

BOARD OF DIRECTORS' GUIDELINES

Introduction

The Terms of Reference for the Board of Directors define the role of the Board at BC Hydro. The Board of Directors' Guidelines outline how the Board will operate to carry out its duties of stewardship and accountability.

Best Interests of BC Hydro

The Board of Directors (the "Board") oversees the conduct of business and supervises management, which is responsible for the day-to-day conduct of the Corporation's business. Although Directors are appointed by the Government to bring special skills and experience to Board deliberations, the best interests of BC Hydro must be paramount at all times.

Terms of Reference

Terms of Reference for the Board, Board Committees, Chair, Chief Executive Officer, Subsidiary Boards, Corporate Secretary and various Board processes are reviewed annually by the Governance and Human Resources Committee. This Committee will propose any changes to the Board for approval.

Corporate Strategy

Management is responsible for the development of an overall corporate business strategy to be presented to the Board. The Board's role is to ensure there is a strategic and business planning process, and then review, question, validate, and ultimately endorse the strategy for the Corporation and monitor its implementation.

Principal Risks

The Board should have a continuing understanding of the principal risks associated with the Corporation's business. It is the responsibility of Management to ensure that the Board and its Committees are kept well informed of changing risks. The mechanisms through which the Board reviews risks include the strategic business planning process and through reviews conducted by its various committees. It is important that the Board understands and supports the key risk decisions of the Corporation. More detail on the Risk Management Process is set out at Tab 12.

Internal Controls and Management Information Systems

Integral to the Board's overall responsibilities is the existence of control systems, which ensure the effective discharge of these responsibilities. A balance has to be achieved between imposing controls that give the Board reasonable assurance that its responsibilities are being discharged and avoiding the creation of an unnecessarily bureaucratic and costly system of control mechanisms. The confidence of the Board in the ability and integrity of management is the paramount control mechanism.

Succession Planning and Management Development

The Board considers succession planning and management development to be ongoing processes, including annual reports to the Board by the Chief Executive Officer. The Chief Executive Officer's views as to a successor in the event of unexpected incapacity and ongoing management development plans should be discussed at least annually with the Governance and Human Resources Committee.

Communications Policy

The Board approves a communications policy and a process for the review and approval of major reports to the public, including the Annual Report. Together, and in consultation with one another, the Chief Executive Officer and Chair act as the primary spokespersons for the Corporation and oversee interface with the Government and other stakeholders including developing and implementing a communications program and its interface with Government, regulatory bodies and other stakeholders.

It is expected that members of the public and persons interested in BC Hydro will, from time to time, communicate their concerns and questions to Directors rather than to management. It is important that Directors inform the Chair or the Chief Executive Officer, directly or through the Corporate Secretary, of such communications so that proper action can be taken and accurate responses made by the appropriate representative of BC Hydro.

Directors may be requested to assist with communications, or a Director may be approached directly to speak publicly about BC Hydro. In all cases, Directors are asked to advise the Chair's office, directly or through the Corporate Secretary of the request. The Chair is responsible for ensuring Director communication activities are properly coordinated and Directors are provided with full assistance in preparing and making any public statements or presentations.

The Chair of the Board

The Board supports the concept that the role of Chair is separate from that of Chief Executive Officer. The Board is able to function independently of management when necessary and the Chair provides leadership to the Board. However, the Board also acknowledges that there may be exceptional circumstances, such as during a major shift in strategic direction or significant change, when it is appropriate to combine the roles of Chair and Chief Executive Officer. When it has been deemed appropriate to combine the roles of Chair and Chief Executive Officer, the Board's ability to function independently of management and objectively evaluate the Chief Executive Officer's performance may require the delegation of certain responsibilities:

- in the case of the Chair, delegation to another Director,
- in the case of the Chief Executive Officer, delegation to another senior executive.

In these instances, the Chair and Chief Executive Officer will consult with the Governance and Human Resources Committee to ensure that appropriate processes are established.

The Chief Executive Officer - Board Appointment or Otherwise

The Board acknowledges that it is up to the discretion of the Shareholder whether or not to also appoint the Chief Executive Officer as a member of the Board of Directors. When the Shareholder has not appointed the Chief Executive Officer to the Board, Board policy will be that the Chief Executive Officer can expect to receive the same information as any other member of the Board, except that information pertaining to the Chief Executive Officer's performance, as appropriate.

Committees

The Board has developed a set of Guidelines for Committees which apply to all Committees established by the Board (please refer to Tab 18). Each Committee operates according to a Board-approved mandate outlining its duties and responsibilities. The Committee structure is subject to change from time to time as the Board considers which of its responsibilities will best be fulfilled through more detailed review in a Committee setting.

Advisory Committees, Task Groups and Project Boards

Task Groups and Project Boards are Committees of the Board, but differ from other Committees in that each Task Group and Project Board is established for a stated period of time to undertake a particular task or oversee a particular project, and is then disbanded. Each operates according to a Board approved Terms of Reference outlining its duties and responsibilities. Advisory Groups typically consist primarily of non-Directors and are put in place to provide input to the Board of Directors. Refer to Tabs 27 to 31 for additional detail with respect to Advisory Committees, Task Groups and Project Boards.

Committee Chairs and Committee Members

The Board Chair is responsible to the Board for annually proposing the leadership and membership of each Committee. In preparing recommendations, the Board Chair will consult with the Governance and Human Resources Committee, the Chief Executive Officer and the Board, taking into account the preferences, skills and experience of each Director. The Board supports a periodic rotation in Committee leadership and membership in a way that recognizes and balances the needs for new ideas, continuity and maintenance of functional expertise.

Each Committee's meeting schedule and agenda will be determined by its Chair and members with the assistance of Management and the Corporate Secretary, based on the Committee's timetable and terms of reference. Each Committee reports in a timely manner to the Board on the results of its meetings.

Board Meetings and Agendas

Four regular business meetings and one annual retreat are scheduled each year. Special meetings are arranged as required.

The Corporate Secretary, in consultation with the Chair and Chief Executive Officer will develop the agenda for each Board meeting. Under normal circumstances, the agenda and supporting materials will be distributed to Directors not less than four business days before a meeting. All Directors are free to suggest additions to the agenda.

Meetings are generally held at BC Hydro's corporate headquarters at 333 Dunsmuir Street, 18th Floor, Vancouver, B.C. but meetings may be held at other locations around the Province as determined by the Chair.

Procedures at Board Meetings

The following describes general procedures regarding the conduct of Board meetings:

- **Quorum:**
 - The presence of at least 50% of Directors constitutes a quorum and the meeting shall, with respect to quorum, be validly constituted.
 - attendance at a meeting of the Board by any or all Directors may be by way of personal attendance or by way of telephone or video conferencing.

- a meeting of the Board, once validly constituted, shall remain so despite the departure or recusal of any Director or Directors due to a declared conflict of interest.
- Questions arising at any meeting of the Board of Directors shall be decided by a majority of votes cast by those present and not excluded from voting on the question due to a declared conflict of interest. In a case of an equality of votes, the Chair of the meeting will have a second or deciding vote;
- a resolution circulated in writing (including by electronic means), and agreed to by signature or by electronically verifiable means by all the Directors not excluded from voting on the question due to a declared conflict of interest, shall be as valid and effectual as if it had been passed at a meeting of the Directors duly called and constituted.

Special Meetings of the Board

Special meetings of the Board of Directors may be held at any time at the call of the Chair. Like regular meetings, special meetings may be held by way of personal attendance or by way of telephone or video conferencing.

Notice of a special meeting will be valid if communicated verbally or by electronic means to each Director at any time prior to the start of the meeting.

In the Chair's absence, a special meeting may be called by:

- a member of the Executive Committee, or
- at the call of any two Directors.

The Chair shall be bound to call a special meeting of the Board of Directors on the requisition of three Directors and, if the Chair fails to do so within twenty-four hours from receipt of such requisition, any three Directors may convene a special meeting of the Board of Directors.

Information for Board Meetings

Material distributed to the Directors in advance of Board meetings should be concise, yet complete, and prepared in a way that focuses attention on critical issues to be considered. Reports may be presented during Board meetings by Directors, senior management, staff, or by invited outside advisors. Presentations on specific subjects at Board meetings should briefly summarize the material sent to Directors, so as to maximize the time available for discussion on questions regarding the material. Templates have been prepared to assist management in the preparation of Board briefing materials to ensure the appropriate focus and tone, as well as overall consistency.

It is recognized that under some circumstances, due to the confidential nature of matters to be discussed at a meeting, it would not be prudent or appropriate to distribute written material in advance.

Directors are reminded that unless otherwise indicated Board materials should be treated as confidential.

Non-Directors at Board Meetings

The Board appreciates the value of having members of management, employees or others attend Board meetings to provide information and opinions to assist the Directors in their deliberations. The Board, through the Chair and through the Chief Executive Officer, will determine attendees at Board meetings. However, both the Board and management recognize that throughout the year there are times when the Board needs to meet without management in attendance.

Board Relations with Management

Board policies and guidelines are issued to management for their adherence. Directors may direct questions or concerns on management performance to the Chair, the Chief Executive Officer, or through Board and Committee meetings. Directors must respect the organizational structure of management. A Director has no authority to direct any staff member.

Size of the Board

From time to time, the Board through its Governance and Human Resources Committee will consider its size to ensure the Board has the necessary diversity of skills and experience to fulfill its obligations. Government sets the size of the Board through the appointment process.

Criteria for Board Membership

Although Government has the responsibility to appoint Directors, BC Hydro's Board of Directors has a responsibility to provide Government through its Board Resourcing Office with advice regarding the needs of BC Hydro and the criteria Government might consider when making appointments.

On behalf of the Board, the Governance and Human Resources Committee annually reviews the strategic direction of the Corporation and the skills, experience, background and diversity of the Board in relationship to the Corporation's strategic direction. Any recommendations resulting from the review will be discussed with the full Board and communicated to Government through the Board Chair.

Communicating Director Criteria to the Government

The Board Chair has the responsibility to ensure that criteria developed by the Governance and Human Resources Committee are communicated to Government through its Board Resourcing Office well in advance of Director appointments. The communication should explain the reason(s) the criteria were developed and encourage Government to consider the needs of BC Hydro when making Director appointments.

Director Orientation and Education

New Directors will be provided with an orientation and education program which will include written information regarding the duties and obligations of Directors and the business and operations of the Corporation, documents from recent Board meetings and opportunities for meetings and discussion with senior management and other Directors. The orientation program for each new Director will be tailored to that Director's needs and areas of interest. The orientation process is described at Tab 13. Orientation and education continues during each Director's term of appointment.

Assessing the Board's Performance

The Governance and Human Resources Committee and the Chair are responsible for annually assessing the overall performance of the Board and its Committees. The objective of this review is to contribute to a process of continuous improvement in the Board's execution of its responsibilities. The review should identify any areas where Directors or management believe that the Board could make a better collective contribution to overseeing the affairs of the Corporation. The Board evaluation process is described in more detail at Tab 14.

Board Compensation

Government establishes compensation policy for its Crown Boards of Directors. Details regarding Director compensation are outlined at Tab 16.

Term of Appointment

Each Director's term of appointment is established by Government through Order-in-Council.

Evaluation of the Chief Executive Officer

The Governance and Human Resources Committee, the Chair, and the Board of Directors each play a role in conducting an annual performance evaluation of the Chief Executive Officer, measured against objectives and other relevant criteria established in the previous year by the Board and the Chief Executive Officer. An outline of the Chief Executive Officer's Performance Evaluation Process is located at Tab 15.

The performance evaluation will be communicated to the Chief Executive Officer by the Board Chair. When the roles of Chair and Chief Executive Officer are combined, the performance evaluation will be communicated to the Chair and Chief Executive Officer by the Chair of the Governance and Human Resources Committee.

The evaluation will also be used by the Governance and Human Resources Committee and by the Board in their deliberations concerning the Chief Executive Officer's annual compensation.

Levels of Authority for Management and the Board

The Board of Directors authority to make financial commitments on behalf of the Corporation is set out in the *Financial Approval Procedures* under the Corporation's *Financial Approval Policy*. Individually, Directors have no authority to make financial commitments for the Corporation. Information respecting this corporate policy and other delegated financial authorities are outlined at Tab 36.

Code of Conduct

Directors are required to review the *Code of Conduct* and acknowledge their support and understanding of the Code by signing an annual Declaration Statement, details of which can be found at Tab 10.

Outside Advisors for Individual Directors

Occasionally, a Director may need the services of an advisor to assist with matters involving that individual's responsibilities as a Director. A Director who wishes to engage an outside advisor at the expense of the Corporation must first obtain the authorization of the Board Chair.

Administrative Support for Directors

The Corporate Secretary will provide all required administrative services for Directors in their capacity as Directors of BC Hydro.

Board of Directors' Governance Review

Through the Corporate Secretary, the Board Governance framework, including the Board of Directors' Guidelines, all Terms of Reference and any other governance matters will be reviewed annually by the Governance and Human Resources Committee.