs for energy. However, the financial instability within the industry resulted in Powerex having outstanding receivables from California of \$268M.<sup>i</sup> Powerex has recorded an offsetting provision (allowance for doubtful accounts) for the same amount such that no revenue or income has been recognized related to these sales.

Since 2001, various California Parties have commenced lawsuits and regulatory proceedings in the US against Powerex and approximately 60 other market participants alleging that their profits were the result of market manipulation, with demands that Powerex and others pay refunds and penalties. Powerex to date has won seven of the eight lawsuits brought in six different US courts over a five year period (the remaining lawsuit has been stayed (put on hold) indefinitely until certain regulatory proceedings involving overlapping issues are concluded). There have so far been no final decisions adverse to Powerex in any lawsuit or regulatory proceeding, and in fact Federal Energy Regulatory Commission staff have concluded that Powerex was a reliable energy supplier that helped keep the lights on during the crisis.

S13, S17

S13, S17

As noted, I expect to see the material Powerex is preparing for their and the BC Hydro Board later this afternoon or tomorrow.

***Les MacLaren***

Assistant Deputy Minister  
Electricity and Alternative Energy Division  
Ministry of Energy, Mines and Natural Gas  
Office: 250 952-0204  
Fax: 250 952-0258

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<sup>i</sup> All amounts in USD and do not include interest unless otherwise stated.

## MacLaren, Les MEM:EX

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**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Tuesday, February 5, 2013 11:01 AM  
**To:** MacLaren, Les EMNG:EX; Carr, Steve EMNG:EX  
**Cc:** XT:Reid, Charles FIN:IN  
**Subject:** Draft - Confidential  
**Attachments:** Board Executive Summary Cal Lit Feb 2013 Government .pdf

Enclosed is a draft of the briefing note which will go to the Powerex and BC Hydro Boards for our Board meeting on Wednesday.

We will use this briefing as the basis for our call tomorrow at 9:15 am Wedn.

Charles and I had a quick meeting with Dan Doyle in Vancouver this morning.

If you have any questions, please call my cell at S17

Best regards

Teresa Conway,  
President and Chief Executive Officer - *Powerex Corp.*

Telephone: (604) 891-5065;

Fax: (604) 891-5015

[www.powerex.com](http://www.powerex.com)



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S14

## MacLaren, Les MEM:EX

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**From:** MacLaren, Les EMNG:EX  
**Sent:** Tuesday, February 5, 2013 5:53 PM  
**To:** Carr, Steve EMNG:EX  
**Cc:** Wieringa, Paul EMNG:EX; De Champlain, Rhonda EMNG:EX  
**Subject:** Powerex--California



Powerex--California.pptx

Hi Steve

Based on the Powerex briefing material you have, we have created the attached for P&P. You may want to run it by John and Dan tomorrow.

S13, S17

Les

Pages 12 through 15 redacted for the following reasons:

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S12, S14, S16, S17

## MacLaren, Les MEM:EX

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**From:** Irving, John K. [John.Irving@powerex.com]  
**Sent:** Tuesday, February 5, 2013 9:41 PM  
**To:** MacLaren, Les EMNG:EX  
**Subject:** Re: Draft - Confidential

S13, S17

John

On 2013-02-05, at 9:12 PM, "MacLaren, Les EMNG:EX" <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)> wrote:

S13, S17

>  
> Les MacLaren  
> Assistant Deputy Minister  
> BC Ministry of Energy, Mines and Natural Gas  
> 250-952-0204  
>  
> Begin forwarded message:  
>  
> From: "Conway, Teresa"  
> <[Teresa.Conway@powerex.com](mailto:Teresa.Conway@powerex.com)<<mailto:Teresa.Conway@powerex.com>>>  
> Date: 5 February, 2013 8:53:26 PM PST  
> To: "MacLaren, Les EMNG:EX"  
> <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)<<mailto:Les.MacLaren@gov.bc.ca>>>  
> Subject: Fw: Draft - Confidential  
>  
>  
>  
> From: Irving, John K.  
> Sent: Tuesday, February 05, 2013 08:42 PM  
> To: Conway, Teresa  
> Subject: Re: Draft - Confidential  
>  
> In 2002 Ferc made its market wide refund order which was confirmed on appeal to 9th Circuit  
in 2005 .  
> Ferc then went into the calculation phase in 2005 and we are still awaiting the final  
orders on the exact amount of our refund obligation and to disburse the funds .  
>  
> John  
>  
>  
> On 2013-02-05, at 5:31 PM, "Conway, Teresa"  
> <[Teresa.Conway@powerex.com](mailto:Teresa.Conway@powerex.com)><[Teresa.Conway@powerex.com](mailto:Teresa.Conway@powerex.com)<<mailto:Teresa.Conway@powerex.com>>>  
> wrote:  
>  
> Could you provide info  
>  
>  
> Begin forwarded message:



>

> From: "MacLaren, Les EMNG:EX"

> <<<mailto:Les.MacLaren@gov.bc.ca>>Les.MacLaren@gov.bc.ca<<mailto:Les.MacLaren@gov.bc.ca>>>

> Date: 5 February, 2013 4:51:57 PM PST

> To: "Conway, Teresa"

> <<<mailto:Teresa.Conway@powerex.com>>Teresa.Conway@powerex.com<<mailto:Teresa.Conway@powerex.com>>>

> Subject: Re: Draft - Confidential

>

> Thanks. Minister and Dyble have it. We are doing up a short ppt for P&P. What was the date of FERC's refund decision and what is the current status?

>

> Les

>

>

>

> On 2013-02-05, at 11:01 AM, "Conway, Teresa"

> <<<mailto:Teresa.Conway@powerex.com>>Teresa.Conway@powerex.com<<mailto:Teresa.Conway@powerex.com>>>

> <<<mailto:Teresa.Conway@powerex.com>><mailto:Teresa.Conway@powerex.com>>> wrote:

>

> Enclosed is a draft of the briefing note which will go to the Powerex and BC Hydro Boards for our Board meeting on Wednesday.

> We will use this briefing as the basis for our call tomorrow at 9:15 am Wedn.

>

> Charles and I had a quick meeting with Dan Doyle in Vancouver this morning.

> If you have any questions, please call my cell at S17

>

> Best regards

>

> Teresa Conway,

> President and Chief Executive Officer - Powerex Corp.

>

> Telephone: (604) 891-5065;

> Fax: (604) 891-5015

> <<http://www.powerex.com>>[www.powerex.com](http://www.powerex.com)<<http://www.powerex.com>><<<http://www.powerex.com>>

> <http://www.powerex.com>>><http://www.powerex.com>>

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> -PowerexDisclaimerID5.2.8.1541

> <Board Executive Summary Cal Lit Feb 2013 Government .pdf>

Page 18 redacted for the following reason:

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s.13

## MacLaren, Les MEM:EX

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**From:** MacLaren, Les EMNG:EX  
**Sent:** Wednesday, February 6, 2013 3:21 PM  
**To:** Carr, Steve EMNG:EX  
**Cc:** Wieringa, Paul EMNG:EX; De Champlain, Rhonda EMNG:EX  
**Subject:** Powerex--California



Powerex--Californ Speaking Notes  
ia v3.pptx for MRC Powerex...

Here are the revised deck with input from Powerex, and some speaking points that have been reviewed by GCPE. Rhonda, this material incorporates edits from Steve from our discussions with BCH and Premier's office this morning, so I think they are good to go.

Les

Pages 20 through 37 redacted for the following reasons:

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S12, S13, S17

## MacLaren, Les MEM:EX

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**From:** MacLaren, Les EMNG:EX  
**Sent:** Wednesday, February 6, 2013 5:50 PM  
**To:** Ash, Christine GCPE:EX; Joyce, Tonja GCPE:EX  
**Cc:** Wieringa, Paul EMNG:EX; Fitzpatrick, Brigitte C EMNG:EX  
**Subject:** FW: Communication  
**Attachments:** KM\_Powerex Settlement Im cmts.docx

Hi Chris

I prefer the KMs below that Powerex developed with National. Attached are some tracked suggestions to the rest of your draft IN.

Les

---

**From:** Conway, Teresa [<mailto:Teresa.Conway@powerex.com>]  
**Sent:** Wednesday, February 6, 2013 4:35 PM  
**To:** MacLaren, Les EMNG:EX  
**Subject:** Communication

Some minor changes for your consideration.

Powerex has consistently been a key energy supplier to California, including during the energy crisis of 2000 and 2001

S17, S13

s.13 Powerex looks forward to continuing its longstanding relationship as a reliable energy supplier to California

See you tomorrow.

Teresa Conway,  
President and Chief Executive Officer - **Powerex Corp.**

Telephone: (604) 891-5065;  
Fax: (604) 891-5015  
[www.powerex.com](http://www.powerex.com)



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s.13, s.17

**Background:**

S13

## MacLaren, Les MEM:EX

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**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Friday, February 15, 2013 5:38 PM  
**To:** MacLaren, Les EMNG:EX; Carr, Steve EMNG:EX  
**Cc:** Vanagas, Steve; XT:Reid, Charles FIN:IN  
**Subject:** FW: Preliminary Review: Baten Decision  
**Attachments:** Preliminary Summary EL00-95 Baten ID.DOC  
  
**Importance:** High

S13, S14, S17

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S14

## MacLaren, Les MEM:EX

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**From:** Vanagas, Steve [steve.vanagas@bchydro.com]  
**Sent:** Monday, February 18, 2013 10:41 PM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Conway, Teresa; XT:Yaremko, Cheryl CASE:IN  
**Subject:** Fw: BC Hydro issues note - FERC ruling  
**Attachments:** IN - FERC ruling on Powerex - 18 Feb 2013 (2).docx

Hi Les. Here are the talking pts re the FERC ruling.

**From:** Heer, Simi  
**Sent:** Monday, February 18, 2013 10:45 AM  
**To:** Paul Woolley <[a href="mailto:paul.woolley@gov.bc.ca">paul.woolley@gov.bc.ca>; Christine Ash <[a href="mailto:christine.ash@gov.bc.ca">christine.ash@gov.bc.ca>; Joyce, Tonja GCPE:EX <[a href="mailto:Tonya.Joyce@gov.bc.ca">Tonya.Joyce@gov.bc.ca>  
**Cc:** Vanagas, Steve; Clark, Sarah  
**Subject:** BC Hydro issues note - FERC ruling

Attached is an issues note about a FERC decision we learned about late on Friday. The decision pertains to the ongoing dispute between California parties and Powerex about the 2000-2001 energy crisis. The decision is unfavourable to BC Hydro and is considered "advisory" to the FERC Commissioners.

This story is most likely to get picked up by US trade publications this week.

---

### Simi Heer

Manager, Media Relations & Issues Management

#### BC Hydro

333 Dunsmuir, 15th Floor  
Vancouver, B.C. V6B 5R3

Office: 604.623.3963

S17  
Email: [simi.heer@bchydro.com](mailto:simi.heer@bchydro.com)  
Twitter: @SimiHeer

[bchydro.com](http://bchydro.com)

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Pages 47 through 48 redacted for the following reasons:

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S17, S21

## MacLaren, Les MEM:EX

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**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Tuesday, February 19, 2013 10:07 AM  
**To:** MacLaren, Les EMNG:EX  
**Subject:** Fw: California Energy Markets - today

Fyi

---

**From:** Campbell, Rob  
**Sent:** Tuesday, February 19, 2013 08:37 AM  
**To:** Conway, Teresa; Holman, Mark; Bechard, Thomas  
**Subject:** FW: California Energy Markets - today

**From:** Campbell, Rob  
**Sent:** Friday, February 15, 2013 5:00 PM  
**To:** Conway, Teresa; Irving, John K.  
**Subject:** California Energy Markets - today

### [7.1] FERC Judge: BPA Liable for \$60 Million

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## MacLaren, Les MEM:EX

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**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Wednesday, February 20, 2013 7:29 AM  
**To:** MacLaren, Les EMNG:EX  
**Subject:** Fw: Bloomberg story - Enron-Era Ruling Signals \$1.6 Billion California Refunds

**From:** Conway, Teresa  
**Sent:** Wednesday, February 20, 2013 07:09 AM  
**To:** Vanagas, Steve; 'rwood@national.ca' <rwood@national.ca>; 'dzadravec@national.ca' <dzadravec@national.ca>  
**Cc:** Reid, Charles; Irving, John K.  
**Subject:** Fw: Bloomberg story - Enron-Era Ruling Signals \$1.6 Billion California Refunds

**From:** Lam, Jeff  
**Sent:** Tuesday, February 19, 2013 11:01 PM  
**To:** Conway, Teresa; Bechard, Thomas; Irving, John K.; MacDougall, Mike  
**Subject:** Bloomberg story - Enron-Era Ruling Signals \$1.6 Billion California Refunds

By Brian Wingfield February 20, 2013 12:00 AM EST

Copyright

Sent from my Android phone using TouchDown (www.nitrodesk.com)

-----Original Message-----

**From:** Google Alerts [googlealerts-noreply@google.com]

**Received:** Tuesday, 19 Feb 2013, 10:22pm

**To:** Lam, Jeff [Jeff.Lam@powerex.com]

**Subject:** Google Alert - powerex

News

1 new result for powerex

Copyright

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## MacLaren, Les MEM:EX

---

**From:** MacLaren, Les EMNG:EX  
**Sent:** Wednesday, February 20, 2013 7:41 AM  
**To:** Woolley, Paul GCPE:EX; Joyce, Tonja GCPE:EX  
**Cc:** Wieringa, Paul EMNG:EX  
**Subject:** Powerex-California  
**Attachments:** Fw: Bloomberg story - Enron-Era Ruling Signals \$1.6 Billion California Refunds; Fw: California Energy Markets - today; FW: FERC Ruling Press ; IN - FERC ruling on Powerex - 18 Feb 2013 (2).docx

This is starting to get some trade and mainstream California press coverage, and may make it onto QP in the next few days. Key points from my perspective are:

- This is a preliminary ruling subject to appeal and revision before the Federal Energy Regulatory Commission
- All past rulings have shown Powerex played by the rules, and we are confident that this will be the case again in this proceeding
- Others, including the Bonneville Power Administration, have said they believe that there are fundamental errors in the administrative law judge's ruling
- We anticipate that, as has been the case with other proceedings related to the California energy crisis of 2000/2001, that the California parties will continue to litigate and that this will take years to resolve
- Powerex has been, and continues to be, a reliable power supplier to California and other western markets

Les

## MacLaren, Les MEM:EX

---

**From:** Vanagas, Steve [steve.vanagas@bchydro.com]  
**Sent:** Wednesday, February 20, 2013 12:29 PM  
**To:** Woolley, Paul GCPE:EX; Ash, Christine GCPE:EX; Joyce, Tonja GCPE:EX  
**Cc:** MacLaren, Les EMNG:EX; Heer, Simi  
**Subject:** statement on FERC ruling  
**Attachments:** 2013-012 IN - FERC ruling on Powerex - 18 February 2013.docx

So far, we have only received inquiries from the US media but that could change at any moment.

Given the legal process that is involved we believe its best that we respond to any media inquiries with a prepared statement.

The statement below has been signed off on by Powerex's Chief Legal Officer and Powerex President and CEO but I wanted to make sure you had a chance to see it. I've also attached the issues note from Monday for your reference. Please let me know if you have any comments or concerns.

If we do get media inquiries we will run them through the normal process via Sandra and include the statement in each request.

### STATEMENT

*"Since the California energy crisis ended in 2001, U.S. regulators have consistently ruled in Powerex's favour after very thorough hearings and investigations. These rulings clearly reinforce our position that Powerex has always acted lawfully while working hard to ensure Californians received the electricity they needed during their extraordinary energy crisis.*

*We see this latest decision involving 16 energy sellers including Powerex as another step in a legal process that has been underway for over a decade and may go on for years before we reach resolution. This is an initial decision that has no force or effect. We will file an appeal of this decision to the Federal Energy Regulatory Commission and will continue to participate in the U.S. legal process.*

*We remain confident that all future proceedings will once again show that Powerex has been and continues to be a reliable energy supplier, acting in accordance with the law. Powerex is a reliable supplier of electricity to our California customers, we value our relationship with them and we are committed to maintaining it."*

*-Mr. John Irving, Chief Legal Officer*

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## **MacLaren, Les MEM:EX**

---

**From:** Ash, Christine GCPE:EX  
**Sent:** Thursday, February 21, 2013 10:19 AM  
**To:** Joyce, Tonja GCPE:EX; 'Vanagas, Steve'  
**Cc:** Wieringa, Paul EMNG:EX; MacLaren, Les EMNG:EX; Haslam, David GCPE:EX; Steilo, Sandra GCPE:EX  
**Subject:** BC Hydro loses \$265-million lawsuit in California  
**Importance:** High

### **BC Hydro loses \$265-million lawsuit in California**

vancouver.sun.com

Thu Feb 21 2013

Section: OnLine

Byline: Scott Simpson

Copyright

Communications Manager  
Ministry of Energy, Mines & Natural Gas  
ph: 250-952-0623  
cell S17  
Mail to: [christine.ash@gov.bc.ca](mailto:christine.ash@gov.bc.ca)

## MacLaren, Les MEM:EX

---

**From:** Joyce, Tonja GCPE:EX  
**Sent:** Thursday, February 21, 2013 10:37 AM  
**To:** Wieringa, Paul EMNG:EX  
**Cc:** MacLaren, Les EMNG:EX  
**Subject:** FW:

FYI

**From:** Vanagas, Steve [<mailto:steve.vanagas@bchydro.com>]  
**Sent:** Thursday, February 21, 2013 10:30 AM  
**To:** Woolley, Paul GCPE:EX; Ash, Christine GCPE:EX; Joyce, Tonja GCPE:EX  
**Cc:** Heer, Simi  
**Subject:**

**How much has been set aside for this?**

BC Hydro's 2012 Annual Report (page 87) fully discloses that Powerex is owed \$265 million plus interest by the California Power Exchange and the California Independent System Operator (CAISO) related to Powerex's electricity trade activities in California during the period covered by the lawsuits.

With interest, this amount is over \$400 million.

It is expected those receivables will be offset against any refunds that Powerex is required to pay.

**How much in legal fees?**

We are still in the midst of legal proceedings on this issue and we expect that to continue for several more years and so we've been asked not to disclose how much has been spent on legal fees.

---

**Steve Vanagas**  
Director of Communications

**BC Hydro**  
333 Dunsmuir Street, 15th Floor  
Vancouver, B.C. V6B 5R3

Office: 604.623.4344  
Email: [steve.vanagas@bchydro.com](mailto:steve.vanagas@bchydro.com)

[bchydro.com](http://bchydro.com)

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## **MacLaren, Les MEM:EX**

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**From:** Ash, Christine GCPE:EX  
**Sent:** Thursday, February 21, 2013 12:46 PM  
**To:** Myers, Tobie A EMNG:EX  
**Cc:** Haslam, David GCPE:EX; MacLaren, Les EMNG:EX; Wieringa, Paul EMNG:EX; Joyce, Tonja GCPE:EX  
**Subject:** FW:  
**Attachments:** SPECIAL EVENT\_REF# 953720\_KARN\_FEB21-2013\_1515PST.doc.docx  
**Importance:** High

Here is the Media Tech Briefing Event Plan, scheduled to begin at 3:15 p.m. in the Hemlock Room of the Leg.

Paul W. will get the phone-in coordinates over to Powerex now.

**Chris Ash**  
Communications Manager  
Ministry of Energy, Mines & Natural Gas  
ph: 250-952-0623  
cell: S17  
Mail to: [christine.ash@gov.bc.ca](mailto:christine.ash@gov.bc.ca)

**From:** Lowe, Sonia GCPE:EX  
**Sent:** Thursday, February 21, 2013 12:20 PM  
**To:** Ash, Christine GCPE:EX; Karn, David GCPE:EX  
**Cc:** Murry, Karen GCPE:EX; Lowe, Sonia GCPE:EX  
**Subject:**

Hi Christine,  
Call is booked for 3:15pm – please see attached/below for pass codes.

**For media advisory:**

Dial in number: S15, s.17  
Media pass code: S15, s.17  
(just double check against the attached)

**For Powerex and David:**

Dial in number: S15, s.17  
Speakers pass code S15, s.17

Thanks,

Sonia Lowe, Media Relations Officer | Government Communications and Public Engagement  
Cell: S17

**2013/12/22**

**Government of British Columbia  
GCPE (MEDIA RELATIONS)**

Your TELUS Contact

Contact Name: Licia Lowson  
Contact Phone Number: S15, s.17  
E-Mail Address: [teleconferencing@telus.com](mailto:teleconferencing@telus.com)

---

Chairperson: David Karn/ Sonia Lowe and TBD

Contact Person: Sonia Lowe  
Contact Number: S17  
Contact E-mail Address: [sonia.lowe@gov.bc.ca](mailto:sonia.lowe@gov.bc.ca)

Name of Call: PowerEx technical briefing (Hemlock Room , Leg)

Teleconference Date: Thursday, February 21

Time: 15:15 – 16:15 PST (Opens at 14:45)

Lines Reserved: 20

Confirmation Number: S15, s.17

Dial In Numbers: S15, s.17 Vancouver  
from Canada and USA

Participant Pass Code: (FOR MEDIA)  
S15, s.17

Speakers Pass Code: (FOR DAVID AND OTHER SPEAKERS)

### **Private Secured Sub Conference for Speakers:**

The TELUS lead Q&A agent will greet **David Karn** and TBD with the phrase: "Welcome to the PowerEx Technical Briefing. You have joined the secured private meeting for speakers. May I have your name please?" The lead Q&A agent will introduce themselves and give an update of how many participants are standing by in the Q&A meeting. When the speakers are ready to start the presentation, they can address the lead Q&A agent who will be standing by.

### **\*\*\*NO TRANSFER MESSAGE!!**

The lead agent will then transfer the speakers into the meeting and give David the go-ahead to start her introduction. David Karn will do the introduction. "Good afternoon. Welcome to the PowerEx Technical Briefing. We've been fielding several enquiries related to today's PowerEx decision. Joining us from Vancouver are executives from Powerex, their CEO, Teresa Conway and Legal Counsel John Irving who are able to answer your questions on a background basis only. For media who've dialed in, to ask a question press the numbers 01. We'll start with questions here in Victoria. (Telus: please note: we have media gathered in same room as David Karn – who will check in on a regular basis to see if there are media cued up on the media line)

### **Meet and Greet: REQUIRED**

TELUS agents will facilitate the Meet and Greet. There will be 'hold music' for the participants until the presentation begins. The participants are in 'listen-only' mode during the presentation. Participants will be greeted with the phrase: "Welcome to the **PowerEx Technical Briefing** I have your **NAME and MEDIA OUTLET** please? Thank you; please stand by for the call to commence."

A list of participants will be e-mailed to (sonia.lowe@gov.bc.ca) following the conference call.

**\*\*Please be advised that if Meet and Greet service is required, it is recommended to have your participants dial into your call at least 15 minutes early in order to ensure all names are captured before the start of the call.\*\***

### **Stand-By Message: REQUIRED**

A frequent stand-by message will be given until the start of the call. This stand-by message will be: "Please stand-by for the **PowerEx technical briefing**. The call will begin shortly. As a reminder you may queue up to ask a question anytime during the call by pressing the numbers 01. To withdraw your question, press the # sign. Thank you."

### **Question and Answer: REQUIRED**

Media who have joined speaker David Karn in Victoria will just ask questions after David's introduction. David will check in with the Telus operator on a regular basis with "Operator, we'll take a question from the phone now". The lead Q&A agent will then announce the participant's name and media outlet and prompt them to ask their question. Their line will be temporarily un-muted while they ask their question. They will be returned to 'listen-only' mode after their turn is complete and the next participant in line will be announced. During the question and answer period instructions are as follows:

To ask a question:	Press 01
To exit question queue:	Press #

### **Closing Statement:**

Once the call has been concluded, the lead Telus agent will provide the following closing message: "Ladies and Gentlemen, this concludes the **PowerEx technical briefing**. Thank you for your participation and have PowerEx technical briefing a nice day."

**Recording: NOT REQUIRED**

**Playback on Demand: NOT REQUIRED**

## MacLaren, Les MEM:EX

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**From:** Wieringa, Paul EMNG:EX  
**Sent:** Thursday, February 21, 2013 1:02 PM  
**To:** MacLaren, Les EMNG:EX  
**Subject:** Fw: Urgent: Need this right away - thanks

**From:** Vanagas, Steve [<mailto:steve.vanagas@bchydro.com>]  
**Sent:** Thursday, February 21, 2013 12:56 PM Pacific Standard Time  
**To:** Joyce, Tonja GCPE:EX; Wieringa, Paul EMNG:EX; Ash, Christine GCPE:EX; Haslam, David GCPE:EX  
**Cc:** Heer, Simi <[simi.heer@bchydro.com](mailto:simi.heer@bchydro.com)>  
**Subject:** FW: Urgent: Need this right away - thanks

### How much have you spent in legal fees to date?

We cannot disclose this specific amount at this point. We are still involved in legal proceedings that preclude us from sharing this number.

### How much have you set aside to deal with any liability arising?

We have always publicly reported this number in our annual report. We have listed \$265 million that grows to about \$400 million when you add interest.

### Is it enough?

Over the last decade, regulators have consistently ruled in our favour. We are pursuing this with such vigour because we know we will come out on the right side of this. BC provided California with energy when they needed it and we acted lawfully at all times.

### Taxpayers on the hook?

We have recorded provisions in our financial statements to reflect the ongoing uncertainty about our ability to collect the monies owed to us and to protect ratepayers.

### Next steps?

This is one advisory ruling by one judge that involves 16 energy sellers. It has no legal force or effect and it's just one step in a legal process that has been ongoing for a decade and is expected to go on for a number of years before there is any resolution. The ruling is simply advisory to the larger Federal Energy Regulatory Commission panel. In the meantime, we will appeal this specific decision and continue to participate fully in the ongoing legal proceedings.

**From:** Joyce, Tonja GCPE:EX [<mailto:Tonya.Joyce@gov.bc.ca>]  
**Sent:** 2013, February 21 11:54 AM  
**To:** Vanagas, Steve; Heer, Simi  
**Cc:** Wieringa, Paul EMNG:EX; Ash, Christine GCPE:EX; Haslam, David GCPE:EX  
**Subject:** Urgent: Need this right away - thanks  
**Importance:** High

We'll need a quick Q and A on Powerex and the FERC decision at some point. Looking at the basics that reporters will want to hear:

How much have you spent in legal fees to date? Don't want to disclose specific amount while we're still in litigation as it might affect the outcome but it is in the tens of millions of \$

How much have you set aside to deal with any liability arising? \$265m that has grown to \$400m with interest



Is it enough? We think we have a very strong case so we believe so

Taxpayers on the hook? No, made provision.

Next step: individual commissioner's ruling now proceeds to full commission. Just another step in the process.

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## MacLaren, Les MEM:EX

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**From:** Wieringa, Paul EMNG:EX  
**Sent:** Thursday, February 21, 2013 5:00 PM  
**To:** Ash, Christine GCPE:EX; MacLaren, Les EMNG:EX; Chawrun, Marc EMNG:EX  
**Cc:** Joyce, Tonja GCPE:EX  
**Subject:** Conference call MLA Horgan

MLA Horgan had participated in the conference call with the media and noted he knew the file.  
He asked for three things:

- An overview of the 30 companies that had settled. Powerex provided examples of 8 companies and the settlement amounts. SEMPRA was the largest at \$270 M and settlement was a condition of sale of the company by the new owners.
  - An explanation of the three timeframes:
    - May 2000 to October 2000;
    - October 2000 to January 2001 (the Dysfunctional Market timeframe, as declared by FERC, or the refund period); and
    - Jan 2001 to June 2001 (The Pacific Northwest Case)
  - An explanation of why it might take another 5 years: appeal periods, new review, 9<sup>th</sup> Circuit Court decision.
- General support of Powerex was noted as well as the Minister's position.

Paul Wieringa  
Executive Director  
Electricity Policy  
Ministry of Energy, Mines and Natural Gas  
Telephone: 250-952-0651  
Facsimile: 250-952-0258

**From:** Ash, Christine GCPE:EX  
**Sent:** Thursday, February 21, 2013 4:45 PM  
**To:** MacLaren, Les EMNG:EX; Wieringa, Paul EMNG:EX  
**Cc:** Joyce, Tonja GCPE:EX  
**Subject:** FW: CP News: B.C. vows to continue fight over costly U.S. ruling on power sales to California  
**Importance:** High

First out the gate is CP.

Chris Ash  
Communications Manager  
Ministry of Energy, Mines & Natural Gas  
ph: 250-952-0623  
cell: S17  
Mail to: [christine.ash@gov.bc.ca](mailto:christine.ash@gov.bc.ca)

**From:** [tno@gov.bc.ca](mailto:tno@gov.bc.ca) [<mailto:tno@gov.bc.ca>]  
**Sent:** Thursday, February 21, 2013 4:43 PM  
**Subject:** CP News: B.C. vows to continue fight over costly U.S. ruling on power sales to California

CP News

21-Feb-2013 16:40

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Page 061

Withheld pursuant to/removed as

Copyright

## **MacLaren, Les MEM:EX**

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**From:** Joyce, Tonja GCPE:EX  
**Sent:** Friday, February 22, 2013 10:41 PM  
**To:** Wieringa, Paul EMNG:EX; MacLaren, Les EMNG:EX; 'steve.vanagas@bchydro.com'; 'simi.heer@bchydro.com'  
**Cc:** Ash, Christine GCPE:EX  
**Subject:** Fw: Media Availability: Irving - Powerex legal dispute

Fyi

---

**From:** tno@gov.bc.ca [mailto:tno@gov.bc.ca]  
**Sent:** Friday, February 22, 2013 09:35 PM Pacific Standard Time  
**Subject:** Media Availability: Irving - Powerex legal dispute

Media Availability  
Irving Powerex technical briefing  
21-Feb-2013 15:18

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Page 063 to/à Page 066

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## MacLaren, Les MEM:EX

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**From:** Vanagas, Steve [steve.vanagas@bchydro.com]  
**Sent:** Wednesday, June 19, 2013 4:59 PM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Conway, Teresa; Irving, John K.; MacDougall, Mike; XT:Yaremko, Cheryl CASE:IN; Alexis, Greg  
**Subject:** BC Hydro Briefing Note - re Powerex litigation  
**Attachments:** BN - Powerex California Litigation - 19 June 2013.docx

Hi Les, here is an updated briefing note on the California litigation, updated to reflect the discussion about the last two paragraphs on page 3.

Les: will leave it to you to distribute to the necessary people in MEM this time around (I will send future notes to you/Dave/Gayle/Leslie/Matt).

Also, Les will distribute this note to AG, Finance and Premier's office.

Thanks all.

SV

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## BC Hydro Briefing Note

### Financial Impacts to the Province related to the California Power Crisis Litigation

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*Powerex is involved in an on-going legal dispute with the California Parties<sup>1</sup> related to the 2000-2001 California energy crisis. In F2014 or F2015, the U.S. Federal Energy Regulatory Authority Commission (FERC) could order refunds and penalties or Powerex could settle with the California Parties. Either option could result in a significant financial impact to Powerex and the Province of B.C.*

---

#### Background

- In 1998, wholesale energy prices in California were deregulated to allow increased competition and a greater supply of lower priced energy. Deregulation was unsuccessful because of a tremendous demand for power in 2000 and 2001, which led to an energy shortfall and record high prices (the California Crisis).
- A number of factors came together to create the California Crisis. They include:
  - few power plants being built in California in preceding years making the state dependent on imports of electricity;
  - drought conditions resulting in lower than expected water runoff for power generation;
  - rupture and capacity constraints on natural gas pipelines to the California markets;
  - increased demand for electricity;
  - unusually high temperatures, and;
  - Enron market manipulation
- Powerex sold substantial amounts of energy into the California market in 2000 and 2001, earning significant returns for BC Hydro and the Province. The power crisis resulted in Powerex having outstanding receivables from California of about \$265 million<sup>2</sup>, which never were paid. Powerex has recorded an offsetting provision for this amount. This amount (including interest) will largely be required to pay expected (FERC) mandated market wide refunds in the current amount of \$406 million.
- Since 2001, various California Parties have commenced numerous lawsuits and regulatory proceedings in the U.S. against Powerex and approximately 60 other market participants alleging that their profits were the result of market manipulation, tariff violations, fraud, and other illegal activities. Many companies have already settled with the California Parties. However, Powerex, TransAlta, TransCanada and

---

<sup>1</sup> The California Parties consist of: the California Public Utilities Commission (CPUC), California Attorney General for the state of California (CAG) and for the California Department of Water Resources (CDWR), Pacific Gas & Electric Company (PG&E) and Southern California Edison (SCE).

<sup>2</sup> All amounts are in US dollars.

## PRIVILEGED & CONFIDENTIAL

Bonneville Power Administration (a U.S. Federal agency) form part of the remaining group of 14 defendants that have not settled.

- The total claims against Powerex are approximately \$1.7 billion plus accrued interest of approximately \$1.5 billion, totaling \$3.2 billion.
- Powerex and other entities will be required to pay market wide refunds for October to December 2000 transactions. Powerex's market wide refund amount is \$406 million including interest. The total claim of \$3.2 billion less the market wide refund amount of \$406 million is \$2.8 billion. There is a significant chance of Powerex being liable for a portion of the remaining \$2.8 billion if the disputes are not settled.

S17, S21

- Powerex's annual income varies significantly year to year. Since 2003 Powerex has earned over \$1.7 billion for the benefit of BC Hydro ratepayers.
- California is an important market for BC Hydro surplus energy and for trading to continue to earn significant returns for BC Hydro ratepayers. Since 2003 Powerex's revenues with California counterparties have totalled over \$3.5 billion.

S17, S21

S14, S13, S17, S21

S17, S21

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<sup>3</sup> Trade Income Deferral Account which is amortized into BC rates over a five year period.

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S17, S21

## MacLaren, Les MEM:EX

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**From:** Irving, John K. [John.Irving@powerex.com]  
**Sent:** Tuesday, June 25, 2013 2:15 PM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Conway, Teresa; Vanagas, Steve  
**Subject:** Government Briefing Note -Privileged and Confidential  
**Attachments:** Government Briefing June 25 2013.docx

Les, please find attached an update BN based on the meeting yesterday with the 9<sup>th</sup> Circuit mediators. I trust that this is what you were looking for.

John Irving  
Chief Legal Officer  
Powerex Corp. | Direct: 604 891 5063 | Cell: S17

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Page 78 redacted for the following reason:

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s.14

## MacLaren, Les MEM:EX

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**From:** MacLaren, Les EMNG:EX  
**Sent:** Thursday, June 27, 2013 6:03 PM  
**To:** Nikolejsin, Dave EMNG:EX  
**Cc:** Wieringa, Paul EMNG:EX; Cochrane, Marlene MEM:EX; De Champlain, Rhonda EMNG:EX  
**Subject:** Powerex--California  
**Attachments:** Powerex--California June 27, 2013.pptx

Hi Dave:

As discussed, attached is a slightly revised version dated today that incorporates some edits from Powerex (numbers have not changed). We may get some further commentary from Powerex's CEO Teresa Conway when she is back in the country next week. I will get the further information you asked for.

Les

Pages 80 through 89 redacted for the following reasons:

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S12, S14, S16, S17



## MacLaren, Les MEM:EX

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**From:** MacLaren, Les EMNG:EX  
**Sent:** Monday, July 8, 2013 6:36 AM  
**To:** 'Teresa Conway '  
**Cc:** Nikolejsin, Dave EMNG:EX; Wieringa, Paul EMNG:EX  
**Subject:** FW: California Litigation Update July 2 2013.doc  
**Attachments:** California Litigation Update July 2 2013.doc

Thanks Teresa. I have tracked some suggestions in the attached.

I will follow up today on Dawn Teasdale's phone request to have you added to the list of attendees.

Les

---

**From:** Conway, Teresa [<mailto:Teresa.Conway@powerex.com>]  
**Sent:** Friday, July 5, 2013 5:29 PM  
**To:** Nikolejsin, Dave EMNG:EX; MacLaren, Les EMNG:EX; Wieringa, Paul EMNG:EX  
**Subject:** California Litigation Update July 2 2013.doc

Here is a draft of our Board material, subject to further discussions.

Have a great weekend.

Teresa

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Pages 91 through 100 redacted for the following reasons:

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S13, S14

S13, S14, S17

## MacLaren, Les MEM:EX

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**From:** MacLaren, Les EMNG:EX  
**Sent:** Monday, July 8, 2013 5:54 PM  
**To:** Teresa Conway ; 'Irving, John K.'  
**Cc:** Nikolejsin, Dave EMNG:EX  
**Subject:** Powerex--California  
**Attachments:** Powerex--California 8-7-13.pptx

Hi folks:

I have updated the slides based on our discussion over the lunch hour, and used your new numbers. Are there further changes based on your later meetings?

Les

Pages 102 through 106 redacted for the following reasons:

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12,14, 16, 17

## MacLaren, Les MEM:EX

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**From:** Reid, Charles [Charles.Reid@bchydro.com]  
**Sent:** Tuesday, July 9, 2013 4:34 PM  
**To:** MacLaren, Les EMNG:EX  
**Subject:** Document1  
**Attachments:** Document1.docx

As discussed, please feel free to adjust numbers to match what you have,  
Charles

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Page 108 redacted for the following reason:

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s.13, s.17, s.21

## MacLaren, Les MEM:EX

---

**From:** MacLaren, Les EMNG:EX  
**Sent:** Tuesday, July 9, 2013 5:12 PM  
**To:** Nikolejsin, Dave EMNG:EX  
**Cc:** Wieringa, Paul EMNG:EX; Cochrane, Marlene MEM:EX  
**Subject:** Powerex--California  
**Attachments:** Powerex--California 9-7-13.pptx

Hi Dave:

S13

Charles will bring copies. Any word on whether I should be there?

Les

Pages 110 through 115 redacted for the following reasons:

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S12, S14, S16, S17



## MacLaren, Les MEM:EX

---

**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Thursday, July 11, 2013 12:30 PM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Irving, John K.  
**Subject:** S14

S14

**From:** Irving, John K.  
**Sent:** Thursday, July 11, 2013 10:29 AM  
**To:** Conway, Teresa  
**Subject:** S14

S14

John Irving  
Chief Legal Officer  
Powerex Corp. | Direct: 604 891 5063 | Cell: S17

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**From:** MacLaren, Les EMNG:EX [mailto:Les.MacLaren@gov.bc.ca]  
**Sent:** Thursday, July 11, 2013 9:58 AM  
**To:** Conway, Teresa  
**Cc:** Irving, John K.; Nikolejsin, Dave EMNG:EX  
**Subject:** RE: Powerex--California

S13

Les

**From:** Conway, Teresa [mailto:Teresa.Conway@powerex.com]  
**Sent:** Thursday, July 11, 2013 9:53 AM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Irving, John K.; Nikolejsin, Dave EMNG:EX  
**Subject:** Re: Powerex--California

Hi Les,

Just in powerex/BCH board meeting. Our material was approved. Will have another look at these.  
Teresa

Sent from my iPad

On 2013-07-08, at 5:53 PM, "MacLaren, Les EMNG:EX" <Les.MacLaren@gov.bc.ca> wrote:

Hi folks:

I have updated the slides based on our discussion over the lunch hour, and used your new numbers. Are there further changes based on your later meetings?

Les

<Powerex--California 8-7-13.pptx>

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## MacLaren, Les MEM:EX

---

**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Thursday, July 11, 2013 12:53 PM  
**To:** MacLaren, Les EMNG:EX  
**Subject:** Messaging

S13, S17

Teresa Conway,  
President and Chief Executive Officer - ***Powerex Corp.***

Telephone: (604) 891-5065;  
Fax: (604) 891-5015  
[www.powerex.com](http://www.powerex.com)



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## MacLaren, Les MEM:EX

---

**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Thursday, July 11, 2013 1:59 PM  
**To:** MacLaren, Les EMNG:EX; Nikolejsin, Dave EMNG:EX  
**Subject:** Breifing Note  
**Attachments:** BN for Government July 11 2013 Cal Lit Settlement.docx

This is the same as the material sent last week except updated it for Powerex BCH Board approvals we received today and put in Briefing note format.

Teresa Conway,  
President and Chief Executive Officer - *Powerex Corp.*

Telephone: (604) 891-5065;  
Fax: (604) 891-5015  
[www.powerex.com](http://www.powerex.com)



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Pages 121 through 129 redacted for the following reasons:

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S13, S14, S17

S13, S17

## MacLaren, Les MEM:EX

---

**From:** MacLaren, Les EMNG:EX  
**Sent:** Monday, July 15, 2013 6:16 AM  
**To:** De Champlain, Rhonda EMNG:EX  
**Cc:** Nikolejsin, Dave EMNG:EX; Wieringa, Paul EMNG:EX; McNeil, Kevin EMNG:EX; Cochrane, Marlene MEM:EX  
**Subject:** FW: Amendment Required - RE: Updated for review: Powerex notes for Tuesday  
**Attachments:** SN Powerex Priorities and Planning July 16 DM Approved FINAL.docx

Hi Rhonda:

I have re-numbered and put slide titles in the speaking points as you have suggested.

Les

**From:** De Champlain, Rhonda EMNG:EX  
**Sent:** Saturday, July 13, 2013 11:29 AM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Cochrane, Marlene MEM:EX; Wieringa, Paul EMNG:EX; McNeil, Kevin EMNG:EX; Nikolejsin, Dave EMNG:EX  
**Subject:** Amendment Required - RE: Updated for review: Powerex notes for Tuesday

Hi Les,

I reviewed the speaking notes. There were a couple of typos which I corrected (new version attached) and as discussed with you and the Deputy I amended the list of attendees to "proposed" until the Deputy can confirm attendees with the Minister, however the list has been provided to Cabinet Operations, and approved by John Dyble, so from Cabinet Operations side we are fine. I will provide final confirmation to them after the Deputy confirms with the Minister.

The speaking notes (up to slide 4) do not match the slides and there is no Slide 3 referenced in the speaking notes, but there is a Slide 3 in the PP.

In the speaking notes Slide 1 speaks to History which is Slide 2 of the PP.

Speaking notes Slide 2 refers to the History (2) which is Slide 3 of the PP.

There is no Slide 3 in the speaking notes (goes from Slide 2 to 4), but there is a Slide 3 in the PP (as above)

By Slide 4 the speaking notes match the pp at "Mediation", and they seem to be fine after that.

As some of the speaking points are quite long, it gets quite confusing toward the end of the presentation what slide the notes belong with. I think we should put the name of the Slide in the speaking notes:

Slide 1 – Title page  
Slide 2 – History  
Slide 3 – History (2)  
Slide 4 – Mediation  
Etc.

(Just my thoughts)

I will need to send these to Minister's Office first thing Monday.

Not Responsive

Thank you.

Rhonda

**From:** Nikolejsin, Dave EMNG:EX  
**Sent:** Friday, July 12, 2013 2:31 PM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Cochrane, Marlene MEM:EX; Wieringa, Paul EMNG:EX; De Champlain, Rhonda EMNG:EX; McNeil, Kevin EMNG:EX  
**Subject:** RE: Updated for review: Powerex notes for Tuesday

Other than Charles' last name is spelled wrong – this is approved and can go to MO.  
Thanks,

**From:** MacLaren, Les EMNG:EX  
**Sent:** Friday, July 12, 2013 2:27 PM  
**To:** Nikolejsin, Dave EMNG:EX  
**Cc:** Cochrane, Marlene MEM:EX; Wieringa, Paul EMNG:EX; De Champlain, Rhonda EMNG:EX; McNeil, Kevin EMNG:EX  
**Subject:** FW: Updated for review: Powerex notes for Tuesday

Hi Dave:

Attached for your review are the speaking points for the Powerex item at P&P. They have been GCPE'd.

Les

**From:** Joyce, Tonja GCPE:EX  
**Sent:** Friday, July 12, 2013 1:47 PM  
**To:** McNeil, Kevin EMNG:EX  
**Cc:** Wieringa, Paul EMNG:EX; MacLaren, Les EMNG:EX  
**Subject:** Fw: Updated for review: Powerex notes for Tuesday

Hi Kevin,

Good to go to DM approved by all of us thanks.

**From:** Joyce, Tonja GCPE:EX  
**Sent:** Friday, July 12, 2013 11:18 AM Pacific Standard Time  
**To:** Gordon, Matt GCPE:EX; Haslam, David GCPE:EX  
**Subject:** Updated for review: Powerex notes for Tuesday

My apologies --- one of my plain language changes was incorrect --- Les just got back to me --- please look at this version.

Thanks,



Tonja

---

**From:** Joyce, Tonja GCPE:EX  
**Sent:** Friday, July 12, 2013 11:08 AM  
**To:** Gordon, Matt GCPE:EX; Haslam, David GCPE:EX  
**Subject:** Powerex notes for Tuesday

<<SN\_Powerex P&P\_July 16 13.docx>> <<Powerex--California 9-7-13.pptx>>

Hi,

Program sent me the PowerPoint and accompanying speaking notes to review and send to the DM. I have put them in the template and edited them. Let me know if you have any further changes and then we can send them on to the DM.

Thanks,

t



**SPEAKING POINTS FOR**

**HON. Bill Bennett**

**MINISTER OF ENERGY AND MINES**

**Priorities and Planning Committee**

**BC Hydro/Powerex Potential California  
Settlement**

**Tuesday, June 16 2013**

**Time TBD**

**Please check against delivery**

***Proposed List of Attendees:***

***Dave Nikolejsin, Deputy Minister***

***Charles Reid, CEO, BC Hydro***

***Teresa Conway, CEO, Powerex***

***Keith Mitchell, Lawyer for Powerex***

***Les MacLaren, ADM***

## **SLIDE 1**

- Issues related to the so-called California Energy Crisis in 2000-2001 have a long and complex history and have been to this Committee before, most recently in February.

## **SLIDE 2 - History**

- For those of you who are not familiar with the history, it started in 2000 when prices went crazy in the poorly designed California market, resulting in rolling blackouts.
- BC Hydro made over a billion dollars, but some of the California entities went bankrupt and defaulted on about \$300 million owed to Powerex.
- It turns out that some parties, most notoriously Enron, manipulated the market.
- This has led to lots of regulatory actions and lawsuits.

- Current claims against Powerex including interest total \$3.2 billion.
- Powerex played by the rules, and until recently has been fully exonerated in all proceedings.
- A 2004 review of Powerex's behaviour by staff from the US Federal Energy Regulatory Commission concluded that there was:
  - no evidence that Powerex engaged in any gaming practices, and
  - that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the period.

### **SLIDE 3 – History (2)**

- What we call the California Parties, led by the State Attorney General, have settled with many of the participants.

- Powerex, along with TransAlta, TransCanada and the Bonneville Power Administration, is part of the group of 16 suppliers that have not yet settled.
- One thing that is not widely known, even though it has been disclosed in BC Hydro's financial statements, is that we are going to have to pay back some of the profits from 2000/01.
- The US Federal Energy Regulatory Commission, or FERC, after concluding that the California market was manipulated, used natural gas prices with the efficiency of a modern gas-fired generator to determine what power prices should have been in the market.
- Suppliers will have to refund amounts above this price.
- Amounts owing from California parties plus interest can off-set the refund amounts, and Powerex has made provisions on its books to cover the balance.

## **SLIDE 4 - Mediation**

- We have tried to settle in the past.
- In 2007, the California parties were asking for \$1.3 billion and we strongly refused.

S13

## **SLIDE 5 – FERC Advisory Ruling**

- In February Powerex had its first set back – a FERC judge issued an advisory ruling that found that Powerex and other suppliers violated market rules.

- All parties, including FERC trial staff, have appealed the advisory ruling, and it is now up to the FERC Commissioners to make a ruling, which we expect in early 2014.

## **SLIDE 6 - Assessment**

- The February advisory ruling means that our risk has increased and the California Parties believe they have a better chance of success.
- Another regulatory hearing is scheduled to begin in August, and the court appointed mediator wants to take another look at a settlement later this month.
- We need to make a business decision on whether to keep fighting, which will take years and \$10s of millions, or to try to settle.



- If we keep fighting, there is a chance that we will get another bad decision, which could require us to book a loss in the \$100s of millions, even if we plan to appeal.
- A settlement could take all of these legal and regulatory proceedings off the table.

## **SLIDE 7 – No Fiscal Impact**

S13

## **SLIDE 8 – Powerex's Refund Obligation**

- The first line of this table sets out the refund obligation I spoke to earlier – we have to pay that.
- For a \$655 million settlement, we would be resolving the outstanding claims at less than 10 cents on the dollar, and total claims at less than 20 cents.
- I am told that this is a reasonable range compared to other settlements.

## **SLIDE 9 – Dealing with the Impact of Settlement Over \$655M**

S13

## SLIDE 10 - Options

S13

- The BC Hydro and Powerex Boards have approved option three, subject to final approval of a settlement by the Chairs of BC Hydro and Powerex and government's delegate.
- The Ministry of Energy and Mines is also recommending option three.
- Of course Powerex will seek the lowest possible settlement, but we want them to be able to go to the level recommended by their US counsel if required.
- We recommend the Deputy Minister of Finance as government's delegate to approve a final settlement.

## SLIDE 11 - Messaging

- If we do reach a settlement, communications will be challenging. We will need to position this as a business decision.
- Even though we did nothing wrong, we don't want to have \$3.2 billion in legal claims hanging over our heads, and incur the legal and interest costs of fighting this for another five or more years.
- Thank you — any questions?

-30-

## MacLaren, Les MEM:EX

---

**From:** Irving, John K. [John.Irving@powerex.com]  
**Sent:** Wednesday, July 17, 2013 3:57 PM  
**To:** MacLaren, Les EMNG:EX  
**Cc:** Conway, Teresa; Keith Mitchell (kmitchell@farris.com)

S14

John Irving  
Chief Legal Officer  
Powerex Corp. | Direct: 604 891 5063 | Cell: S17

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Pages 146 through 147 redacted for the following reasons:

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S14

## MacLaren, Les MEM:EX

---

**From:** Nikolejsin, Dave MEM:EX  
**Sent:** Thursday, July 25, 2013 11:04 AM  
**To:** MacLaren, Les MEM:EX  
**Cc:** Fyfe, Richard J JAG:EX; Wieringa, Paul MEM:EX; Jones, Christopher H JAG:EX  
**Subject:** Re: Powerex-California

No issue from me and can't imagine this would be a material issue to BC given everything else.

- Dave

On 2013-07-25, at 8:37 AM, "MacLaren, Les MEM:EX" <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)> wrote:

Good morning Richard:

S13

### *Les MacLaren*

Assistant Deputy Minister  
Electricity and Alternative Energy Division  
Ministry of Energy and Mines  
Office: 250 952-0204  
Fax: 250 952-0258



## MacLaren, Les MEM:EX

---

**From:** Nikolejsin, Dave MEM:EX  
**Sent:** Thursday, July 25, 2013 2:44 PM  
**To:** Bennett, Bill MEM:EX  
**Cc:** Marsh, Kyle MEM:EX; Gordon, Matt GCPE:EX; MacLaren, Les MEM:EX

S14


**From:** Conway, Teresa [<mailto:Teresa.Conway@powerex.com>]  
**Sent:** Thursday, July 25, 2013 2:40 PM  
**To:** Nikolejsin, Dave MEM:EX; Milburn, Peter R FIN:EX; MacLaren, Les MEM:EX; XT:Reid, Charles FIN:IN; Yurkovich, Susan  
**Cc:** Irving, John K.; Aldeguer, Ray

S14

Best regards  
Teresa Conway

Teresa Conway,  
President and Chief Executive Officer - *Powerex Corp.*

Telephone: (604) 891-5065;  
Fax: (604) 891-5015  
[www.powerex.com](http://www.powerex.com)

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Pages 150 through 151 redacted for the following reasons:

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S14

## **MacLaren, Les MEM:EX**

---

**From:** Gordon, Matt GCPE:EX  
**Sent:** Monday, July 29, 2013 12:54 PM  
**To:** 'Teresa.Conway@powerex.com'; Nikolejsin, Dave MEM:EX  
**Cc:** MacLaren, Les MEM:EX  
**Subject:** CP\_MEMPowerex\_July 2013DRAFT1 - CONFIDENTIAL  
**Attachments:** CP\_MEMPowerex\_July 2013DRAFT1.docx

**Importance:** High

Hi, here is a high level comm. Plan based largely on an assumed, settlement scenario. Please have a look and comment accordingly. Tks

YOUR EYES ONLY - NOT FOR DISTRIBUTION

**Matt Gordon**  
**Communications Director**  
Ministry of Energy & Mines  
Government of British Columbia  
Room 302, Parliament Buildings, Victoria BC, V8W 9E2  
250 387-2201 office

S17

## **STRATEGIC COMMUNICATIONS PLAN**

### **Powerex Settlement Negotiations**

#### **STRATEGIC CONTEXT**

Powerex has been involved on an ongoing basis in legal and regulatory proceedings in the U.S. related to the energy crisis, defending against claims by the California Attorney General (Cal AG) and other California parties (Cal Parties) before the U.S. Federal Energy Regulatory Commission (FERC) and the U.S. federal court.

Issues related to the so-called California Energy Crisis in 2000-2001 have a long and complex history. In 2000 when prices shot up in the poorly designed California market, the result was rolling blackouts. BC Hydro made over a billion dollars selling power to California and some of the California utility companies went bankrupt and defaulted on about \$300 million owed to Powerex (BC Hydro's power broker). It was later learned that some parties, most notoriously Enron, manipulated the market which led to numerous regulatory actions and lawsuits.

This includes current claims against Powerex including interest totalling \$3.2 billion. The position of British Columbia is that Powerex played by the rules, and until recently has been fully exonerated in all proceedings. A 2004 review of Powerex's behaviour by staff from the US Federal Energy Regulatory Commission concluded that there was:

- no evidence that Powerex engaged in any gaming practices, and
- that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the period.

California Parties, led by the State Attorney General, have settled with many of the participants. Powerex, along with TransAlta, TransCanada and the Bonneville Power Administration, is part of the group of 16 suppliers that have not yet settled. In 2007, the California parties were asking for \$1.3 billion and BC strongly refused. Earlier in 2013, a court-appointed mediator proposed a settlement of \$564 million, which we could have accommodated in the fiscal plan. The decision was not to settle at that time.

#### **OBJECTIVE**

- Position the government as having made a tough, but necessary decision that deals with a long-standing liability for government that, should it have been left unaddressed, could negatively impact government's agenda of job creation and balanced books.

#### **Situational Analysis**

S13

Powerex is prepared to handle a capped settlement up to \$750-million without an impact to government fiscal plan. This would require a further increase in regulatory accounts, but would not increase rates.

## Vulnerabilities

- In February 2013 Powerex had its first set back – a FERC (Federal Energy Regulatory Commission) judge issued an advisory ruling that found that Powerex and other suppliers violated market rules. All parties, including FERC trial staff, have appealed the advisory ruling, and it is now up to the FERC Commissioners to make a ruling, which is expected in early 2014.
- This February advisory ruling increases risk for BC as the California Parties believe they have a better chance of success. The next regulatory hearing is scheduled to begin in August, and the court appointed mediator wants to take another look at a settlement later this month.
- It is not clear how well-known previous settlement level opportunities are.

## Strategic Approach

### *Scenario A – Settlement*

The approach will emphasize the comparison between the \$750-million and the \$3.2-billion liability to demonstrate government is prepared to make tough, even unpopular decisions that are the right decisions for ratepayers and taxpayers.

S13

## Key Messages

### *Scenario A – Settlement*

- This was a very tough business decision for government.
- Our commitment to British Columbians is to focus on job creation, growing our economy and balancing our books.
- Even though we know Powerex did nothing wrong, we can't risk a \$3.2 billion legal liability hanging over our heads – it was simply too significant and puts our agenda at risk.
- This settlement will **NOT** impact ratepayers, nor will it impact government ability to balance the budget.
- We know this will be hard for British Columbians to understand but frankly spending \$750-million now to ensure we aren't hit with a \$3.2-billion bill later is a very tough, but necessary decision.
- Continuing to fight this in court would mean spending \$10s of millions of taxpayer dollars in legal costs over the next several years with no certainty that we would win.
- This settlement puts a massive, potential \$3.2-billion liability behind us so we can focus on our important agenda of job creation and growing our economy on behalf of British Columbians.

S13

### **Spokesperson(s)**

- Minister Bill Bennett (LEAD)
- Charels Reid, President & CEO (externally – on line statement to customers)
- Theresa Conway, Powerex President & CEO (externally -only if pressed for comment)

### **Target Audiences**

- Ratepayers
- Taxpayers
- Media

### **Tactics**

#### *Scenario A – Settlement*

- News release and media availability (MBB lead) positioning the decision as a tough, but necessary one.
- Supportive on line posted FAQs and statement (BC Hydro Website)

S13

### **Products**

- Media Advisory
- News Release
- Press Conference
- BC Hydro on line statement
- FAQs for web post
- Detailed Questions and Answers (not for post)
- Key Messages

**MacLaren, Les MEM:EX**

---

**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Monday, July 29, 2013 4:48 PM  
**To:** Nikolejsin, Dave MEM:EX; Milburn, Peter R FIN:EX; MacLaren, Les MEM:EX; XT:Reid, Charles FIN:IN; Yurkovich, Susan; Mentzelopoulos, Athana GCPE:EX  
**Cc:** Irving, John K.; Aldeguer, Ray

S14

Teresa

**From:** Conway, Teresa  
**Sent:** Monday, July 29, 2013 1:24 PM  
**To:** Nikolejsin, Dave EMNG:EX; Peter Milburn ([peter.milburn@gov.bc.ca](mailto:peter.milburn@gov.bc.ca)); MacLaren, Les; Reid, Charles; Yurkovich, Susan ([Susan.Yurkovich@bchydro.com](mailto:Susan.Yurkovich@bchydro.com)); Mentzelopoulos, Athana GCPE:EX  
**Cc:** Irving, John K.; Aldeguer, Ray

S14

Teresa Conway,  
President and Chief Executive Officer - *Powerex Corp.*

Telephone: (604) 891-5065;  
Fax: (604) 891-5015  
[www.powerex.com](http://www.powerex.com)

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**From:** Conway, Teresa  
**Sent:** Thursday, July 25, 2013 2:40 PM  
**To:** Nikolejsin, Dave EMNG:EX; Peter Milburn ([peter.milburn@gov.bc.ca](mailto:peter.milburn@gov.bc.ca)); MacLaren, Les; Reid, Charles; Yurkovich, Susan ([Susan.Yurkovich@bchydro.com](mailto:Susan.Yurkovich@bchydro.com))  
**Cc:** Irving, John K.; Aldeguer, Ray

S14

S14

Best regards  
Teresa Conway

Teresa Conway,  
President and Chief Executive Officer - *Powerex Corp.*

Telephone: (604) 891-5065;  
Fax: (604) 891-5015  
[www.powerex.com](http://www.powerex.com)



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## MacLaren, Les MEM:EX

---

**From:** MacLaren, Les MEM:EX  
**Sent:** Tuesday, July 30, 2013 3:13 PM  
**To:** Nikolejsin, Dave MEM:EX  
**Cc:** Wieringa, Paul MEM:EX; Cochrane, Marlene MEM:EX  
**Subject:** Speaking Points - Powerex and SMI Update

Hi Dave:

As noted by CabOps, our Minister may be asked to provide an update on the Powerex-California negotiations and at Cabinet tomorrow. Here are some suggested points he could make:

- Two weeks ago we dealt with two contentious issues related to BC Hydro - and a potential litigation settlement between Powerex and a group of California parties led by the California Attorney General

### Powerex-California:

- On the California litigation, a settlement on financial terms was reached on Monday, subject to approval by the Boards or delegates of the parties
- A meeting is scheduled for early August to finalize non-financial terms and an announcement of the settlement is scheduled for August 16
- The Premier's office and my GCPE shop are working on communications. Key messages are:
  - hard business decision,
  - 12 cents on the dollar for claims over and above previously ordered refunds,
  - Even though Powerex played by the rules, we can't leave \$3.2 billion in claims to the whims of a US judge
- Powerex had to move to the top end of their mandate, or \$750 million, to achieve this settlement
- The settlement will impact BC Hydro's regulatory accounts
- A Working Group that includes the Deputy to the Premier, my DM, and the Deputy of Finance, has been struck to work with BC Hydro on a long-term strategy on rates and regulatory accounts

Not Responsive

Not Responsive

***Les MacLaren***

Assistant Deputy Minister  
Electricity and Alternative Energy Division  
Ministry of Energy and Mines  
Office: 250 952-0204  
Fax: 250 952-0258

## MacLaren, Les MEM:EX

---

**From:** Yaremko, Cheryl [Cheryl.Yaremko@bchydro.com]  
**Sent:** Thursday, August 1, 2013 9:34 AM  
**To:** MacLaren, Les MEM:EX; Conway, Teresa  
**Subject:** Copy of Copy of Book1.xlsx  
**Attachments:** Copy of Copy of Book1.xlsx

Les,  
As discussed.

Cheryl

---

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Page 161 redacted for the following reason:

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s.13, s.17, s.21

## MacLaren, Les MEM:EX

---

**From:** MacLaren, Les MEM:EX  
**Sent:** Thursday, August 1, 2013 10:09 AM  
**To:** Milburn, Peter R FIN:EX  
**Cc:** Nikolejsin, Dave MEM:EX; Cochrane, Marlene MEM:EX; MacLean, Shelley FIN:EX; 'Conway, Teresa'  
**Subject:** Powerex-CA

Good morning Peter:

Teresa Conway's office will be setting up a meeting at the end of the week to go over the final California settlement. The Chairs of BC Hydro and Powerex Chairs are being briefed Thursday morning.

The parties to the settlement have agreed that it will be made public on August 16 when there is procedural conference for the FERC hearing scheduled later in August. We are continuing to work with GCPE and the Premier's office on communications.

### *Les MacLaren*

Assistant Deputy Minister  
Electricity and Alternative Energy Division  
Ministry of Energy and Mines  
Office: 250 952-0204  
Fax: 250 952-0258

## MacLaren, Les MEM:EX

---

**From:** Sandve, Chris MEM:EX  
**Sent:** Friday, August 2, 2013 1:50 PM  
**To:** MacLaren, Les MEM:EX  
**Cc:** Gordon, Matt GCPE:EX; Nikolejsin, Dave MEM:EX; Marsh, Kyle MEM:EX  
**Subject:** Re: Powerex Docs

Hi Les

S13

Thanks

Chris

Chris Sandve

Ministerial Assistant to the Hon. Bill Bennett

Minister of Energy and Mines and Minister Responsible for Core Review

Office: 250-953-0042 | Cell: S17 E-mail: [Chris.Sandve@gov.bc.ca](mailto:Chris.Sandve@gov.bc.ca)

On 2013-08-02, at 1:40 PM, "MacLaren, Les MEM:EX" <[Les.MacLaren@gov.bc.ca](mailto:Les.MacLaren@gov.bc.ca)> wrote:

Thanks Matt.

S13

Les

---

**From:** Gordon, Matt GCPE:EX  
**Sent:** Friday, August 2, 2013 12:38 PM  
**To:** 'Vanagas, Steve'; Nikolejsin, Dave MEM:EX; MacLaren, Les MEM:EX; 'Yurkovich, Susan'; 'Conway, Teresa'  
**Cc:** Marsh, Kyle MEM:EX; Sandve, Chris MEM:EX  
**Subject:** Powerex Docs  
**Importance:** High

Folks, as promised, here are the 2 key documents to get things rolling – Comm Plan and News Release. We sat down with Ben Chin in the PO this am to ensure he was comfortable and these products are, in part, a result of that meeting as well as our briefing.

As you review i think it will be clear what we are trying to do with respect to the narrative. We don't want to shift from this general narrative however, I am open of course to feedback and I do expect some

S13

S13

The media/launch approach should be no surprise – same as how we left it after the call.

For sending comments --- on the technical side 'tracked changes' are fine...otherwise if you can provide high level comments in your email back that would be appreciated. Can folks get back by next Wednesday noon?

**To Do:**

- Start work on the technical/tough QAs (matt to start after initial feedback)
- Create a slide presentation on the numbers breakdown (If Powerex can take first crack.....balance of technical and plain-language – then Matt can work on it from there)
- Organize the pre-announcement briefing/bearpit with Minister and Teresa

**Matt Gordon**  
**Communications Director**  
Ministry of Energy & Mines  
Government of British Columbia  
Room 302, Parliament Buildings, Victoria BC, V8W 9E2  
250 387-2201 office  
250 896-4923 mobile

Pages 165 through 192 redacted for the following reasons:

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S14



## MacLaren, Les MEM:EX

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**From:** Kader, Barbara [Barbara.Kader@powerex.com]  
**Sent:** Thursday, August 8, 2013 9:22 AM  
**To:** MacLaren, Les MEM:EX; Feulgen, Sabine FIN:EX  
**Subject:** Powerex Briefing Note  
**Attachments:** California Litigation Update August 7, 2013 Final.pdf

Hi Les, as per your request please refer to the attached document, also the meeting invite with call in details had been sent to all – you were the only participant that didn't accept the invite.... I've resent to everyone.

Barbara Kader,  
**Powerex Corp.**  
Suite 1300 - 666 Burrard Street  
Vancouver, BC V6C 2X8

Telephone: (604) 891-6013  
Fax: (604) 891-5015  
[www.powerex.com](http://www.powerex.com)



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Pages 194 through 198 redacted for the following reasons:

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S14

## MacLaren, Les MEM:EX

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**From:** Haslam, David GCPE:EX  
**Sent:** Thursday, August 8, 2013 11:03 AM  
**To:** Nikolejsin, Dave MEM:EX  
**Cc:** MacLaren, Les MEM:EX; Gordon, Matt GCPE:EX  
**Subject:** FW: Powerex Revised NR  
**Attachments:** nr\_Powerex\_final.docx

**Importance:** High

Dave/Les – see Matt's email below to Teresa Conway on Powerex rollout/tactics and latest draft of NR. Will of course share all com materials as they evolve. Cheers - David

**From:** Gordon, Matt GCPE:EX  
**Sent:** Thursday, August 8, 2013 10:38 AM  
**To:** 'Conway, Teresa'  
**Cc:** Haslam, David GCPE:EX; Sandve, Chris MEM:EX  
**Subject:** Powerex Revised NR  
**Importance:** High

Hi Teresa,

Tis version have been re-works in consult with PO....there is a really desire to focus on the \$98-million figure. Has a look and advise if you are comfortable with this. We won't go down a road you don't ok of course.

Further...he is the plan and the other materials we are working on/need your folks to work on as well.

- Planning a brief with yourself and MBB on Aug 15<sup>th</sup> in Victoria to discuss the 16<sup>th</sup>.
- 16<sup>th</sup> to roll out as follows:
  - 10-10:30am press conference at Hotel Grand Pacific (across from leg)
    - MBB intro remarks and announce settlement
    - Teresa then walks media through a slide presentation....history of the file (how we got here), legal history (what can be said only and focus on the growing risk of no settlement), relationship with California (value and return on this relationship, and technical financial details of the settlement.
    - MBB closes with govt perspective of why this was right decision
    - QAs (media in room and off-side media linked in via teleconference (with QA capability)

So the next round of products are:

- Detailed QAs (Matt, Chris and David)
- Slide presentation. Is this something your office could take a first cut at? If not, we look to do over here but don't have the historical/detailed knowledge the way you and your team would.
- MBB remarks (matt and team)
- Media Advisory (matt and team...including call-arounds)

Tks for your help. David – please loop DM and ADM in this approach and plan.

**Matt Gordon**  
**Communications Director**  
Ministry of Energy & Mines

Government of British Columbia  
Room 302, Parliament Buildings, Victoria BC, V8W 9E2  
250 387-2201 office  
S17 mobile

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## NEWS RELEASE

For Immediate Release  
[release number]  
[Date]

Ministry of Energy and Mines

### Powerex Settlement Reached

VICTORIA – Powerex has reached an out of court settlement to protect British Columbia from a potential \$3.2 billion legal liability. The settlement with California utilities, the California Attorney General and other California parties is related to long-standing claims filed against the electricity marketing subsidiary

S13

S13

This settlement resolves claims related to the California Power crisis in 2000-2001 when customers in that state were dealing with regular rolling blackouts and Powerex was one of over 60 sellers into the California market. It was later determined that some sellers, most notoriously Enron, manipulated the market which led to numerous regulatory actions and lawsuits.

A 2004 review of Powerex's behaviour by staff from the US Federal Energy Regulatory Commission concluded that there was no evidence that Powerex engaged in any illegal practices and that Powerex was a valuable and reliable supplier of energy to the California parties throughout the crisis. Accordingly, the settlement recognizes that Powerex maintains it acted appropriately.

In addition to protecting British Columbia from a potential \$3.2 billion legal liability, the settlement also allows Powerex to avoid future legal costs estimated at over \$13 million and maintains its constructive relationship with California which continues to generate significant income to the benefit of ratepayers in British Columbia. Since 2003, Powerex has sold over \$3.5 billion worth of electricity to California.

The settlement, which is subject to approval by the U.S. Federal Energy Regulatory Commission (FERC) will be achieved by a payment from Powerex to the California Parties of USD \$274 million and a write-off of monies owed by the California parties to Powerex valued at USD \$475 million. Due to expected net income and provisions already within Powerex's budget, the settlement will require Powerex to incur a net loss of approximately \$13 this year.

#### Minister of Energy and Mines, Bill Bennett:

"This was a tough but necessary decision to protect British Columbians. Powerex has been prepared for this possibility and when you \$13 versus a \$3.2 billion legal liability for British Columbia down the road, we determined it was in our long term interest to settle and put this long standing dispute behind us."

"Since 2003 we've sold over \$3.5 billion worth of electricity to California. This settlement allows us to move forward on a very productive and lucrative relationship."

**Powerex President and CEO, Teresa Conway:**

"Powerex is pleased to reach a settlement with California and can now focus solely on our mandate which is to effectively to market our electricity in British Columbia to our clients and to create value for BC Hydro through our broader marketing activities."

"While we continue to assert that Powerex did nothing wrong, this settlement represents an opportunity to move forward and maintain a constructive relationship with California which will continue to produce benefits for ratepayers in British Columbia."

**Learn More:**

- To find more about Powerex, visit <http://www2.powerex.com/AboutUs.aspx>

**Contact:**

Jake Jacobs

Media Relations

Ministry of Energy and Mines

Ph. 250 952-0628

## MacLaren, Les MEM:EX

---

**From:** Sandve, Chris MEM:EX  
**Sent:** Friday, August 9, 2013 12:13 PM  
**To:** Bennett, Bill MEM:EX  
**Cc:** Marsh, Kyle MEM:EX; Nash, Frankie W MEM:EX; Haslam, David GCPE:EX; Nikolejsin, Dave MEM:EX; MacLaren, Les MEM:EX; Gordon, Matt GCPE:EX  
**Subject:** Powerex news release  
**Attachments:** nr\_Powerex\_final.docx

Hi Minister

Here is the current draft of the Powerex news release so that you have it for today's conference call at 1 PM. This is currently with Teresa Conaway for one final check from a legal perspective and then it will be ready for your final edits / sign-off. The PO has signed off on this version.

We are hoping to squeeze in a quick briefing / prep session on August 15 depending on whether we can find time either before or after you have to fly to Not Responsive

### Here is our current roll-out plan for next Friday August 16:

9:00 am – 9:30 am press conference in Vancouver (most of Victoria press gallery is away on vacation so we think Vancouver, with a Victoria call in option, is best). The settlement will be filed by about 7 am so its important to do the press conference early in the morning vs. later.

### Agenda:

- MBB introductory remarks and announce settlement
- Teresa then walks media through a slide presentation....history of the file and the California power crisis (how we got here), legal history (what can be said only and focus on the growing risk of no settlement), relationship with California (value and return on this relationship), and technical financial details of the settlement.
- MBB closes with government perspective of why this was right decision (tough but necessary decision to protect British Columbians from \$3.2 billion legal liability, talk about whims of US judge / softwood lumber comparison, importance and value of California relationship - \$3.5 billion in last 10 years alone)
- Q/As (media in room and off-side media linked in via teleconference (with QA capability)

### We are also working on the following materials:

- Detailed Q/As
- Powerex is working a slide presentation to provide an overview of the issue, the legal history, their relationship with California and technical details of settlement
- Speaking notes for your remarks

Thanks

Chris

### Chris Sandve

Ministerial Assistant to the Hon. Bill Bennett

Minister of Energy and Mines and Minister Responsible for Core Review

Office: 250-953-0942 | Cell: S17 | E-mail: [chris.sandve@gov.bc.ca](mailto:chris.sandve@gov.bc.ca)

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## NEWS RELEASE

For Immediate Release  
[release number]  
[Date]

Ministry of Energy and Mines

### Powerex Settlement Reached

VICTORIA – Powerex has reached an out of court settlement to protect British Columbia from a potential \$3.2 billion legal liability. The settlement with California utilities, the California Attorney General and other California parties is related to long-standing claims filed against the electricity marketing subsidiary

S13

S13

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A 2004 review of Powerex's behaviour by staff from the US Federal Energy Regulatory Commission concluded that there was no evidence that Powerex engaged in any illegal practices and that Powerex was a valuable and reliable supplier of energy to the California parties throughout the crisis. Accordingly, the settlement recognizes that Powerex maintains it acted appropriately.

In addition to protecting British Columbia from a potential \$3.2 billion legal liability, the settlement also allows Powerex to avoid future legal costs estimated at over \$13 million and maintains its constructive relationship with California which continues to generate significant income to the benefit of ratepayers in British Columbia. Since 2003, Powerex has sold over \$3.5 billion worth of electricity to California.

The settlement, which is subject to approval by the U.S. Federal Energy Regulatory Commission (FERC) will be achieved by a payment from Powerex to the California Parties of USD \$274 million and a write-off of monies owed by the California parties to Powerex valued at USD \$475 million. Due to expected net income and provisions already within Powerex's budget, the settlement will require Powerex to incur a net loss of approximately \$13 million this year.

#### Minister of Energy and Mines, Bill Bennett:

"This was a tough but necessary decision to protect British Columbians. Powerex has been prepared for this possibility and when you \$13 million versus a \$3.2 billion legal liability for British Columbia down the road, we determined it was in our long term interest to settle and put this long standing dispute behind us."

"Since 2003 we've sold over \$3.5 billion worth of electricity to California. This settlement allows us to move forward on a very productive and lucrative relationship."



**Powerex President and CEO, Teresa Conway:**

"Powerex is pleased to reach a settlement with California and can now focus solely on our mandate which is to effectively to market our electricity in British Columbia to our clients and to create value for BC Hydro through our broader marketing activities."

"While we continue to assert that Powerex did nothing wrong, this settlement represents an opportunity to move forward and maintain a constructive relationship with California which will continue to produce benefits for ratepayers in British Columbia."

**Learn More:**

- To find more about Powerex, visit <http://www2.powerex.com/AboutUs.aspx>

**Contact:**

Jake Jacobs  
Media Relations  
Ministry of Energy and Mines  
Ph. 250 952-0628

## MacLaren, Les MEM:EX

---

**From:** Hardy, Dana [Dana.Hardy@bchydro.com]  
**Sent:** Friday, August 9, 2013 3:23 PM  
**To:** MacLaren, Les MEM:EX  
**Subject:** Re: Powerex Settlement Disclosure in BC Hydro Financial Statements

Thanks for getting back to us so quickly Les!

Dana

-----  
Sent from my BlackBerry Wireless Handheld

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**From:** MacLaren, Les MEM:EX [mailto:Les.MacLaren@gov.bc.ca]  
**Sent:** Friday, August 09, 2013 03:12 PM  
**To:** Hardy, Dana  
**Cc:** Martin, Sharon; Yaremko, Cheryl  
**Subject:** RE: Powerex Settlement Disclosure in BC Hydro Financial Statements

Thanks Dana

S13

Cheers

Les

---

**From:** Hardy, Dana [mailto:Dana.Hardy@bchydro.com]  
**Sent:** Friday, August 9, 2013 2:18 PM  
**To:** MacLaren, Les MEM:EX  
**Cc:** Martin, Sharon; Yaremko, Cheryl  
**Subject:** Powerex Settlement Disclosure in BC Hydro Financial Statements  
**Importance:** High

Hi Les,

Cheryl asked me to coordinate with you to review our disclosure of the Powerex settlement to be included in our MD&A and Financial Statements that will be approved by our Board next week.

Below is our proposed wording which will be included in the "Highlights" and "Legal Proceedings" sections of the MD&A and in the "Regulatory Accounts" and "Commitments and Contingencies" notes of the Financial Statements. I've also included the disclosure on the ROE as there has been a slight revision from earlier versions. Please let me know if you're comfortable with this wording or have any proposed changes.

There are still some ongoing discussions about wording internally so there could be some minor revisions but we wanted to give you a chance to comment

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## MD&A Highlights:

- During April 2013, the British Columbia Utilities Commission (BCUC) issued the Generic Cost of Capital (GCOC) decision which resulted in a reduction in the Benchmark Utility Return on Equity (ROE) from 9.5 per cent to 8.75 per cent which would result in a corresponding decrease to the BC Hydro allowed ROE. S13

S13

- During August 2013, the Company reached a settlement with parties involved in the various ongoing legal claims in California. The settlement was finalized on August 15, 2013 at which time the Company made a net cash payment into escrow of US\$273 million. The net cash payment was calculated as the difference between the agreed upon settlement amount of US\$750 million and the receivables and interest owing from the California parties to Powerex. This was accounted for as an adjusting subsequent event and therefore, a loss of CDN\$214 million was recorded as of June 30, 2013. The Province has requested BC Hydro maintain its net income forecast for fiscal 2014 through fiscal 2016 from the February 2013 Budget and as a result, the loss was fully deferred to the Trade Income Deferral Account (TIDA) pending further direction from the Province expected in the fall.

### F/S Regulatory Accounts Note:

During April 2013, the British Columbia Utilities Commission (BCUC) issued the Generic Cost of Capital (GCOC) decision which resulted in a reduction in the Benchmark Utility Return on Equity (ROE) from 9.5 per cent to 8.75 per cent which would result in a corresponding decrease to the BC Hydro allowed ROE. S13

S13

During August 2013, the Company reached a settlement with parties involved in the various ongoing legal claims in California. The settlement was finalized on August 15, 2013 which resulted in a loss of \$214 million which was treated as an adjusting subsequent event and therefore was recorded as of June 30, 2013. The Province has requested BC Hydro maintain its net income forecast for fiscal 2014 through fiscal 2016 from the February 2013 Budget and as a result, the loss was fully deferred to the Trade Income Deferral Account (TIDA) pending further direction from the Province expected in the fall.

### MD&A Legal Proceedings and F/S Commitments and Contingencies Note:

#### Legal Proceedings

Since 2000, Powerex has been named, along with other energy providers, in lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. The Federal Energy Regulatory Commission (FERC) has concluded that because of a dysfunctional energy market in California between October 2000 and June 2001, certain market-wide refunds will have to be paid by energy providers, including Powerex, to various California parties.

#### California Settlement

On August 15, 2013 Powerex entered into a settlement agreement subject to FERC approval with Pacific Gas and Electric, Southern California Edison, San Diego Gas and Electric, the California Attorney General, and the California Public Utilities Commission to resolve all outstanding litigation and claims filed against it arising from events and transactions in the California power market during the 2000 and 2001 period. As part of the settlement, Powerex made a net cash payment into escrow of US\$273 million. The net cash payment was calculated as the difference between the agreed upon settlement amount of US\$750 million and the receivables and interest owing from the California parties to Powerex. This was accounted for as an adjusting subsequent event and therefore, a loss of

\$214 million was recorded as of June 30, 2013. The loss recorded was calculated as the cash settlement amount of CDN\$287 million less amounts previously accrued related to legal claims of \$73 million. The Province has requested that

BC Hydro maintain its net income forecast for fiscal 2014 through fiscal 2016 from the February 2013 Budget and, as a result, the loss was fully deferred to the TIDA pending further direction from the Province which is expected in the fall.

#### ***Pacific Northwest Refunds***

On August 27, 2013 a FERC hearing will commence on City of Seattle's allegations of market manipulation by Powerex and other respondents in the Pacific Northwest (PNW) between January 2000 and June 2001, and to consider whether there should be refunds for PNW bilateral contract transactions. Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of Seattle's claims against Powerex.

Thanks.

Dana

#### **Dana Hardy**

Senior Strategic Business Advisor

BC Hydro

18<sup>th</sup> Floor – 333 Dunsmuir Street

Vancouver, B.C.

V6B 5R3

(604) 623-4477

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**MacLaren, Les MEM:EX**

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**From:** Irving, John K. [John.Irving@powerex.com]  
**Sent:** Wednesday, August 14, 2013 10:25 AM  
**To:** MacLaren, Les MEM:EX  
**Cc:** Conway, Teresa; Paul Fox (Paul.Fox@ballp.com)

S14

John Irving

Chief Legal Officer - Legal and Compliance Services Powerex Corp. | Direct: 604 891 5063  
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Pages 210 through 212 redacted for the following reasons:

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s.14

## MacLaren, Les MEM:EX

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**From:** Joyce, Tonja GCPE:EX  
**Sent:** Thursday, August 15, 2013 1:36 PM  
**To:** Sandve, Chris MEM:EX; Marsh, Kyle MEM:EX; Gordon, Matt GCPE:EX; MacLaren, Les MEM:EX  
**Cc:** Haslam, David GCPE:EX; Jacobs, Jake GCPE:EX  
**Subject:** Final update: Final communications materials for tomorrow



Event Itinerary \_ SN\_MBB Powerex  
Powerex anno... Announcement \_ f..

Hi all,

My apologies for another update, the events team have made a couple small changes to the itinerary that also had to be changed in the speaking notes to clarify the rooms.

Please replace with these versions.

Thanks,

Tonja

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**From:** Joyce, Tonja GCPE:EX  
**Sent:** Thursday, August 15, 2013 12:32 PM  
**To:** Sandve, Chris MEM:EX; Marsh, Kyle MEM:EX; Gordon, Matt GCPE:EX; MacLaren, Les MEM:EX  
**Cc:** Haslam, David GCPE:EX; Jacobs, Jake GCPE:EX  
**Subject:** Final communications materials for tomorrow



Event Itinerary \_ MA\_Powerex\_Aug MA\_Powerex\_Aug nr bg\_Powerex nr bg\_Powerex Powerex QA\_Powerex  
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SN\_MBB Powerex SN\_Powerex  
Announcement \_ f.ouncement TC\_AD

Thanks,

Tonja

*Tonja Joyce  
Senior Public Affairs Officer  
Ministry of Energy and Mines*

E-mail: Tonja.Joyce@gov.bc.ca  
Phone: (250) 952-0559  
Cell: S17  
Fax: (250) 952-0627



**Event: Powerex Announcement**

**Date: Friday, Aug. 16, 2013**

**Time: 9:00 a.m. – 9:30 a.m.**

**Location: Executive Boardroom, Premier's Vancouver Office  
Suite 740, 999 Canada Place**

## **EVENT ITINERARY**

<b>Time</b>	<b>Scheduled Activity</b>
<b>Thursday Aug. 15 2:30pm – 4:30 pm</b>	<b>Media Co</b> to set up – AV equipment, podium and a large screen for the PowerPoint presentation  <b>Location:</b> Executive Boardroom, Suite 730, 999 Canada Place
<b>Thursday Aug. 15 1:30 pm</b>	Media Advisory distributed province-wide with call-in details for media not attending:  S15, s.17 Vancouver S15, s.17 from Canada and USA Participant Pass Code: S15, s.17 (The media call in lines will be open at 8:30 am and the media is encouraged to call in by 8:50 am)  MEM GCPE to begin media calls – including gallery and ensure CHNL participates.
<b>Friday, Aug. 16 7:00 am</b>	U.S. court files decision on website. To be confirmed by Powerex via email to Matt Gordon.
<b>Friday, Aug. 16 8:45 am</b>	News Release distributed province-wide – option two is to distribute beginning of news conference.
<b>Friday, Aug. 16 8:30 am</b>	Minister of Energy and Mines, <b>Bill Bennett</b> and <b>Teresa Conway</b> , CEO Powerex arrive  <b>Location:</b> Premier's Vancouver Office, Suite 740, 999 Canada Place
<b>8:35 am</b>	<b>Prebrief</b>  <b>Participants:</b> Minister Bill Bennett, Teresa Conway (CEO Powerex), Chris Sandve (Minister's Assistant), Les MacLaren (Assistant Deputy Minister, Ministry of Energy and Mines), Matt Gordon (Communications Director, Ministry of Energy and Mines), A. Keith Mitchell (Q.C. and Chair of Farris Law)  <b>Location:</b> Boardroom 3, Suite 740, 999 Canada Place
<b>9:00 am</b>	<b>NEWS CONFERENCE BEGINS</b>  <b>Minister Bill Bennett</b> welcomes media and provides brief introduction and introduces Teresa Conway  (5 minutes)  <b>Location:</b> Executive Boardroom, Suite 730, 999 Canada Place

	<b>Note:</b> Media is directed to suite 730, 999 Canada Place (Parm Bains will assist with bringing media through to the boardroom)
<b>9:05 am</b>	<b>Teresa Conway</b> , CEO Powerex provides a PowerPoint overview of the settlement (5 minutes)  <b>Location:</b> Executive Boardroom, Suite 730, 999 Canada Place
<b>9:10 am</b>	<b>Minister Bill Bennett</b> thanks Teresa and provides concluding remarks.  <b>Minister Bennett</b> introduces <b>Matt Gordon</b> , Communications Director, who will facilitate the media Q&As. (5 minutes)  <b>Location:</b> Executive Boardroom, Suite 730, 999 Canada Place
<b>9:15 am</b>	<b>Matt Gordon</b> opens the floor and phone lines to media questions. (15 minutes)  <b>Location:</b> Executive Boardroom, Suite 730, 999 Canada Place
<b>9:30 am</b>	Matt Gordon thanks the media and the news conference ends
<b>10:00 am to Noon</b>	Minister Bill Bennett available for follow-up media calls. MEM GCPE to coordinate.

#### Contacts:

**GCPE Events contact** – Tara Zwaan, S17 (cell), e-mail - [Tara.Zwaan@gov.bc.ca](mailto:Tara.Zwaan@gov.bc.ca)

**Ministry of Energy and Mines Communications** - Matt Gordon, Communications Director, S17  
(cell), e-mail - [Matt.Gordon@gov.bc.ca](mailto:Matt.Gordon@gov.bc.ca)

**Powerex Communications** – Simi Heer, S17 (cell), e-mail - [simi.heer@bchydro.com](mailto:simi.heer@bchydro.com)

Aug. 15, 2013

Ministry of Energy and Mines  
and Responsible for Core Review

**MEDIA ADVISORY**

**VANCOUVER** – Bill Bennett, Minister of Energy and Mines and Minister Responsible for Core Review, will make an announcement tomorrow in Vancouver regarding Powerex.

Minister Bennett and Teresa Conway, president and CEO of Powerex, will attend and be available to the media.

Provincewide media are invited to participate via conference call.

Event Date: Friday, Aug. 16, 2013

Time: 9 a.m.

Location:  
Suite 730, 999 Canada Place  
Vancouver

**Dial-in Numbers:**

From Vancouver	S15, s.17
From elsewhere in Canada and the USA	S15, s.17

Participant Pass Code: S15, s.17

Contact:  
Jake Jacobs  
Media Relations  
Ministry of Energy and Mines  
and Responsible for Core Review  
250 952-0628

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## NEWS RELEASE

For Immediate Release  
2013MEM0008-001254  
Aug. 16, 2013

Ministry of Energy and Mines  
and Responsible for Core Review

### **Powerex settlement reached**

VICTORIA – Powerex has reached an out-of-court settlement to protect British Columbia from a potential \$3.2 billion legal liability.

The settlement with California utilities, the California Attorney General and other California parties (California Parties) resolves claims related to the 2000 – 2001 California power crisis that resulted in rolling blackouts and record-high electricity prices. Powerex was one of over 60 electricity sellers in the California market during the crisis.

Following the power crisis, numerous lawsuits and regulatory proceedings were launched by the California Parties, demanding refunds and penalties. In 2003, the US Federal Energy Regulatory Commission (FERC) concluded the California market was dysfunctional and ordered refunds from all sellers who sold electricity during the crisis. The majority of the settlement provides refunds to the California Parties as previously mandated by that order.

To-date, 47 sellers have settled separately with the California Parties. Although Powerex has won some lawsuits filed by the California Parties, a recent advisory decision by a FERC judge issued in February 2013 went against Powerex and the 15 other sellers who have not yet settled. With another FERC hearing scheduled for Aug. 27, 2013, court appointed mediators approached Powerex regarding a potential settlement.

In addition to protecting British Columbia from a potential \$3.2 billion legal liability, the settlement allows Powerex to avoid future legal costs estimated at over \$50 million as well as over \$125 million per year in interest costs on the claims made by the California Parties.

The settlement also provides an opportunity for Powerex to move forward and enhance its relationship with California, which continues to generate significant income to the benefit of ratepayers in British Columbia. Since 2003, Powerex has sold over \$3.5 billion worth of electricity to California.

The settlement, which is subject to approval by the FERC will be achieved by a payment from Powerex to the California Parties of \$273 million (US dollars) and a credit for monies owed by the California Parties to Powerex valued at \$477 million (US dollars). As a result of the settlement, Powerex will incur a net loss of about \$101 million (Canadian dollars) this year.

A 2003 review of Powerex by the FERC concluded that there was no evidence that Powerex engaged in any illegal practices and that Powerex was a valuable and reliable supplier of energy to the California Parties throughout the crisis. Accordingly, this agreement expressly recognizes that Powerex admits to no wrongdoing.

#### **Quotes:**

##### **Minister of Energy and Mines Bill Bennett and Minister Responsible for Core Review –**

"This was a tough but necessary decision to protect taxpayers. We have learned that the U.S. court system can be unpredictable. When you weigh this settlement versus a potential \$3.2 billion legal liability, we determined it was in the best interest of taxpayers to settle and put this long standing dispute behind us."

"Since 2003 we've sold over \$3.5 billion worth of electricity to California. This settlement allows us to move forward on a very productive commercial relationship."

##### **Powerex president and CEO Teresa Conway –**

"By reaching this settlement with California, Powerex is now in a better position to solely focus on our mandate which is to effectively market our electricity in British Columbia to our customers and to create value for BC Hydro through our broader marketing activities."

"This agreement expressly recognizes that Powerex admits to no wrongdoing. The settlement represents an opportunity to move forward and enhance our relationship with California which will continue to produce benefits for ratepayers in British Columbia."

#### **Learn More:**

To find more about Powerex, visit <http://www2.powerex.com/AboutUs.aspx>

A Powerex backgrounder follows.

Contact:      Jake Jacobs  
                    Media Relations  
                    Ministry of Energy and Mines and Responsible for Core Review  
                    250 952-0628

Connect with the Province of B.C. at: [www.gov.bc.ca/connect](http://www.gov.bc.ca/connect)

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## BACKGROUNDER

For Immediate Release

Powerex

Aug. 16, 2013

### **Powerex settlement reached**

#### **What caused the California power crisis?**

- The 2000/2001 California power crisis was a result of:
  - Electricity market deregulation in 1998.
  - Fewer power plants being built in California in the years leading up to the crisis.
  - Drought conditions resulting in lower than expected water runoff for power generation.
  - Rupture and capacity constraints on natural gas pipelines to the California market.
  - Increased demand for electricity.
  - Unusually high temperatures and heat waves.
- It was a broken market that led to numerous regulatory and court proceedings alleging unfair practices and claims for damages.

#### **Most power suppliers have settled**

- Southern California Edison, Pacific Gas and Electric, San Diego Gas and Electric, the California Attorney General (for the California Department of Water Resources) and the California Public Utilities Commission (California Parties) have now settled with 47 entities.
- Prior to today, Powerex was one of the 16 companies which have not settled.
- In 2003, US Federal Energy Regulatory Commission (FERC) concluded electricity and gas markets were dysfunctional and ordered refunds from all suppliers. The refunds make up the majority of the settlement.
- Powerex today filed a settlement with FERC for the balance of the claims plus interest.

#### **Why Powerex settled**

- Chose legal and financial certainty. Agreement removes the risk of adverse decision with the US regulatory and legal system, avoiding US \$3.2 billion in potential costs.
- Based on legal advice and financial analysis settling \$2.8 billion in claims for 12 cents on the dollar made commercial sense and was at the lower end of similar settlements. Court proceedings would have gone on for another 5 years resulting in
  - Legal expenses of US \$50 million
  - Annual interest costs of US \$125 million
- To avoid lengthy regulatory hearing set to commence August 27.
- To focus on our business objectives to create value for BC Hydro ratepayers.

### Ongoing Business

- California is an important market for B.C.'s clean energy and for Powerex's broader marketing and trading activities
- Powerex has generated \$3.5 billion in revenues with sales to California over the last decade.
- This agreement will provide long-term certainty, enabling Powerex to focus on its business and fulfil its mandate of creating value for BC Hydro ratepayers.

### The settlement with the California Parties

- The settlement provides long-term certainty for Powerex.
- The majority of the settlement is refunds to California ordered by the US Federal Energy Regulatory Commission, or FERC, a decade ago, which are offset by amounts still owing to Powerex from California.
- The balance settles \$2.8 billion in claims plus interest for 12 cents of the dollar.
- The settlement agreement expressly recognizes that Powerex admits to no wrongdoing.
- This settlement, filed on Aug. 16, 2013, is subject to the approval of FERC, which is expected within the next six months.

### Settlement breakdown

- The California parties were seeking \$3.2 billion (US dollars) from Powerex.
- Powerex's settlement with the California parties is for \$750 million (US dollars).
- Included in this amount is \$406 million (US dollars), which relates to market-wide refunds as part of a previously mandated refund order by FERC in 2003.

US \$ millions	Original claims against Powerex (including interest)	Powerex settlement offer	Cents per dollar
FERC calculated market-wide refunds	\$406 M	\$406 M	\$1.00
Total of all other proceedings	\$2,764 M	\$344 M	\$0.12
Total	\$3,170 M	\$750 M	—

### Payment to California parties

- Powerex's settlement with the California parties is for \$750 (US dollars) million.
- However, Powerex was still owed \$477 million (US dollars) (\$265 million principal plus interest) by the California parties for power sold during the energy crisis.

	US \$ millions
Powerex settlement with California Parties	\$750 M
Amount owed (US \$265 M to Powerex by California Parties for 2000-2001 (with interest))	\$477 M
Total payment to California parties (Financial impact: fiscal year 2014)	\$273 M

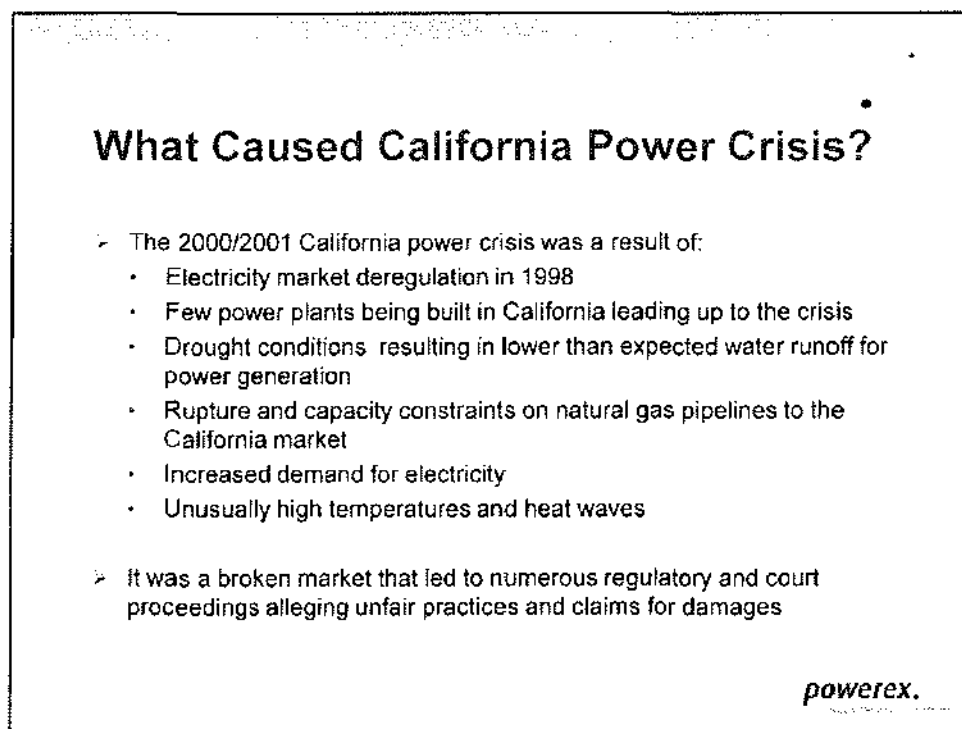
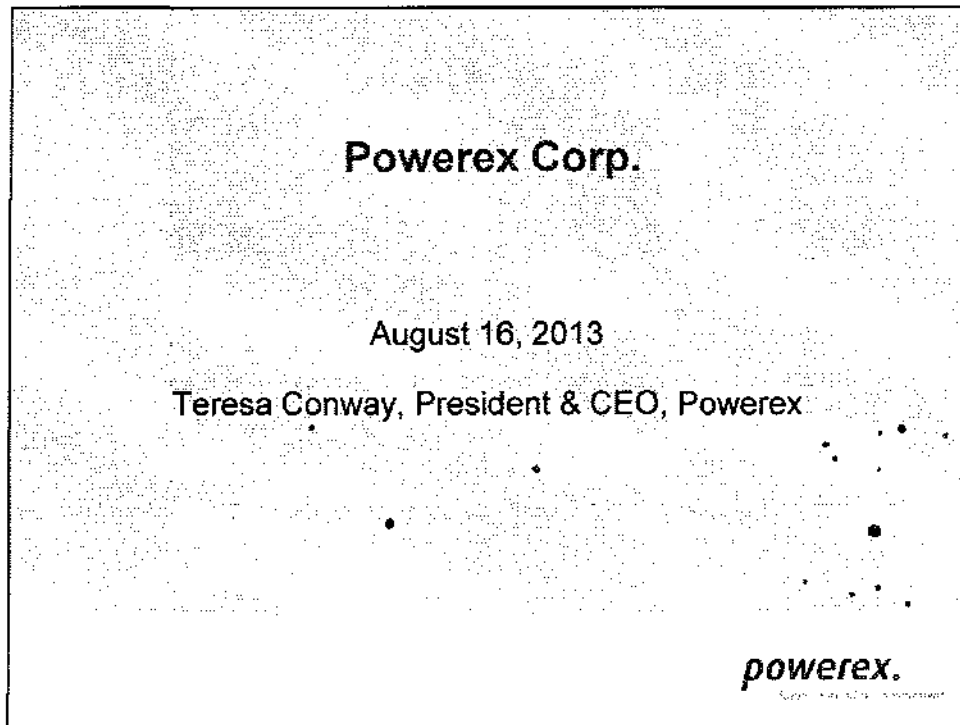
#### Financial impact to Powerex fiscal 2014

- Powerex previously expensed \$68 million (US dollars) for future legal costs and other amounts in prior years. The balance owing for fiscal 2014, is about US \$205 million.
- Converted into Canadian funds, US \$205 million is just under CDN \$214 million. This is the fiscal 2014 expense that Powerex will face as a result of the settlement.
- The \$214 million (Canadian dollars) settlement expense is greater than Powerex's fiscal 2014 estimated annual net income of \$113 (Canadian dollars). The \$113 million (Canadian dollars) less the \$214 million (Canadian dollars) settlement expense results in an estimated net loss for fiscal 2014 of \$101 million (Canadian dollars).

Powerex will pay California parties	\$273 M USD
Powerex expensed future legal and other costs in prior years	\$68 M USD
Settlement expense for fiscal 2014	\$205 M USD OR \$214 M CDN
Powerex estimated annual net income F2014	\$113 M CDN
Powerex net loss fiscal 2014	\$101 M CDN

Contact: Jake Jacobs  
Media Relations  
Ministry of Energy and Mines and Responsible for Core Review  
250 952-0628





## Most power suppliers have settled

- Southern California Edison, Pacific Gas and Electric, San Diego Gas and Electric, the California Attorney General (for the California department of Water Resources), and the California Public Utilities Commission (California Parties) have now settled with 47 entities
- Prior to today, Powerex was one of the 16 companies which have not settled
- In 2003, US Federal Energy Regulatory Commission (FERC) concluded electricity and gas markets were dysfunctional and ordered refunds from all suppliers. The refunds make up the majority of the settlement.
- Powerex today filed a settlement with FERC for the balance of the claims plus interest.

**powerex.**  
A BROWN & CALDWELL COMPANY

## Why Powerex settled

- Chose legal and financial certainty. Agreement removes the risk of and adverse decision with the US regulatory and legal system, avoiding US \$3.2 billion in potential costs.
- Based on legal advice and financial analysis settling \$2.8 billion in claims for 12 cents on the dollar made commercial sense and was at the lower end of similar settlements.
- Court proceedings would have gone on for another 5 years resulting in
  - Legal expenses of US \$50 million
  - Annual interest costs of US \$125 million
- To avoid lengthy regulatory hearing set to commence August 27
- To focus on our business objectives to create value for BC Hydro ratepayers

**powerex.**  
A BROWN & CALDWELL COMPANY

## Ongoing business

- California is an important market for BC's clean energy and for Powerex's broader marketing and trading activities
  - Powerex has generated \$3.5 billion in revenues with sales to California over the last decade
- This agreement will provide long-term certainty, enabling Powerex to focus on its business and fulfill its mandate of creating value for BC Hydro ratepayers

**powerex.**  
A BC Hydro Company

## **Questions and Answers**

### **Powerex Settlement Announcement**

**August 16, 2013**

**Final**

#### **1. What is the settlement?**

Powerex has reached an out-of-court settlement with California utilities, the California Attorney General and other California parties resolves claims from the 2000 – 2001 California power crisis that resulted in rolling blackouts and record-high electricity prices.

The settlement, which is subject to approval by FERC, includes a payment by Powerex to the California Parties of \$273 million (US dollars). The balance of the \$750 million (US dollars) settlement is credit for money still owed to Powerex from 2000 - 2001, plus interest, totalling \$477 million (US dollars). As a result of the settlement, Powerex will incur an estimated net loss of about \$101 million (Canadian dollars) this year.

#### **2. What triggered this settlement?**

With another FERC hearing scheduled for Aug. 27, 2013, court appointed mediators approached Powerex regarding a potential settlement. By settling now, this agreement protects British Columbians from a potential \$3.2 billion liability, an estimated \$50 million in future legal costs, and over \$125 million per year in increasing interest costs on the claims.

This was a tough but necessary decision to protect taxpayers.

With this settlement, Powerex can now focus on what they do best which is marketing electricity to buyers in other regions.

#### **3. Why settle at all - we've won some court cases and we did nothing wrong?**

Although Powerex has won some lawsuits filed by the California Parties, a recent advisory decision by a FERC judge issued in February 2013 went against Powerex and the 15 other sellers who have not yet settled.

US courts can be unpredictable and with another FERC hearing scheduled for Aug. 27, 2013, court appointed mediators approached Powerex regarding a potential settlement. By

settling now, this agreement protects British Columbians from a potential \$3.2 billion liability and an estimated \$50 million in future legal costs and over \$125 million per year in increasing interest on the claims.

This was a tough but necessary decision to protect taxpayers.

**4. Has Powerex been approached before with a settlement offer?**

Efforts have been made over the years to settle, but none have been successful. Due to confidentiality issues, I am unable to comment on the specifics.

**5. How did B.C. get into this situation?**

The 2000 – 2001 California power crisis resulted in rolling blackouts and record-high electricity prices. Powerex was one of over 60 electricity sellers that sold into the California market during the crisis.

Following the power crisis, numerous lawsuits and regulatory proceedings were launched by the California Parties, demanding refunds and penalties. The California Parties were seeking about \$3.2 billion in claims and interest from Powerex.

To date, the US Federal Energy Regulatory Commission (FERC) concluded that the California market was dysfunctional, and in 2003 ordered refunds from all of the electricity sellers. Over half of the total settlement amount is attributable to these previously ordered refunds. Forty seven sellers have settled separately with the California Parties.

**6. Does Powerex have the funds to cover most of the settlement?**

The settlement amount is \$750 million (US dollars). The receivables that California owes to Powerex of \$265 million (US dollars) are now worth \$477 million (US dollars), including interest and will be used towards the settlement. The actual payment to the California parties is \$273 million (US dollars).

**7. By settling, is Powerex admitting that it manipulated the market?**

No, the settlement expressly recognizes that Powerex admits to no wrongdoing.

S13

**10. Will this impact the Province's ability to balance the budget?**

No, it won't impact B.C.'s balanced budget.

**11. How much has it already cost in court over the last 10 years?**

S13

By settling now, this agreement protects British Columbians from an estimated \$50 million in future legal costs.

**12. When will FERC approve the settlement?**

We expect FERC's approval of the settlement within six months.

**13. What happens if FERC doesn't approve the settlement?**

We expect FERC to approve the settlement. It is not in their interests to draw this process out any further. They, like us, want this dispute to be settled.

**14. Does this open the door for other energy sellers to seek settlements?**

We are not aware of the status of the fifteen other energy sellers that still have not settled. They will have to look at their options and determine if a settlement is the right decision for their company.

**15. How many other energy sellers have already settled?**

So far, 47 sellers have already settled with the California Parties.

**16. How does this settlement compare with other similar settlements?**

In terms of the size of the settlement, what we know from other public filings is that there have been a number of settlements in the \$1.5 - \$2.0 billion range, including El Paso and Williams (one of the 47 sellers to have settled with the California Parties).

In terms of settlements by the Province, this is the largest. The largest settlement in the last ten years was Carrier Lumber at \$72 million.

**17. Will this impact the price of energy on the spot market?**

No, it will not impact it at all. This is related to transactions that occurred in 2000 and 2001.

**18. If this settlement is good for our long-term commercial interests with California – will we see an increase in sales to California?**

The settlement helps to maintain Powerex's relationship with California, which continues to generate significant income for the benefit of ratepayers in British Columbia. Since 2003, Powerex has sold over \$3.5 billion worth of electricity to California.

**19. Is this good or bad for clean energy independent power producers?**

This settlement does not impact clean energy producers. It relates to transactions in the California energy market over a decade ago, and has no bearing on either domestic or export demand for power today.

**20. What were the cases against Powerex?**

The California parties launched eight lawsuits in six different courts. Powerex has won seven of eight, with the remaining lawsuit on hold for a FERC final ruling.

The California Parties have also launched nine regulatory proceedings before FERC.

- Four have concluded with no adverse findings against Powerex;
- Two are active, the so called Summer 2000 Case and a case involving Pacific Northwest parties that was due to begin later this month; and
- Three proceedings have been appealed by the California Parties to the US 9<sup>th</sup> Circuit Court.

The settlement announced today resolves all of these California proceedings.





**SPEAKING POINTS FOR**  
**HON. Bill Bennett**  
**MINISTER OF ENERGY AND MINES**  
**AND MINISTER RESPONSIBLE FOR CORE REVIEW**  
**Powerex Announcement**

**Suite 730, 999 Canada Place**  
**Vancouver**  
**Friday, August 16, 2013 at 9:00 a.m.**

Please check against delivery

**Final**

**Date: Aug. 16, 2012**  
**Time: 9:00 a.m. – 9:30 a.m.**  
**Location: Premier's Vancouver Office**  
**999 Canada Place**

### EVENT ITINERARY

Time	Scheduled Activity
<b>Friday, Aug. 16</b> <b>8:30 am</b>	Minister of Energy and Mines, <b>Bill Bennett</b> and <b>Teresa Conway</b> , CEO Powerex arrive  <b>Location:</b> Suite 740, 999 Canada Place
<b>8:35 am</b>	<b>Pre-brief</b>  <b>Participants:</b> Minister Bill Bennett, Teresa Conway (CEO Powerex), Chris Sandve (Minister's Assistant), Les MacLaren (Assistant Deputy Minister, Electricity and Alternative Energy, Ministry of Energy and Mines), Matt Gordon (Communications Director, Ministry of Energy and Mines), A. Keith Mitchell (Q.C. and Chair of Farris Law)  <b>Location:</b> Boardroom 3, 999 Canada Place
<b>9:00 am</b>	<b>NEWS CONFERENCE BEGINS</b>  <b>Minister Bill Bennett</b> welcomes media and provides brief introduction and introduces Teresa Conway (5 minutes)  <b>Location:</b> Boardroom, 999 Canada Place
<b>9:05 am</b>	<b>Teresa Conway</b> , CEO Powerex provides a PowerPoint overview of the settlement (5 minutes)
<b>9:10 am</b>	<b>Minister Bill Bennett</b> thanks Teresa and provides concluding remarks.  <b>Minister Bennett</b> introduces <b>Matt Gordon</b> , Communications Director, who will facilitate the media Q&As. (5 minutes)
<b>9:15 am</b>	<b>Matt Gordon</b> opens the floor and phone lines to media questions (15 minutes)
<b>9:30 am</b>	<b>Matt Gordon</b> thanks the media and the news conference ends

## Introduction

- Thank you for joining us here today.
- I would like to start by introducing Teresa Conway, President and CEO of Powerex, who is with me today.
- Teresa will be speaking in a moment to some of the details related to today's announcement.
- ***Pause...***
- Today I am announcing that Powerex has reached an out of court settlement to protect British Columbia from a potential \$3.2 billion legal liability with California utilities, the California Attorney General and other California parties related to long-standing claims filed against BC Hydro's electricity marketing subsidiary.

- This was a very tough but necessary decision that ultimately protects the B.C. taxpayer from unpredictable US Courts and allows us to move forward with a generally very positive commercial relationship with California.
- The settlement is for \$750 million in US dollars resolves claims from the 2000 – 2001 California power crisis that resulted in rolling blackouts and record-high electricity prices.
- Powerex was one of over 60 electricity sellers in the California market during the crisis.
- After the power crisis, many lawsuits and regulatory proceedings were launched by the California Parties, demanding refunds and penalties.
- A decade ago, the US Federal Energy Regulatory Commission (FERC) ordered refunds from all of the electricity sellers, including Powerex. The majority of today's settlement provides refunds as mandated by that order.

- So far, 47 sellers have settled separately with the California Parties.
- Although Powerex has won some lawsuits filed by the California Parties, a recent advisory decision by a FERC judge issued in February 2013 went against Powerex and the 15 other sellers who have not yet settled.
- Many of you here are wondering why we are settling now...
- With another FERC hearing scheduled for Aug. 27, 2013, court appointed mediators approached Powerex regarding a potential settlement.
- By settling now, this agreement protects British Columbians from a potential \$3.2 billion liability that is growing by \$125 million per year in interest costs, and an estimated \$50 million in future legal costs.

- It also preserves our constructive trading relationship with California which continues to generate significant income to the benefit of ratepayers in British Columbia...
- In fact, since 2003, Powerex has sold over \$3.5 billion worth of electricity to California.
- This settlement is subject to approval by the U.S. Federal Energy Regulatory Commission (FERC) includes a payment from Powerex to the California Parties of \$273 million in US dollars and a credit for money still owed to Powerex from 2000 – 2001, plus interest totalling at \$477 million in US dollars.
- I will now turn this over to Teresa Conway, CEO Powerex who will speak to the history behind this issue and more details on the settlement.

***Teresa Conway, CEO Powerex speaks (5 minutes)***

## Conclusion

- So to conclude, this was a tough but necessary decision to protect taxpayers.
- It made sense to settle now with another FERC hearing scheduled for Aug. 27, 2013, and the court appointed mediators coming up with a settlement package.
- By settling now, this agreement protects British Columbians from a potential \$3.2 billion liability, an estimated \$50 million in future legal costs, and \$125 million per year in interest costs on the claims.
- Powerex has prepared for this possibility and when you weigh this settlement versus the legal liability, we determined it was in the best interest of taxpayers to settle and put this long standing dispute behind us.

- With this settlement, Powerex can now focus on what they do best which is marketing electricity to buyers in other regions.
- The US courts can be unpredictable and with a potential \$3.2 billion legal liability is driving this decision is ensuring we are protecting B.C. taxpayer's interests.
- This settlement allows us to move forward and maintain a constructive relationship with California which will continue to produce significant benefits for ratepayers in British Columbia.
- Thanks, I'll now turn it over to Matt Gordon for questions and answers.

***Q&A ends at 9:30 a.m.***

-30-



**SPEAKING POINTS FOR**  
**Teresa Conway, President & CEO, Powerex**

Privileged & confidential

**Powerex Announcement**

**Suite 730, 999 Canada Place**  
**Vancouver**

**Friday, August 16, 2013 at 9:00 a.m.**

***Follow comments from Minister Bennett***

- Thank you Minister.
- Today is a significant day for Powerex. This settlement allows us to move forward and focus on our mandate to market BC's clean energy and all our products and services for the benefit of BC Hydro ratepayers and the Province of BC.
- This settlement provides long term financial and legal certainty and removes the risk we faced in fighting complex legal battles in US courts
- Most importantly, as the Minister said, the agreement expressly recognizes that Powerex admits to no wrongdoing
- So now, we can move on and continue to be a valuable and reliable supplier of energy to California.
- In the decade since the California energy crisis, Powerex has generated \$3.5 billion in revenues from sales to California and we see this continuing.

### *Switch slides*

- I'd like to provide you with an overview of the settlement and a little bit of history. Starting with the history.
  - In 1998, wholesale energy prices in California were deregulated to allow increased competition and a greater supply of lower priced energy.
  - Deregulation appeared to work for the first year or two. However in 2000 and 2001 there was a tremendous demand

for power, which led to an energy shortfall and record high prices.

- A number of factors came together with the newly deregulated market to create the California Crisis. They include:
  - few power plants being built in California in the preceding years
  - drought conditions resulting in lower than expected water runoff for power generation;
  - rupture and capacity constraints on natural gas pipelines to the California markets;
  - increased demand for electricity;
  - unusually high temperatures and heat waves
- It really was a perfect storm of events. This was combined with low hydro conditions in BC and the US northwest .
- The broken market led to numerous regulatory and court proceedings alleging unfair practices and claims for damages

#### *Switch slides*

- There were numerous companies involved in the 2000 – 2001 energy crisis. Powerex was one of more than 60 electricity sellers.
- To date, 47 companies, now including Powerex, have reached settlements with the California Parties
- Prior to today, Powerex was one of only 16 entities that had not settled.

- We have filed the settlement agreement with FERC. The agreement is still subject to FERC approval, which could take up to six months.

### *Switch slides*

### **Why Powerex settled**

- With this agreement, we have removed the risk of taking a chance with the US regulatory and legal system that could have ultimately imposed up to US \$3.2 billion in costs upon us.
- Market wide refunds from all power suppliers that have been ordered by FERC are more than half of the settlement.
- Once you remove the mandated refunds of \$406 million from the \$3.2 billion in claims and interest, we are left with \$2.8 billion. Based on legal advice and financial analysis settling \$2.8 billion in claims for 12 cents on the dollar makes good commercial sense.
- In some ways the dispute we faced was similar to the one faced by BC lumber producers last decade in the Canada-US softwood lumber dispute and we did not want to take that legal risk
- We have chosen legal and financial certainty over continuing a protracted and costly dispute.
- The court proceeding would have gone on for at least another 5 years resulting in

- Legal expenses of over US \$50 million, and
  - The total claim growing by \$125 million per year due to interest costs
- The dispute was scheduled to go back before FERC later this month on August 27. By reaching this settlement we avoid another lengthy and costly hearing

*Switch slides*

- I want to emphasize that California represents important market for BC's clean energy resources and all of Powerex's products and services.
- Since the crisis, Powerex has earned more than \$1.7 billion to British Columbia.
- In summary, Powerex values its relationship with California customers and is committed to maintaining it. And with this agreement, we now have long-term certainty for Powerex and can focus on marketing our products and services in other regions.
- I'd now like to turn it back to Minister Bennett.

## MacLaren, Les MEM:EX

---

**From:** Conway, Teresa [Teresa.Conway@powerex.com]  
**Sent:** Friday, August 16, 2013 8:18 AM  
**To:** MacLaren, Les MEM:EX  
**Subject:** Fwd: Cal AG press release

Begin forwarded message:

**From:** "Irving, John K." <John.Irving@powerex.com>  
**Date:** 16 August, 2013 7:54:58 AM PDT  
**To:** "Conway, Teresa" <Teresa.Conway@powerex.com>, "Keith Mitchell (kmitchell@farris.com)" <kmitchell@farris.com>  
**Subject:** Cal AG press release

Attorney General Kamala D. Harris Announces \$750 Million Settlement Stemming from California Energy Crisis  
Friday, August 16, 2013  
Contact: (415) 703-5837

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John Irving  
Chief Legal Officer  
Powerex Corp. | Direct: 604 891 5063 | Cell: S17

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**From:** Conway, Teresa  
**Sent:** Friday, August 16, 2013 7:54 AM  
**To:** Irving, John K.  
**Subject:** Re: Notice of filed Settlement Agreement

Yes

On 2013-08-16, at 7:28 AM, "Irving, John K." <[John.Irving@powerex.com](mailto:John.Irving@powerex.com)> wrote:

Tom says it is out on Bloomberg so I am telling Barb to send the employee notice out now.

John Irving  
Chief Legal Officer  
Powerex Corp. | Direct: 604 891 5063 | Cell: S17

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**From:** Bechard, Thomas  
**Sent:** Friday, August 16, 2013 7:25 AM  
**To:** Irving, John K.  
**Subject:** RE: Notice of filed Settlement Agreement

Its out on bloomberg

**From:** Irving, John K.  
**Sent:** Friday, August 16, 2013 7:05 AM  
**To:** Bechard, Thomas; Holman, Mark; Campbell, Rob; Budhwar, Amit; Lyons, Janette; MacDougall, Mike; Mantle, Julie  
**Subject:** FW: Notice of filed Settlement Agreement

FYI, our settlement is public.

John Irving  
Chief Legal Officer  
Powerex Corp. | Direct: 604 891 5063 | Cell: S17

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**From:** Miller, Jessica [<mailto:Jessica.Miller@bgllp.com>]  
**Sent:** Friday, August 16, 2013 7:02 AM  
**To:** Conway, Teresa; Irving, John K.; MacDougall, Mike; Aldeguer, Ray; [kmitchell@farris.com](mailto:kmitchell@farris.com); Dyson, Cynthia; Heer, Simi; [Matt.Gordon@gov.bc.ca](mailto:Matt.Gordon@gov.bc.ca); Ratzlaff, Jay  
**Cc:** Fox, Paul; King, Deanna; Gunter, Cliff; [kwellenius@fticonsulting.com](mailto:kwellenius@fticonsulting.com)  
**Subject:** Notice of filed Settlement Agreement

This morning at 10:00 a.m. Eastern, Powerex Corp. and the California Parties e-filed their Joint Offer of Settlement, the Settlement and Release of Claims Agreement, and other supporting materials at the Federal Energy Regulatory Commission. The terms of the settlement are now a matter of public record and are no longer confidential.

Jessica H. Miller | Associate | Bracewell & Giuliani LLP  
111 Congress Avenue, Suite 2300 | Austin, Texas | 78701-4061  
T: 512.494.3606 | F: 800.404.3970  
[jessica.miller@bgllp.com](mailto:jessica.miller@bgllp.com) | [www.bgllp.com](http://www.bgllp.com)

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## MacLaren, Les MEM:EX

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**From:** Joyce, Tonja GCPE:EX  
**Sent:** Friday, August 16, 2013 11:41 AM  
**To:** 'Heer, Simi'; 'Dyson, Cynthia'; MacLaren, Les MEM:EX  
**Subject:** FW: Media Availability: Bennett - Powerex settlement

FYI – transcript from this morning's conference

---

**From:** tno@gov.bc.ca [mailto:tno@gov.bc.ca]  
**Sent:** Friday, August 16, 2013 11:37 AM  
**Subject:** Media Availability: Bennett – Powerex settlement

Media Availability  
Bennett/Conway confcall Powerex settlement  
16-Aug-2013 09:02

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Page 174 to/à Page 179

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## MacLaren, Les MEM:EX

---

**From:** Joyce, Tonja GCPE:EX  
**Sent:** Friday, August 16, 2013 11:57 AM  
**To:** 'Dyson, Cynthia'; 'Heer, Simi'; MacLaren, Les MEM:EX  
**Subject:** Conference call participants  
**Attachments:** Participant List Aug. 16 (Ref# 1050305).doc

Hi,

Here is the list of the media who dialed in.

Thanks,

t

12/22/2013



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## Conferencing Solutions – Confirmation

### PARTICIPANT LIST

**Company: GOVERNMENT OF BRITISH COLUMBIA**  
**Chairperson: Matt Gordon**

Attention:	Louise Denis	Confirmation Number:	1050305
Telephone:	250-893-1723	Conference Date:	August 16 <sup>th</sup> , 2013
E-mail:	Louise.denis@gov.bc.ca	Start Time:	9:00 PST

Part #	Name	Media Outlet
1	**SPEAKER	
2	ACKROWMAN JON	CKWX
3	DAVIDSON KIMBERLY	THE DRIVE FM
4	DICKSON GREG	MINISTRY OF FINANCE
5	HARRISSON JIM	CHNA KAMLOOPS
6	HASLEM DAVID	GOV OF BC
7	HEBB KATE	METRO
8	HEER SIMI	MEDIA RELATIONS
9	KOLENKO SEAN	BUSINESS IN VANCOUVER
10	LATE CALLER	
11	LATE CALLER	
12	LEIGHTON BETH	THE CANADIAN PRESS
13	MILLS SHAINÉ	PREMIER'S OFFICE
14	NAGEL JEFF	BLACK PRESS
15	NI AMBER	WORLD JOURNAL
16	PRASAD ARTI	JIM PATERSON
17	RICKMAN SCOTT	TODAY'S NEWS ONLINE
18	SHAW ROB	VICTORIA TIMES
19	UECHI JENNY	VANCOUVER OBSERVER

Call 1-877-944-MEET (6338) for more information or to make your conference reservation

## MacLaren, Les MEM:EX

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**From:** MacLaren, Les MEM:EX  
**Sent:** Friday, August 16, 2013 4:29 PM  
**To:** Jacobs, Jake GCPE:EX  
**Cc:** Eichenberger, Kathy MEM:EX; Johnstone, Heather MEM:EX  
**Subject:** RE: Media request - Vancouver Sun - Powerex

Responses to each.

**From:** Jacobs, Jake GCPE:EX  
**Sent:** Friday, August 16, 2013 4:03 PM  
**To:** MacLaren, Les MEM:EX  
**Subject:** Media request - Vancouver Sun - Powerex  
**Importance:** High

Les, MO is asking for some help with these Vancouver Sun questions. Will need asap.

Thanks, Jake

1/ How much money does Powerex generally transfer to Hydro in a year?

Powerex net income varies considerably, and has ranged from a low of \$12 million to a high of \$259 million since 2003. It is generally in the range of \$100-150 million per year. The assumption built into the rates for 2013/14 is a net income for Powerex of \$113 million.

2/ If Powerex is going to run a \$101-million deficit next year to pay California, how will it be able to meet its obligations to Hydro?

Powerex will pay California this year. The result is a net loss for Powerex of \$101 million. As stated by the Minister, government's intention is to create a regulatory account to allow for the impact of the settlement to be paid over time.

3/ If Hydro doesn't get the money, how will they be able to keep rates stable?

Currently there is a 5% rate rider in all BC Hydro customers' rates. The rate rider generates about \$200 million per year that is being used to pay down regulatory accounts. As those accounts are paid down, the rate rider will be reduced. So while rates will not increase as a result of the settlement, the addition of the impact of the settlement to the regulatory accounts means that the expected reduction of the rate rider will be deferred.

## MacLaren, Les MEM:EX

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**From:** MacLaren, Les MEM:EX  
**Sent:** Friday, August 16, 2013 4:35 PM  
**To:** Jacobs, Jake GCPE:EX  
**Subject:** RE: US west energy media question

If they would just read the backgrounder .....

**From:** Jacobs, Jake GCPE:EX  
**Sent:** Friday, August 16, 2013 4:26 PM  
**To:** MacLaren, Les MEM:EX  
**Subject:** US west energy media question

Need you help again Les with the two questions below. Thanks.  
Thank you for taking my call. As I said, I am writing about the settlement on the California energy crisis case. The Powerex press release says that

The settlement, which is subject to approval by the FERC will be achieved by a payment from Powerex to the California Parties of \$273 million (US dollars) **and a credit for monies owed by the California Parties to Powerex valued at \$477 million (US dollars)**. As a result of the settlement, Powerex will incur a net loss of about \$101 million (Canadian dollars) this year.

What is the origin of the California parties owing Powerex \$477 million?

California parties defaulted on payment for power sold by Powerex during 2000 and 2001. That amount (\$265 million) plus interest, make up the \$477 million credit that Powerex is allowed to apply against the total settlement amount, meaning the cash outlay for the settlement is \$273 million.

Also, the California parties includes whom? I know the Public Utilities Commission but is it also the utilities?

The California Parties are Southern California Edison, Pacific Gas and Electric, San Diego Gas and Electric, the California Attorney General (for the California Department of Water Resources) and the California Public Utilities Commission.