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No. 323
March 3, 2003

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Powerex Played by Market Rules and Helped Keep the Lights on in California

Powerex Corp. will file today with the US Federal Energy Regulatory Commission (FERC) its submission in response to FERC's latest investigation into possible manipulation of California energy markets in 2000 and 2001. In its filing, Powerex provides compelling evidence that it participated by the rules of the California energy markets and helped keep the lights on in California when California was in crisis. Powerex also provides evidence that high energy prices experienced in California during the period in question were the result of basic supply/demand fundamentals and California's own energy policies.

"As we have maintained all along, our trade activities with California were within the rules and approved tariffs of the California Independent System Operator (CAISO) and the California Power Exchange (CalPX)", said Doug Little, Vice President, Marketing and Trade Policy**.** "Further, we were instrumental in helping to keep the lights on in California during the crisis."

Powerex was actively involved in the FERC's 100 day discovery initiative which directed market participants to gather information and provide evidence to support their positions with regard to manipulation of the California energy markets. As part of the process, Powerex conducted a thorough review of its own records and found no evidence of wrongdoing on the part of its management or staff.

Powerex also pored through thousands of pages of documents provided in response to its requests for information from the CAISO, the CalPX and Pacific Gas and Electric (PG&E). In addition, Powerex conducted detailed interviews with key representatives of these entities, including Terry Winter, CAISO CEO, Karen Koyano, a former member of the CalPX market surveillance team, and four employees of PG&E, to gather further information in support of its belief that basic market conditions and California's policies were primarily responsible for California's energy problems.

“Our discovery and resulting submission to FERC provides conclusive evidence that a number of supply and demand forces came together to create a “Perfect Storm” scenario that led to the extremely high market prices in California in 2000 and 2001”, said Little. “These forces were exacerbated by California’s faulty market design and poor policy response to the crisis”, Little added. This evidence is supported in expert reports prepared for Powerex by Dr. Fred Pickel and Dr. Richard Tabors, both of Tabors, Caramanis and Associates, a US based energy research and consulting company.

Powerex identifies such factors as: unusually hot weather in California and drought conditions across the West; high growth in demand within California not matched by the addition of new generation; California’s failure to correct electric transmission and gas pipeline constraints; a rise in gas and NOX costs; and a failure to elicit demand response as key contributing factors.

The evidence shows that California placed extraordinary demands on both in-state generation and imports, including imports from hydropower resources in the Pacific Northwest (PNW) and BC Hydro to meet demand. This situation was aggravated by drought conditions and reduced snowpack in the PNW which resulted in a significant decline in hydropower production in the region beginning in June 2000. Despite this, Powerex was instrumental in helping to keep the lights on in California by supplying substantial amounts of power when California needed it most.

“These supply and demand forces were complicated by fundamental design flaws in the CAISO and CalPX markets which rendered them dysfunctional and unable to cope with the extraordinary demand and price pressures that occurred”, said Little. Examples of major flaws include:

- California’s total reliance on spot purchases through CAISO and CalPX markets;
- Deregulation of wholesale rates coupled with a freeze on retail rates;
- Failure to construct adequate generation and transmission in the state to cope with growth in demand.

“Trading strategies being complained of by California had, at most, a marginal impact on prices -- as California’s own studies have found -- compared to the impact of market fundamentals”, said Little.

Over the next few weeks, as the discovery process concludes, it is expected that the California entities will claim to have found “evidence” of market manipulation on the part of a number of market participants, possibly including Powerex. “We are confident that we participated by the market rules and expect the evidence we, and likely others, provide will bear out our contention that the “Perfect Storm” of basic market forces, California market design flaws and poor policy decisions were the cause of California’s energy problems.”

Adds Ken Peterson, Powerex President and CEO, “The number of investigations and lawsuits under way have perpetuated the market uncertainty that has existed since 2001. We look forward to a resolution of the issues and the end of the investigations so we, and other market participants, can resume our focus on business and begin to restore confidence in wholesale electricity markets.”

Powerex will be posting its submission, along with the Tabors and Pickel expert reports, on its website (www.powerex.com) once it has been filed with FERC.

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