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October 30, 2017

Mr. Patrick Wruck  
Commission Secretary and Manager  
Regulatory Support  
British Columbia Utilities Commission  
Suite 410, 900 Howe Street  
Vancouver, BC V6Z 2N3

Dear Mr. Wruck:

**RE: British Columbia Utilities Commission (BCUC or Commission)  
British Columbia Hydro and Power Authority (BC Hydro)  
Acquisition from Teck Metals Ltd. (Teck) of an Undivided Two-Thirds  
Interest in the Waneta Dam and Associated Assets  
(the Waneta 2017 Transaction)**

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BC Hydro writes to provide its application for Commission orders regarding its proposed purchase of Teck's remaining two-thirds interest in the Waneta Dam and associated assets (the **Application**). Completion of the Waneta 2017 Transaction is conditional on, among other things, the following Commission orders:

- (i) Accepting the schedule of expenditures regarding the Waneta 2017 Transaction as described in the Application;
- (ii) Approving the Teck Wheeling Agreement and the Waneta Interconnection Agreement; and
- (iii) Making minor amendments to the Non-Heritage Deferral Account, necessary to address the timing of the transaction in the current revenue requirement cycle and certain accounting issues that arise from the nature of the transaction,

all as explained further in the Application pursuant to sections 44.2(3), 58-61 and 49(a), respectively, of the *UCA*.

A further condition of completing the Waneta 2017 transaction is that closing will have occurred by August 1, 2018. Accordingly, BC Hydro requests final orders by no later than July 18, 2018 to allow a reasonable amount of time to complete the Waneta 2017 Transaction before August 1, 2018. BC Hydro's proposal regarding the regulatory review of the Waneta 2017 Transaction is set out in the Application.

## Introduction and Overview

On February 3, 2010 the Commission approved BC Hydro's acquisition of an undivided one-third interest in the Waneta dam from Teck on the basis, in part, that it was in the public interest.<sup>1</sup> That transaction, referred to as the "**Waneta 2010 Transaction**", closed on March 5, 2010.

Under the Waneta 2010 Transaction, BC Hydro purchased its one-third interest in Waneta for \$825 million and Teck retained the remaining two-thirds interest. The transaction secured for BC Hydro a generation resource that provides it with long-term dependable capacity and firm energy to meet its load-serving obligations. As part of the Waneta 2010 Transaction, BC Hydro and Teck entered into the Co-Ownership and Operating Agreement (**COA**) and this agreement currently governs how the two entities operate and manage the jointly-owned facility. Included in the COA, and embedded within the purchase price, BC Hydro also acquired a "right of first offer", or "**ROFO**" in regard to any subsequent sale of Teck's remaining two-thirds interest.

The current transaction, referred to as the Waneta 2017 Transaction, arises from the exercise by BC Hydro of its right to purchase Teck's remaining two-thirds interest pursuant to the ROFO. In particular, BC Hydro has matched an offer by Fortis Inc. to purchase the facility from Teck on terms that were arrived at through a competitive sale process.<sup>2</sup> If completed, the transaction will result in BC Hydro being the sole owner of Waneta with Teck retaining the benefit of its existing two-thirds interest, as a lessee, for the next 20 or 30 years. The key elements of the current transaction include:

- BC Hydro will purchase Teck's remaining two-thirds interest in Waneta (**Waneta Assets**) for \$1.203 billion;
- The Waneta Assets will be leased to Teck for a 20-year period (extendable to 30 years at Teck's option), in consideration of lease payments from Teck to BC Hydro that will start at approximately \$74 million per year, increasing yearly by 2 per cent. As part of the lease arrangement, Teck will continue to be responsible for two-thirds of the operating and maintenance costs as currently outlined in the COA, and as modified through the Co-Possessors and Operating Agreement (**COPOA**) which will replace, and is largely based on, the COA; and
- Upon the expiration or earlier termination of the lease<sup>3</sup>, BC Hydro will purchase Teck's transmission assets, including Teck's Line 71 between Waneta and the U.S. border (collectively referred to as the **Transmission Assets**), for \$20 million.<sup>4</sup>

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<sup>1</sup> Commission Order No. G-12-10.

<sup>2</sup> Fortis Inc. is the unregulated parent corporation of the regulated utility FortisBC Inc. The competitive process is described in the Application.

<sup>3</sup> Or at the election of BC Hydro following a material breach by Teck.

<sup>4</sup> In dollars at the time of purchase.

During the term of the lease the current arrangements will remain mostly unchanged. In particular:

- Key elements of the COA, whereby BC Hydro and Teck are co-owners, will be carried forward in new agreements reflecting the new “co-possessors” relationship;
- The transaction is not expected to affect the operation of Waneta;
- Cost-sharing between BC Hydro and Teck will remain unchanged for Teck’s current capital plan. BC Hydro will have increased accountability for the cost of project upgrades or extraordinary capital costs; and
- The existing arrangements Teck has with third-parties, in relation to Waneta operations and access to and use of the Transmission Assets, will remain unaffected.

Lease payments made by Teck through the term of the lease will result in BC Hydro and its customers seeing immediate financial benefits. Those benefits will result in a forecast net positive impact on the rates of BC Hydro's customers in the year of the transaction, and in every year thereafter.

Upon the expiration or termination of the lease, BC Hydro will be the sole beneficiary of the energy and capacity from Waneta. Because it will be acquiring the Transmission Assets at that time, Waneta will be directly connected to the BC Hydro system. These future aspects of the transaction will ensure that BC Hydro can use the entire output of Waneta to meet its load-serving obligations, or sell the output into wholesale markets, in a cost-effective, low-risk and clean/renewable manner.

After the lease period, and after the acquisition of the Transmission Assets, BC Hydro will provide a transmission wheeling service to Teck, at no cost,<sup>5</sup> between the U.S. border and Teck's smelter load. This will ensure that Teck continues to have access to wholesale power markets in the U.S. that it has long accessed, and thus can continue to maximize its opportunities of continuing its smelter operations in Trail.

From BC Hydro's perspective the Waneta 2017 Transaction is in essence, and has been analyzed as, a commercial transaction. Regardless of BC Hydro's load-resource balance at the end of the lease period, the transaction is expected to provide a positive financial benefit to BC Hydro's ratepayers. Because it arises through the exercise by BC Hydro of its ROFO following upon a competitive sale process undertaken by Teck, ratepayers and the Commission can be assured that the transaction price reflects market value. In all respects, the Waneta 2017 Transaction is cost-effective and in the public interest.

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<sup>5</sup> Other than a share of eligible operating costs based on use.

## Transaction Summary

The fundamental terms of the Waneta 2017 Transaction are set out in the following agreements, each of which are included in the Application:

- **Waneta Purchase Agreement:** this agreement will affect the sale of the Waneta Assets to BC Hydro in consideration of a payment by BC Hydro to Teck of \$1.203 billion;
- **Waneta Lease Agreement (**Lease**):** BC Hydro will purchase the Waneta Assets already encumbered by a 20 year lease (extendable to 30 years at Teck's option). On closing, BC Hydro will assume the lessor obligations under this agreement and Teck will pay BC Hydro approximately \$74 million per year, escalating at 2 per cent per year, for the first 20 years of the Lease.<sup>6</sup> The Lease is closely connected to the COPOA; and
- **Co-Possessors and Operating Agreement:** this agreement will replace, and is largely based on, the COA that was part of the Waneta 2010 Transaction. It maintains the relationship between BC Hydro and Teck with regard to Waneta operations, but recognizes that the parties will now be co-possessors – i.e., BC Hydro as the sole owner, who continues to receive the benefit of its existing one-third interest in Waneta, and Teck as the lessee of the remaining two-thirds interest in Waneta. The COPOA will remain in existence only so long as the Lease remains in place.

There are also additional agreements that will take effect upon closing of the transaction and these are more fully described and included in the Application.

In addition, BC Hydro and Teck have negotiated a Transmission Agreement Term Sheet which is also filed with this Application. The Transmission Agreement Term Sheet contemplates the finalization of additional key agreements as follows:<sup>7</sup>

- **Waneta Transmission Agreement:** this agreement will, among other things, continue the transmission arrangements currently in place under the COA for BC Hydro's one-third interest in Waneta during the term of the Lease. It will also provide for the sale of the Transmission Assets to BC Hydro for \$20 million at the expiry or termination of the Lease;
- **Teck Wheeling Agreement:** this agreement will establish BC Hydro's obligations to provide transmission capacity to Teck from the U.S. border to Teck's smelter load after the Lease. The Teck Wheeling Agreement is intended to maintain Teck's long-standing rights to import electricity to serve its Trail smelter load when it is

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<sup>6</sup> If Teck exercises its option to extend the lease period to 30 years, annual lease payments will commence in year 21 at approximately \$144 million, again escalating at 2 per cent per year.

<sup>7</sup> These additional agreements are currently being negotiated between BC Hydro and Teck and as such, the descriptions that follow are necessarily high-level.

economic to do so. Since it will be in regard to regulated services under the *Utilities Commission Act (UCA)*, it will require Commission approval; and

- **Waneta Interconnection Agreement:** this agreement will provide for the interconnection of Teck's electrical system with BC Hydro's electrical system, both before and after the term of the Lease. The Waneta Interconnection Agreement is also expected to provide for the provision of certain generation-related ancillary services from BC Hydro to Teck, and therefore also requires Commission approval.

### Process Issues

All the agreements contemplated by the Transmission Agreement Term Sheet (**Transmission Agreements**) will be filed with the Commission as soon as they are complete. BC Hydro expects to be able to file the Transmission Agreements before the anticipated second round of information requests arising from the Application, likely in late 2017. BC Hydro does not anticipate any amendments to the Application will be needed as a result of filing these agreements but will advise further at that time. In the meantime, BC Hydro will be as transparent and forthcoming with regard to the details of the Transmission Agreements as it can be in the circumstances, but also consistent with the need to maintain its bargaining position vis-à-vis Teck and thus the interests of its customers.

Similar to the application regarding the Waneta 2010 Transaction, BC Hydro will also prepare and file a "risk register" with the Commission for the Waneta 2017 Transaction. BC Hydro expects to be able to file the risk register with its filing of the Transmission Agreements, before the anticipated second round of information requests.

BC Hydro is filing this Application publicly, and confirms that the Application itself has no redactions. However, it has proved necessary to redact certain information from the public version of the Waneta 2017 Business Case (included as Appendix N in the Application) that is personal; is confidential third-party information; or is information that if made public could compromise BC Hydro's bargaining position with regard to Teck and other parties that have an interest in the subject matter of the Application. Accordingly, BC Hydro has filed an unredacted confidential copy of the Waneta 2017 Business Case concurrently with the Commission. The unredacted confidential copy of the business case filed with the Commission is exactly the same as the redacted public copy attached to the Application, except for the redactions. In addition, a proprietary third-party market price forecast has also been filed in confidence with the Commission, as it was in BC Hydro's current revenue requirement proceeding. BC Hydro seeks this confidential treatment pursuant to Part IV of the Commission's Rules of Practice and Procedure, and section 42 of the *Administrative Tribunals Act*.

## First Nations

BC Hydro recognizes its responsibility to ensure that proceeding with the Waneta 2017 Transaction is consistent with the honour of the Crown. BC Hydro will only complete the Waneta 2017 Transaction if it is honourable to do so. Chapter 5 of the Application identifies the aboriginal engagement program that BC Hydro intends to adopt to satisfy itself that proceeding with the Waneta 2017 Transaction is honourable.

## Structure of Application


BC Hydro has structured the Application on a similar basis to the Waneta 2010 Application. Specifically:

- Chapter 1 provides an overview of the Waneta 2017 Transaction, including a description of the parties, the transaction, and legal and regulatory considerations;
- Chapter 2 provides an extensive explanation of the context of the Application;
- Chapter 3 provides an extensive explanation of the various elements of the Waneta 2017 Transaction;
- Chapter 4 explains the need and justification for the transaction, including a discussion of the alternatives that BC Hydro considered; and
- Chapter 5 provides a discussion of BC Hydro's Aboriginal engagement efforts including steps BC Hydro has taken to maintain the honour of the Crown with First Nations.

BC Hydro has provided Teck with a draft of the Application for its review and can report that Teck is supportive of the Application and the orders sought.

For further information, please contact Geoff Higgins at 604-623-4121 or by email at [bchydroregulatorygroup@bchydro.com](mailto:bchydroregulatorygroup@bchydro.com).

Yours sincerely,



Fred James  
Chief Regulatory Officer

gh/rh

October 30, 2017  
Mr. Patrick Wruck  
Commission Secretary and Manager  
Regulatory Support  
British Columbia Utilities Commission  
Acquisition from Teck Metals Ltd. (Teck) of an Undivided Two-Thirds Interest in the  
Waneta Dam and Associated Assets (the Waneta 2017 Transaction)

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Fiscal 2017 to Fiscal 2019 Revenue  
Requirements Application) Registered  
Intervener Distribution List.

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**Ktunaxa Nation Council**

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## **Waneta 2017 Transaction**

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# **Chapter 1**

## **Overview of Waneta 2017 Transaction**

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## 1.1 The Parties

### 1.1.1 BC Hydro

British Columbia Hydro and Power Authority (**BC Hydro**) is a Crown Corporation established in 1962 under the *Hydro and Power Authority Act*. BC Hydro's mandate is to generate, distribute and sell electricity; and purchase power from, or sell power to, a firm or person. BC Hydro is the largest electric utility in British Columbia (**B.C.**) serving over 95 per cent of the province's population. BC Hydro has annual revenues of approximately \$6 billion, and enjoys through its fiscal agent, the B.C. Government, an "AAA" credit rating (the highest possible). It owns and operates about 12,000 Megawatts (**MW**) of installed capacity and has approximately 1.9 million customer accounts representing service to approximately 4.0 million people and businesses.

In the West Kootenay region of B.C. where the Waneta Dam and associated assets are located, BC Hydro has extensive transmission and generation assets that date back to its formative years. BC Hydro has owned an undivided one-third interest in Waneta since 2010.

BC Hydro's head office is located at 333 Dunsmuir Street in Vancouver, B.C.

### 1.1.2 Teck

Teck Resources Limited (**Teck Resources**), headquartered in Vancouver, B.C, is a diversified resource company with major business units focused on copper, steelmaking, coal, zinc and energy. Teck Metals Ltd. (formerly Teck Cominco Metals Ltd. and before that Cominco Ltd.) is a wholly owned subsidiary of Teck Resources and in this Application is referred to as "**Teck**".

Teck has had operations in south-eastern B.C. dating back to the early twentieth century and centered around its smelter complex located in Trail, B.C. Since that time, Teck has had significant involvement in the development of the hydroelectric



1 facilities in the West Kootenay region, which have provided Teck with a reliable  
2 source of power to meet the needs of its Trail smelter.

3 At one time, Teck was the sole owner of what is now FortisBC Inc. (**FortisBC**)  
4 (formerly West Kootenay Power Ltd., or **WKPL**), the electric utility that serves the  
5 West Kootenays and parts of the Okanagan. Teck sold its interest in WKPL in 1987  
6 and over the years has also sold all of its hydroelectric generating facilities other than  
7 the Waneta Dam, the generating facility at the dam, and the associated transmission  
8 assets.

9 Currently, Teck's smelter in Trail is one of the world's largest integrated zinc and lead  
10 smelting and refining operations. Teck's smelter load at Trail can be supplied, on  
11 average, by Teck's two-thirds interest in the generation from Waneta.

## 12 **1.2 Summary Project Description**

13 The Waneta Dam is a concrete hydroelectric dam located close to the Canada-U.S.  
14 border, near the mouth of the Pend d'Oreille River just before it enters the Columbia  
15 River, near Trail. It is approximately 9 kilometres (**km**) downstream from BC Hydro's  
16 Seven Mile Dam. The Waneta Dam was originally constructed in 1954 to generate  
17 power specifically for use at Teck's Trail smelter.

18 Generating units at the dam have a capacity of approximately 490 MW and they  
19 currently produce approximately 2,670 Gigawatt hours (**GWh**) per year.<sup>1</sup> In 2010,  
20 BC Hydro purchased a one-third interest in Waneta for \$825 million (the  
21 **Waneta 2010 Transaction**). Teck remained the owner of the remaining two-thirds  
22 interest.

23 BC Hydro receives approximately one-third of the Waneta generation, which it uses  
24 to serve its customers. Teck's two-thirds interest in Waneta is primarily used to serve

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<sup>1</sup> Based on modeling, 2,670 GWh represents the expected average annual physical generation of Waneta, where Waneta's entitlement volume under the Canal Plant Agreement is 2,745 GWh per year.

1 the Teck smelter in Trail.<sup>2</sup> FortisBC currently operates and maintains the entirety of  
2 Waneta under contract to Teck.<sup>3</sup> Further information with respect to Waneta and its  
3 relationship to the other hydroelectric facilities in the Columbia River Basin is more  
4 fully described in Chapter 2.

5 The current transaction, referred to as the “**Waneta 2017 Transaction**”, includes the  
6 following key elements:

- 7 • BC Hydro will purchase Teck's remaining two-thirds interest in Waneta for  
8 \$1.203 billion. The specific assets to be purchased are referred to as the  
9 “**Waneta Assets**”, and are described in detail in section 2.1;
- 10 • The Waneta Assets will be leased to Teck for a 20-year period (extendable to  
11 30 years at Teck's option) pursuant to the Waneta Lease Agreement (**Lease**).<sup>4</sup>  
12 The period of time the two-thirds interest in Waneta is leased to Teck is referred  
13 to as the “**Lease Period**”. During the Lease Period, Teck will receive energy  
14 and capacity consistent with its two-thirds leasehold interest in the facility (as is  
15 currently defined in the Co-Ownership and Operating Agreement (**COA**) to  
16 serve its smelter load or to sell on wholesale markets to the extent it is currently  
17 able to do so. Teck's annual lease payments will start at approximately  
18 \$74 million, escalating at 2 per cent per year, for the first 20 years. If Teck  
19 exercises its option to extend the Lease Period to thirty years, annual lease  
20 payments will commence in year 21 at approximately \$144 million,<sup>5</sup> again  
21 escalating at 2 per cent per year; and

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<sup>2</sup> If Teck has surplus power that it wishes to sell, pursuant to the Surplus Power Rights Agreement (**SPRA**) it must first offer surplus energy to BC Hydro. See section 3.3.3 for further details.

<sup>3</sup> See section 3.2.5.2.

<sup>4</sup> BC Hydro will purchase the Waneta Assets already encumbered by the Lease. On closing of the Waneta 2017 Transaction, BC Hydro will assume the lessor obligations under the Lease and Teck will become the lessee and will make lease payments to BC Hydro.

<sup>5</sup> During the Lease Period, Teck will be responsible for any rental taxes and amounts payable pursuant to the COPOA including two-thirds of the operating costs, certain sustaining capital and insurance costs and Teck's share of property taxes and water rentals, all as more fully provided for in the COPOA, see section 3.2.5.

- 1 • After the Lease Period BC Hydro will have unencumbered title to the entirety of  
2 Waneta and to 100 per cent of all generation attributed to Waneta. At the end of  
3 the Lease Period, BC Hydro will purchase Teck's transmission assets for  
4 \$20 million (dollars at the time of purchase), including Line 71 (collectively, the  
5 **Transmission Assets**)<sup>6</sup> for the purpose of ensuring that Waneta has a direct  
6 connection to the BC Hydro system. A condition of the transmission asset sale  
7 is allowing Teck to maintain its long-standing ability to import electricity, through  
8 wheeling services provided by BC Hydro, to serve the Teck load so long as  
9 Teck's smelter operates in Trail.

10 Line 71 is Teck's 230 kV, 25 km transmission line that connects Waneta to the  
11 transmission system of the Bonneville Power Administration (**BPA**) at the U.S.  
12 border, looping through BC Hydro's Nelway Substation.

13 During the Lease Period there will be no difference in the operation of Waneta, as a  
14 result of the sale of the Waneta Assets, relative to the current arrangements. For  
15 example, BC Hydro will continue to provide operating instructions for Waneta  
16 through the Canal Plant Agreement (**CPA**);<sup>7</sup> generation and water flows on the Pend  
17 d'Oreille River will be the same as they would be in the absence of the transaction;  
18 FortisBC will continue to operate and maintain the entirety of Waneta under contract  
19 to Teck; and Teck's two-thirds leasehold interest in Waneta will continue to be used  
20 to serve its smelter load in Trail as it currently does.

21 Upon expiration or termination of the Lease, the entirety of Waneta will be used to  
22 meet BC Hydro's domestic load-serving obligations or, if BC Hydro has generating  
23 capacity in excess of those obligations, will be available for electricity sales on the  
24 wholesale market. The post-Lease Period does not begin until at least 2038, and, at

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<sup>6</sup> The Transmission Assets include the following: Line 71, Lines 14-17, the Emerald Switching Station and Waneta Hydro Station, all as more fully described in section 2.2.5.

<sup>7</sup> The CPA will require amendments to accommodate Teck as a leasehold owner instead of an asset owner of the Waneta Dam and a handful of other miscellaneous issues, as explained in section 2.5.6.

1 the election of Teck, may not begin until 2048.<sup>8</sup> However, BC Hydro's most recent  
2 government-approved long-term load-resource plan - the **2013 IRP**<sup>9</sup> - extends to  
3 2033.<sup>10</sup> It follows that there is a fair degree of uncertainty about when and how  
4 Waneta will fit into BC Hydro's resource stack. To account for that uncertainty,  
5 BC Hydro analyzed a wide range of future load-resource balance (**LRB**) scenarios.  
6 In all but one of the scenarios, the Waneta 2017 Transaction generates a positive  
7 net present value (**NPV**). Only in the scenario where load growth and future  
8 wholesale market prices are materially below current forecasts, and if the cost of  
9 maintaining the dam within the assumed 40-year economic life is substantially  
10 greater than currently anticipated, does the transaction look uneconomic.

11 In tandem with the purchase of the Waneta Assets, an important aspect of the  
12 transaction is the acquisition of the Transmission Assets upon expiration or  
13 termination of the Lease. These Transmission Assets connect Teck's smelter load  
14 and Waneta to the BC Hydro and FortisBC systems and provide Teck with  
15 transmission capacity to and from the U.S. border. During the Lease Period, Teck  
16 will continue to own the Transmission Assets, as they do today, and will continue to  
17 provide transmission for the delivery of BC Hydro's one-third interest in Waneta to  
18 the BC Hydro system. After the Lease Period, BC Hydro will acquire the  
19 Transmission Assets, including Line 71, and Teck will retain import wheeling rights,  
20 similar to Teck's Line 71 Agreement scheduling rights, from the U.S. border to the  
21 smelter load so long as Teck's smelter operations in Trail are still in operation.  
22 Teck's willingness to sell its interest in Waneta is contingent on being able to  
23 continue to serve its smelter load after the Lease Period by way of imports using  
24 BC Hydro wheeling similar to present Line 71 scheduling rights.<sup>11</sup>

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<sup>8</sup> Assuming the transaction closes in 2018 and provided neither party is in default.

<sup>9</sup> Formally, the November 2013 Integrated Resource Plan: Meeting BC Hydro's Future Electricity Needs. The 2013 IRP was approved under section 4 of the *Clean Energy Act* by Order-in-Council No. 514 on November 25, 2013.

<sup>10</sup> Corresponding to BC Hydro's fiscal year 2033.

<sup>11</sup> See sections 2.2.5 and 3.2.10 to 3.2.13 for a more fulsome discussion of the Transmission Assets and Transmission Agreements currently contemplated by BC Hydro and Teck.

1 Line 71 came into service in 1964 and has always been used by Teck and its  
2 corporate predecessors on an unregulated, merchant-basis to import electricity to  
3 serve its smelter load when it was economic to do so, and to export electricity when  
4 there was a surplus relative to the needs of Teck's smelter load (and it was  
5 economic to do so).<sup>12</sup>

6 Line 71 also provides a critical connection between BC Hydro's system and Waneta,  
7 and accordingly BC Hydro's willingness to enter into the transaction is contingent on  
8 the acquisition of Line 71 at a time no later than the end of the Lease Period. The  
9 purchase by BC Hydro of Line 71 upon the expiry of the Lease Period is the  
10 preferred way to satisfy this condition, as explained further in section 2.5.5.

11 The Waneta 2017 Transaction will be effected by the following key agreements, all  
12 as more fully described in Chapter 3:<sup>13</sup>

- 13 • *Waneta Purchase Agreement*: this agreement sets out the sale by Teck  
14 Resources and the purchase by BC Hydro of the Waneta Assets; the purchase  
15 price for the Waneta Assets is \$1.203 billion;<sup>14</sup>
- 16 • *Waneta Lease Agreement*: BC Hydro will purchase the Waneta Assets already  
17 encumbered by a 20-year lease (extendable to 30 years at Teck's option); on  
18 closing, BC Hydro will assume the lessor obligations under the Lease;<sup>15</sup>
- 19 • *Co-Possessors and Operating Agreement (COPOA)*: the COPOA is based on  
20 and will replace the COA currently in place between BC Hydro and Teck; it  
21 retains many of the provisions governing the co-ownership arrangements

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<sup>12</sup> See sections 2.2.5 and 2.4 for a more fulsome description of Line 71.

<sup>13</sup> Note this is not an exhaustive list but rather, is a summary of the key agreements forming the Waneta 2017 Transaction.

<sup>14</sup> Attached as Exhibit A to the Reply Notice which is attached at Appendix C to this Application and was executed on August 1, 2017.

<sup>15</sup> Attached as Exhibit 2 to the Waneta Purchase Agreement which is attached at Appendix E to this Application.

1 between BC Hydro and Teck that were agreed to in 2010 when BC Hydro  
2 purchased its one-third interest in Waneta;<sup>16</sup>

- 3 • *Contract Bare Trust Agreement*: this agreement will be entered into slightly prior  
4 to closing of the Waneta 2017 Transaction and provides that Teck and Teck  
5 Resources' interests in certain contracts will be held in trust for and on behalf of  
6 Teck and BC Hydro during the term of the Lease;<sup>17</sup>
- 7 • *Guarantee Agreement between Teck Resources and BC Hydro (Guarantee)*:  
8 this agreement will be executed on closing and provides that Teck Resources  
9 will guarantee the obligations of Teck to BC Hydro under the Lease and the  
10 COPOA (except for Teck's obligations as Operator under the COPOA) in the  
11 event that Teck does not pay and/or perform them;<sup>18</sup>
- 12 • *WAS Access Agreement/Statutory Right of Way*: this agreement provides Teck  
13 an easement over real property owned by BC Hydro for the purposes of  
14 allowing Teck to perform environmental investigations, and remedial activities  
15 on property owned by BC Hydro;<sup>19</sup>
- 16 • *Transaction Closing Matters Agreement*: this agreement deals with certain  
17 pre-closing and post-closing matters, certain matters that are to occur in the  
18 interim period (ending with the closing of the transaction), and certain matters  
19 relating to the operatorship of Waneta;<sup>20</sup> and
- 20 • *Transmission Agreement Term Sheet*: BC Hydro and Teck have negotiated a  
21 Transmission Agreement Term Sheet which provides that Teck and BC Hydro  
22 must enter into a transmission agreement and certain other  
23 transmission-related agreements (collectively, the **Transmission Agreements**)

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<sup>16</sup> Attached as Exhibit 5 to the Waneta Purchase Agreement which is attached at Appendix E to this Application.

<sup>17</sup> Attached as Exhibit 1 to the Waneta Purchase Agreement which is attached at Appendix E to this Application.

<sup>18</sup> Attached as Exhibit 4 to the Waneta Purchase Agreement which is attached at Appendix E to this Application.

<sup>19</sup> Attached as Exhibit 3 to the Waneta Purchase Agreement which is attached at Appendix E to this Application.

<sup>20</sup> Attached as Exhibit B to the Reply Notice which is attached at Appendix C to this Application.

1 as a condition of closing the Waneta 2017 Transaction.<sup>21</sup> The below  
2 Transmission Agreements are currently contemplated:

- 3 ▶ *Waneta Transmission Agreement*: this agreement will continue the  
4 transmission-related provisions currently in the COA and will set out the  
5 agreed transmission arrangements, including Teck continuing to use the  
6 Transmission Assets, during the Lease Period, to make BC Hydro's share of  
7 generation available to BC Hydro on the same basis as under the COA, and  
8 the sale of the Transmission Assets to BC Hydro at the end of the Lease  
9 Period for \$20 million;
- 10 ▶ *Teck Wheeling Agreement*: this agreement, which will commence at the end  
11 of the Lease Period, will establish BC Hydro's obligations (as owner of the  
12 Transmission Assets) to provide transmission capacity to Teck from the U.S.  
13 border to Teck's smelter load and is intended to maintain Teck's  
14 long-standing rights to import electricity to serve its Trail smelter load when it  
15 is economic to do so; and
- 16 ▶ *Waneta Interconnection Agreement*: this agreement will provide for the  
17 interconnection of Teck's electrical system and BC Hydro's electrical system  
18 both during and after the Lease Period; it will also provide for the provision  
19 of certain generation-based ancillary services from BC Hydro to Teck.

20 All the foregoing agreements are included with this Application, except the  
21 Transmission Agreements which will be filed when they are complete, expected in  
22 December 2017.

### 23 **1.3 Benefits to BC Hydro's Customers**

24 The Waneta 2017 Transaction builds on the benefits already realized through  
25 BC Hydro's acquisition of its one-third interest in Waneta in 2010. As a result of that  
26 transaction, BC Hydro receives approximately one-third of the Waneta generation

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<sup>21</sup> Attached as Exhibit 6 to the Waneta Purchase Agreement which is attached at Appendix E to this Application.

1 which is used to meet BC Hydro's load-serving obligations. If the Waneta 2017  
2 Transaction is approved, it will result in BC Hydro being the sole owner of Waneta  
3 with Teck retaining the benefit of its existing two-thirds interest (as a lessee) for the  
4 next 20 or 30 years. During the Lease Period, BC Hydro's access to the energy and  
5 capacity associated with its one-third interest will continue with the Waneta 2017  
6 Transaction. As a result of the Lease, BC Hydro will see immediate financial benefits  
7 through Teck's lease payments which will have a net positive impact on the rates of  
8 BC Hydro's customers. Upon the expiration or termination of the Lease, BC Hydro  
9 will be the sole unencumbered owner of the Waneta Assets (together with its  
10 existing one-third interest) which will be available to serve domestic or export  
11 markets. At that time, BC Hydro will also be the sole beneficiary of the energy and  
12 capacity from Waneta and will additionally acquire the Transmission Assets so that  
13 Waneta is directly connected to the BC Hydro system. As a result, the Waneta 2017  
14 Transaction will allow BC Hydro to mitigate rate pressures on its customers and  
15 secure an important source of clean generation at a low cost.

## 16 **1.4 Background to the Waneta 2017 Transaction**

### 17 **1.4.1 Waneta 2010 Transaction**

18 As described more fully in section 4.11, after a period of extensive due diligence by  
19 BC Hydro,<sup>22</sup> in 2010 BC Hydro purchased an undivided one-third interest in Waneta  
20 for \$825 million plus transaction costs.

21 The Waneta 2010 Transaction consisted of an Asset Purchase Agreement (**APA**)  
22 which was the umbrella agreement for the transaction. The APA set out the terms of  
23 the purchase by BC Hydro of the one-third interest in Waneta for \$825 million. The  
24 APA specified that BC Hydro would be responsible for one-third of all obligations  
25 relating to ownership, operation and maintenance of the Waneta Dam from and after

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<sup>22</sup> Prior to the closing of the Waneta 2010 Transaction, BC Hydro's due diligence included extensive environmental and safety due diligence (conducted by Golder Associates Ltd.), technical and capital cost due diligence (conducted by Klohn Crippen Berger) and commercial and legal due diligence (conducted by BC Hydro and external financial and legal counsel).



1 closing. The APA contained several schedules and subsidiary agreements that  
2 formed part of the APA, including:

- 3 • *Waneta Partial Sale Canal Plant Agreement Amending Agreement*: this  
4 agreement made amendments to the CPA to recognize the different ownership  
5 structure of Waneta, i.e., that only two-thirds of Waneta is under the CPA,<sup>23</sup>
- 6 • *Co-Ownership and Operating Agreement*: the COA governs the relationship  
7 between BC Hydro and Teck as co-owners in the Waneta Dam. Pursuant to the  
8 COA, BC Hydro and Teck are co-owners and not partners. The COA governs  
9 the manner in which costs are allocated between Teck and BC Hydro and how  
10 expenditure decisions are made. It established an Operating Committee and  
11 addresses the delivery of capacity and energy from Waneta;
- 12 • *Reciprocal Security Agreement*: this agreement grants security over its interest  
13 in the Waneta Dam to the other co-owner to secure obligations of the granting  
14 co-owner under the COA. The security takes the form of a general security  
15 agreement and mortgage; and
- 16 • *Surplus Power Rights Agreement (SPRA)*: this agreement provides that if Teck  
17 has surplus power (i.e., Waneta entitlement that is surplus to its smelter load  
18 requirements) that it wishes to sell, it must first offer such surplus energy to  
19 BC Hydro, in accordance with the terms of the SPRA. In addition, this  
20 agreement provides that if Teck has surplus entitlement energy at the end of  
21 the month without the capacity to sell it under a scheduled transaction,  
22 BC Hydro will purchase the surplus.

23 In the 2010 Waneta Decision the Commission determined that the APA and each of  
24 the other above-noted agreements were reasonable commercial arrangements for

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<sup>23</sup> In Commission Order No. G-12-10, BCUC Reasons for Decision regarding A Filing by British Columbia Hydro and Power Authority for the Acquisition from Teck Metals Ltd. of an Undivided One-Third Interest in the Waneta Dam and Associated Assets, March 12, 2010 (**2010 Waneta Decision**), the Commission acknowledged that the CPA was exempt from regulation and that it had no jurisdiction over the amendments, see page 19.

1 inclusion as part of the Waneta 2010 Transaction and concluded that they were  
2 acceptable in the circumstances.<sup>24</sup>

3 A key agreement forming part of the Waneta 2010 Transaction was the COA  
4 between BC Hydro and Teck.<sup>25</sup> The COA is a detailed, complex agreement defining  
5 the relationship between BC Hydro and Teck as co-owners of Waneta. Essentially,  
6 the COA provides the structure for the joint ownership and operation of Waneta and  
7 in that sense, the COA can be said to define the terms of the joint venture (which is  
8 the co-ownership relationship between Teck and BC Hydro).

9 BC Hydro and Teck each contributed its interest in Waneta to the joint venture and,  
10 in the case of Teck, its CPA rights. The parties are entitled to capacity and energy  
11 from Waneta essentially equivalent to one-third (BC Hydro) and two-thirds (Teck),  
12 subject to an energy capacity swap as discussed below.

13 As joint owners, BC Hydro and Teck also formed an “Operating Committee” which  
14 has been comprised of two representatives of each of BC Hydro and Teck with  
15 voting in proportion to ownership. Most of the decisions made by the Operating  
16 Committee are by majority vote, except for key items (as outlined in the COA) which  
17 are by unanimous vote. The Operating Committee, amongst other responsibilities  
18 related to the joint ownership of Waneta, approves operating and management plans  
19 and proposed capital expenditures.

20 Pursuant to the COA, Teck was appointed as the initial Operator<sup>26</sup> (and has  
21 remained Operator to this day).<sup>27</sup> In that role, Teck is required to operate, manage  
22 and maintain Waneta in accordance with the terms of the COA which includes

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<sup>24</sup> See pages 20-21 of the 2010 Waneta Decision. The Commission directed BC Hydro to file a copy of all fully executed agreements within 60 days of the closing of the Waneta 2010 Transaction.

<sup>25</sup> The COA is described in further detail in section 3.2.5 and with specific reference to the COPOA.

<sup>26</sup> The Operator is described in section 7 of the COPOA which was unchanged from the COA, the Operator is responsible for the day to day operation and management of Waneta and, among other things, preparing and presenting budgets for approval by the Operating Committee, implementing approved budgets and implementing decisions of the Operating Committee.

<sup>27</sup> Teck oversees operations of Waneta acting as the Operator of the facility but FortisBC currently operates and maintains the entirety of Waneta under contract to Teck.

1 operating to a prudent owner standard, exercising the degree of care and diligence  
2 of an experienced dam operator and in accordance with Good Utility Practice. The  
3 Operator may appoint a Manager to carry out certain duties of the Operator.  
4 FortisBC is currently the Manager of Waneta and was appointed to this role in 2010.

5 The Waneta 2010 Transaction did not include the acquisition of any of Teck's  
6 transmission assets by BC Hydro however, the COA contains provisions whereby  
7 Teck agreed to make BC Hydro's share of generation from Waneta available at the  
8 Kootenay Interconnection which comprises a number of physical delivery points in  
9 the region (see section 2.4).<sup>28</sup>

10 Finally, the Waneta 2010 Transaction provided both BC Hydro and Teck with a "right  
11 of first offer", or, "**ROFO**" on any future sale by the other of its interest in Waneta.<sup>29</sup>

12 In the 2010 Waneta Decision, the Commission determined that the Waneta 2010  
13 Transaction was in the public interest and accepted BC Hydro's schedule of  
14 expenditures filed pursuant to section 44.2(1) of the *UCA*. The commercial  
15 transaction closed on March 5, 2010.

16 Since its acquisition of its one-third interest in 2010, BC Hydro has had access to  
17 163 MW of dependable capacity and 893 GWh of firm energy annually.<sup>30</sup> The  
18 acquisition has assisted BC Hydro in meeting the self-sufficiency objective required  
19 by the *Clean Energy Act*, and has resulted in access to a significant block of  
20 domestic generation capacity. BC Hydro's access to the energy and capacity  
21 associated with its one-third interest will continue with the Waneta 2017 Transaction  
22 during the Lease Period.

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<sup>28</sup> The Kootenay Interconnection, similar to the mid-Columbia (**Mid-C**) trading hub, is a set of six physical points of interconnection between BC Hydro's transmission system at Kootenay Canal, Selkirk Substation and Nelway Substation and the electrical infrastructure of other entities in the region, including Teck; see Figure 2-3.

<sup>29</sup> The ROFO provision was contained in section 25.3 of the COA. The ROFO provisions have been removed from the COPOA given the new ownership interests of BC Hydro and Teck.

<sup>30</sup> Subject to an energy capacity swap between BC Hydro and Teck, section 5 of the COA. These provisions have been carried over to the COPOA. As a result, BC Hydro has 249 MW of dependable capacity and 865 GWh per year of energy until 2036.

1 A key agreement forming part of the Waneta 2017 Transaction is the COPOA which  
2 continues most of the key concepts outlined in the COA but recognizes BC Hydro's  
3 role as an owner and lessor of Waneta. As more fully described in section 3.2.5, the  
4 COPOA maintains the relationship between BC Hydro and Teck with regard to  
5 Waneta operations and during the Lease Period there will be no material difference  
6 in the operation of Waneta relative to the current arrangements.

#### 7 **1.4.2 Events Leading to Waneta 2017 Transaction**

8 Teck and BC Hydro had discussions in early 2016 around a possible sale of Teck's  
9 two-thirds interest in Waneta. Following those discussions, it is BC Hydro's  
10 understanding, based on information provided by Teck, that in 2016 Teck retained  
11 the power and utilities team of CIBC World Markets to advise on the sale of Teck's  
12 two-thirds interest in the Waneta Dam and the negotiation of a long term power  
13 purchase agreement with the buyer of Teck's interest. Together with its advisors,  
14 Teck determined that a worldwide auction process would generate the greatest  
15 competitive tension and would most likely result in the best combination of sale price  
16 and future power purchase terms. Over 100 organizations were contacted and a  
17 significant number of non-binding indicative offers were received by Teck.<sup>31</sup> While  
18 BC Hydro did not directly participate in the auction process, at Teck's request,  
19 BC Hydro did engage in discussions with a third-party regarding a possible bid.  
20 Ultimately, BC Hydro elected not to participate in a bid with this third party.

21 Six parties were invited into the second phase of the process in which bidders were  
22 provided access to an extensive confidential data room, meetings with management  
23 and site visits. After review of a number of binding proposals, and following weeks of  
24 negotiations with bidders, Teck ultimately accepted an arm's length negotiated bid  
25 from Fortis Inc.<sup>32</sup> which was publicly announced in May 2017.<sup>33</sup>

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<sup>31</sup> The auction process and subsequent negotiations were subject to strict non-disclosure agreements between and among the parties.

<sup>32</sup> Fortis Inc. is the unregulated parent corporation of the regulated electric utility serving the West Kootenays, FortisBC Inc.

### 1 1.4.3 Fortis Transaction and Exercise of ROFO

2 In May 2017, Teck informed BC Hydro that it had reached an agreement to sell its  
3 two-thirds interest in Waneta and related transmission assets to Fortis Inc. for  
4 \$1.2 billion (the **Fortis Transaction**). The Fortis Transaction was conditional on,  
5 among other things, BC Hydro not exercising its rights under the ROFO as provided  
6 in the COA.

7 On June 1, 2017, Teck delivered the notice contemplated by the ROFO to BC Hydro  
8 (the **Sale Notice**). The Sale Notice provided BC Hydro with the opportunity to match  
9 the offer of Fortis Inc. and purchase Teck's two-thirds interest in Waneta under  
10 terms substantially equivalent to the Sale Notice. Under the COA, BC Hydro did not  
11 have the right to significantly vary the terms of the offered transaction and any  
12 additional terms and conditions could not be materially less favourable to Teck. The  
13 Sale Notice is attached at Appendix B.

14 Upon receipt of the Sale Notice, BC Hydro had 60 days to review the terms of the  
15 Fortis Transaction and determine whether or not to exercise its ROFO and purchase  
16 Teck's two-thirds interest in Waneta. During this 60-day period, BC Hydro and Teck  
17 undertook further due diligence<sup>34</sup> and discussions which culminated in an  
18 August 1, 2017 election by BC Hydro to purchase Teck's two-thirds interest (the  
19 **Reply Notice**). Further details with respect to the structure of the Waneta 2017  
20 Transaction and the contemplated commercial agreements are provided in  
21 Chapter 3. Where applicable, a discussion of the key elements of the Fortis  
22 Transaction as compared to the Waneta 2017 Transaction is included in sections 3.1  
23 and 3.2. The Reply Notice is attached at Appendix C.

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<sup>33</sup> This summary was provided to BC Hydro by Teck.

<sup>34</sup> That is, additional due diligence to that done in regard to the Waneta 2010 Transaction.

1 **1.5 Legal and Regulatory Considerations**

2 **1.5.1 Requested Section 44.2 Order**

3 Pursuant to section 44.2(3)(a) of the *UCA*, BC Hydro seeks a Commission  
 4 determination that the following capital expenditures are in the public interest, and  
 5 an order that the Waneta 2017 Transaction expenditure schedule is accepted:

6 **Table 1-1 Expenditure Schedule for Waneta 2017**  
 7 **Transaction**

Item	Expenditure
Waneta Assets	\$1.203 billion
Transmission Assets	\$20 million <sup>35</sup>
Transaction Costs	up to \$50 million

8 The above expenditures related to the Waneta Assets and Transmission Assets are  
 9 both derived from the purchase price in the Fortis Transaction and are more fully  
 10 described in sections 3.1 and 3.2. The \$50 million transaction costs are a one-time  
 11 assumption made by BC Hydro for the purposes of the business case (the  
 12 **Waneta 2017 Business Case**). A significant portion of this is in regard to property  
 13 transfer tax. The balance is in regard to assumed financial, legal and regulatory  
 14 costs over the next year. The assumption is generous and, because it is used in the  
 15 financial analysis of the transaction, is also conservative, insofar as it tends to  
 16 understate the net value of the transaction. Only actual transaction costs will be  
 17 capitalized and will flow through into rates. Even if the \$50 million transaction costs  
 18 are incurred, the transaction still has a positive NPV.<sup>36</sup>

19 The section 44.2 relief sought in this Application is consistent with the relief sought in  
 20 the Waneta 2010 Transaction. In that proceeding BC Hydro noted that it was neither  
 21 building Waneta nor operating it; it remains true that BC Hydro is not building the  
 22 facility, and, during the Lease Period, BC Hydro does not expect to be operating it.

<sup>35</sup> Note BC Hydro will be purchasing the Transmission Assets for \$20 million (dollars at the time of purchase) at the end of the Lease Period or at its election following a material breach by Teck. If the Transmission Assets are enhanced or added to, the price will be adjusted to reflect additional costs incurred by Teck and the relative use of the assets.

<sup>36</sup> See also section 4.1.7 for a discussion of the transaction costs.

1 Subsequent to the Waneta 2010 Transaction, BC Hydro filed with the Commission  
2 its *Capital Project Filing Guidelines*.<sup>37</sup> Among other things, BC Hydro committed in  
3 those guidelines to filing section 44.2 expenditure schedule applications in regard to  
4 generation or transmission projects in excess of \$100 million that are not  
5 “extensions” as that word is used in the *UCA*. BC Hydro also committed in those  
6 guidelines to follow the content requirements of the Commission’s CPCN Application  
7 Guidelines<sup>38</sup> and its First Nations Information Filing Guidelines,<sup>39</sup> and confirms it has  
8 done so in this Application.<sup>40</sup>

### 9 **1.5.2 Requested Rate Orders**

10 BC Hydro seeks Commission orders approving the Teck Wheeling Agreement and  
11 the Waneta Interconnection Agreement pursuant to sections 58-61 of the *UCA*.

12 Under both the Teck Wheeling Agreement and the Waneta Interconnection  
13 Agreement BC Hydro will be providing regulated services to Teck. In the case of the  
14 former, transmission wheeling services have been recognized as regulated services  
15 under the *UCA* since at least the mid-1990s, when the Commission approved  
16 BC Hydro's first wholesale transmission tariff.

17 As described above, the Waneta Interconnection Agreement will provide for the  
18 interconnection of the electrical systems of BC Hydro and Teck both during and after  
19 the Lease Period. It will also provide for the provision of reactive power supply and

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<sup>37</sup> In Directive 31 of the 2008 Long-Term Acquisition Plan Decision (July 27, 2009), the Commission requested that BC Hydro develop a set of guidelines for the filing and review of capital projects by the Commission. On July 23, 2010 BC Hydro filed its Capital Project Filing Guidelines in compliance with that directive.

<sup>38</sup> Specifically, the 2015 *Certificate of Public Convenience and Necessity Application Guidelines*, Appendix A to Commission Order No. G-20-15.

<sup>39</sup> Specifically, the 2010 *First Nations Information Filing Guidelines for Crown Utilities*, Appendix A to Commission Order No. G-51-10, March 2010.

<sup>40</sup> Bearing in mind the direction in the former that “[the guidelines] provide general guidance regarding the Commission’s expectations of the information that should be included in CPCN applications while providing the flexibility for an application to reflect the specific circumstances of the applicant, the size and nature of the project, and the issues raised by the application. An applicant is expected to apply the guidelines in a flexible and reasonable manner that reflects the spirit and intent of the guidelines”. Other than the Waneta 2010 Transaction, this transaction is relatively unique (purchase of existing facilities), and raises issues that are different from those expressly contemplated by the CPCN Guidelines (construction of new facilities). In consequence, and for example, BC Hydro has not provided an organizational chart of the project team nor consulted with non-First Nation stakeholders in advance of filing the Application.

1 voltage control to Teck, from Waneta, to support its smelter load. After the Lease  
2 Period those generation-based services will be provided by BC Hydro in its capacity  
3 as sole owner of Waneta. Reactive power supply and voltage control are recognized  
4 ancillary services provided by transmission service providers under open access  
5 transmission tariffs, including by BC Hydro under its Open Access Transmission  
6 Tariff (**OATT**).<sup>41</sup>

7 Because they are both in regard to the provision of regulated services by BC Hydro,  
8 the terms and conditions of the Teck Wheeling Agreement and the Waneta  
9 Interconnection Agreement are "rates" and subject to the filing and approval  
10 provisions of the *UCA*, and accordingly BC Hydro seeks an order approving them  
11 pursuant to section 58-61 of that statute.

12 Importantly, the approval of these two agreements by the Commission will also  
13 serve to "grandfather" Teck's historical rights to self-supply ancillary services and  
14 access U.S. power markets. BC Hydro remains committed to the principles  
15 underlying the OATT, particularly the transparent and non-discriminatory provision of  
16 transmission services to all customers. However, it also recognizes that Teck has  
17 long operated its electrical system on a non-regulated and merchant basis. In any  
18 event, the essential terms of the transaction were set out in the Sale Notice, which  
19 expressly required an arrangement that satisfied Teck's interest in preserving its  
20 historical rights.

### 21 **1.5.3 Requested Accounting Orders**

22 BC Hydro seeks an order approving three adjustments to the Non-Heritage Deferral  
23 Account (**NHDA**) as described in this section.

#### 24 **1.5.3.1 *Timing Issue Regarding F2019 Lease Payments***

25 If the Waneta 2017 Transaction closes in the spring or summer of 2018, as currently  
26 anticipated, Teck's first lease payments will be made in fiscal 2019, being the final

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<sup>41</sup> Schedule 04 to the OATT.



1 year of the current three-year revenue requirement test period, as described in the  
2 Fiscal 2017 to Fiscal 2019 Revenue Requirement Application (**F17-F19 RRA**).  
3 Although BC Hydro was aware that Teck was seeking to sell its two-thirds interest in  
4 the Waneta Dam when the F17-F19 RRA was filed, the Sale Notice to BC Hydro  
5 was not delivered until well after. As such, it was not possible to include in that  
6 application any forecasts of incremental revenue associated with an unknown  
7 potential transaction that would accrue during the test period. Currently, BC Hydro  
8 anticipates that the incremental lease revenue in fiscal 2019 arising from the  
9 Waneta 2017 Transaction will be \$49 million, on the assumption of an  
10 August 1, 2018 closing date.<sup>42</sup> In the absence of a regulatory accounting order that  
11 incremental revenue would be to the account of the shareholder. Accordingly,  
12 BC Hydro seeks an order allowing it to defer its fiscal 2019 lease revenues arising  
13 from the Waneta 2017 Transaction to the NHDA so that BC Hydro ratepayers  
14 receive the full value of the Waneta 2017 Transaction from the outset.

### 15 **1.5.3.2 Additional Consideration (OMA and Capex)**

16 Effective April 1, 2018, the accounting for the Waneta Lease Agreement will be  
17 within the scope of IFRS 15 "Revenue from Contracts with Customers". Under the  
18 terms of the COPOA, Teck is required to pay operating and sustaining capital costs  
19 to BC Hydro associated with its two-thirds (lease hold) interest in Waneta. Under  
20 IFRS 15, these payments are considered additional consideration to BC Hydro for  
21 use of the dam by Teck and are attributable as revenue to BC Hydro as the owner of  
22 the dam. However, the Teck operating costs and sustaining capital costs are also  
23 recognized as expenses of BC Hydro and capital expenditures of BC Hydro,  
24 respectively.

25 Regarding the operating costs, and subject to one issue, BC Hydro's additional  
26 revenue is offset by the additional expenses, with no impact on BC Hydro's net

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<sup>42</sup> The business case developed to inform BC Hydro's decision regarding the Waneta 2017 Transaction assumed an April 1, 2018 closing date and somewhat higher fiscal 2019 lease revenues, and somewhat lower lease revenues at the end of the Lease Period.

1 income, its revenue requirements (on a net basis, since the additional revenue is  
2 offset by the additional expenses), or its customers. The issue arises because one  
3 element of the operating costs BC Hydro will be required to recognize is a portion of  
4 Teck's water rentals - and variances between BC Hydro's forecast and actual water  
5 rentals are deferred to the NHDA. Without an adjustment to the NHDA, to exclude  
6 the portion of variances between forecast and actual water rentals in a given year  
7 arising from the Waneta 2017 Transaction, those variances would be deferred to the  
8 NHDA and would be to the account of BC Hydro's ratepayers (despite the offsetting  
9 revenue that will be recognized, which will equal the actual amount of the costs).  
10 Accordingly, BC Hydro seeks an order allowing it to exclude the variances between  
11 forecast and actual water rentals in a given year arising from the Waneta 2017  
12 Transaction from the water rental variances that are deferred to the NHDA. This  
13 order would be applicable to the end of the Lease Period.

14 With regard to capital expenditures incurred by Teck, BC Hydro will have to  
15 recognize the resulting capital additions, and will also be required to recognize a  
16 corresponding amount as revenue in the year of each addition. The revenue that will  
17 be recognized offsets amortization of the capital addition in future periods that sums  
18 to the revenue. Subject to the continuance of its Amortization of Capital Additions  
19 Regulatory Account and Total Finance Charges Regulatory Account, BC Hydro  
20 proposes to defer the revenue to the NHDA, as it arises, and to allow the associated  
21 incremental amortization to flow through the existing regulatory accounts. To the  
22 extent the amortization period of the NHDA and the incremental amortization period  
23 are not the same there may be an intergenerational equity concern with this  
24 approach. However, BC Hydro expects the annual incremental revenue and  
25 offsetting amortization will be relatively modest amounts – not more than a few  
26 million dollars in any given year compared to a revenue requirement in the order of  
27 \$6 billion - so that such concerns are quite minor relative to the more complex  
28 accounting arrangements that would be required to otherwise deal with the issue.  
29 Accordingly, BC Hydro seeks an order allowing it to defer to the NHDA the revenue

1 it will be required to recognize from time to time in consequence of Teck's capital  
2 additions at Waneta. This order would be applicable until the end of the Lease  
3 Period.

## 4 **1.6 Proposed Regulatory Review Process**

5 Pursuant to section 25.3(e) of the COA, and by section 1.1 (p) of the Waneta  
6 Purchase Agreement, the closing date of the Waneta 2017 Transaction shall be no  
7 later than August 1, 2018. In addition, it is a condition of closing that the requested  
8 Commission orders be granted prior to closing. Allowing for a few weeks to effect the  
9 closing of the transaction, BC Hydro seeks the requested orders by no later than  
10 July 18, 2018.

11 To that end, BC Hydro requests that the Commission establish the following regulatory  
12 process as soon as practicable. BC Hydro notes that concurrent with the Commission  
13 filing, this Application was provided to all the intervenors registered in the  
14 F17-F19 RRA, as well as the Ktunaxa Nation Council, the Okanagan Nation  
15 Alliance, the Shuswap Indian Band and the Splots'in First Nation.<sup>43</sup> BC Hydro also  
16 provided the Application to Teck, the City of Trail, FortisBC/ Fortis Inc., Columbia  
17 Basin Trust, and Columbia Power Corporation. It is also available for inspection at  
18 BC Hydro's head office identified in section [1.1.1](#) above and is available on its  
19 website at <http://www.bchydro.com>.

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<sup>43</sup> Refer to Chapter 5 for an explanation of the First Nations who will be in receipt of a copy of the Application.

1  
2

**Table 1-2 Proposed Initial Regulatory Process for Waneta 2017 Transaction**

October 30, 2017	BC Hydro Filing with the Commission
November 20, 2017	Commission and Intervenor Information Request (IR) No. 1
December 18, 2017	BC Hydro Response to IR No. 1
Expected to be December 2017 (filed prior to Commission and Intervenor IR No. 2)	BC Hydro Filing of Transmission Agreements
TBD 2018 <sup>44</sup>	Commission and Intervenor IR No. 2
TBD 2018	BC Hydro Response to IR No. 2
TBD 2018	Procedural Conference, if necessary

3 BC Hydro further proposes that the procedural conference proposed in 2018, at a  
4 date to be decided, be used to determine what, if any, further evidentiary process  
5 may be required at that time. Finally, BC Hydro notes that the proposed second  
6 round of IRs will be required to account for the filing of the Transmission Agreements  
7 later this year regardless of what other process the Commission determines. Under  
8 the proposed schedule, those agreements ought to be filed in December 2017 to  
9 allow questions to be asked of them in IR No. 2. BC Hydro currently expects to be  
10 able to meet that timeline. When BC Hydro has filed the Transmission Agreements it  
11 will propose dates for Commission and Intervenor IR No. 2.

12 **1.7 Structure of Application**

13 For the convenience of readers who may still be familiar with the regulatory  
14 proceedings regarding the Waneta 2010 Transaction, BC Hydro has structured this  
15 Application on a similar basis to the Waneta 2010 Application. In particular:

- 16 • Chapter 2 provides an extensive explanation of the context of the Application;
- 17 • Chapter 3 provides an extensive explanation of the various elements of the  
18 Waneta 2017 Transaction;

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<sup>44</sup> BC Hydro will propose dates for Commission and Intervenor IR No. 2 when it files the Transmission Agreements.

- 1 • Chapter 4 explains the need and justification for the transaction, including a  
2 discussion of the alternatives that BC Hydro considered; and
- 3 • Chapter 5 sets out BC Hydro’s view of its legal obligations to First Nations in  
4 relation to the Waneta 2017 Transaction and provides a description of  
5 BC Hydro’s engagement process and efforts with First Nations.

6 **1.8 Communications**

Fred James Chief Regulatory Officer 16 <sup>th</sup> Floor 333 Dunsmuir St Vancouver, BC V6B 5R3 Telephone: 604-623-4046 Fax No. 604-623-4407 email: <a href="mailto:bhydroregulatorygroup@bhydro.com">bhydroregulatorygroup@bhydro.com</a>	Jeff Christian and Clara Ferguson Legal Counsel Lawson Lundell LLP 1600-925 West Georgia St Vancouver, BC V6C 3L2 Telephone: 604-631-9115 email: <a href="mailto:jchristian@lawsonlundell.com">jchristian@lawsonlundell.com</a> <a href="mailto:cferguson@lawsonlundell.com">cferguson@lawsonlundell.com</a>
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## **Waneta 2017 Transaction**

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# **Chapter 2**

## **Physical, Historical and Commercial Context**

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1 **Introduction**

2 This chapter provides an extensive overview of the physical, historical and  
3 commercial context for the Waneta 2017 Transaction. Much of this information was  
4 previously provided in BC Hydro's application regarding the Waneta 2010  
5 Transaction, but has been updated to account for changed circumstances since  
6 2009 to 2010.

7 **2.1 The Waneta Dam and Generating Facilities**

8 Waneta is located southeast of Trail, BC on the Pend d'Oreille River, a tributary of the  
9 Columbia River. Waneta is approximately nine km downstream from BC Hydro's  
10 Seven Mile Dam, and about 0.5 km upstream of the confluence of the Pend d'Oreille  
11 and Columbia rivers. Construction of the Waneta Dam was completed in 1954.

12 The Waneta Expansion Project (described in section [2.5.7](#)) was completed in 2015  
13 and is located immediately adjacent to Waneta and shares the existing hydraulic  
14 head of the Waneta Dam. The Waneta Expansion Project was not part of the  
15 Waneta 2010 Transaction and does not form part of the Waneta 2017 Transaction.  
16 [Figure 2-1](#) shows Waneta (upstream, right side of photo) and the Waneta Expansion  
17 Project (downstream, left side of photo).



1

**Figure 2-1 Waneta and Waneta Expansion**



2 The Waneta Dam is a concrete gravity structure 64 meters (**m**) high and 290 m long.  
3 The crest of the dam is at elevation (**EI.**) 463.6 m, which is 1 m above the maximum  
4 normal reservoir level of EI. 462.6 m, and the minimum operating level is at  
5 EI. 457.8 m. As seen in [Figure 2-1](#) above, a nine-bay gated spillway is located on the  
6 right (facing upstream) side of the dam. Four power intakes are located to the left  
7 (facing upstream) of the spillway and a surface powerhouse is located at the left  
8 downstream toe of the dam.

9 The Waneta generating facility has four Francis hydraulic turbines. The maximum  
10 output of the four turbines and generating units following unit upgrades in the  
11 mid-1990's and 2000's is approximately 490 MW at 63.2 m gross head or about  
12 123 MW per unit. The hydraulic capacity of Waneta is about 932 cubic meters per  
13 second (**m<sup>3</sup>/s**). The expected average annual Waneta generation is about  
14 2,670 GWh.

15 Since April 2010, when BC Hydro acquired its one-third interest in Waneta, Teck and  
16 BC Hydro have jointly held six water licences for Waneta, proportionate with each

1 party's respective two-thirds and one-third undivided interest. These licences are  
 2 jointly held by Teck and BC Hydro and will continue to be jointly held during the  
 3 Lease Period. At the expiry or termination of the Lease, the water licences will be held  
 4 solely by BC Hydro. [Table 2-1](#) summarizes the details of those licences.

5 **Table 2-1 Water Licences at Waneta Dam<sup>45</sup>**

Licence Number <sup>46</sup>	Date of Issue	Date of Precedence <sup>47</sup>	Purpose	Licence Status	Licensed Quantity <sup>48</sup>
F017774	November 1, 1961	February 18, 1930	Power	Current	10,000 cfs 283 m <sup>3</sup> /s
F017862	April 2, 1962	August 30, 1955	Power	Current	2,000 cfs 56.6 m <sup>3</sup> /s
F047382	January 17, 1977	January 9, 1964	Power	Current	6,000 cfs 170 m <sup>3</sup> /s
F047383	January 17, 1977	December 5, 1960	Power	Current	6,000 cfs 170 m <sup>3</sup> /s
C108632	September 20, 1994	May 2, 1991	Power	Current	1,000 cfs 28.3 m <sup>3</sup> /s
C109112	October 23, 2008	November 8, 2007	Power	Current	7,910 cfs 224 m <sup>3</sup> /s

6 In addition to the water licences for Waneta, Waneta Expansion Project also holds a  
 7 water licence for the expansion project. [Table 2-2](#) summarizes the details of that  
 8 licence.

<sup>45</sup> See British Columbia Water Licence database: [http://a100.gov.bc.ca/pub/wtrwhse/water\\_licences.input](http://a100.gov.bc.ca/pub/wtrwhse/water_licences.input). For details regarding specific water licences listed, the licence number can be inputted into the field "licence no."

<sup>46</sup> The "C" preceding the Licence Number indicates "conditional" which authorizes a licensee to construct works and divert and use water. The "F" preceding the Licence Number indicates "final" which authorizes the diversion and use of water but does not authorize the construction of works.

<sup>47</sup> Date of precedence refers to the date an existing user began using the water associated with the licence and establishes priority rights for the licensee. The date of precedence establishes who is allowed their full allocation of water first during times of water scarcity or drought.

<sup>48</sup> Waneta has an authorized maximum total use of 931.91 m<sup>3</sup>/s or 32, 910 cfs for licences F17774, F17862, F47382, F47383, C108632 and C109112 combined.

1  
2

**Table 2-2 Water Licence at Waneta Expansion Project**

Licence Number	Date of Issue	Date of Precedence	Purpose	Licence Status	Licensed Quantity
C125761	September 29, 2010	July 24, 2003	Power	Current	22,107 cfs 626 m3/s

3 The Waneta Expansion Project is a generation-only facility that shares the existing  
4 hydraulic head of the Waneta Dam with the Waneta generating facility. Licenced  
5 water is allocated between Waneta and the Waneta Expansion Project as follows:

- 6 1. First 25,000 cfs (708 cms) for power purpose at Waneta;
- 7 2. Next 22,107 cfs (626 cms) for power purpose at Waneta Expansion Project;
- 8 and
- 9 3. Next 7,910 cfs (224 cms) for power purpose at Waneta;

## 10 **2.2 Physical Asset Condition**

11 As previously noted, BC Hydro undertook extensive due diligence prior to its  
12 purchase of its one-third interest in Waneta in 2010. Since becoming a one-third  
13 owner, BC Hydro has been a member of the Operating Committee<sup>49</sup> which has  
14 meant that BC Hydro has been privy to information related to the technical (i.e., the  
15 condition of the facilities), environmental, legal and commercial aspects of Waneta.  
16 This has resulted in considerable familiarity with Waneta on the part of BC Hydro.

17 As part of its due diligence for the Waneta 2017 Transaction (see section 4.11)  
18 BC Hydro re-assessed the Waneta Dam and the associated power generation  
19 assets. In addition, it also assessed the Transmission Assets. Because the  
20 Transmission Assets are a comparatively small part of the transaction in dollar terms  
21 (\$20 million vs. \$1.203 billion) and we do not anticipate purchasing for at least  
22 20 years, the focus of BC Hydro’s review was on the dam and the power generation  
23 assets.

---

<sup>49</sup> As defined and described in section 6 of the COA and as more fully described in relation to the COPOA in section 3.2.5.1.

1 All the assets to be acquired are in good condition and are comparable to BC Hydro  
2 assets of a similar vintage. All material incremental costs (both during and after the  
3 Lease Period) related to the ownership of the assets, that BC Hydro can reasonably  
4 anticipate at this time, were included in the financial analysis that is the subject in  
5 part of Chapter 4. In short, BC Hydro does not believe that the condition of any of  
6 the assets it would acquire is an impediment to the Waneta 2017 Transaction.

### 7 **2.2.1 Power Generation Assets**

8 The Waneta facility has been maintained well and the generating station is operating  
9 satisfactorily. It is in good condition for the age of the plant. The facility has had a  
10 number of upgrades and life extensions over the years, including:

- 11 • Units 1-4 had the power supply to their intake operating gates upgraded in 2006  
12 and the protection and control equipment completed in 2014;
- 13 • Units 1, 2, 3, and 4 had their turbine runners replaced in 2002, 2003, 1995, and  
14 2007, respectively;
- 15 • Coincident with the turbine runner upgrade work, Unit 3 had its generator stator  
16 rewound and Units 1, 2 and 4 underwent major life extension work including:  
17 re-sleeving of wicket gates, new wicket gate bushings, refurbishment of bottom  
18 rings, head cover and operating rings, generator stator rewinds, new static  
19 excitation systems and new governor control systems; and
- 20 • The generating plant substation was completely re-built in 2007.

21 The investments in Units 1, 2 and 4 in the past 15 years have increased their  
22 capability, improved reliability and reduced maintenance requirements. For example,  
23 stators would typically extend the asset life for about 25 years. However, Unit 3 has  
24 not seen the same level of attention and requires rehabilitation or refurbishment of  
25 various components, including a replacement of its stator core and a rewind, and

1 work to repair or replace the runner to avoid cavitation damage. Teck is currently  
2 developing a Unit 3 refurbishment project that will address these issues.<sup>50</sup>

### 3 **2.2.2 Dam and Water Passages**

4 Like the power generation assets, the dam and water passage assets are operating  
5 satisfactorily. BC Hydro has identified a number of potential dam safety and water  
6 passage issues primarily associated with requirements to bring the dam to  
7 BC Hydro's dam safety expectations. Some of the potential issues and/or possible  
8 upgrades related to dam and water passages identified to date include:

- 9 • Erosion at the toe of the spillway;
- 10 • Upgrades to the dam waterstop and drainage systems;
- 11 • Seismic and reliability upgrades to the spillway gates;
- 12 • Possible anchoring of the dam and spillway pier; and
- 13 • Spillway chute rehabilitation to address concrete joint offsets.<sup>51</sup>

14 BC Hydro and Teck are continuing to assess these potential issues to determine an  
15 appropriate response, if required.

16 The risk of emergent issues affecting the dam or water passages during the Lease  
17 Period are accounted for in the COPOA and through the negotiation of new terms  
18 that will allow BC Hydro to direct Teck, in its capacity as Operator,<sup>52</sup> to undertake

---

<sup>50</sup> The costs of the Unit 3 refurbishment project will be shared between Teck and BC Hydro pursuant to the COPOA.

<sup>51</sup> See Appendix B to the Waneta 2017 Business Case, attached at Appendix N of this application for further details regarding these potential dam and water passage issues and associated capital requirements.

<sup>52</sup> See section 7 of the COPOA for a description of Operator.

1 any action and/or project with respect to dam safety at BC Hydro's cost<sup>53</sup> - see  
 2 section 3.2.5.1 for further information.<sup>54</sup>

3 **2.2.3 Plant Reliability and Availability**

4 [Table 2-3](#) provides unit and plant average outage statistics for Waneta for recent  
 5 years. Forced outage factors and overall plant availability at Waneta compare  
 6 favourably with similar sized hydroelectric projects owned by BC Hydro.

7 **Table 2-3 Outage Statistics for Waneta**

	Forced Outage Hours				
Year	Unit 1	Unit 2	Unit 3	Unit 4	Average
2009	8.6	0.0	0.9	25.4	11.6
2010	2.6	0.7	1.9	11.4	4.1
2011	2.2	3.0	3.0	3.7	3.0
2012	1.9	11.9	5.1	8.0	6.7
2013	0.0	1.5	4.4	11.4	5.7
2014	2.2	7.2	3.0	4.2	4.1
2015	7.0	19.5	0.1	4.6	7.8
2016	1.6	0.1	646.8	2.3	162.7
	Forced Outage Factor (%)				
Year	Unit 1	Unit 2	Unit 3	Unit 4	Average
2009	0.10	0.0	0.01	0.29	0.10
2010	0.03	0.01	0.02	0.13	0.05
2011	0.02	0.03	0.03	0.04	0.03
2012	0.02	0.14	0.06	0.09	0.08
2013	0.00	0.02	0.05	0.13	0.05
2014	0.03	0.08	0.03	0.05	0.05
2015	0.08	0.22	0.00	0.05	0.09
2016	0.02	0.00	7.36	0.03	1.85

<sup>53</sup> Note that as currently contemplated, it is only if BC Hydro directs actions or projects over and above what is required to meet the "Operating Standard" outlined in the COPOA (see section 7.1 of the COPOA) that BC Hydro will be responsible for all costs.

<sup>54</sup> See also the September 14, 2017 letter from BC Hydro to Teck confirming BC Hydro's election not to become the Operator under the COPOA and outlining, in general terms, a governance framework related to dam safety which includes provisions for proposed costs. A copy of the September 14, 2017 Operator Election letter is attached to this Application at Appendix D.

Planned Outage Hours					
Year	Unit 1	Unit 2	Unit 3	Unit 4	Average
2009	141.8	140.1	312.3	168.6	190.7
2010	105.4	105.4	475.7	105.5	198.0
2011	2.2	182.8	519.1	111.8	203.9
2012	777.6	3.7	252.6	151.6	296.4
2013	2.5	777.9	249.4	7.5	259.3
2014	170.2	120.2	351.1	179.0	205.1
2015	109.7	151.2	799.2	177.9	309.5
2016	155.9	106.9	233.6	112.2	152.2
Availability Factor (%)					
Year	Unit 1	Unit 2	Unit 3	Unit 4	Average
2009	98.28	98.40	96.43	97.79	97.72
2010	98.77	98.79	94.55	98.67	97.69
2011	99.95	97.88	94.04	98.68	97.64
2012	91.10	99.82	97.06	98.18	96.54
2013	99.97	91.10	97.10	99.78	96.99
2014	98.03	98.55	95.96	97.91	97.61
2015	98.67	98.05	90.88	97.92	96.38
2016	98.20	98.78	89.95	98.69	96.41

1 **2.2.4 Plant Safety and Environmental Record**

2 As was the case in 2009 to 2010, BC Hydro is not aware of any safety or  
 3 environmental concerns that would be an impediment to the completion of the  
 4 Waneta 2017 Transaction. Please refer to section 4.11 regarding BC Hydro's due  
 5 diligence efforts in this regard.

6 **2.2.5 Transmission Assets**

7 During the Lease Period, the transmission arrangements currently in effect between  
 8 BC Hydro and Teck will continue, unchanged. That is, Teck will continue to own,  
 9 operate and maintain the Transmission Assets during the term of the Lease. At the  
 10 expiry or termination of the Lease, the Waneta Transmission Agreement will provide  
 11 for the sale of the Transmission Assets to BC Hydro, including Line 71, for  
 12 \$20 million (see section 3.2.11 for further details).

1 The key elements of the Transmission Assets BC Hydro would acquire from Teck at  
2 the end of the Lease Period are as follows:

- 3 • Line 71: a 230 kV line, with transfer capability of 370 MW, with two segments:  
4 the first connects Waneta to BC Hydro's Nelway Substation, and the second  
5 connects Waneta to BPA's transmission system at the border (which is normally  
6 kept open);
- 7 • Lines 14 to 17: four 63 kV circuits that connect Waneta to Teck's Emerald  
8 Switching Station near Trail, from which power is supplied to Teck's industrial  
9 operations, built in 1953 (Lines 15, 16 and 17) and 1966 (Line 14);
- 10 • Emerald Switching Station: a 63 kV switching station located at Warfield, B.C.,<sup>55</sup>  
11 and
- 12 • Waneta Hydro Station: the substation connecting the Waneta plant's generators  
13 to, among other things, Line 71 and Lines 14-17.

14 These transmission assets are in reasonable condition given their age. Consistent  
15 with the Waneta 2010 Transaction, Teck remains responsible for all costs  
16 associated with operating and maintaining the Line 71 assets, including costs  
17 associated with permits and licences, until January 1, 2036. After that time,  
18 BC Hydro will be responsible for costs that are proportionate with its one-third  
19 interest until such time that the Transmission Assets are purchased by BC Hydro.

### 20 **2.3 Other Projects in the Pend d'Oreille Basin**

21 The Pend d'Oreille River and its tributaries begin in Montana,<sup>56</sup> then flow west and  
22 north through Idaho and Washington before coming into Canada. The Canadian  
23 section of the Pend d'Oreille River flows generally westward for about 27 km before  
24 joining the Columbia River, immediately upstream of the U.S. border.

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<sup>55</sup> More precisely, those portions of the Emerald Switching Station that are not required by Teck for its industrial operations once the Lease expires.

<sup>56</sup> With some headwaters beginning in Canada.



1 The Pend d'Oreille River basin is a large watershed that encompasses portions of  
 2 Montana, Idaho and Washington in the U.S. and portions of BC in Canada. The Pend  
 3 d'Oreille River and its major tributaries - Priest River, Clark Fork River, Flathead  
 4 River and Fork Flathead River - have been developed extensively with numerous  
 5 projects built mainly in the 1950s. The storage and run-of-river dams in the Columbia  
 6 River basin (of which the Pend d'Oreille River basin is a part) are shown in  
 7 [Figure 2-2](#).

8 **Figure 2-2 Storage and Run of the River Dams in**  
 9 **the Columbia Basin**



1 [Table 2-4](#) lists the generation facilities on the Pend d’Oreille River basin and their  
 2 principal characteristics.

3 **Table 2-4 Principal Characteristics of Pend**  
 4 **d’Oreille Generation Facilities**

Facility Name	State or Province	River	Capacity (MW)	Storage (m <sup>3</sup> x10 <sup>6</sup> )	Max Discharge (m <sup>3</sup> /s)	Head (m)
Hungry Horse	Montana	South Fork Flathead	428	3,678	252	147.5
Seliš Ksanka Qlispe' Dam (formerly Kerr Dam)	Montana	Flathead	168	1,501	405	57.0
Thompson Falls	Montana	Clark Fork	53	Pondage	314	19.2
Noxon Rapids	Montana	Clark Fork	397	285	1,416	47.5
Cabinet Gorge	Idaho	Clark Fork	200	Pondage	1,011	33.8
Albeni Falls	Idaho	Pend d’Oreille	43	1,425	934	9.1
Priest Lake	Idaho	Priest	None	87	–	–
Box Canyon	Washington	Pend d’Oreille	60	Pondage	807	12.8
Boundary	Washington	Pend d’Oreille	1,040	53	1,416	83.8
Seven Mile	BC	Pend d’Oreille	805	Pondage	1470	58.9
Waneta	BC	Pend d’Oreille	490	Pondage	932	63.2
Waneta Expansion	BC	Pend d’Oreille	335	Pondage	312.6	61.32

5 Several hydroelectric plants and major storage reservoirs located on the Pend  
 6 d’Oreille River and its tributaries in the U.S. provide significant seasonal and daily  
 7 flow regulation on the Canadian section of the Pend d’Oreille. The dams in the U.S.  
 8 that are the most significant for seasonal regulation are Hungry Horse, Seliš Ksanka  
 9 Qlispe' and Albeni Falls.

10 Boundary Dam has the most significant effect on shorter term flow fluctuations on  
 11 the Pend d’Oreille in Canada. The generating station at Boundary Dam is the largest  
 12 generating facility owned and operated by Seattle City Light. It is located about

1 18 km upstream of the Seven Mile Dam and 27 km upstream of the Waneta Dam.  
2 The maximum hydraulic capacity of the Boundary Dam is approximately 1,416 m<sup>3</sup>/s  
3 and the capacity of the generating facilities is 1,040 MW. Seattle City Light operates  
4 Boundary Dam as a peaking plant that follows its load requirements. As a result,  
5 Pend d'Oreille River flow volumes into Canada are high during heavy load periods  
6 (generally daytimes, Monday to Saturday), and lower during light load periods  
7 (night-times and Sundays).

8 Seven Mile Dam, which is owned and operated by BC Hydro, is located  
9 approximately 18 km downstream of Boundary Dam. The Seven Mile power plant  
10 has four generating units with a hydraulic capacity of about 1,470 m<sup>3</sup>/s and a  
11 generating capacity of 805 MW. Seven Mile can also have a significant effect on flow  
12 fluctuations at Waneta. However, with the recent addition of the Waneta Expansion  
13 Project, the combined Waneta/Waneta Expansion Project discharge can be  
14 operated in hydraulic balance with Seven Mile Dam and the latter can be operated to  
15 reduce forebay drawdowns at Waneta.

16 As noted, the Waneta Expansion Project is located immediately adjacent to Waneta  
17 and shares the existing hydraulic head of the Waneta Dam. It has a hydraulic  
18 capacity of 312.6 m<sup>3</sup>/s, and a generating capacity of 335 MW. Its completion has  
19 allowed energy generation from water that would otherwise have been spilled at  
20 Waneta<sup>57</sup> and has improved the overall efficiency of power generation at Waneta.

## 21 **2.4 Transmission Connections**

22 BC Hydro owns and operates a 500 kV transmission network in the West Kootenay  
23 region. That network includes the 230 kV interconnection with BPA at the  
24 Canada-U.S. border, the Nelway Substation and the Selkirk Substation, and is  
25 connected to BC Hydro generation at the Seven Mile and Kootenay Canal plants  
26 with 230 kV lines.

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<sup>57</sup> Mostly during the freshet.

1 Except as noted below with respect to Line 71, BC Hydro provides service on its  
2 transmission system under its OATT.

3 The key elements of the Transmission Assets comprise Line 71 and Lines 14 to 17  
4 which are described above. Generally, and subject to the arrangements in place  
5 between the different entities, the Transmission Assets have enabled Teck to serve  
6 its smelter load either from Waneta or by way of wholesale imports from the U.S.,  
7 and sell surplus power from Waneta into wholesale markets in the U.S.

8 FortisBC also owns transmission assets in the region. From the perspective of the  
9 Waneta 2017 Transaction, the important ones are Lines 62, 77 and 79. These lines  
10 provide for a connection between Waneta to BC Hydro's system at its Kootenay  
11 Canal plant (via Teck's Emerald Switching Station). Teck has certain rights to these  
12 lines, and under the Waneta Transmission Agreement, BC Hydro will be able to  
13 cause Teck to exercise those rights, in BC Hydro's favour, thereby ensuring that  
14 BC Hydro has transmission connections of sufficient capacity to move the entirety of  
15 Waneta's output to the BC Hydro system if that were ever required.<sup>58</sup> This will  
16 facilitate maximizing the post-Lease Period value of Waneta because it will ensure  
17 that BC Hydro can get all the Waneta generation to its system. See section 3.2.11  
18 for a more fulsome explanation.

19 FortisBC is currently contracted to operate and manage the Transmission Assets,  
20 and this is expected to continue during the Lease Period.

21 The interconnection of Line 71 with BC Hydro's Nelway Substation, referred to  
22 above, arose from the need to control increasing inadvertent flows on the various  
23 transmission systems in B.C. arising from the expansion by FortisBC of its 230 kV  
24 transmission system in the early 2000's. Line 71 is typically operated as an

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<sup>58</sup> The maximum output of Waneta is 490 MW and the transfer capability of Line 71 is 370 MW. Under a Transmission Facilities Agreement between Teck and FortisBC, up to 150 MW of the transfer capability on each of Lines 62, 77 and 79 may be acquired. The exercise by Teck of its rights in respect of these assets on behalf of BC Hydro would be at BC Hydro's cost, and that cost is not included in the \$20 million BC Hydro will pay to purchase the Transmission Assets.

1 interconnection through Nelway. Line 71 was the primary means by which Teck  
2 historically imported and exported power from and to the U.S., and is the primary  
3 means by which Teck currently interconnects with the BC Hydro system.

4 An important element of the regional transmission system is the Kootenay  
5 Interconnection, a notional point of delivery similar to the Mid-C wholesale trading  
6 hub. Physically, the Kootenay Interconnection (singular) is the set of six points of  
7 interconnection between BC Hydro's transmission system at Kootenay Canal,  
8 Selkirk Substation and Nelway Substation, and the electrical infrastructure of other  
9 entities in the region, including Teck (at the interconnection of Line 71 and Nelway  
10 Substation).<sup>59</sup>

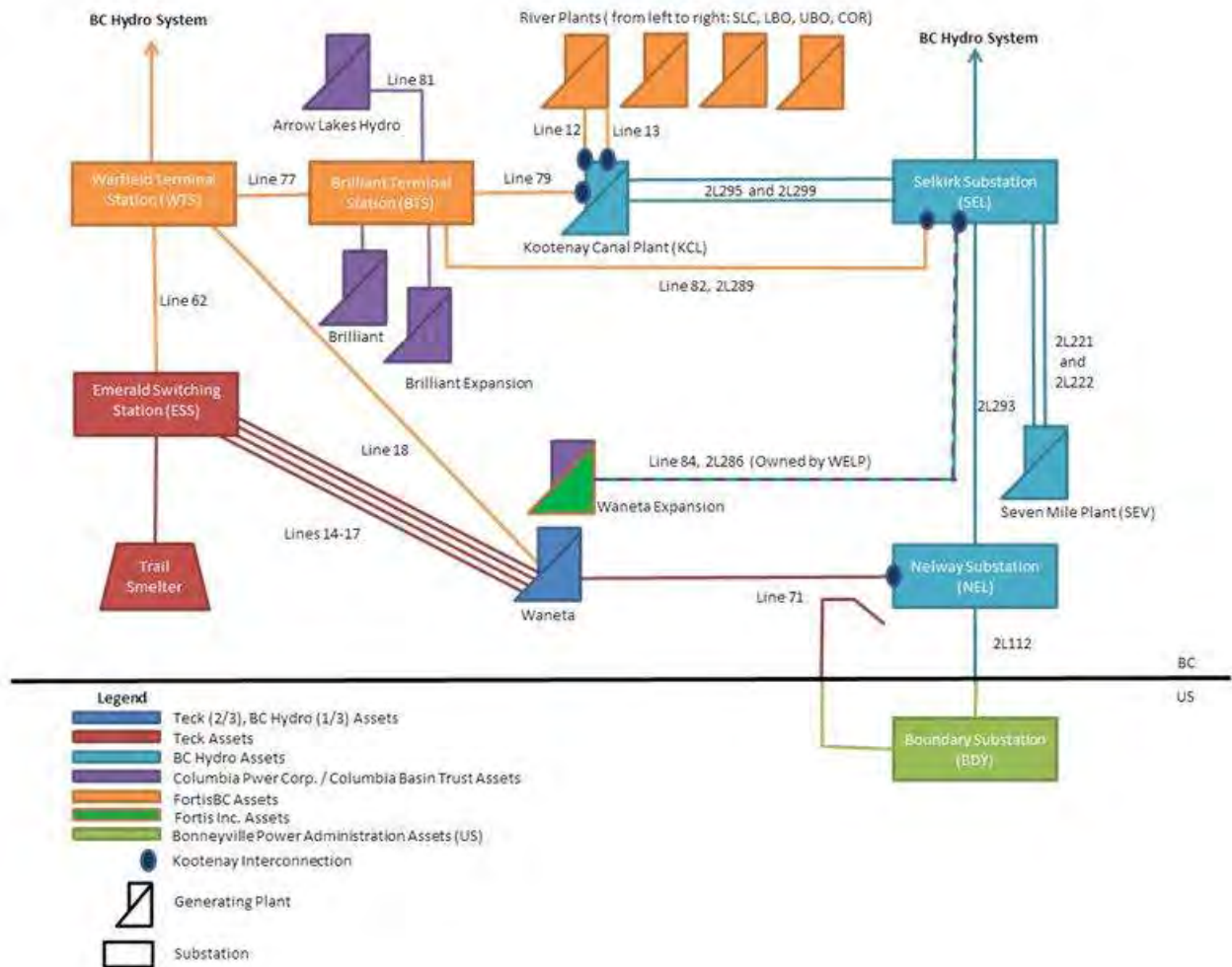
11 [Figure 2-3](#) shows the location of the key storage, generation and transmission facilities  
12 in the region.

---

<sup>59</sup> The formal definition of the Kootenay Interconnection is set out in Schedule B to the CPA.

1  
2

**Figure 2-3 Regional Generation and Transmission Facilities - Current<sup>60</sup>**



3 **2.5 Historical Development in the Kootenay Region**

4 **2.5.1 Columbia River Treaty**

5 The Columbia River Treaty (**Treaty**) was entered into between Canada and the U.S.  
6 in 1961 and ratified in 1964. A primary purpose of the Treaty was to facilitate specific  
7 large water storage developments in the Columbia Basin at Libby, Duncan, Mica and

<sup>60</sup> [Figure 2-3](#) is an updated version of Figure 1 'Regional Transmission Overview' in Appendix C of the Waneta 2017 Business Case. Contrary to the diagram, Line 18 connects Warfield Terminal Station to Waneta via Line 20 and Beaver Park Station.

1 Arrow. While some of the Treaty's provisions, including restrictions on diversions of  
2 water to consumptive uses only and limits on project operations that would reduce  
3 downstream power benefits, apply generically to the Columbia Basin as a whole  
4 (which includes the Pend d'Oreille River basin), there is nothing in the Treaty that  
5 impacts the operation of the Canadian Pend d'Oreille system in any material way.<sup>61</sup>

### 6 **2.5.2 Pacific Northwest Coordination Agreement**

7 At about the same time the Treaty was ratified, many of the project owners in the  
8 U.S. Pacific Northwest entered into the Pacific Northwest Coordination Agreement  
9 (**PNCA**) to coordinate the operations of their projects to ensure that the full benefit of  
10 the Treaty could be realized. Operation of the U.S. storage projects on the Pend  
11 d'Oreille River are coordinated with other U.S. Columbia Basin projects under the  
12 PNCA. However, Canadian project owners are not party to the PNCA and therefore  
13 are not provided any specific input into the operational decision-making process for  
14 the upstream projects.

### 15 **2.5.3 Original Canal Plant Agreement**

16 With the completion of the Duncan and Libby storage projects made possible by the  
17 Treaty, further development on the Kootenay River in B.C. became economic. To  
18 facilitate this development, the Province of B.C., BC Hydro, Teck and FortisBC  
19 entered into an agreement whereby the parties agreed to co-operate in the operation  
20 of all the generation on the Kootenay and Pend d'Oreille River systems in B.C.  
21 (except for the City of Nelson hydroelectric plant) for the purposes of obtaining  
22 optimum generation. The CPA, in its original form, was made as of August 1, 1972.

23 Under the CPA, the owners of the non-BC Hydro projects receive specific monthly  
24 entitlements to energy and capacity that are derived from the estimated average  
25 annual generation capability of their projects. These parties, other than BC Hydro, are

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<sup>61</sup> In 2014 the Government of British Columbia announced it would like to engage in negotiations to modernize the Treaty. The Federal Government of Canada supported that decision. In 2016, the U.S. Department of State similarly recommended that negotiations to modernize the Treaty proceed. As of the date of filing this Application, no formal negotiations have been scheduled.

1 referred to as the “Entitlement Parties” and are contractually entitled to their CPA  
2 entitlement.

3 The difference between actual generation and contractual entitlement (coordination  
4 transfers) is received by, or is the responsibility of, BC Hydro. Foregone generation  
5 that results from unit outages or de-rates is the responsibility of the Entitlement  
6 Parties.

7 Under the Waneta 2010 Transaction, BC Hydro’s one-third interest are guaranteed  
8 to the earliest expiry date of the CPA, being December 31, 2035. The Waneta 2017  
9 Transaction would continue to provide the firm electricity obligation to BC Hydro from  
10 the Waneta 2010 Transaction, regardless of changes in upstream flow regulation in  
11 the period prior to December 31, 2035.

12 Under the CPA, BC Hydro also became the control area operator of all the  
13 transmission assets in the West Kootenay region and by extension the control area  
14 operator of all the transmission interconnections between B.C. and the U.S.

#### 15 **2.5.4 Columbia Power Corporation and Columbia Basin Trust**

16 In the early-mid 1990s the Columbia Power Corporation<sup>62</sup> and the Columbia Basin  
17 Trust<sup>63</sup> were created by the Province to be vehicles for the provision of economic,  
18 environmental and social benefits to the Columbia Basin region. They are referred to  
19 as “CPC” and “CBT”, and jointly as “CPC/CBT”. Their purpose has been served  
20 primarily through the development of hydro-electric generation projects in the West  
21 Kootenays.

22 CPC/CBT own (all on a 50/50 basis): Arrow Lakes Power Corporation, which owns  
23 the Arrow Lake Generating Station (completed in 2002); Brilliant Expansion Power  
24 Corporation, which owns Brilliant Expansion Generating Station (completed in 2007);  
25 Brilliant Power Corporation, which owns the Brilliant Dam and Generating Station

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<sup>62</sup> Columbia Power is a commercial Crown corporation, established in 1994 under the *Business Corporations Act*.

<sup>63</sup> Created in 1995 pursuant to the *Columbia Basin Trust Act*.



1 (since 1996). The Waneta Expansion Limited Partnership (**WELP**), which holds the  
2 Waneta Expansion Project (completed in 2015), is owned 51 per cent by Fortis Inc.,  
3 32.5 per cent by CPC and 16.5 per cent by CBT.<sup>64</sup>

4 All the CPC/CBT projects are exempt from Commission regulation pursuant to the  
5 *CPC/CBT Projects Exemption Continuation Regulation*.<sup>65</sup>

### 6 **2.5.5 Line 71 Agreement**

7 The Line 71 Agreement is an agreement between Teck and BC Hydro. It was  
8 entered into in 2002 for the purpose of confirming and clarifying Teck's historical  
9 rights to transmission access to and from the U.S. on Line 71 that existed prior to  
10 BC Hydro becoming the control area operator under the CPA. It has been amended  
11 once, in 2003, to account for the interconnection of Line 71 with BC Hydro's Nelway  
12 Station. The Line 71 Agreement, as amended, has previously been filed in  
13 confidence with the Commission.

14 This agreement sets out the extent of Teck's transmission access to the B.C.-U.S.  
15 border over Line 71, whether Line 71 is directly connected to the BPA system or is  
16 indirectly connected to BPA through the interconnection with BC Hydro's  
17 transmission system at Nelway. The transmission capacity made available to Teck  
18 reflects its historical right to access the U.S. system for both exports and imports on  
19 an unregulated, merchant-basis.

20 When Line 71 is looped through the Nelway Substation, Teck's historical Line 71  
21 rights are effectively provided by BC Hydro. To avoid inconsistencies with  
22 BC Hydro's Line 71 obligations and its obligations under its OATT, BC Hydro was  
23 exempted from section 61(3) of the *UCA* as it applies to the OATT in regard to  
24 power flows on BC Hydro's system that would historically have been on Line 71.<sup>66</sup>

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<sup>64</sup> See CPC Annual Report, 2016/17: [http://columbiapower.org/wp-content/uploads/2017/08/2016\\_17\\_CPC\\_AnnualReport.pdf](http://columbiapower.org/wp-content/uploads/2017/08/2016_17_CPC_AnnualReport.pdf)

<sup>65</sup> BC Regulation 254/2010, Minister's Order M230/2010.

<sup>66</sup> Commission Order No. G-34-04.

1 The effect is to grandfather Teck's Line 71 rights vis-à-vis the OATT when Line 71 is  
2 looped through the Nelway Substation.

3 After the Lease Period, BC Hydro will purchase the Transmission Assets, including  
4 Line 71. Provided Teck still has a smelter load in Trail, BC Hydro will provide a  
5 wheeling service to Teck that maintains Teck's rights to access wholesale power  
6 markets in the U.S. for import purposes to serve its smelter load, consistent with the  
7 rights it has under the Line 71 Agreement at the end of the Lease Period. The  
8 wheeling service will be provided by way of the Teck Wheeling Agreement. That  
9 agreement will continue to grandfather Teck's right to use Line 71 scheduling rights  
10 for import load-serving purposes as it has been used since it was built by Teck's  
11 corporate predecessors. BC Hydro expects that the Line 71 Agreement will come to  
12 an end at the end of the Lease Period.

13 Teck does not use Line 71 exclusively for its own use. Pursuant to a 1987 letter  
14 agreement, FortisBC has an interruptible right to use Line 71 for imports and exports  
15 subject to Teck's rights and obligations. In addition, under the 1994 Power Asset  
16 Sale and Development Agreement (**PASDA**), Teck committed to “not unreasonably  
17 deny access” to Line 71 to the Brilliant Expansion Project and the Waneta  
18 Expansion Project for export purposes. After the Lease Period, BC Hydro expects to  
19 continue to fulfil these obligations in its capacity as an open-access wholesale  
20 transmission service provider under its OATT.

### 21 **2.5.6 2005 Canal Plant Agreement**

22 Certain aspects of the original CPA were set to expire in September 2005. In  
23 addition, the establishment of CPC/CBT and the development of new projects in the  
24 region necessitated their involvement in the CPA arrangements. As such, in 2005  
25 BC Hydro, Teck, CPC/CBT and FortisBC entered into a revised and re-stated CPA.

26 Among other things, the CPA is now extended to at least December 31, 2035. It is  
27 continued as a “one operator” coordination agreement, under which BC Hydro

1 directs operations at all participating plants on the Canadian Kootenay and Pend  
2 d'Oreille River systems to optimize the value of their overall generation. As has been  
3 the case since the CPA was originally established (in 1972), the owners of the  
4 generation facilities receive a fixed supply of electricity referred to as "entitlements".  
5 These entitlements are specified amounts of monthly capacity and energy that are  
6 derived from the estimated average annual generation capability of the generation  
7 facilities.

8 The CPA has been amended twice since 2005. In 2010 it was amended to account  
9 for the Waneta 2010 Transaction. The 2010 amendments effected a reduction in  
10 Teck's CPA entitlement by approximately one-third,<sup>67</sup> and reduced BC Hydro's CPA  
11 obligations by the same one-third, both to reflect the reduction in Teck's ownership  
12 of Waneta. A copy of the 2010 CPA was filed with the Commission, at its direction,<sup>68</sup>  
13 in April 2010.

14 The CPA was amended again in 2011 to account for the Waneta Expansion Project.  
15 The CPA dated for reference November 15, 2011 is the version of the agreement  
16 currently in effect.

17 BC Hydro notes that the CPA, as amended from time to time, is exempt from  
18 regulation by Commission Order No. G-41-06.

19 If the Waneta 2017 Transaction is approved, BC Hydro will be the sole owner of the  
20 Waneta Assets (together with its existing one-third interest), and Teck will be a  
21 lessee. Further, after the Lease Period, Teck will no longer have any entitlement  
22 under the CPA and BC Hydro's obligations under the CPA will be reduced  
23 accordingly. The CPA will require amendments to accommodate these changes and  
24 BC Hydro will be filing, for information purposes, an amended CPA with the

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<sup>67</sup> Subject to an energy capacity swap between BC Hydro and Teck, section 5 of the COA. These provisions have been carried over to the COPOA. In the result BC Hydro has 249 MW of dependable capacity and 865 GWh per year of energy until 2036.

<sup>68</sup> See page 19 to 20 of the 2010 Waneta Decision where the Commission directed BC Hydro to file a copy of the Waneta Partial Sale Canal Plant Agreement Amending Agreement with the Commission within 90 days of its execution.

1 Commission when those amendments have been made and executed by the  
2 necessary parties.<sup>69</sup>

### 3 **2.5.6.1 Coordinated Operation Through the Canal Plant Agreement**

4 Under the CPA, BC Hydro currently coordinates the operation of all the hydroelectric  
5 facilities on the Kootenay and Pend d'Oreille Rivers within BC (except for those  
6 facilities owned by the City of Nelson), including those owned by Fortis Inc., FortisBC,  
7 CPC/CBT, Teck and BC Hydro. In particular, BC Hydro provides operating  
8 instructions which are then implemented by FortisBC. The Entitlement Parties remain  
9 responsible for ensuring that actual dispatch of their project(s) complies with all  
10 permits and licences.

11 This operation will not be affected by the Waneta 2017 Transaction. Under the  
12 current regime, BC Hydro directs the operation of its one-third interest in Waneta  
13 through its ownership rights and BC Hydro also coordinates Teck's two-thirds  
14 interest in Waneta pursuant to the CPA. As a result, BC Hydro already directs  
15 100 per cent of the Waneta operation and would continue to do so after the  
16 Waneta 2017 Transaction.

17 BC Hydro's current operation of the Pend d'Oreille River projects is impacted by the  
18 seasonal variation of the inflows from upstream U.S. projects, the short term (hourly)  
19 flows released from the Boundary Dam, the limited storage capability of the Seven  
20 Mile and Waneta forebays, the requirements to meet domestic load and the hourly  
21 price fluctuations in neighbouring power markets. None of these influences would be  
22 changed by the Waneta 2017 Transaction.

23 After the Lease Period, Teck's entitlement under the CPA would be eliminated,  
24 thereby reducing BC Hydro's contractual entitlement obligations under the CPA. As a  
25 result, and as set out in Chapter 4, entitlement energy that Teck has historically used

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<sup>69</sup> BC Hydro will file a copy of the amended CPA for information purposes only, as it did after the Waneta 2010 Transaction, and notes that the CPA, as amended from time to time, is exempt from regulation by Commission Order No. G-41-06 and that no further Commission order will be required or would be appropriate.

1 to supply its smelter load and/or sold on the wholesale power market (primarily in the  
2 U.S.), would be retained by BC Hydro and be available to meet its domestic load  
3 requirements or for sale into wholesale markets.

#### 4 **2.5.6.2 Canal Plant Operating Procedures**

5 Nothing in the Waneta 2017 Transaction would be expected to impact the operating  
6 procedures established under the CPA during the Lease Period. If BC Hydro took on  
7 the role of Operator after the lease period, the outage planning and approvals  
8 process may be modified. As discussed above, amendments to the CPA will need to  
9 accommodate the removal of Waneta after the Lease Period, and further operational  
10 changes are not currently contemplated but are possible, and likely modest.

#### 11 **2.5.6.3 Teck Scheduling Agreement**

12 The Teck Scheduling Agreement, dated July 1, 2005, is between BC Hydro and  
13 Teck and limits Teck's trading activity on Line 71 to pre-scheduling in flat blocks in  
14 exchange for a small increase in Teck's CPA entitlement energy.

15 Under the COA and carried forward under the Waneta 2017 Transaction, Teck and  
16 BC Hydro have agreed that the Teck Scheduling Agreement will remain in place until  
17 at least December 31, 2035, consistent with the expiry of the CPA. Accordingly, the  
18 Waneta 2017 Transaction would not affect current CPA entitlement scheduling  
19 practices for exports.

#### 20 **2.5.7 Waneta Expansion Project**

21 As described in section [2.5.4](#), the Waneta Expansion Project is owned by Fortis Inc.  
22 and CPC/CBT through the joint venture vehicle, WELP. CPC/CBT originally acquired  
23 the rights to develop the Waneta Expansion Project from Teck as part of the creation  
24 of CPC/CBT. The Waneta Expansion Project was completed in 2015 and added a  
25 second powerhouse and two new turbines located immediately adjacent to the  
26 Waneta Dam with a total incremental capacity of 335 MW. The expansion shares the  
27 existing hydraulic head and enables generation from freshet water that would

- 1 otherwise be spilled (see section [2.1](#)). Output from the powerhouse is transferred via
- 2 Line 84, which is a 10 km, 230 kV transmission line that is connected to BC Hydro's
- 3 Selkirk sub-station and owned by WELP and operated by FortisBC.

## **Waneta 2017 Transaction**

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# **Chapter 3**

## **Waneta 2017 Transaction: Detailed Description**

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## 1 Introduction

2 The Waneta 2017 Transaction is set out in a number of bi-lateral agreements  
3 between BC Hydro and Teck.<sup>70</sup> The key agreements and the Transmission  
4 Agreement Term Sheet have been summarily described earlier. This chapter  
5 elaborates on those agreements, describes the balance of the agreements, and  
6 describes the balance of the transaction including the future arrangements that will  
7 be established if the transaction closes as currently contemplated.

### 8 3.1 Fortis Transaction

9 As described in sections 1.4.2 and 1.4.3, in May 2017, Teck and Fortis Inc. reached  
10 an arm's length agreement, subject to BC Hydro's ROFO under the COA, under  
11 which Fortis Inc. would purchase Teck's two-thirds interest in Waneta and the  
12 related transmission assets in B.C. for \$1.2 billion cash.

13 The Fortis Transaction contained the following key agreements:

- 14 • *Waneta Purchase Agreement*: this agreement provided for the sale of Teck's  
15 two-thirds interest in Waneta and the related transmission assets to Fortis Inc.  
16 for \$1.2 billion cash broken down in the following way: \$1.18 billion allocated to  
17 the Waneta Assets and \$20 million allocated to the Transmission Assets;
- 18 • *Waneta Lease Agreement*: this agreement provided for the lease to Teck of the  
19 two-thirds interest for 20 years with the option for Teck to extend the term of the  
20 lease for an additional 10 years;
- 21 • *Transmission Lease and Operating Agreement*: this agreement provided for the  
22 lease back to Teck of the tangible personal property included in the  
23 Transmission Assets and the operation by Teck of the Transmission Assets and  
24 Transmission Rights of Way, all for the same term as the Waneta Lease  
25 Agreement;

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<sup>70</sup> And in some cases, with Teck Resources and/or a subsidiary of Teck.

- 1 • *Decision Making Protocol Agreement*: this agreement governed certain  
2 decisions as between Teck and Fortis Inc. during the term of the lease in  
3 recognition of the shared interest in decision-making by one party during the  
4 lease period that could have material impacts to the other given that BC Hydro  
5 would continue to be a one-third owner;
- 6 • *Contract Bare Trust Agreement*: this agreement provided that Teck would hold  
7 the two-thirds interest in certain assigned contracts in trust for the tenant under  
8 the lease, and thereafter for Fortis Inc.; and
- 9 • *Guarantee*: Teck's obligations pursuant to the Decision-Making Protocol and  
10 Lease Agreement were guaranteed by Teck Resources pursuant to the  
11 Guarantee.

12 On June 1, 2017, Teck delivered a formal Sale Notice (described in sections 1.4 and  
13 [3.2.1](#) in more detail attached at Appendix B) to BC Hydro under the ROFO  
14 provisions of the COA.<sup>71</sup> Under the terms of the COA, BC Hydro did not have the  
15 right to significantly vary the terms of the offered transaction, and any additional  
16 terms and conditions could not be materially less favourable to Teck. As such, the  
17 key agreements forming the Waneta 2017 Transaction are substantially similar to  
18 the Fortis Transaction<sup>72</sup> with the exceptions of: (i) the sale of Teck's transmission  
19 assets (Line 71 and other transmission assets which are not included within the  
20 ROFO as provided in the COA);<sup>73</sup> (ii) changes to reflect that BC Hydro is the  
21 purchaser (and a Crown corporation and regulated utility) and not Fortis Inc.; and,  
22 (iii) changes to reflect the ownership structure of Waneta.

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<sup>71</sup> See section 25.3 of the COA.

<sup>72</sup> An exception is the Fortis Inc. "Decision Making Protocol Agreement", referenced above, which was attached to the Teck/Fortis Inc. Purchase Agreement and which will not be a standalone document in the Waneta 2017 Transaction. Its provisions, to the extent applicable, are reflected in the COPOA.

<sup>73</sup> Unlike under the Fortis Transaction, BC Hydro is not initially purchasing the Transmission Assets. This is because, under the COA, the ROFO provisions only deal with the Waneta Assets and not the Transmission Assets. However, as described in section 3.3.2 as a condition of closing, Teck and BC Hydro have agreed to enter into a Waneta Transmission Agreement (see section 3.2.11) that provides, among other things, that BC Hydro will have the right and obligation to purchase the Transmission Assets for \$20 million (dollars at the time of purchase) at the expiry or earlier termination of the Lease.

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## 1 3.2 Key Agreements

### 2 3.2.1 Sale Notice

3 The Sale Notice sets out Teck's offer to sell its two-thirds interest in Waneta to  
4 BC Hydro on substantially the same terms as provided for in the Fortis Transaction  
5 (with the exception of the Transmission Assets).<sup>74</sup> The terms and conditions set out  
6 in the Sale Notice reflect a multi-step commercial transaction to be completed  
7 pursuant to a number of key agreements that were negotiated between Teck and  
8 Fortis Inc.<sup>75</sup>

9 The Sale Notice provides a high level overview of the variations from the Fortis  
10 Transaction that Teck anticipated would be required in order to sell to BC Hydro.<sup>76</sup>

11 The purchase price as set out in the Sale Notice is \$1.180 billion in cash if BC Hydro  
12 was able to deliver an election pursuant to section 16.1 of the *Income Tax Act*, or  
13 \$1.203 billion in cash if BC Hydro was not able to deliver that election. As a  
14 non-taxable Crown Corporation, BC Hydro is unable to deliver a section 16.1  
15 election. The purchase price is due and payable on closing.

16 A copy of the Sale Notice is attached to this Application at Appendix B.

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<sup>74</sup> As outlined in the Sale Notice, the transmission assets that were included in the principal agreements forming the Fortis Transaction but which will be excluded from the principal agreements forming part of the Waneta 2017 Transaction include: provisions dealing with any sale or lease of Teck's transmission assets, the Transmission Rights of Way (**ROW**), the ROW Agreement for Sale, the Wheeling Agreement, the ESS Interconnection Agreement, the Escrow Agreement, and the Transmission Limited Partnership Agreement. Under the ROFO provision in the COA, Teck was obligated to offer the Waneta Assets but could not require BC Hydro to purchase the Transmission Assets.

<sup>75</sup> As noted in the previous section, under the terms of the COA, BC Hydro does not have the right to significantly vary the terms of the offered transaction and as a result, the key agreements forming the Waneta 2017 Transaction are substantially similar to the Fortis Transaction.

<sup>76</sup> The Fortis Transaction contemplates a transaction with a non-Crown corporation that is not a regulated utility. Accordingly, numerous provisions under the principal agreements had to be modified to reflect this change. Pursuant to section 25.3(c) of the COA, the offer by Teck cannot contain any term or condition (other than the purchase price) that would have the effect of preventing BC Hydro (by virtue that BC Hydro is a Crown corporation and/or regulated utility) from completing the purchase and sale contemplated by the offer. Accordingly, a number of terms were updated to reflect this provision, see page 2 of the Sale Notice, attached at Appendix B of this application for a description of these changes.

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1   **3.2.2       Reply Notice**

2   The Reply Notice, dated August 1, 2017, constitutes BC Hydro's election to  
3   purchase the two-thirds interest in Waneta for \$1.203 billion cash on the terms  
4   contained in the Sale Notice, with changes that have been agreed to between Teck  
5   and BC Hydro.

6   The Reply Notice attached the following key agreements,<sup>77</sup> all as more fully  
7   described in the sections that follow:

- 8   •   Waneta Purchase Agreement;
- 9   •   Waneta Lease Agreement;
- 10  •   COPOA;
- 11  •   Contract Bare Trust Agreement;
- 12  •   Guarantee Agreement between Teck Resources and BC Hydro;
- 13  •   WAS Access Easement/Statutory Right-of-Way;
- 14  •   Transaction Closing Matters Agreement; and
- 15  •   Transmission Agreement Term Sheet.

16  The Reply Notice constitutes a legally binding election to purchase the Waneta  
17  Assets in accordance with the Reply Notice and the attached key agreements, which  
18  include a number of conditions precedent, including Commission approvals. Teck  
19  executed the Reply Notice on August 1, 2017 confirming that the Reply Notice met  
20  the requirements of the COA and is legally binding on Teck and BC Hydro.

21  A copy of the Reply Notice is attached to this Application at Appendix C.

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<sup>77</sup> Note that this is not an exhaustive list but rather, is a summary of the key agreements forming the Waneta 2017 Transaction.

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### 1 3.2.3 Waneta Purchase Agreement

2 The Waneta Purchase Agreement sets out one of the central elements of the  
3 Waneta 2017 Transaction, namely the sale by Teck Resources and the purchase by  
4 BC Hydro of the Waneta Assets.<sup>78,79</sup> The purchase price is \$1.203 billion, broken  
5 down in the following way: \$1.18 billion for the Waneta Assets and \$23 million  
6 because BC Hydro is unable to make a section 16.1 election under the *Income Tax*  
7 *Act*.<sup>80</sup>

8 The Waneta Purchase Agreement was executed on August 1, 2017 and was  
9 attached as an exhibit to the Reply Notice BC Hydro delivered to Teck pursuant to  
10 the terms of the COA. Teck Resources executed the Waneta Purchase Agreement  
11 on August 1, 2017. The parties have agreed that closing of the Waneta 2017  
12 Transaction must occur by August 1, 2018.<sup>81</sup> In the interim, a pre-closing condition of  
13 the Waneta Purchase Agreement requires Teck to continue to operate Waneta in  
14 the ordinary course.

15 As has been previously described, unlike under the Fortis Transaction, BC Hydro is  
16 not initially purchasing the Transmission Assets but rather, intends to purchase the  
17 Transmission Assets upon the expiry or termination of the Lease. A description of  
18 the Waneta Lease Agreement and Transmission Agreement Term Sheet are at  
19 sections [3.2.4](#) and [3.2.10](#).

20 A copy of the Waneta Purchase Agreement is attached to this Application at  
21 Appendix E.

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<sup>78</sup> And related contracts, permits and licenses, including a FERC license that allows minor flooding in the U.S.

<sup>79</sup> The Waneta Purchase Agreement is substantially similar to the purchase agreement that was attached to the Sale Notice in the Fortis Transaction, as modified with certain other terms and conditions, including to reflect that BC Hydro, and/or an assignee acceptable to Teck, will be the purchaser. The purchase agreement attached to the Sale Notice in the Fortis Transaction was based on the APA between Teck and BC Hydro in the Waneta 2010 Transaction.

<sup>80</sup> The price is different from that in the Fortis Transaction in that it has been decreased by \$20 million to reflect the absence of the transmission assets from the sale, and increased by \$23 million to reflect that BC Hydro is unable to deliver a section 16.1 election pursuant to the *Income Tax Act*.

<sup>81</sup> As required by section 25.3(e) of the COA and reflected in section 1.1(p) of the Waneta Purchase Agreement which provides that the closing date of the Waneta 2017 Transaction shall not be later than August 1, 2018.

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### 1 3.2.4 Waneta Lease Agreement

2 The Lease will effect the lease to Teck of a two-thirds interest in Waneta for a period  
3 of 20 years (extendable to 30 years at Teck's option). The Lease defines the  
4 landlord and tenant relationship between BC Hydro and Teck with respect to the  
5 Waneta Assets and, together with the COPOA, the relationship of the parties as  
6 "co-possessors" of Waneta. The leased property does not include the Transmission  
7 Assets, which will be dealt with pursuant to the Waneta Transmission Agreement  
8 (described in section [3.2.11](#)).

9 The form of Lease is attached to the Waneta Purchase Agreement but the Lease will  
10 only become effective immediately prior to closing the Waneta 2017 Transaction.  
11 The initial parties to the Lease are expected to be Teck (as landlord) and a Teck  
12 subsidiary (as **Tenant**). When the Waneta 2017 Transaction closes, BC Hydro will  
13 purchase the Waneta Assets, already encumbered by the Lease. By structuring the  
14 Waneta Purchase Agreement and Lease in this way, BC Hydro will be acquiring the  
15 Waneta Assets already encumbered by the Lease and there will therefore be no  
16 disposition of Waneta Assets. As such, the provisions of the *Clean Energy Act* with  
17 respect to the disposition of heritage assets will not apply.<sup>82</sup> On closing, BC Hydro  
18 will become the landlord and Teck will become the Tenant under the Lease, as  
19 Teck's subsidiary (the original Tenant) will be amalgamated into Teck or wound up.<sup>83</sup>

20 The Lease is an important part of the Waneta 2017 Transaction. Together with the  
21 COPOA, the Lease effectively maintains the *status quo* for 20 years (renewable to  
22 30 years) and allows Teck to continue to be an "owner" of Waneta for the purposes

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<sup>82</sup> Waneta is included in Schedule 1 of the *Clean Energy Act* which lists BC Hydro's interests in generation and storage assets that are designated as heritage assets. Section 14 of the *Clean Energy Act* provides that BC Hydro must not sell or dispose of heritage assets. The Waneta 2017 Transaction has the effect of bringing in to public ownership what have been private assets.

<sup>83</sup> The Lease is substantially similar to the lease agreement that was attached to the Sale Notice in the Fortis Transaction, as modified with certain other terms and conditions, including to reflect that BC Hydro will purchase Teck's interest encumbered by the Lease, such that after closing of the Waneta 2017 Transaction, BC Hydro will be the Landlord under the Lease, which together with the COPOA, will govern the relationship as landlord and tenant and co-possessors.

1 of the *Water Sustainability Act*.<sup>84</sup> During the term of the Lease, Waneta will continue  
2 to be operated substantially as it has been since the Waneta Expansion Project  
3 came into service. Furthermore, Waneta will continue to be operated as a plant  
4 under the CPA and Teck will continue to receive an entitlement to capacity and  
5 energy under the CPA for its two-thirds interest.<sup>85</sup>

6 The key terms of the Lease include:

- 7 • *Leased Property*: the Waneta Assets (being the two-thirds undivided interest in  
8 Waneta that is presently owned by Teck); the Transmission Assets are not  
9 included;
- 10 • *Term and renewal*: initial term of 20 years with a Teck option to renew for a  
11 further 10 years; notice must be given to BC Hydro 24 to 36 months prior to the  
12 end of the initial term; if the Lease is renewed, the COPOA and certain other  
13 agreements will likewise extend;
- 14 • *Basic rent*: the initial rent payable by Teck is \$74,180,644 per annum  
15 (\$18,545,161 per quarter) escalated at 2 per cent per annum; if the Lease is  
16 renewed, the initial rent for the renewal term is \$144,409,031 per annum  
17 (\$36,102,258 per quarter), also escalated at 2 per cent;<sup>86</sup>
- 18 • *Other amounts payable by Teck*: Teck is responsible for any rental taxes and  
19 amounts payable pursuant to the COPOA including two-thirds of the operating  
20 costs, two-thirds of certain sustaining capital and insurance costs and its share  
21 of property taxes and water rentals (set out in more detail in the COPOA);

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<sup>84</sup> SBC 2014 c 15, see section 1 of the *Water Sustainability Act* which provides that an “owner” in relation to land, a mine or undertaking in B.C., means a person who is entitled to possession of the land, mine or undertaking, or, has a substantial interest in the land, mine or undertaking.

<sup>85</sup> These provisions will be included in the amendments to the CPA, as described in section 2.5.6.

<sup>86</sup> These amounts are based on an assumed commencement of August 1, 2018, and will be adjusted depending on the actual commencement; however the purchase price itself will not be adjusted. The Lease will set out the agreed allocation of rent to ‘tangible personal property’ for purposes of PST on lease payments.

- 1 • *Other amounts payable by BC Hydro:* BC Hydro is responsible for certain  
2 amounts payable under the COPOA, including, for example, non-sustaining  
3 capital costs, a share of sustaining capital costs, and upgrade costs (set out in  
4 more detail in the COPOA);
- 5 • *Teck's entitlements:* the Lease confirms that as lessee and holder of a  
6 two-thirds interest in Waneta-related contracts, Teck is entitled to the  
7 entitlement capacity and entitlement energy made available to the "owner" of  
8 the Waneta Assets pursuant to the CPA; and
- 9 • *Permitted use:* the Lease provides that Teck may use Waneta for the  
10 generation of electricity and all ancillary purposes.

11 A copy of the Waneta Lease Agreement is attached to this Application at  
12 Appendix F.

### 13 **3.2.5 Co-Possessors and Operating Agreement**

14 The COPOA is the third of the key agreements that have already been negotiated  
15 between BC Hydro and Teck. It is based on and will, at closing, replace the COA  
16 currently in place between BC Hydro and Teck. As such, the COPOA retains many  
17 of the provisions governing the co-ownership arrangements between BC Hydro and  
18 Teck that were agreed to in 2010 when BC Hydro purchased its one-third interest in  
19 Waneta. Key differences between the COA and COPOA are described where  
20 applicable within each of the relevant sections below and a summary comparison  
21 table of the major differences is attached at Appendix G. One of the primary  
22 differences will be that the transmission-related elements of the COA will be in the  
23 Waneta Transmission Agreement, rather than the COPOA.

24 The COPOA is intended to maintain a similar relationship between BC Hydro and  
25 Teck regarding Waneta operations during the term of the Lease as was provided for  
26 in the COA with one key difference – BC Hydro and Teck will no longer be  
27 co-owners of Waneta (since BC Hydro will own 100 per cent of Waneta) but rather,



1 will be co-possessors because of Teck's leasehold interest and BC Hydro's  
2 ownership interest in Waneta. The COPOA therefore sets out the respective rights  
3 and obligations of BC Hydro and Teck with respect to the joint possession and  
4 control of Waneta and its operation and management.

5 The COPOA is in effect during the term of the Lease (i.e., 20 or 30 years) and vice  
6 versa. A form of the COPOA is attached to the Waneta Purchase Agreement and  
7 filed with this Application but BC Hydro and Teck will only become parties to the  
8 COPOA upon closing of the Waneta 2017 Transaction.

9 The following sections of the COPOA outline key elements of the Waneta ownership  
10 and operating relationship.

### 11 **3.2.5.1 Operator and Operating Committee**

12 Similar to the COA, the COPOA continues the concepts of an Operator, and the  
13 Operating Committee. The roles and processes of the Operator and the Operating  
14 Committee in the current COA remain essentially unchanged in the COPOA.

15 Specifically:

- 16 • The operations of Waneta continue to be overseen by Teck acting as the  
17 Operator of the facility;
- 18 • The Operator continues to operate to an "Operating Standard" that includes  
19 operating as a prudent owner to ensure safe and reliable generation and in  
20 accordance with Good Utility Practice;
- 21 • The Operator continues to regularly report to the parties, including reporting in  
22 regard to compliance audits;
- 23 • The Operator continues to present annual operating and management plans  
24 (including dam safety, emergency response, environmental management,  
25 worker and public safety plans), and operating and capital budgets to the  
26 Operating Committee for approval;

- 1 • The Operating Committee continues to oversee the Operator and make certain  
2 fundamental decisions regarding operations;
- 3 • The Operating Committee continues to have equal numbers of Teck and  
4 BC Hydro representatives;
- 5 • Operating Committee voting continues to be one-third BC Hydro and two-thirds  
6 Teck except for certain enumerated items where unanimous approval is  
7 required<sup>87</sup>; and
- 8 • Where unanimous approval is required, if the parties cannot reach agreement,  
9 then in some cases a third party referee process continues to be available to  
10 break the deadlock.

11 The design of Operating Committee approvals in the COA was intended to ensure  
12 that Waneta would be managed in a prudent and cost-effective manner with regard  
13 to the needs for safety, environment and reliability over the near-, mid- and  
14 long-term. Over the past seven years, this has proven to be an effective mechanism  
15 and it continues under the COPOA.

16 Because Teck's interest in Waneta will now only be for the term of the Lease (i.e., 20  
17 or 30 years), new provisions have been included in the COPOA to address  
18 decision-making and cost-sharing for capital expenditures that may need to be made  
19 during the Lease Period but will have post-Lease benefits. These decision making  
20 provisions are found in sections 6.6 to 6.8 of the COPOA while the cost sharing  
21 provisions are found in the definitions of "Expected Lease Term Refurbishment  
22 Costs" as well as section 10.1 and Exhibit 1 of the COPOA.

23 New provisions that address decision-making with respect to contracts, permits and  
24 licenses that relate to the ownership and operation of Waneta have also been  
25 included in the COPOA. Teck will continue to be a party to these but as bare trustee

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<sup>87</sup> The differences between the matters requiring majority approval, unanimous approval - subject to a binding resolution by a third-party referee, and unanimous approval – not subject to resolution by a third-party referee under the COA and COPOA are described in the summary comparison table found at Appendix G.

1 for the interests of BC Hydro and Teck. The process for decision-making is based on  
2 the nature of the decision and its impact on the parties. These provisions are found  
3 in section 4.6 to 4.8 of the COPOA, and are based upon the principles that were  
4 negotiated by Teck and Fortis Inc. in the draft Decision Making Protocol Agreement  
5 that formed part of the Fortis Transaction.

6 Under the Transaction Closing Matters Agreement, BC Hydro had the option to elect  
7 whether to become the Operator of Waneta within 45 days of providing the Reply  
8 Notice (see section [3.2.9](#)). BC Hydro elected not to become Operator at this time,  
9 but may do so in the future at one or more fixed times, or in the event of default by  
10 Teck, change of control of Teck, or the sale of the smelter, all as will be provided for  
11 in the finalized COPOA (see Operator Election Letter attached at Appendix D).

12 One of the few differences between the current arrangements and under the  
13 COPOA is in regard to dam safety. BC Hydro is negotiating an option to require dam  
14 safety improvements that exceed what would be required under the Operating  
15 Standard. Such improvements will be at BC Hydro's sole option and expense and  
16 would allow BC Hydro to include Waneta in BC Hydro's overall dam safety  
17 prioritization. These new terms will be incorporated into the finalized COPOA<sup>88</sup>.

18 Further details regarding the Operator and decision-making processes are set out in  
19 sections 4, 5, 6 and 7 of the COPOA.

### 20 **3.2.5.2** *Manager*

21 The COPOA continues to provide that the Operator is entitled to appoint a manager  
22 to manage day to day operations of Waneta. This provision remains unchanged from  
23 the COA. Section 8 of the COPOA provides further details with respect to the  
24 appointment and duties of the Manager. The current manager is FortisBC, pursuant  
25 to an existing management agreement as between Teck and FortisBC.

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<sup>88</sup> See Operator Election Letter attached at Appendix D which outlines, in general terms, a governance framework related to dam safety which includes provisions for proposed costs.

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**3.2.5.3 Water Rentals**

1 The provisions dealing with water rental fees in the COPOA are essentially the same  
2 as were provided for in the COA. The COPOA maintains that each party is  
3 responsible for its own water rental fees based on its participation percentage (i.e.,  
4 Teck pays two-thirds and BC Hydro pays one-third). Should the water rental fee  
5 structure change for Teck during the term of the Lease, the COPOA provides that  
6 Teck will continue to be responsible for any changed water rental fees. Section 11 of  
7 the COPOA provides further details with respect to water rental fees.  
8

**3.2.5.4 Costs**

9 In addition to Lease payments, Teck will continue to be responsible for paying  
10 two-thirds of all operating costs and two-thirds of sustaining capital costs (shared in  
11 specific cases with BC Hydro) incurred during the term of the Lease. BC Hydro will  
12 continue to pay one-third of those costs and will pay 100 per cent of non-sustaining  
13 capital costs and the costs of non-shared upgrades. If Teck fails to pay its share of  
14 Waneta costs, in addition to other remedies, BC Hydro may be able to unilaterally  
15 reduce the amount of CPA entitlement it is required to make available to Teck, until  
16 the unpaid costs have been recouped. Sections 9 and 10 of the COPOA provide  
17 further details with respect to various operating and capital costs.  
18

**3.2.5.5 Delivery of Capacity and Energy**

19 The COA contains detailed provisions allocating the Waneta capacity and energy  
20 between Teck and BC Hydro. These provisions are maintained in essentially the  
21 same terms in the COPOA.  
22

23 As described in section 2.5.3, BC Hydro receives the net electricity available from the  
24 actual output from Waneta after Teck's entitlement, determined under the CPA, has  
25 been provided. As a result of the Waneta 2010 Transaction and pursuant to the COA,  
26 Teck's entitlement was reduced by approximately one-third to reflect BC Hydro's  
27 acquisition of a one-third interest in Waneta and the removal of that portion of those

1 assets from the CPA, thus increasing the net electricity available to BC Hydro. This is  
2 maintained in the COPOA.

3 Teck currently uses its interest in the Waneta Assets to provide power for its  
4 Industrial Load at the Trail smelter, and sells its surplus power subject to the SPRA  
5 (see section 1.4.1 and section [3.3.3](#)). Teck's Industrial Load may require less than  
6 two-thirds of the CPA entitlement associated with Waneta in some months and  
7 greater than two-thirds in other months. Accordingly, the COPOA contains a series  
8 of entitlement adjustments until December 31, 2035<sup>89</sup> that were designed so that  
9 under normal operating conditions Teck has sufficient energy to serve the Industrial  
10 Load in all months. These entitlement adjustments remain unchanged from the  
11 COA.

12 Similar to the COA, the COPOA provides that prior to 2036, unit outages, force  
13 majeure and CPA redeterminations will generally not affect BC Hydro's share of  
14 Waneta capacity and energy, i.e., these would have no impact on the firmness of  
15 BC Hydro supply from Waneta. If Teck's share is insufficient, Teck is obligated to  
16 purchase energy and/or capacity from the market as required to satisfy both its own  
17 operations and/or to firm BC Hydro supply.

18 From 2036 to the end of the Lease Period, there are no entitlement adjustments and  
19 BC Hydro will be entitled to one-third of the generation associated with Waneta.  
20 Teck's two-thirds interest will continue to be subject to the CPA or a replacement  
21 CPA.

22 Further details with respect to the share of generation from Waneta is found in  
23 sections 13, 14 and 15 of the COPOA.

#### 24 **3.2.5.6 Environmental Attributes**

25 Continued under the COPOA, BC Hydro is entitled to claim environmental attributes  
26 associated with its share of generation to the extent they are necessary to claim that

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<sup>89</sup> Referred to above as an energy capacity swap.

1 BC Hydro's Waneta electricity is "Clean or Renewable Electricity",<sup>90</sup> or any such  
2 similar standard as may evolve over time.

3 Prior to January 1, 2036 Teck is entitled to any attributes not required by BC Hydro to  
4 make such a claim. From January 1, 2036 to the end of the Lease Period the parties  
5 retain all environmental attributes related to their share of Waneta generation. Details  
6 of this arrangement can be found in section 22 of the COPOA.

### 7 **3.2.5.7 Security for Obligations**

8 Under the COA, each of BC Hydro and Teck provided security over its share of  
9 Waneta to the other co-owner to secure obligations under the COA, CPA and other  
10 agreements. Going forward, Teck will provide security over its Waneta leasehold  
11 interest to secure its obligations under the COPOA, Lease and other agreements,  
12 and over the Teck Transmission personal property to secure its obligations under  
13 the Transmission Agreement. Also going forward, BC Hydro will continue to provide  
14 security over its initial one-third Waneta ownership interest, only now to be modified  
15 in order to secure its obligations under the COPOA (not COA), Lease and other  
16 agreements. In addition and as more fully described below, Teck Resources (Teck's  
17 parent) will guarantee Teck's obligations under the COPOA (except for its  
18 obligations as Operator, as that was not part of the Fortis Transaction) and Lease.<sup>91</sup>  
19 Further details with respect to the security provisions are found in section 26 of the  
20 COPOA.<sup>92</sup>

### 21 **3.2.5.8 Termination/Default and Assignment**

22 The COPOA and Lease are only terminable (prior to the end of the Lease Period) if  
23 they are terminated together, and only by agreement, or on default. The COPOA

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<sup>90</sup> Pursuant to section 1(1) of the *Clean Energy Act* which defines "clean or renewable resource" as "biomass, biogas, geothermal heat, hydro, solar, ocean, wind or any other prescribed resource."

<sup>91</sup> For its part, the COA security that BC Hydro granted to Teck over its one-third interest is expected to continue in place, although modified to secure BC Hydro's obligations under the COPOA and Lease, rather than the 2010 COA.

<sup>92</sup> Note that the definition of "Obligations" is contained in the COPOA, and the definitions of "New Teck Security" and "Modified BC Hydro Security" are contained in the Waneta Purchase Agreement.

1 and Lease have cross-default provisions so that a default under either agreement is  
2 deemed to be a default under the other. Neither party may transfer its interest in the  
3 COPOA or Lease except if its entire interest under both agreements is transferred  
4 together. Teck can only transfer its interest with BC Hydro's consent which can be  
5 withheld for any reason, subject to limited exceptions.<sup>93</sup> Further details with respect  
6 to the termination, default and assignment provisions are found in sections 24, 25  
7 and 32.17 of the COPOA.

### 8 **3.2.5.9 Transmission Assets**

9 BC Hydro did not acquire any transmission facilities with the acquisition of its  
10 one-third interest in Waneta. However, Teck agreed to make BC Hydro's share of  
11 generation from Waneta available at the Kootenay Interconnection and in certain  
12 circumstances at the Waneta Dam itself, and obliged Teck, subject to its rights under  
13 the Line 71 Agreement, to schedule BC Hydro energy from the Kootenay  
14 Interconnection to the B.C.-U.S. border at BC Hydro's request. These provisions  
15 were included in the COA and will not be contained in the COPOA. Instead, these  
16 provisions will be included in the Waneta Transmission Agreement.

17 A copy of the draft form of COPOA is attached to this Application at Appendix H.

### 18 **3.2.6 Contract Bare Trust Agreement**

19 The Contract Bare Trust Agreement (**Trust Agreement**) relates to certain contracts  
20 (the **Contracts**) which relate to Teck's interest in the Waneta Assets.<sup>94</sup> The Trust  
21 Agreement, which will be entered into slightly prior to closing of the Waneta 2017  
22 Transaction, provides that Teck and Teck Resources' interests in the Contracts will  
23 be held in trust for and on behalf of the following parties (the **Beneficiaries**) during  
24 the following times:

---

<sup>93</sup> Those exceptions are: (i) if Teck is transferring its interest as part of a bona fide reorganization and the transferee will also own the smelter, or (ii) concurrently with the transfer of the smelter.

<sup>94</sup> The Trust Agreement is substantially similar to the contract bare trust agreement that was attached to the Sale Notice in the Fortis Transaction, as modified with certain other terms and conditions including to reflect that Teck and Teck Resources' interests in certain contracts will be held in trust for BC Hydro during the term of the Lease.

- 1 1. For Teck, until the closing is completed; then
- 2 2. The Tenant under the Lease and for BC Hydro as the reversionary owner of the
- 3 two-thirds interest, each until the expiry of the term of the Lease; and then
- 4 3. For BC Hydro as the owner of the two-thirds Interest, or its assignee or
- 5 successor in interest, after the term of the Lease has expired.

6 Pursuant to the terms of the Trust Agreement, Teck, as nominee and bare trustee  
7 will deal with the Contracts at the expense of and as directed by the Beneficiaries.

8 The term of the Trust Agreement is to last until Teck has transferred, following the  
9 Lease Period, legal title to all of the Contracts to the remaining beneficiary (as  
10 contemplated, BC Hydro or its assignee), or a party designated by that beneficiary,  
11 and Teck must do all other such acts that are required to give effect to that transfer.

12 A copy of the Trust Agreement is attached to this Application at Appendix I.

### 13 **3.2.7 Guarantee Agreement**

14 The Guarantee will be executed on closing of the Waneta 2017 Transaction and  
15 provides that Teck Resources will guarantee the obligations of Teck to BC Hydro  
16 under the Lease and the COPOA (except for its obligations as Operator) in the event  
17 that Teck is unable to pay and/or perform them.<sup>95</sup>

18 The Guarantee contains a waiver by Teck Resources of the obligation of BC Hydro  
19 to proceed to enforce Teck's obligations directly against Teck in the event of  
20 non-performance, and provides that upon service of notice to Teck Resources by  
21 BC Hydro, Teck Resources will be required to fulfill the obligations of Teck set out in  
22 the notice.

23 The Guarantee further provides that the obligations of Teck Resources under the  
24 Guarantee survive any amendment or modification of the Lease or the COPOA, and

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<sup>95</sup> The Guarantee is substantially similar to the guarantee agreement that was attached to the Sale Notice in the Fortis Transaction, as modified with certain other terms and conditions including to reflect that Teck Resources will also guarantee Teck's obligations under the COPOA.



1 only terminates under certain circumstances, which includes, among other things,  
2 when the Lease and the COPOA are terminated and performance of all of Teck's  
3 obligations is complete.

4 A copy of the Guarantee is attached to this Application at Appendix J.

### 5 **3.2.8 WAS Access Agreement/Statutory Right of Way (SRW)**

6 The SRW will be executed on closing. This agreement provides Teck an easement  
7 over real property owned by BC Hydro for the purposes of allowing Teck to perform  
8 environmental investigations and remedial activities on property owned by  
9 BC Hydro.

10 A copy of the SRW is attached to this Application at Appendix J.

### 11 **3.2.9 Transaction Closing Matters Agreement**

12 BC Hydro and Teck have agreed that certain agreements between them and among  
13 them and certain other parties will require amendments as a condition of closing the  
14 Waneta 2017 Transaction. These "required consents" are set out in Schedule 1.1(r)  
15 of the Waneta Purchase Agreement.

16 The Transaction Closing Matters Agreement sets out a process for negotiating these  
17 required amendments and describes certain pre-closing and post-closing matters  
18 connected with the transaction. The Transaction Closing Matters Agreement was  
19 executed by BC Hydro and attached as an exhibit to the Reply Notice and Teck  
20 executed it concurrently with its execution of the Waneta Purchase Agreement.

21 The Transaction Closing Matters Agreement describes the consents and waivers  
22 that Teck and BC Hydro will provide in support of the Waneta 2017 Transaction.

23 These consents and waivers include:

- 24 (a) BC Hydro's agreement to provide its consent to the Pre-Closing and  
25 Post-Closing Transaction steps including BC Hydro's consent pursuant to the  
26 COA, CPA and other agreements;

- 1 (b) Teck's agreement to complete the Pre-Closing and Post-Closing Transaction  
2 steps that it is responsible for; and
- 3 (c) BC Hydro's agreement to waive its option to purchase the Line 71 transmission  
4 assets as part of the Pre-Closing.<sup>96</sup>
- 5 The Transaction Closing Matters Agreement also describes various interim matters  
6 including:
- 7 (a) Teck and BC Hydro's agreement to negotiate a number of necessary  
8 agreements and amendments in good faith and using reasonable commercial  
9 efforts. This includes the negotiation of the Waneta Transmission Agreement  
10 and Waneta Interconnection Agreement in accordance with the principles  
11 outlined in the Transmission Agreement Term Sheet;
- 12 (b) That BC Hydro and Teck will negotiate in good faith and use reasonable  
13 commercial efforts to finalize the consents required with third parties;
- 14 (c) That BC Hydro will advise Teck within 45 days from the date of the Reply  
15 Notice whether BC Hydro elects to become the Operator for the purposes of the  
16 COPOA;<sup>97</sup>
- 17 (d) If BC Hydro elects to not become Operator for the purposes of the COPOA,  
18 BC Hydro may propose, and if it does BC Hydro and Teck will negotiate in good  
19 faith to conclude, a governance framework that requires Teck to carry out its  
20 obligations and duties as Operator pursuant to the COPOA that are related to  
21 dam safety to a higher standard;<sup>98</sup> and
- 22 (e) A dispute resolution process to govern interim matters.

---

<sup>96</sup> This condition is provided because BC Hydro is not initially purchasing the Transmission Assets but rather, will purchase the Transmission Assets, including Line 71, for \$20 million (dollars at the time of purchase) at the expiry of earlier termination of the Lease.

<sup>97</sup> BC Hydro advised Teck on September 14, 2017 of its election not to become Operator under the COPOA at this time. See Operator Election Letter attached at Appendix D.

<sup>98</sup> See sections 2.2.2 and 3.2.5.1 which describe the amendments to the COPOA currently being negotiated with respect to this governance framework.

1 A copy of the Transaction Closing Matters Agreement is attached to this Application  
2 at Appendix L.

### 3 **3.2.10 Transmission Agreement Term Sheet**

4 Unlike under the Fortis Transaction, BC Hydro is not initially purchasing the  
5 Transmission Assets as part of the Waneta 2017 Transaction. However, a key  
6 condition outlined by Teck in the Sale Notice was the requirement that satisfactory  
7 transmission arrangements be put in place to supply Teck's smelter after expiry of  
8 the Lease. As such, BC Hydro and Teck have negotiated a Transmission Agreement  
9 Term Sheet, a copy of which was attached to BC Hydro's Reply Notice. Teck and  
10 BC Hydro must enter into a Transmission Agreement (and certain other  
11 transmission-related agreements) based on the Transmission Agreement Term  
12 Sheet as a condition of closing the Waneta 2017 Transaction.

13 The Transmission Agreement Term Sheet sets out key commercial terms for the  
14 Waneta Transmission Agreement, to be completed prior to closing. It also  
15 contemplates the finalization of additional transmission-related agreements between  
16 BC Hydro and Teck that include, but are not limited to, the Teck Wheeling  
17 Agreement (see section [3.2.12](#)) and the Waneta Interconnection Agreement (see  
18 section [3.2.13](#)). A description of the terms that the parties intend to include in the  
19 Transmission Agreements, as described in the Transmission Agreement Term  
20 Sheet, are described below. BC Hydro notes that all agreements contemplated by  
21 the Transmission Agreement Term Sheet have yet to be negotiated by BC Hydro  
22 and Teck. As such, the section that follows is necessarily high level and describes  
23 the principles that will define the transmission relationship between BC Hydro and  
24 Teck. BC Hydro has attached a copy of the Transmission Agreement Term Sheet to  
25 this Application at Appendix M and intends to file the Transmission Agreements with  
26 the Commission as soon as they are complete.

---

### 1 3.2.11 Waneta Transmission Agreement

2 During the Lease Period, the Waneta Transmission Agreement will continue the  
3 status quo with respect to transmission arrangements currently in effect between  
4 BC Hydro and Teck (as provided for in the COA) for BC Hydro's one-third interest in  
5 Waneta generation. Because no transmission assets are to be transferred to  
6 BC Hydro until the expiration or termination of the Lease, it will also allow for the  
7 continuation of the transmission arrangements currently in effect between Teck and  
8 other CPA parties during the term of the Lease.

9 At the expiry or termination of the Lease<sup>99</sup>, the Waneta Transmission Agreement will  
10 provide for the sale of the Transmission Assets to BC Hydro, including Line 71, for  
11 \$20 million.<sup>100</sup> Until purchased by BC Hydro, Teck will therefore continue to own,  
12 operate and maintain the Transmission Assets and will be contractually bound to do  
13 so as a prudent owner and to a standard of good utility practice. Because Teck will  
14 continue as owner/operator of the Transmission Assets during the Lease Period,  
15 provisions will be included in the Waneta Transmission Agreement that require Teck  
16 to use commercially reasonable efforts to extend the time for exercising its options to  
17 purchase capacity and/or asset rights on Lines 62, 77 and 79 until 90 days after  
18 expiry or earlier termination of the Lease.<sup>101</sup> Related to this, the Waneta  
19 Transmission Agreement will also give BC Hydro the right to require Teck to  
20 exercise these options (at BC Hydro's cost) to acquire certain transmission rights

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<sup>99</sup> Or earlier, if BC Hydro elects following a material default by Teck of its obligations under the Waneta Transmission Agreement. In the case of default, BC Hydro may choose to purchase Teck's Line 71 assets with the remaining transmission assets to be purchased at the expiry or termination of the Lease.

<sup>100</sup> In dollars at the time of purchase, plus amounts paid by Teck for certain other transmission rights and assets. The amounts paid for such other rights and assets will be escalated, but discounted to reflect Teck's period of use compared to their useful life.

<sup>101</sup> The capacity of Line 71 is 370 MW which is approximately 120 MW less than the full capacity of the Waneta plant. After the Lease Period has ended, in the infrequent hours where Waneta is not serving the smelter load and is generating near full output, BC Hydro may need to acquire additional transmission capacity to ensure delivery of the entire output of Waneta generation. This could be done via the purchase of transmission rights on the FortisBC system via Lines 62, 77 and 79.

1 and assets that BC Hydro may need at the expiry or termination of the Lease.<sup>102</sup>

2 Under the COA, Teck charged certain of the Transmission Assets in favour of  
3 BC Hydro as security for Teck's obligations under the COA and other agreements. It  
4 is intended that security over certain Transmission Assets will secure Teck's  
5 transmission-related obligations under the Waneta Transmission Agreement during  
6 the term of the Lease. The security provisions will ensure that if Teck is in material  
7 breach of the Waneta Transmission Agreement, then in addition to BC Hydro's rights  
8 to purchase the Transmission Assets before expiry or termination of the Lease,  
9 BC Hydro could also exercise its rights under the security, including the right to  
10 appoint a receiver with rights to schedule transmission in accordance with the  
11 Line 71 scheduling rights.

12 As discussed in section [3.2.5.9](#), BC Hydro did not acquire any transmission facilities  
13 with its acquisition of its one-third interest in Waneta. The COA therefore contains  
14 provisions whereby, until 2036, BC Hydro's share of generation from Waneta is to be  
15 made available at the Kootenay Interconnection and Teck, subject to its historical  
16 rights under the Line 71 Agreement, is obliged to schedule BC Hydro energy from  
17 the Kootenay Interconnection or, in certain circumstances, the Waneta Dam to the  
18 BC-U.S. border at BC Hydro's request. From 2036 to the end of the Lease Period,  
19 this obligation is limited to one-third of the capacity of Line 71. As discussed above,  
20 these provisions will not be continued in the COPOA but will instead form part of the  
21 Waneta Transmission Agreement, mostly unchanged from the COA.

### 22 **3.2.12 Teck Wheeling Agreement:**

23 Teck and BC Hydro have also agreed to enter into a wheeling agreement at closing  
24 of the Waneta 2017 Transaction. This will establish BC Hydro's obligations to deliver  
25 electricity purchased by Teck in the U.S. from the B.C.-U.S. border to Teck's

---

<sup>102</sup> There are also provisions that permit Teck to exercise its options, at its own cost, to purchase capacity and/or asset rights to these lines at any time during the Lease. If Teck exercises the options, either on its own or at BC Hydro's request, such capacity and/or asset rights will form part of the Transmission Assets on expiry or termination of the Lease and the purchase price for the Transmission Assets will reflect this.

1 industrial load in Trail consistent with Teck's Line 71 import scheduling rights.<sup>103</sup> This  
2 agreement is for the purposes of Teck supplying its smelter load from U.S.  
3 imports<sup>104</sup> and therefore becomes effective at the expiry or termination of the  
4 Lease<sup>105</sup> and for as long as the smelter continues to operate.

5 The Teck Wheeling Agreement is intended to maintain Teck's long-standing rights to  
6 import electricity to serve its Trail smelter load when it is economic to do so. It is  
7 expected that the following terms will be included:

- 8 • The schedule and curtailment priority for Teck's imports under the Teck  
9 Wheeling Agreement will be equivalent to its (import) scheduling rights under  
10 the Line 71 Agreement at the end of the Lease Period;
- 11 • The scheduling practices for Teck's imports under the Teck Wheeling  
12 Agreement will also be equivalent to those applicable under the Line 71  
13 Agreement at the end of the Lease Period; and
- 14 • Wheeling will be provided to Teck at no cost, other than a share of eligible  
15 operating costs based on use.

16 In connection with the Teck Wheeling Agreement, if requested by Teck, BC Hydro  
17 will also provide an imbalance service pursuant to either an industrial load tariff (if  
18 one then exists) or a tariff specific to Teck's Industrial Load.

19 As described above, because the Teck Wheeling Agreement will be in regard to  
20 regulated services under the *UCA*, it will require Commission approval.

---

<sup>103</sup> It is expected that BC Hydro will provide 300 MW of import wheeling from the B.C.-U.S. border to the Emerald Switching Station.

<sup>104</sup> More specifically, the Teck Wheeling Agreement is intended to supply Teck with electricity solely to serve its smelter load and for no other purpose, including, without limitation, the trading or marketing of electricity by Teck.

<sup>105</sup> Or earlier in certain default scenarios, as described in section 3.2.5.8.

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### 1 **3.2.13 Waneta Interconnection Agreement**

2 BC Hydro and Teck will also enter into the Waneta Interconnection Agreement which  
3 will provide for the interconnection of the electrical system of Teck and BC Hydro,  
4 both during and after the Lease Period. The agreement will also provide for the  
5 provision of certain ancillary services. As described above, because the Waneta  
6 Interconnection Agreement will be in regard to regulated services under the *UCA*, in  
7 part, it will also require Commission approval.

## 8 **3.3 Other Aspects of Waneta 2017 Transaction**

### 9 **3.3.1 Security Provisions**

10 Under the COA, each of BC Hydro and Teck provided security over its share of  
11 Waneta to the other co-owner to secure obligations under the COA, CPA and other  
12 agreements. The COA security that BC Hydro granted to Teck over its one-third  
13 interest in Waneta is expected to continue in place, although modified to secure  
14 BC Hydro's obligations under the COPOA, rather than the COA, and under the  
15 Lease and the Waneta Transmission Agreement.

16 Going forward, Teck will provide new security over (1) its Waneta leasehold interest  
17 to secure its obligations under the COPOA and other related agreements specified  
18 in the COPOA (including the CPA), the Lease, and the Waneta Transmission  
19 Agreement; and (2) its interest in the transmission personal property to secure its  
20 obligations under the Waneta Transmission Agreement. As well, Teck Resources  
21 (Teck's parent) will guarantee Teck's obligations under the COPOA (except for its  
22 obligations as "Operator") and Lease, as described in section [3.2.7](#). Similar to the  
23 COA, the parties will agree not to exercise their security during a two-year standstill  
24 period, if the defaulting party will be able to generate sufficient revenues during that  
25 period to pay all outstanding liabilities.

---

### 1 3.3.2 Conditions of Closing

2 The Waneta 2017 Transaction contains a number of representations and warranties  
3 between the parties that are considered customary in a purchase transaction.

4 The conditions of closing in favour of BC Hydro include:

- 5 • All regulatory approvals, including any Commission orders, and consents of  
6 third parties required for the transaction having been obtained;
- 7 • Closing will have occurred by August 1, 2018;
- 8 • Release of any encumbrances on the Waneta Assets; and
- 9 • BC Hydro being satisfied that it has met the honour of the Crown as it relates to  
10 First Nation interests.

11 The conditions of closing in favour of Teck include:

- 12 • All regulatory approvals, including any Commission orders, and consents of  
13 third parties required for the transaction having been obtained;
- 14 • Closing will have occurred by August 1, 2018;
- 15 • Teck receiving satisfactory assurance that it will be eligible to pay water rentals  
16 at the 'commercial power use' rate during the Lease Period;
- 17 • Execution of the Waneta Transmission Agreement so as to satisfy Teck as to  
18 adequacy of transmission for its needs until the end of the Lease Period and  
19 execution of the Teck Wheeling Agreement providing for imports of up to  
20 300 MW of power to serve its industrial operations after the end of the Lease  
21 Period;
- 22 • Execution of the Waneta Interconnection Agreement so as to satisfy Teck that  
23 power quality and reliability for its industrial operations after closing will be  
24 consistent with power quality and reliability prior to closing;



- 1 • Waiver by BC Hydro of its right to purchase Line 71 (which waiver was  
2 provided);<sup>106</sup> and
- 3 • BC Hydro has delivered timely evidence that it has obtained the required  
4 approval of BC Hydro's indemnities in connection with the transaction.

### 5 **3.3.3 Surplus Power Rights Agreement**

6 As described above, Teck and BC Hydro entered into a SPRA as part of the  
7 Waneta 2010 Transaction. The SPRA related, at that time, to the potential future sales  
8 of energy and capacity by Teck. At any point in time, Teck may have energy and/or  
9 capacity surplus to its Industrial Load because of increased entitlement under the  
10 CPA, a decreased Industrial Load, or other reasons. The SPRA obliges Teck to  
11 provide BC Hydro with an effective right of first offer over planned surplus power  
12 sales, and an obligation on BC Hydro to purchase unplanned surplus power in certain  
13 circumstances. The intent of the unplanned purchase mechanism was to  
14 compensate Teck for power acquired by BC Hydro but to maintain clear market  
15 signals to encourage Teck to package planned surpluses for sale under the right of  
16 first offer mechanism. The SPRA is in force until December 31, 2035

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<sup>106</sup> This condition was in relation to BC Hydro waiving its right to purchase Line 71 at the time of purchasing the Waneta Assets. As described above, unlike under the Fortis Transaction, BC Hydro is not initially purchasing the Transmission Assets but rather, will purchase the Transmission Assets, including Line 71, for \$20 million (dollars at the time of purchase) at the expiry or earlier termination of the Lease.

## **Waneta 2017 Transaction**

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# **Chapter 4**

## **Waneta 2017 Transaction: Need, Justification and Alternatives**

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## 1 Introduction

2 As noted previously, the Waneta 2017 Transaction largely maintains the *status quo*  
3 during the Lease Period in regard to water flows, operating and maintenance practices,  
4 the use by Teck of the electricity generated from its (leased) two-thirds interest in the  
5 dam, and so on. For these reasons, the Waneta 2017 Transaction can be understood  
6 as being a fundamentally economic transaction.

7 Subject to earlier termination of the Lease, the post-Lease Period will not commence  
8 until at least 20 years and as much as 30 years from completion of the transaction  
9 (completion expected in 2018). As such, the majority of the transaction value is provided  
10 by the Lease. The value beyond the end of the Lease Period is determined by the state  
11 of factors such as BC Hydro's LRB position, market prices, and the cost of alternative  
12 resources 20 years or more in the future. Given the inherent uncertainty in these factors  
13 this far out in the future, the post-Lease value of the transaction has been assessed  
14 under a range of potential future scenarios to identify the potential range in transaction  
15 value. Further, the evaluation of the Waneta 2017 Transaction was undertaken  
16 alongside Teck's competitive bid process for the Waneta Assets. As a result, the  
17 analysis of the Waneta 2017 Transaction appropriately considered additional factors not  
18 normally included in BC Hydro's planning environment to provide information on the  
19 potential opportunity cost and behavior of bidders for the Waneta Assets.

20 The economic characterization of the transaction is reflected in the fact that the bulk of  
21 this project justification chapter is given over to explaining the economic rationale for the  
22 transaction. Nevertheless, BC Hydro accepts that whether viewed from a  
23 cost-effectiveness perspective or a public interest perspective, other non-economic  
24 factors are also relevant. This chapter also assesses non-economic factors relevant to  
25 the transaction.

26 BC Hydro's decision to proceed with the transaction was based on the Waneta 2017  
27 Business Case which was finalized just prior to the issuance of the Reply Notice by  
28 BC Hydro to Teck on August 1, 2017. The Waneta 2017 Business Case is attached as

1 Appendix N and, as will be seen, is referenced extensively throughout this chapter. The  
2 Waneta 2017 Business Case was based to a large extent on the Fortis Transaction,<sup>107</sup>  
3 and was developed concurrently with the development of BC Hydro's Reply Notice and  
4 the agreements that are described in Chapter 3. In addition, the Waneta 2017 Business  
5 Case is based to a significant extent on planning assumptions that are set out in the  
6 F17-F19 RRA, which in turn are based in part on BC Hydro's 2013 IRP, except as  
7 noted.

8 The Waneta 2017 Business Case includes information that is confidential for privacy  
9 reasons; information that is confidential to third-parties; and information which if made  
10 public could compromise BC Hydro's bargaining position with third parties and thus  
11 harm the financial interests of BC Hydro and its customers. Accordingly the public copy  
12 of the business case filed with the Application has been redacted. An unredacted  
13 confidential copy of the Waneta 2017 Business Case has been filed under separate  
14 cover letter with the Commission. In addition, certain figures redacted from the  
15 Waneta 2017 Business Case, with the confidential information removed, are attached  
16 as Appendix N-1; some of those revised figures are also included in this chapter of the  
17 Application.

## 18 **4.1 Assumptions and Analytic Inputs**

### 19 **4.1.1 F17-F19 RRA**

20 BC Hydro's F17-F19 RRA was initiated on February 26, 2016 and has been the subject  
21 of a significant regulatory proceeding since that time.<sup>108</sup> In the course of that proceeding  
22 BC Hydro provided updates to the 20-year LRB outlook that are in its approved  
23 2013 IRP. It is those updated LRB outlooks that are the basis of the Waneta 2017

---

<sup>107</sup> Please refer to section 3.1 for a description of the Fortis Transaction.

<sup>108</sup> Final reply submissions were submitted by BC Hydro on July 4, 2017 in that proceeding, and a decision from the Commission is pending.

1 Business Case.<sup>109</sup>

#### 2 **4.1.2 Discount Rate**

3 BC Hydro used a 6.0 per cent nominal discount rate for present value calculations in the  
4 Waneta 2017 Business Case. The 6.0 per cent nominal discount rate was derived using  
5 the weighted average cost of capital (**WACC**) methodology that BC Hydro has  
6 employed since 2008. Pursuant to Heritage Special Directive No. HC 1, BC Hydro's  
7 target debt-equity ratio is 60:40. BC Hydro used the benchmark return on equity as  
8 determined by the Commission Order No. G-129-16, namely 8.75 per cent.

9 Based on the foregoing considerations, BC Hydro's current (fiscal 2018) WACC was  
10 calculated as follows:

$$\begin{aligned} \text{WACC} &= (\% \text{ debt} \times \text{cost of debt}) + (\% \text{ of equity} \times \text{return on equity}) \\ &= (60\% \times 4.01\%) + (40\% \times 8.75\%) \\ &= 5.906\% = 6\% \text{ rounded to nearest 25 basis points (i.e. a quarter of a per cent)} \end{aligned}$$

11 As shown in section 4.2.3 of the Waneta 2017 Business Case, the use of a lower  
12 discount rate would have increased the cost effectiveness of the transaction (and vice  
13 versa).

#### 14 **4.1.3 Inflation Rate**

15 The assumed inflation rate is 2 per cent per year, as described in the Waneta 2017  
16 Business Case.<sup>111</sup>

#### 17 **4.1.4 Exchange Rate**

18 Assumptions about the U.S. dollar to Canadian dollar exchange rate are required to  
19 convert the wholesale market price forecasts used in the analysis. An exchange rate of  
20 US\$0.8202 per Canadian dollar was assumed based on forecasts provided by the

---

<sup>109</sup> In particular, the LRBs from the F17-F19 RRA used for the Waneta 2017 Transaction are tables 3-8 and 3-9. Recent minor revisions to BC Hydro's LRB outlooks have been provided in the current Site C proceeding, as responses to BCUC IRs 1.4.0 and 2.21.1, and are attached at Appendix O. Those revisions do not materially affect the economics of the Waneta 2017 Transaction.

<sup>110</sup> Cost of debt = forecast incremental cost of debt provided by Treasury Board.

<sup>111</sup> See page 21, of Waneta 2017 Business Case, attached to as Appendix N.

1 Ministry of Finance in January 2016. BC Hydro notes that this was a slightly  
2 conservative estimate given that recent updates from the Ministry, as of May 30, 2017,  
3 would have reduced that rate to US\$0.7979 per Canadian dollar. The use of the lower  
4 exchange rate would have increased the cost effectiveness of the transaction because  
5 the value of any surplus electricity sold on the wholesale market would increase by  
6 about 3 per cent.

#### 7 **4.1.5 Interest Rates**

8 The Waneta 2017 Business Case uses an assumed financing rate of 3.4 per cent.<sup>112,113</sup>  
9 This assumed financing rate was based on forecast interest rates provided to BC Hydro  
10 by the Ministry of Finance on May 30, 2017 and adjusted to reflect the average rate at  
11 which BC Hydro expects to issue debt after the transaction completes in the spring or  
12 summer of 2018. The use of a lower interest rate would have increased the  
13 cost-effectiveness of the transaction (and vice versa).

#### 14 **4.1.6 Economic Life**

15 The economic life of Waneta is assumed to be 40 years from 2018 when the transaction  
16 is expected to close. This is consistent with the asset life used in the purchase of  
17 BC Hydro's one-third interest in Waneta. BC Hydro expects to have to undertake a  
18 substantial rehabilitation project at the end of the Lease Period, whether after 20 years  
19 or 30 years. The anticipated capital costs of that rehabilitation are accounted for in the  
20 Waneta 2017 Business Case, even though they will likely extend the life of the Waneta  
21 Assets past the assumed 40-year life. For this reason, BC Hydro believes that the  
22 assumed 40-year life is conservative, in the sense that if a longer and more likely  
23 economic life were assumed the NPV of the transaction would be higher.

---

<sup>112</sup> Page 47 of Waneta 2017 Business Case, attached as Appendix N.

<sup>113</sup> The 3.4 per cent used for the financing rate is based on forecasted Fiscal 2019 interest rates provided by the Ministry of Finance. This is the rate BC Hydro expects to issue debt at the time of the Waneta purchase and therefore was used to estimate the incremental interest costs BC Hydro would incur on the new debt issued. The rate of 4.01 per cent used in the cost of debt component in BC Hydro's WACC, calculation in section [4.1.2](#), is based on a five year average of interest rates provided by the Ministry of Finance. WACC is used to determine the appropriate discount rate to present value a series of cash flows, evaluate business cases, and to support investment decisions at BC Hydro. A five year average is used as it is evaluating projects that form BC Hydro's entire capital project portfolio on a company wide basis, occurring over a period of time.



---

#### 1 **4.1.7 Transaction Costs**

2 BC Hydro assumed \$50 million in one-time transaction costs for the purpose of the  
3 Waneta 2017 Business Case. A significant portion of this is in regard to property  
4 transfer tax. The balance is in regard to assumed financial, legal and regulatory costs  
5 over the next year. The assumption is generous and, because it is used in the financial  
6 analysis of the transaction, is also conservative, insofar as it tends to understate the net  
7 value of the transaction. Only actual transaction costs will be capitalized and will flow  
8 through into rates. Even if the \$50 million transaction costs are incurred, the transaction  
9 still has a positive NPV.

#### 10 **4.1.8 Wholesale Market Prices (Post-Lease Period)**

11 Future wholesale market prices are relevant to the analysis to account for the possibility  
12 that BC Hydro is in an energy surplus for some or all of the period after the Lease  
13 Period.<sup>114</sup> Market price forecasts for the Waneta 2017 Business Case were obtained  
14 from two sources. The first was a report purchased by BC Hydro from the ABB Group  
15 for a forecast of long-term spot market prices, including at the mid-Columbia or “mid-C”  
16 electricity trading hub on the Washington-Oregon border (**ABB Forecast**). Forecast  
17 market prices at mid-C are used because mid-C is the closest liquid electricity market  
18 and has long been used by BC Hydro, and accepted by the Commission, as a market  
19 price proxy. A copy of the ABB Forecast was filed with the Commission in confidence  
20 under separate cover.<sup>115</sup>

21 An additional, more conservative market price forecast was also prepared to examine  
22 how current low market prices could impact the cost-effectiveness of the transaction  
23 and provide additional information regarding the opportunity cost of potential other  
24 bidders for the Waneta Assets. It is referred to in the Waneta 2017 Business Case as  
25 the “extrapolated” market price forecast (**Extrapolated Forecast**) because it was

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<sup>114</sup> The F17-F19 RRA LRBs do not show BC Hydro being in an energy surplus after the Lease Period. The assumption that BC Hydro may be in surplus has no evidentiary basis, but was used solely to test the economics of the transaction.

<sup>115</sup> The ABB Forecast was also filed in confidence with the Commission in the F17-F19 RRA proceeding as an attachment to BC Hydro's response to BCUC IR 2.310.1

1 developed using electricity and natural gas forward fixed-price contracts (one to  
2 five years and five to 10 years, respectively) that were extrapolated to the end of the  
3 Lease Period (20 or 30 years). Forward contracts are not typically used to forecast  
4 longer term spot prices because the former are materially less liquid when terms are  
5 greater than five years. Nevertheless, the Extrapolated Forecast provides a basis to test  
6 the cost-effectiveness of what is largely an economic transaction from a conservative,  
7 risk-averse perspective. Note that the forward market prices used to develop the  
8 Extrapolated Forecast were provided by Powerex, and are commercially sensitive.  
9 Accordingly, they are redacted from the public redacted copy of the Waneta 2017  
10 Business Case.

11 Both the ABB Report and the Extrapolated Forecast consider the future prices of  
12 non-firm energy-only products that would be available, or not, on an hour-by-hour basis.  
13 If BC Hydro is in surplus at the end of the Lease Period, the energy available from  
14 Waneta for sale into wholesale markets can be expected to be considerably more  
15 valuable in light of the quantity that would be available, its physical firmness and its  
16 dispatchability and shaping characteristics. For these reasons, the Waneta 2017  
17 Business Case assessment adds a capacity value to the projected energy-only market  
18 prices. Sections [4.3](#) and [4.4.1](#) provide for further information on this topic.

#### 19 **4.1.9 BC Hydro's Industrial Service Rate (Post-Lease Period)**

20 BC Hydro has estimated a future blended levelized electricity rate for its industrial  
21 customers of approximately \$69/MWh, based on the current stepped rate (Rate  
22 Schedule 1823), target rate increases from the 10-Year Rates Plan,<sup>116</sup> and inflation  
23 thereafter.<sup>117</sup> This scenario is relevant primarily if BC Hydro enters into the transaction,  
24 and after the Lease Period becomes Teck's electricity service provider.

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<sup>116</sup> See for example section 1.4.2 of BC Hydro's F17-F19 RRA.

<sup>117</sup> See page 51 of the Waneta 2017 Business Case, attached as Appendix N.

#### 4.1.10 Long-Run Marginal Cost (Post-Lease Period)

BC Hydro's Long-Run Marginal Cost (LRMC) is relevant to the analysis to account for the possibility that BC Hydro is in an energy deficit for some or all of the period after the Lease Period.<sup>118</sup> BC Hydro's long-run marginal cost of new supply is the cost BC Hydro avoids in that circumstance. As shown in Table 3 of the Waneta 2017 Business Case,<sup>119</sup> BC Hydro's estimated long-run marginal cost of a combined block of new energy and capacity resources equivalent to Waneta, in 2018 dollars, is \$145/MWh.<sup>120,121</sup>

### 4.2 Revenues and Costs During Lease Period

During the Lease Period, Teck will be making annual lease payments to BC Hydro starting at approximately \$74 million, escalating at 2 per cent per year. If Teck elects to extend the Lease to 30 years, as it is entitled to do under the Waneta Lease Agreement, the annual lease payments will be re-set at the beginning of year 21 (2038) at approximately \$144 million per year, escalating at 2 per cent per year.

During the Lease Period, BC Hydro will directly incur the following incremental costs (on a cash basis) as a result of the Waneta 2017 Transaction:

- *Capital costs:* Incremental capital costs during the Lease Period arise as a result of anticipated capital spending on Waneta to meet BC Hydro asset standards in excess of the standards required under the COPOA. In addition, BC Hydro will bear a share of unanticipated capital expenditures. For the purposes of the Waneta 2017 Business Case, these have been estimated, together, to be \$180 million (nominal dollars) for a 20-year Lease Period, based on BC Hydro's

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<sup>118</sup> The F17-F19 RRA LRBs show BC Hydro being in energy deficit after the Lease Period.

<sup>119</sup> See page 19 of the Waneta 2017 Business case, attached as Appendix N.

<sup>120</sup> For comparison purposes, BC Hydro also considered LRB scenarios in which it could meet its load-serving obligations through gas-fired generation. In that case the combined energy and capacity LRMC is estimated to be \$122/MWh. BC Hydro notes however that such scenarios would be inconsistent with government policy as expressed in the *Clean Energy Act*, and otherwise, regarding the use of clean or renewable resources.

<sup>121</sup> This LRMC is specific to Waneta and reflects its specific energy and capacity characteristics. Similarly, in the current Site C proceeding, the estimated long-run marginal cost of combined new energy and capacity resources, in 2018 dollars, is \$153/MWh. The difference arises from a higher proportion of capacity to energy in Site C relative to Waneta; small differences in the estimated costs of wind and pumped storage; and small differences in assumed inflation.

1 due diligence efforts (see sections 2.2 and [4.11](#)). These values are expected to  
2 change once these investments are reviewed and prioritized as part of BC Hydro's  
3 Enterprise Capital Planning processes. This amount may increase should Teck  
4 extend the Lease Period to 30 years. Please refer to section 2.2 for summary  
5 information regarding asset condition and anticipated capital expenditures, and  
6 Appendix B of the Waneta 2017 Business Case for a more fulsome discussion;  
7 and

- 8 • *Operating costs:* During the Lease Period BC Hydro will incur incremental  
9 administration costs, arising from the cost of BC Hydro's oversight of the Lease  
10 and ensuring BC Hydro's long-term interest in the asset are protected. These costs  
11 are estimated to be \$240,000 per year in fiscal 2018 dollars, increasing at the rate  
12 of inflation. Please refer to the Waneta 2017 Business Case for a further  
13 explanation of these costs.<sup>122</sup>

14 The capital costs will be reflected in BC Hydro's future revenue requirements as follows:

- 15 • *Finance charges:* Finance charges associated with the purchase price and  
16 transaction costs are assumed for the purpose of the Waneta 2017 Business Case  
17 to be incurred at an average interest rate of 3.4 per cent, as described above.  
18 Finance charges associated with incremental capital costs, described below, are  
19 similarly calculated; and
- 20 • *Amortization:* For the purpose of the Waneta 2017 Business Case, amortization  
21 expense associated with the purchase price and transaction costs is calculated on  
22 a straight-line basis over the assumed 40-year life of the Waneta Assets,  
23 measured from 2018. This is a simplification of the actual treatment, where the  
24 asset will be divided into a number of asset classes, all of which will be depreciated  
25 over different terms. Amortization expense associated with incremental capital  
26 costs, described below, is calculated based on the estimated life of the capital

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<sup>122</sup> See pages 11 to 12 of the Waneta 2017 Business Case, attached as Appendix N.

1 asset at the time it goes into service. As described in section [4.1.6](#), BC Hydro  
2 believes that the assumed 40-year life represents a conservative assumption.

### 3 **4.3 Revenues and Costs After the Lease Period**

4 After the Lease Period BC Hydro will no longer earn lease payment revenues from  
5 Teck. However, BC Hydro will be the sole unencumbered owner of Waneta, which will  
6 be available to serve domestic load or export markets, depending on whether BC Hydro  
7 is in energy deficit or surplus. [Table 4-1](#) summarizes some of the key attributes of the  
8 Waneta electricity that BC Hydro will be acquiring at that time.

9 **Table 4-1 Attributes of Waneta Electricity**

Attribute	Waneta Electricity
Capacity	Dependable - firming, shaping and storage capability similar to that provided by the other large hydroelectric storage resources owned by BC Hydro
Energy	Buyback of firm entitlement energy
Availability	Plant exists, transmission exists, available on contract execution
Term	Permanent (20-year economic life is assumed post the initial Lease Period)
Self Sufficiency	BC-based resource, and self-sufficiency as defined in and required by section 6(2) of the <i>Clean Energy Act</i>
Clean or Renewable	As defined in section 1(1) of the <i>Clean Energy Act</i>

10 Section 3.1 of the Waneta 2017 Business Case describes the range of potential LRBs  
11 BC Hydro will face after the Lease Period.<sup>123</sup> As noted, these scenarios are based on  
12 BC Hydro's 2013 IRP as updated in the F17-F19 RRA. For analytical purposes the  
13 various scenarios can be summarized as follows:

- 14 1. *Base*: BC Hydro completes the transaction and serves Teck's Trail smelter load (or  
15 equivalent incremental load), or does not complete the transaction and does not  
16 serve Teck's smelter load. These alternatives are materially the same from an LRB  
17 perspective and are the same as provided in the F17-19 RRA;
- 18 2. *Increased supply relative to F17-19 RRA*: BC Hydro completes the transaction but  
19 does not serve Teck's smelter load or other equivalent incremental load. BC Hydro  
20 will, relative to the F17-F19 RRA base case, have an increased energy supply; and

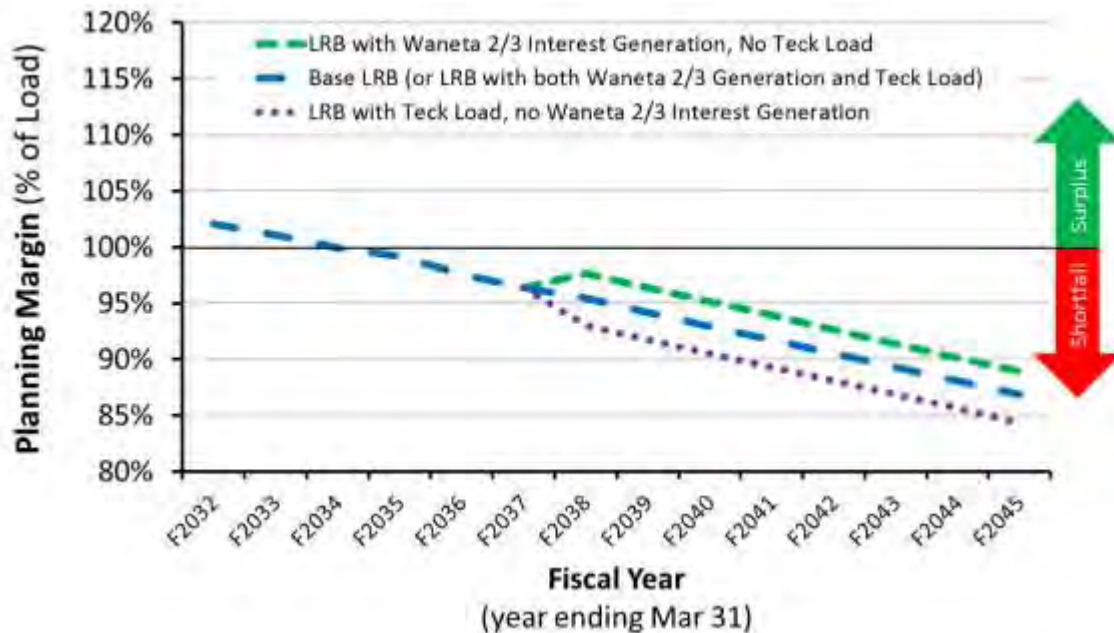
<sup>123</sup> See pages 16-18 of the Waneta 2017 Business Case, attached as Appendix N.

1 3. *Increased demand relative to F17-19 RRA:* BC Hydro does not complete the  
2 transaction, but does serve Teck's smelter load or other equivalent incremental  
3 load. BC Hydro will, relative to the F17-F19 RRA base case, face an increased  
4 energy demand.

5 Figure 2 from the Waneta 2017 Business Case illustrates this range of possibilities. A  
6 similar figure, expressed in terms of per cent of planning margin, is set out below. It is  
7 apparent that under all three scenarios BC Hydro is expected to be in an energy deficit  
8 by 2033 (fiscal 2034), at least four years prior to the end of the Lease Period.

9  
10

**Figure 4-1 BC Hydro Planning Margin with/without Teck's Two-thirds Interest**



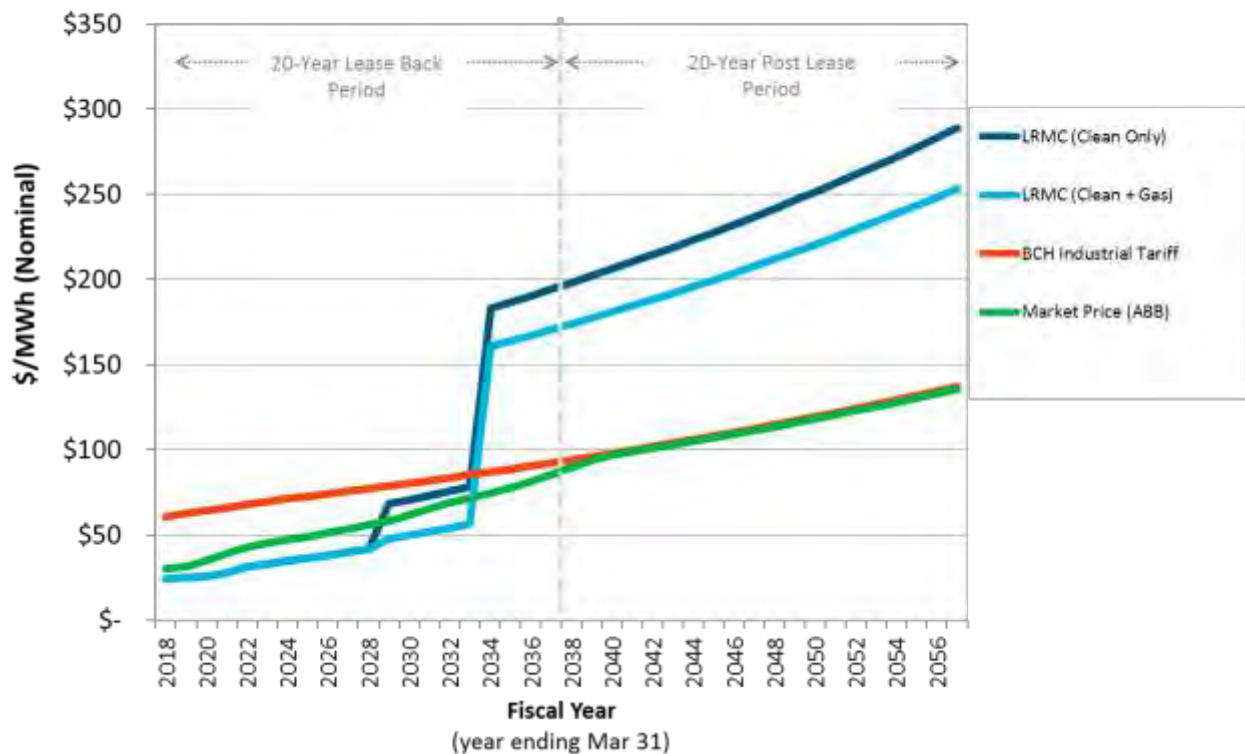
11 Assuming BC Hydro is in fact in deficit<sup>124</sup> after the Lease Period, the value of the  
12 Waneta electricity lies in the avoided cost of new generation resources that would  
13 otherwise be required to allow BC Hydro to meet its load-serving obligations, at  
14 assumed long-run marginal costs described above (section [4.1.10](#)). Assuming  
15 BC Hydro remains surplus in energy, the value of the Waneta electricity lies in the ability

<sup>124</sup> In the balance of this discussion, “deficit” and “surplus” are relative to the F17-F19 RRA base case.

1 to earn incremental trade revenues, at assumed market prices also described above  
 2 (section 4.1.8). Also as noted in section 4.1.8, the latter assumption, that BC Hydro  
 3 remains in surplus after the Lease Period, has no evidentiary basis. However, its use  
 4 allows for an evaluation of the transaction from a perspective wholly separated from  
 5 BC Hydro's domestic load growth. Figure 3 from the Waneta 2017 Business Case  
 6 shows the range of values associated with the Waneta electricity under these different  
 7 scenarios, each adjusted for an applicable capacity value.<sup>125</sup> It is redacted from the  
 8 public version of the business case, but a modified version is shown below.

9  
10  
11

**Figure 4-2 Capacity-Adjusted Energy Price Forecast Comparison (without Extrapolated Market Prices)**



<sup>125</sup> See page 20, of the Waneta 2017 Business Case, attached as Appendix N.

1 BC Hydro notes the capacity value adjustments are somewhat atypical. BC Hydro made  
2 a capacity value adjustment to the energy values in the Waneta 2017 Business Case  
3 because the entire output of the facility will be made available at once, either to serve  
4 domestic load or for export, and for an extended period of time. In this context there is  
5 potential for significant upside value from being able to lock in longer term export deals,  
6 or capture carbon and capacity premiums to take two examples. These opportunities  
7 would not normally arise from the shorter-term surpluses that can arise from new  
8 projects developed specifically to serve load.

9 The capacity adder is also different for each of the scenarios. Where BC Hydro is in a  
10 surplus after the Lease Period, the capacity adder is \$37/kW-yr, based on BPA tariff  
11 rates, as well as transaction and market analysis. Where BC Hydro is in an energy  
12 deficit after the Lease Period, the capacity adders are \$221/kW-yr, \$88/kW-yr and  
13 \$104/kW-yr, based on the cost of pumped storage, the cost of gas peakers, and the  
14 transmission service rate demand charge, respectively, in fiscal 2018 dollars.

15 The post-lease value of energy discussed above affects BC Hydro's cost of energy.  
16 After the Lease Period, BC Hydro will incur the following additional incremental costs:

- 17 • *Capital costs:* Incremental capital costs after the Lease Period arise as a result of  
18 required capital investments necessary to meet BC Hydro asset standards in  
19 excess of the standards required under the COPOA. For the purposes of the  
20 Waneta 2017 Business Case, these have been estimated to average \$3 million per  
21 year, although amounts will be higher or lower on an annual basis. In addition,  
22 BC Hydro will be purchasing the Transmission Assets from Teck immediately upon  
23 the expiry of the Lease Period at a price of \$20 million (in dollars at the time of  
24 purchase);<sup>126</sup> and
- 25 • *Operating costs:* After the Lease Period BC Hydro will continue to incur  
26 incremental administration costs. In addition, it will incur grants-in-lieu of property

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<sup>126</sup> The Waneta 2017 Business Case refers to the \$20 million in 2018 dollars escalated to dollars of the day, a conservative assumption that was not borne out.



1 taxes, operations and maintenance expenses, and water rentals, including  
2 incremental operating costs arising from its acquisition of the Transmission Assets.  
3 Please refer to the Waneta 2017 Business Case for a further explanation of these  
4 costs.<sup>127</sup>

5 The capital costs will be reflected in BC Hydro's revenue requirements in incremental  
6 finance charges and amortization expense.

- 7 • Finance charges: Finance charges associated with the purchase price, transaction  
8 costs and incremental capital costs have been calculated as described in  
9 section [4.2](#) above; and
- 10 • Amortization: Amortization expense associated with the purchase price and  
11 transaction costs will continue to be calculated on a straight-line basis over the  
12 assumed 40-year life of the Waneta Assets, measured from 2018, for the purpose  
13 of the Waneta 2017 Business Case. Amortization expense associated with  
14 incremental capital costs, described below, will continue to be calculated based on  
15 the estimated life of the capital asset at the time it goes into service.

#### 16 **4.4 Economic Analysis of the Waneta 2017 Transaction**

17 The economic analysis of the transaction as a whole relies on the different streams of  
18 revenues and costs during the Lease Period and afterward, the different potential  
19 values of Waneta electricity after the Lease Period, as well as the input assumptions  
20 and forecasts, as described above.

21 BC Hydro's Waneta 2017 Business Case focuses on analysis of the transaction from a  
22 BC Hydro investment perspective using present value analysis as set out in  
23 sections [4.4.2](#) and [4.4.3](#). In addition to the analysis from BC Hydro's perspective,  
24 BC Hydro also reviewed the transaction from a ratepayer perspective as set out in  
25 sections [4.4.4](#) and [4.4.5](#). In addition to the BC Hydro and ratepayer perspectives,

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<sup>127</sup> See pages 11-12 of the Waneta 2017 Business Case, attached as Appendix N.

1 BC Hydro has also prepared illustrative unit energy cost analysis as described in  
2 section [4.4.1](#).

### 3 **4.4.1 Unit Energy Cost**

4 In light of the different financial characteristics of the Lease Period and the post-Lease  
5 Period, BC Hydro calculated effective unit energy costs (**UEC**) for the period following  
6 the initial 20-year term of the Lease to illustrate the cost of production for this period.  
7 UECs are for the costs of producing energy only, despite BC Hydro receiving capacity  
8 from the Waneta Assets after the Lease Period, and in this sense the associated  
9 capacity is included for no additional cost. Accordingly, it is appropriate to compare the  
10 UECs with the energy values that have been adjusted for the associated capacity value  
11 of the underlying resource. Figure 4 of the Waneta 2017 Business Case shows that the  
12 post-lease UEC of Waneta electricity is in all cases less than the value of Waneta  
13 electricity; section 4.2.1 of the Waneta 2017 Business Case provides further information  
14 regarding the UEC analysis.<sup>128</sup> Note that Figure 4 of the Waneta 2017 Business Case  
15 has been redacted from the public copy of the document filed with the Application. A  
16 modified version without the confidential information is also attached as Appendix N-1.

### 17 **4.4.2 Incremental Value of Benefit (Cash Flow) - Unrisked**

18 The incremental value or benefit accruing to BC Hydro (and thereby ratepayers) is the  
19 NPV of the cash flows of the asset less the initial costs of the transaction. The NPV of  
20 the cash flows of the asset can be further broken down through the sum of the NPV of  
21 the cash flows during the Lease Period - \$792 million, regardless of the LRB scenario  
22 after the Lease Period - and the NPV of the cash flows after the Lease Period. Before  
23 accounting for quantifiable risks, the incremental benefit of the transaction ranges from  
24 \$1.071 billion where BC Hydro is in energy deficit at an LRMC of \$145/MWh (2018  
25 dollars), to \$29 million where BC Hydro is in surplus and market prices are at the  
26 conservative "extrapolated" level. This is shown in the last column of Table 5 of the  
27 Waneta 2017 Business Case.

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<sup>128</sup> See pages 23-24 of the Waneta 2017 Business Case, attached as Appendix N.

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### 4.4.3 Incremental Value or Benefit (Cash Flow) - Risk Adjusted

BC Hydro has identified a number of risks and considerations associated with the Waneta 2017 Transaction, including two key risks that can be quantified as part of the transaction assessment.

One of the key quantifiable risks is the risk of an early termination of the Lease due to an event of default on behalf of Teck. Early termination of the lease would result in lower revenues (no further lease payments) and increased costs (water rentals, operating costs, capital costs that would have otherwise been the responsibility of Teck). However, it would also result in BC Hydro being the sole unencumbered owner of Waneta sooner than it would otherwise be. Depending on when early termination occurs, and the LRB and market conditions at the time, early termination can either increase or decrease the NPV of the transaction. To quantify the early termination risk, BC Hydro relied on a third-party assessment of the likelihood of Teck defaulting in each of the first 10 years of the Lease and extrapolated that risk to the end of the default 20-year lease term. The impact of early termination ranges from a potential incremental increase in BC Hydro's benefit of \$107 million (LRB in deficit and an LRMC of \$145/MWh) to a potential decrease of \$54 million (LRB in surplus and low "extrapolated" market prices).

The other key quantifiable risk is the possibility of Teck exercising its 10-year extension option. In all LRB scenarios, Teck's exercise of its extension option decreases BC Hydro's NPV of the transaction; the loss in value depends on the value of the Waneta electricity at the time the extension option would be exercised, namely 2038. The impact of Teck electing to exercise its extension option ranges from a potential decrease in the NPV of \$291 million (LRB in deficit and an LRMC of \$145/MWh) to a potential decrease in the NPV of \$6 million (LRB in surplus and low "extrapolated" market prices).

1 Table 8 of the Waneta 2017 Business Case shows the consolidated risk-adjusted cash  
2 flow NPV of the transaction under the different LRB assumptions.<sup>129</sup> Only if BC Hydro is  
3 in surplus and market prices are at the conservative "extrapolated" level does the  
4 risk-adjusted NPV fall below zero (\$31 million negative NPV). In all other scenarios the  
5 NPV remains positive, ranging from \$82 million to \$887 million.

#### 6 **4.4.4 Rate Impact Analysis**

7 A rate impact analysis is included in the Waneta 2017 Business Case.<sup>130</sup> This analysis  
8 considers the incremental revenues and costs arising from the transaction as described  
9 in section [4.2](#) and [4.3](#) during and after the Lease Period, on the basis of how they affect  
10 BC Hydro's annual revenue requirements on a per cent basis. Figures 6 and 7 of the  
11 Waneta 2017 Business Case show the results of these calculations, on both a risked  
12 and un-risked basis (as described above), respectively. Those figures show that the  
13 Waneta 2017 Transaction results in net positive impacts to ratepayers in all years under  
14 all scenarios. Note that Figure 6 has been redacted from the public copy of the  
15 Waneta 2017 Business Case filed with the Application, but a modified copy of Figure 6  
16 without the confidential information is attached as Appendix N-1.

#### 17 **4.4.5 Net Present Value of Revenue Requirement Impact**

18 In section 5.2 of the Waneta 2017 Business Case BC Hydro also provided an NPV  
19 analysis of the revenue requirement impact of the transaction (that is, the annual  
20 revenue requirement impacts used for the rate impact analysis shown in Figure 6 of the  
21 business case, discounted at 6 per cent per year and summed). The results are shown  
22 in Table 19 of the Waneta 2017 Business Case and indicate a significant ratepayer  
23 benefit, consistent with the positive NPV cash flow analysis and the positive rate impact  
24 analysis.

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<sup>129</sup> See pages 26-29 of the Waneta 2017 Business Case, attached as Appendix N. The risk adjustments are additive because they are assessed on a probabilistic basis.

<sup>130</sup> See pages 44-47 of the Waneta 2017 Business Case, attached as Appendix N. The analysis is referred to as an "initial" analysis, but BC Hydro considers that there have been no material changes to the input assumptions and that it remains accurate.

## 4.5 Sensitivity Analyses

In section 4.2.3 of the Waneta 2017 Business Case BC Hydro assessed the sensitivity of its economic analyses to differences in discount rate, LRB assumptions after the Lease period, LRMC, wholesale market prices, the economic life of Waneta and capital expenditures. This sensitivity analysis is performed on the basis of BC Hydro's risk-adjusted investment analysis as described in section [4.4.3](#).

### 4.5.1 Discount Rate Sensitivity

As expected, the consolidated risk-adjusted NPV of the transaction under the different LRB assumptions (shown in Table 8 of the Waneta 2017 Business Case) varies materially with different discount rate assumptions (shown in Table 9 of the Waneta 2017 Business Case). At a 4 per cent discount rate the risk-adjusted cash flow NPV of the transaction ranges from \$2.263 billion to \$504 million, while at a discount rate of 8 per cent the range is \$86 million to a negative NPV of \$356 million.

### 4.5.2 LRB Sensitivity

BC Hydro expects to be in surplus until 2028 (capacity) and 2033 (energy). To the extent BC Hydro is in a deficit position sooner than it expects, the value or benefit of the transaction increases; to the extent it is in a deficit later than expected, the value decreases. Table 10 of the Waneta 2017 Business Case show that even with an additional 10 years of energy surplus, the risk-adjusted cash flow NPV of the transaction is a robust \$570 million, compared to a base case NPV of \$887 million. Conversely, if BC Hydro is in surplus for five years less than it expects, the NPV increases to \$973 million.

### 4.5.3 LRMC Sensitivity

Increases in LRMC increase the value of the transaction, and decreases in LRMC decrease the value of the transaction. Assuming a 15 per cent increase in LRMC in the scenario without reliance on natural gas-fired generation shows an increase in the risk-adjusted cash flow NPV to \$1.155 billion; a 15 per cent decrease in LRMC in the scenario where BC Hydro can rely on natural gas-fired generation decreases the NPV

1 to \$442 million (relative in both cases to a base case NPV of \$887 million). These  
2 figures are shown in Table 11 of the Waneta 2017 Business Case.

#### 3 **4.5.4 Market Price Sensitivity**

4 In addition to the ABB Forecast and the Extrapolated Forecast discussed above,  
5 BC Hydro considered two additional market price scenarios: one in which current  
6 (historically) low market prices never increase on real dollar (inflation adjusted) basis,  
7 and one in which the capacity adder is increased by 30 per cent and applied to the  
8 Extrapolated Forecast. The former is considered less likely because market prices are  
9 low, and significantly less than the cost of new supply. The latter is more likely to the  
10 extent an increase in intermittent renewable resources in the Western Interconnection  
11 results in a premium on capacity resources. The results, shown in Table 12 of the  
12 Waneta 2017 Business Case, indicate a negative risk-adjusted cash flow NPV of  
13 \$328 million (zero real increase in wholesale electricity prices over 20 years) or an NPV  
14 of zero (Extrapolated Forecast with a 30 per cent increase to capacity adder).

#### 15 **4.5.5 Capital Cost and Assumed Economic Life Sensitivities**

16 Capital costs materially higher than anticipated will reduce the relative value of the  
17 transaction, while lower capital costs and a longer economic life<sup>131</sup> than the assumed  
18 40 years will increase the relative value of the transaction. A set of scenarios based on  
19 these concepts is shown in Table 13 of the Waneta 2017 Business Case. The analysis  
20 reveals that the transaction value is relatively insensitive to variances in capital cost  
21 forecasts, but quite sensitive to economic life assumptions, with a maximum \$85 million  
22 reduction in transaction value associated with the former, compared to a maximum  
23 \$280 million increase in value associated with the latter.

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<sup>131</sup> BC Hydro did not test the sensitivity of an economic life shorter than 40 years because that assumption is already inherently conservative. BC Hydro does not see an economic life materially shorter than 40 years as plausible, for the reasons described in section [4.1.6](#) above.

## 4.6 Alternative Analysis

Given that BC Hydro's right to enter into the Waneta 2017 Transaction was substantially determined by the terms of the Fortis Transaction (see section 3.1), the only plausible alternative to be considered was a "no-go" scenario in which BC Hydro declined to exercise its ROFO. However, a decision to not issue the Reply Notice would have resulted in the Waneta Assets being purchased by Fortis Inc., an unregulated affiliate of FortisBC with no obligation to serve domestic load in BC. For its part, FortisBC has its own generation, load-serving obligations and, importantly, is a customer of BC Hydro under Rate Schedule 3808 - Power Purchase Agreement (**3808 PPA**), which is due to expire in 2033.<sup>132</sup> Finally, BC Hydro also considered that as a Crown corporation and an agent of the government, load-serving obligations could be imposed on it in the future that it does not currently have and that would not necessarily be imposed upon non-Crown utilities. In the circumstances, BC Hydro considered it necessary to consider three variations on the "no-go" scenario that would affect BC Hydro's LRB at the expiry of what would have been Fortis Inc.'s 20-year arrangement with Teck, and the consequential economic impacts. These are shown in section 4.3 of the Waneta 2017 Business Case.<sup>133</sup> On the basis that the 3808 PPA is renewed, the "No-Go" alternatives offer very little value but considerable risk.

## 4.7 Risk Analysis

The most significant risks associated with the Waneta 2017 Transaction arise from the uncertainty regarding BC Hydro's LRB at the end of the Lease Period, and the value of electricity at that time. These risks have been expressly and quantitatively accounted for in the economic analysis of the transaction as described above. Two other significant risks have been quantified and expressly accounted for in the economic analysis, namely the risk of counterparty (Teck) default and the possibility that Teck exercises its

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<sup>132</sup> FortisBC has included a 3808 PPA renewal scenario in its base case portfolio analysis currently before the Commission. See page 78 of its 2016 LTERP and LT DSM Plan, Commission Project No. 3698896.

<sup>133</sup> See pages 38-43 of the Waneta 2017 Business Case, attached as Appendix N.

1 option to extend the Lease Period from 20 years to 30 years. Finally, BC Hydro's  
2 sensitivity analysis further quantified and accounted for measureable risk factors.

3 A qualitative discussion of other less significant risks arising from the transaction is  
4 included in the Waneta 2017 Business Case.<sup>134</sup> Because it is self-explanatory, it is not  
5 repeated here.

6 BC Hydro notes that Waneta physically exists, with a long history of operations, so there is  
7 no material attrition, construction or development risk with respect to the physical  
8 development of the resource, unlike virtually every other generation resource acquisition  
9 project.

## 10 **4.8 Incremental Value Potential**

11 BC Hydro expects that additional value from the transaction can be expected to arise in  
12 a number of ways. Some of them have been identified in the discussion above; all are  
13 summarized here for convenience; and all are relative to risk-adjusted benefits shown in  
14 Table 8 of the business case:

- 15 • Additional investment in Waneta, extending the effective life of the asset past the  
16 40-year modelled life, could yield incremental value of \$280 million on the basis of  
17 a surplus position at the end of the Lease Period (market prices at the ABB  
18 Forecast level) and more if BC Hydro is in deficit;
- 19 • Additional OATT revenue,<sup>135</sup> and
- 20 • Additional value of \$30 million for capacity-rich electricity on the basis of a surplus  
21 position at the end of the Lease Period and a market dominated by  
22 clean/renewable energy resources (market prices at the Extrapolated Forecast  
23 level).

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<sup>134</sup> See pages 33-38 of the Waneta 2017 Business Case, attached as Appendix N.

<sup>135</sup> See Appendix C of the Waneta 2017 Business Case, attached as Appendix N.



## 4.9 Factors the Commission Must Consider Under the *UCA*

This section sets out the factors the Commission must consider as a matter of law in its assessment of the Waneta 2017 Transaction under subsection 44.2(5.1) of the *Utilities Commission Act*. That provision states the following:

In considering whether to accept an expenditure schedule filed by the authority [i.e. BC Hydro], the commission, in addition to considering the interests of persons in British Columbia who receive or may receive service from the authority, must consider [emphasis added]:

(a) British Columbia's energy objectives,

(b) an applicable integrated resource plan approved under section 4 of the *Clean Energy Act*,

(c) the extent to which the schedule is consistent with the requirements under section 19 of the *Clean Energy Act*, and

(d) if the schedule includes expenditures on demand-side measures, the extent to which the demand-side measures are cost-effective within the meaning prescribed by regulation, if any.

### 4.9.1 Ratepayer Interests

The interests of BC Hydro's ratepayers now and in the future are well-served by the Waneta 2017 Transaction for the reasons summarized above and elaborated on in section [4.1.3](#).

### 4.9.2 British Columbia's Energy Objectives

British Columbia's energy objectives are prescribed by section 2 of the *Clean Energy Act*. Each objective is set out below, with BC Hydro comments immediately following.

(a) *to achieve electricity self-sufficiency*;

The acquisition of the two-thirds interest of Waneta that is at the heart of the transaction serves, or at worst is consistent with the self-sufficiency objective. The Commission came to this same conclusion, under a substantially identical regulatory framework (on

1 this issue) in its 2010 decision approving the acquisition by BC Hydro of a one-third  
2 interest in Waneta.<sup>136</sup>

3 *(b) to take demand-side measures and to conserve energy, including the objective of*  
4 *the authority reducing its expected increase in demand for electricity by the*  
5 *year 2020 by at least 66 per cent;*

6 The Waneta 2017 Transaction neither serves nor impedes this objective. That is, the  
7 Waneta 2017 Transaction will have no effect on the relative priorities of resources,  
8 including demand-side measures, in BC Hydro's future resource planning.

9 *(c) to generate at least 93 per cent of the electricity in British Columbia, other than*  
10 *electricity to serve demand from facilities that liquefy natural gas for export by ship,*  
11 *from clean or renewable resources and to build the infrastructure necessary to*  
12 *transmit that electricity;*<sup>137</sup>

13 The Waneta 2017 Transaction serves this objective insofar as it will ensure that Waneta  
14 and associated clean and renewable generation and transmission assets will remain  
15 available, indefinitely, to serve British Columbia loads. The Commission came to the  
16 same conclusion in its 2010 Waneta Decision.<sup>138</sup>

17 *(d) to use and foster the development in British Columbia of innovative technologies*  
18 *that support energy conservation and efficiency and the use of clean or renewable*  
19 *resources;*

20 The Waneta 2017 Transaction neither serves nor impedes this objective.

21 *(e) to ensure the authority's ratepayers receive the benefits of the heritage assets and*  
22 *to ensure the benefits of the heritage contract under the [BC Hydro Public Power](#)*  
23 *[Legacy and Heritage Contract Act](#) continue to accrue to the authority's ratepayers;*

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<sup>136</sup> 2010 Waneta Decision, page 40. At the time of the Waneta 2010 Transaction the provincial self-sufficiency objective was expressed in *Special Direction No. 10*.

<sup>137</sup> As amended by BC Regulation 234/2012.

<sup>138</sup> At page 40. Currently, the definition of "clean or renewable resource" in section 1 of the *Clean Energy Act* includes hydroelectric power. At the time, the provincial clean or renewable resource objective was expressed in the B.C. Government's *Clean or Renewable Electricity Guidelines*.

1 The “heritage assets” include BC Hydro’s interest in Waneta (section 1 of the *Clean*  
2 *Energy Act*) and so the Waneta 2017 Transaction serves this provincial energy  
3 objective.

4 (f) *to ensure the authority's rates remain among the most competitive of rates charged*  
5 *by public utilities in North America;*

6 BC Hydro has entered into the Waneta 2017 Transaction primarily because of its  
7 economic value to ratepayers, and the fact that it will help maintain BC Hydro’s low  
8 rates. Thus, this objective is also served by the transaction.

9 (g) *to reduce BC greenhouse gas emissions*

10 (i) *by 2012 and for each subsequent calendar year to at least 6 per cent less than*  
11 *the level of those emissions in 2007,*

12 (ii) *by 2016 and for each subsequent calendar year to at least 18 per cent less than*  
13 *the level of those emissions in 2007,*

14 (iii) *by 2020 and for each subsequent calendar year to at least 33 per cent less*  
15 *than the level of those emissions in 2007,*

16 (iv) *by 2050 and for each subsequent calendar year to at least 80 per cent less*  
17 *than the level of those emissions in 2007, and*

18 (v) *by such other amounts as determined under the [Greenhouse Gas Reduction](#)*  
19 *[Targets Act](#);*

20 Completion of the transaction will serve this objective insofar as it decreases the  
21 likelihood of Waneta being decommissioned if and when it is no longer needed by Teck  
22 to serve the Trail smelter load and is thus available to displace more GHG-intense  
23 resources.

24 (h) *to encourage the switching from one kind of energy source or use to another that*  
25 *decreases greenhouse gas emissions in British Columbia;*

26 The Waneta 2017 Transaction neither serves nor impedes this objective.

1 (i) *to encourage communities to reduce greenhouse gas emissions and use energy*  
2 *efficiently;*

3 The Waneta 2017 Transaction neither serves nor impedes this objective.

4 (j) *to reduce waste by encouraging the use of waste heat, biogas and biomass;*

5 The Waneta 2017 Transaction neither serves nor impedes this objective.

6 (k) *to encourage economic development and the creation and retention of jobs;*

7 The Waneta 2017 Transaction serves this objective insofar as it results in the full public  
8 ownership of a valuable resource that has made a meaningful contribution to the  
9 economic well-being of the West Kootenay region for decades.

10 (l) *to foster the development of first nation and rural communities through the use and*  
11 *development of clean or renewable resources;*

12 The Waneta 2017 Transaction serves this objective for the same reason it serves  
13 objective (k) regarding economic development.

14 (m) *to maximize the value, including the incremental value of the resources being clean*  
15 *or renewable resources, of British Columbia's generation and transmission assets*  
16 *for the benefit of British Columbia;*

17 Insofar as the CPA already results in the value of the resources to which it is applicable  
18 being maximized, including Waneta, this objective is neither served nor impeded by the  
19 Waneta 2017 Transaction.

20 (n) *to be a net exporter of electricity from clean or renewable resources with the*  
21 *intention of benefiting all British Columbians and reducing greenhouse gas*  
22 *emissions in regions in which British Columbia trades electricity while protecting*  
23 *the interests of persons who receive or may receive service in British Columbia;*

24 As noted, Waneta is a "clean or renewable resource" under the *Clean Energy Act*. The  
25 Waneta 2017 Transaction serves this provincial objective by putting Waneta into

1 BC Hydro's hands for ultimate use as a resource that will either assist BC Hydro in  
2 meeting its domestic load-serving obligations or will generate incremental export  
3 revenues.

4 *(o) to achieve British Columbia's energy objectives without the use of nuclear power*

5 The Waneta 2017 Transaction serves this provincial energy objective by adding to  
6 BC Hydro's resource portfolio and load-serving ability through a non-nuclear resource.

7 *(p) to ensure the commission, under the [Utilities Commission Act](#), continues to*  
8 *regulate the authority with respect to domestic rates but not with respect to*  
9 *expenditures for export, except as provided by this Act.*

10 The Waneta 2017 Transaction neither serves nor impedes this objective.

11 In summary, it is apparent that the Waneta 2017 Transaction advances most of the  
12 British Columbia energy objectives (nine of 16) or is at worst neutral to them (seven of  
13 16). Importantly, it does not undermine or run counter to any of the British Columbia  
14 energy objectives.

### 15 **4.9.3 Integrated Resource Plan**

16 In its 2010 Waneta Decision, the Commission concluded that the then-proposed  
17 acquisition of BC Hydro's one-third interest in Waneta "*...did not form part of any*  
18 *long-term resource plan submitted by BC Hydro and thus the provisions of [then]*  
19 *section 44.2(5)(b) [regarding BC Hydro's most recent long term resource plan] are not*  
20 *applicable to the consideration of the expenditure schedule by this Commission*  
21 *Panel*".<sup>139</sup> Because the two-thirds interest in Waneta similarly does not at this time figure  
22 in any long-term resource plan of BC Hydro, this requirement is similarly not applicable.

23 Nevertheless, BC Hydro notes that the 2013 IRP is the "applicable integrated resource  
24 plan" referred to in paragraph 44.2(5.1) of the *UCA*, and that plan is in large measure  
25 the basis of the F17-F19 RRA LRB forecasts that underpin BC Hydro's economic

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<sup>139</sup> At page 39 of Commission Order No. G-12-10.

1 assessment of the transaction after the Lease Period, as described above in  
2 section [4.3](#).

#### 3 **4.9.4 Section 19 of the *Clean Energy Act***

4 Section 19 of the *Clean Energy Act* provides for the establishment of prescribed targets  
5 and prescribed guidelines for the purpose of achieving the provincial clean or renewable  
6 resource energy objective set out in section 2(c) of the *Clean Energy Act*. There are no  
7 prescribed targets or prescribed guidelines and so the requirement that the Commission  
8 consider this section is not applicable.

#### 9 **4.9.5 DSM Expenditures**

10 Paragraph 44.2(5.1)(d) is only applicable in regard to expenditure schedules that  
11 include “expenditures on demand-side measures”. The expenditure schedule in the  
12 Application (Table 1-1, section 1.5.1) does not include expenditures on demand-side  
13 measures, and so this consideration is not applicable.

#### 14 **4.9.6 Summary of *UCA* Factors**

15 BC Hydro submits that of the factors that the Commission is required to consider under  
16 the *UCA* in its review of this Application, the most relevant are the benefits to  
17 BC Hydro’s ratepayers and its advancement of many of the British Columbia energy  
18 objectives. If the Waneta 2017 Transaction is completed BC Hydro and its ratepayers  
19 will see an immediate financial benefit, and will continue to do so for long into the future.

20 The Waneta 2017 Transaction will result in the full public ownership of a valuable  
21 resource that has a long history of providing reliable, clean and renewable energy in  
22 support of local industry.

#### 23 **4.10 Other Factors the Commission Has Considered**

24 In this section BC Hydro identifies and comments on a number of other factors the  
25 Commission has determined may be relevant in a CPCN or a *UCA* section 44.2  
26 application.

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#### 1 **4.10.1 Teck's Opportunity Cost**

2 As discussed above, the ROFO is based on substantially matching an otherwise binding  
3 offer made by an arms-length third-party. BC Hydro's Reply Notice has substantially  
4 matched the offer submitted by Fortis Inc. in May, 2017. That offer was made pursuant  
5 to the competitive bid process described above in section 1.4.2. In these circumstances,  
6 the Commission and stakeholders can be satisfied that BC Hydro has not "left any  
7 money on the table", thereby making Teck's opportunity cost moot. Nevertheless,  
8 BC Hydro had previously conducted an analysis of Teck's opportunity costs, and  
9 updated it for the purpose of the Waneta 2017 Business Case. That analysis confirms  
10 the rationale for Teck to conclude the proposed transaction.<sup>140</sup>

#### 11 **4.10.2 Fortis Inc.'s Opportunity Cost**

12 BC Hydro also assessed Fortis Inc.'s opportunity cost of not being able to effect its  
13 proposed purchase of the Waneta Assets under the Fortis Transaction as described  
14 above at section 3.1. This analysis is high-level, but confirms that the \$1.203 billion  
15 purchase price offered by Fortis Inc. was reasonable.<sup>141</sup>

#### 16 **4.10.3 Environmental**

17 There are no new environmental impacts created by the Waneta 2017 Transaction.  
18 Waneta is an existing facility and has all required environmental permits. It has been in  
19 existence for many years and BC Hydro believes that its impacts have been identified  
20 and acceptable operating standards have been successfully employed. Importantly, no  
21 material changes in operation have been identified during the Lease Period or  
22 subsequently. In the post-Lease Period, the Waneta 2017 Transaction potentially avoids  
23 the need for other resource alternatives that would invariably have some potential  
24 environmental impact.

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<sup>140</sup> See pages 2-3 of Appendix F of the Waneta 2017 Business Case, attached as Appendix N.

<sup>141</sup> See pages 4-5 of Appendix F of the Waneta 2017 Business Case, attached as Appendix N.

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#### 1 **4.10.4 Schedule and Timing Availability**

2 The Waneta 2017 Transaction is available immediately, with no planning, development  
3 or regulatory risk (except as noted above at section [4.7](#)). During the Lease Period it will  
4 generate immediate net revenues that will reduce BC Hydro's revenue requirements  
5 and have beneficial (lowering) impacts on BC Hydro's rates.

#### 6 **4.10.5 Term**

7 The Waneta 2017 Transaction is an acquisition and accordingly the Waneta Assets will  
8 be available to BC Hydro as long as they exist. In this sense it is similar to resources  
9 constructed by BC Hydro, and unlike independent Power Producers or wholesale market  
10 acquisitions.

#### 11 **4.10.6 Energy and Capacity Reliability**

12 During the Lease Period the energy and capacity portions of BC Hydro's existing  
13 one-third share of Waneta electricity continues to be both physically and financially firm.  
14 Up to 2036, Teck continues to take both unit reliability risk and *force majeure* risk  
15 associated with BC Hydro's one-third share of Waneta's output, leaving BC Hydro with a  
16 product that is 100 per cent firm.

17 After the Lease Period, BC Hydro will have the rights to all capacity and energy from  
18 Waneta, unencumbered by other interests.

#### 19 **4.10.7 Energy Shaping and Coordination**

20 Energy shaping refers to the capability of a generating facility to store water for  
21 generation at later times when the resulting energy is most valuable. Coordination refers  
22 to the ability to instruct a generating facility in coordination with other facilities to meet  
23 load in the most cost effective manner.

24 During the Lease Period the capacity associated with BC Hydro's Waneta electricity will  
25 continue to provide energy shaping flexibility to BC Hydro. BC Hydro plans and instructs  
26 the operation of the plants included in the CPA, including Waneta. The coordination of



1 the CPA plants with the other plants in the BC Hydro system provides coordination  
2 benefits stemming from the optimization of their joint operation.

3 During the Lease Period, and under the continuing arrangements contemplated in the  
4 SPRA and the Scheduling Agreement, Teck's market activities are limited to importing  
5 to serve their load and exporting any surplus electricity. These agreements have the  
6 effect of reducing Teck's trade activity and providing schedule and load certainty for  
7 BC Hydro. BC Hydro's experience since the Waneta 2010 Transaction has shown  
8 greatly reduced Teck exports during heavy load periods (virtually all sold to BC Hydro)  
9 and reduced Teck imports during light load periods (as needed to serve their load  
10 and/or sell to BC Hydro). These reductions confirm the value associated with the highly  
11 predictable and stable smelter load.

12 In aggregate, the energy shaping and coordination characteristics of Waneta are  
13 comparable with highly dispatchable resources such as the Seven Mile facility, and are  
14 superior to most other resource options available to BC Hydro.

#### 15 **4.10.8 Safety**

16 There is no construction related safety risk as the plant is in operation. Operationally,  
17 dam safety is expected to improve, relative to the *status quo*, given BC Hydro's ability to  
18 require dam safety works to a greater extent than currently provided for and to include  
19 Waneta in its portfolio of hydroelectric assets for dam safety purposes.<sup>142</sup>

#### 20 **4.10.9 Location**

21 Waneta is an existing facility. Its location and transmission interconnections are  
22 described in Chapter 2. During the Lease Period BC Hydro will continue to have all the  
23 necessary transmission rights to deliver its Waneta electricity to its relevant markets  
24 from the Kootenay Interconnection.

25 After the Lease Period BC Hydro will acquire the Transmission Assets and will have the  
26 enhanced transmissions rights (relative to the Lease Period) to deliver Waneta energy

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<sup>142</sup> See sections 2.2.2 and 3.2.5.1.

1 to markets, domestic or export. This will be true regardless of whether BC Hydro is  
2 providing a wheeling service to Teck, since that service would only be in regard to  
3 imports to serve the Trail smelter load, and such deliveries which would run counter to  
4 BC Hydro's energy deliveries from Waneta.

#### 5 **4.10.10 Line Losses**

6 During the Lease Period the physical flow of energy over the interconnected  
7 transmission system will be the same as it currently is and in consequence there will be  
8 no incremental line losses. After the Lease Period, there will be no material changes in  
9 BC Hydro line losses if BC Hydro is using Waneta to serve the Teck smelter load,  
10 serving other comparable domestic load in the region, or exporting to the United States.  
11 To the extent Waneta is not used to serve smelter load or comparable load in the  
12 region, one could expect aggregate line losses to be somewhat greater than during the  
13 Lease Period, all else being equal, but inconsequential in relation to the magnitude of  
14 aggregate line losses and in relation to the anticipated financial outcomes of the  
15 transaction.

### 16 **4.11 Due Diligence**

17 BC Hydro conducted extensive due diligence in regard to its purchase of the one-third  
18 interest in Waneta in 2010. Studies and reviews were done in regard to the condition of  
19 the plant, environmental and public safety issues, as well as legal and financial due  
20 diligence. Outside experts were retained on a number of topics. In the 2010 Waneta  
21 Decision, the commission concluded that

22 The Commission Panel views the due diligence process conducted  
23 by BC Hydro as satisfactory. The KCB Report outlines eight  
24 previously unidentified risks. The Commission Panel accepts that  
25 when costs for remediating these risks are added to the unit energy  
26 cost, the impact is relatively minor and has little impact on the  
27 viability of the Transaction. The Commission Panel finds no  
28 evidence to support any assertion that the probability and potential

1 impact of these risks would be sufficient to offset the identified  
2 benefits of the Waneta [1] Transaction.<sup>143</sup>

3 Since its investment in Waneta, BC Hydro has been on the Operating Committee  
4 established under the COA, and in consequence has been privy to all the same  
5 information that Teck has had in regard to the technical, environmental, legal and  
6 commercial aspects of Waneta generated through the work of that committee. Nothing  
7 BC Hydro has learned about Waneta since the formation of the Operating Committee  
8 has caused "buyer's remorse". BC Hydro has continued to be of the view that the facility  
9 compares favourably in comparison with similar-sized projects of a similar vintage.

10 Upon receipt of the Sale Notice from Teck in May of this year, BC Hydro initiated a  
11 further due diligence effort focused on a structured review of new information available  
12 since 2009 to 2010, as informed by the information that had been gathered as part of  
13 the 2009 to 2010 effort. This renewed due diligence effort was greatly assisted by the  
14 establishment by Teck of an electronic "data room", through which it made available to  
15 potential bidders in its 2016 to 2017 competitive sales process the information it had at  
16 its disposal. Specific topics considered in the course of the more recent due diligence  
17 effort includes Technical; Operations; Environmental; Financial; and Legal.

18 BC Hydro's key conclusions regarding the condition of the assets it will be acquiring are  
19 set out in section 2.2. No new material environmental risks were identified, although it  
20 was recognized that BC Hydro's 100 per cent ownership of Waneta and the evolving  
21 focus of environmental regulators could result in increased environmental-regulatory  
22 risks over time, consistent with risks of the same nature BC Hydro has with its current  
23 facilities. Similarly, no new material financial or legal risks were identified, other than  
24 those (in the case of financial risks) expressly set out in the Waneta 2017 Business  
25 Case or addressed through the accounting orders BC Hydro has requested from the  
26 Commission.

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<sup>143</sup> At page 17 of Commission Order No. G-12-10.

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## 4.12 Conclusions Regarding Justification

1 If the Waneta 2017 Transaction is completed, it will result in BC Hydro being the sole  
2 owner of Waneta, a facility with a long history of providing clean, reliable energy and  
3 capacity.  
4

5 Under the Waneta 2017 Transaction, for the next 20 years or 30 years the *status quo* is  
6 largely maintained, in the sense that water flows, operating and maintenance practices  
7 and cost-sharing between BC Hydro and Teck remain mostly unchanged. However,  
8 BC Hydro will see an immediate financial benefit that will be to the account of customers  
9 from the outset.

10 After the Lease Period BC Hydro will have a clean, low cost generation resource that  
11 will be available to cost-effectively serve domestic or export markets.

12 Having been a one-third owner since 2010, BC Hydro is in an excellent position to be  
13 satisfied that the facility compares favourably to similar-sized projects of a similar  
14 vintage, and thus poses no extraordinary risk.

15 Because BC Hydro's offer to purchase Teck's two-thirds interest in Waneta was based  
16 on matching an offer that was arrived at through a competitive, arms-length process  
17 ratepayers and the Commission can be assured that the transaction price is reasonable  
18 and reflects market value.

## **Waneta 2017 Transaction**

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# **Chapter 5**

## **Aboriginal Engagement**

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## 5.1 First Nations Identification

Using the B.C. Government's Consultative Area Database (**CAD**), BC Hydro identified that Waneta, including the Transmission Assets, is within the consultative boundaries of the following First Nations and Nation-level organizations:<sup>144</sup>

- Ktunaxa Nation Council
  - ▶ Akisqnuq First Nation [?'akisq' nuk]<sup>145</sup>
  - ▶ Lower Kootenay Band [Yaqaḅ nu?kiy]
  - ▶ St. Mary's Indian Band [?'aqam]
  - ▶ Tobacco Plains Indian Band [?'akinkumtasnuqti?it]
- Okanagan Nation Alliance
  - ▶ Upper Nicola Indian Band
  - ▶ Lower Similkameen Indian Band
  - ▶ Penticton Indian Band
  - ▶ Okanagan Indian Band
  - ▶ Osoyoos Indian Band
- Secwepemc Nation<sup>146</sup>
  - ▶ Shuswap Indian Band

<sup>144</sup> The list produced by the CAD has been organized to indicate the member First Nations within each Nation-level organization. The "Secwepemc Nation" has been added as a heading for organizational clarity although it does not appear in CAD.

<sup>145</sup> The names of the member First Nations are as shown in the CAD. Alternative spellings/names are provided in parentheses.

<sup>146</sup> Seventeen First Nations identify themselves as members of the Secwepemc Nation, namely Simpcw First Nation, Tk'emlups te Secwepemc, Skeetchestn Indian Band, Adams Lake Indian Band, Splatstsin First Nation, Neskonlith Indian Band, Bonaparte Indian Band, Little Shuswap Indian Band, Shuswap Indian Band, Whispering Pines/Clinton Indian Band, High Bar First Nation, Canim Lake Band/The Tsq'escen', Stswecem'c/Xgat'tem First Nation (Canoe and Dog Creek), Xat's'ull (Soda & Deep Creek Band), T'exelc (Williams Lake Indian Band, Esketemc First Nation, and Ts'k'waylax First Nation. There is no contemporary political organization that speaks for all seventeen member bands of the Secwepemc Nation. Only the two member First Nations indicated in the text have consultative areas in the CAD that include Waneta (including the Transmission Assets).

1       ▶ Splats'in First Nation

2       **5.1.1       The Ktunaxa Nation Council and Member First Nations**

3       The Ktunaxa Nation Council consists of the four member First Nations listed above.  
4       Waneta is located in the western area of the Ktunaxa Nation Council's asserted  
5       traditional territory. Of the four member First Nations, the Lower Kootenay Band,  
6       located near Creston, B.C., is closest to the location of Waneta. The Ktunaxa treaty  
7       negotiations are at stage four (of six) in the treaty negotiation process and are  
8       described in the 2017 BC Treaty Commission Annual Report as being "advanced  
9       agreement in principle negotiations."<sup>147</sup> The Ktunaxa Nation Council has identified  
10      lands of interest to its members for treaty settlement. Canada and B.C. have  
11      responded to these expressed land interests with a "land and cash offer."<sup>148</sup> There is  
12      no public information in respect of the identified lands.

13      **5.1.2       The Okanagan Nation Alliance and Member First Nations**

14      The Okanagan Nation Alliance consists of seven member First Nations located in  
15      Canada (namely the Upper Nicola Band, Lower Similkameen Indian Band, Upper  
16      Similkameen Indian Band, Westbank First Nation, Penticton Indian Band, Okanagan  
17      Indian Band and the Osoyoos Indian Band), as well as the Colville Confederated  
18      Tribes located in the United States.<sup>149</sup> As indicated above, a search of the CAD  
19      listed the Okanagan Nation Alliance and five (of seven) member First Nations  
20      located in Canada, which generally correspond to the communities more proximate  
21      to Waneta.

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<sup>147</sup> BC Treaty Commission, 2017 Annual Report (<http://www.bctreaty.ca/sites/default/files/BCTreatyCommission-AR2017.pdf>) at pages 36 and 47. The Ktunaxa Nation Council was previously called the Ktunaxa Kinbasket Treaty Council, and is still referred to by that name on the website.

<sup>148</sup> *Ibid.* at pages 38 and 39.

<sup>149</sup> In 2009-2010 BC Hydro engaged with the Sinixt Nation Society as purported representatives of the Sinixt (Lakes) Nation regarding the Waneta 2010 Transaction, despite the fact that it was not then recognized as representing a First Nation interest by either the provincial or federal governments. The Directors of the Sinixt Nation Society were subsequently unsuccessful in advancing a claim to establish its representative capacity for the Sinixt (Lakes) Nation. See *Campbell v. British Columbia (Forest and Range)*, 2011 BCSC 448). Subsequent to the Waneta 2010 Transaction, the Colville Confederated Tribes of the U.S. became a member in the Okanagan Nation Alliance.



1 Waneta is located in the eastern area of the asserted traditional territory of the  
2 Okanagan Nation Alliance. Of the seven member First Nations, the Osoyoos Indian  
3 Band is closest to Waneta. Neither the Okanagan Nation Alliance nor any of its  
4 member First Nations are currently participating in treaty negotiations.<sup>150</sup>

### 5 5.1.3 The Secwepemc Nation and Member First Nations

6 The Shuswap Indian Band<sup>151</sup> and the Splots'in First Nation are part of the  
7 Secwepemc Nation, and are the only two member First Nations indicated in the CAD  
8 with consultative area boundaries that include Waneta and the Transmission Assets.

9 Waneta is located in the southern area of the asserted traditional territory of the  
10 Secwepemc Nation. Shuswap Indian Band is closest to the facility. Neither the  
11 Shuswap Indian Band nor the Splots'in First Nation are involved in treaty  
12 negotiations.

## 13 5.2 The Crown's Duty to Consult

14 The duty to consult is grounded in the honour of the Crown. In *Haida Nation v.*  
15 *British Columbia (Minister of Forests)*,<sup>152</sup> the Supreme Court of Canada held that the  
16 duty to consult arises "when the Crown has knowledge, real or constructive, of the  
17 potential existence of the Aboriginal right or title and contemplates conduct that  
18 might adversely affect it."<sup>153</sup> In *Rio Tinto Alcan Inc. v. Carrier Sekani Tribal*  
19 *Council*,<sup>154</sup> the Court clarified that the "test can be broken down into three elements:  
20 (1) the Crown's knowledge, actual or constructive, of a potential Aboriginal claim or

---

<sup>150</sup> One member community, Westbank First Nation, was previously participating independently in the BC Treaty Commission process. The territory claimed by Westbank in that process did not include Waneta. The BC Treaty Commission 2017 Annual Report lists Westbank among those groups "not currently negotiating a treaty," page 36.

<sup>151</sup> The Shuswap Indian Band was previously part of the Ktunaxa Kinbasket Treaty Council (**KKTC**) along with the four Ktunaxa communities discussed above. The Shuswap Indian Band subsequently parted ways with the KKTC (which was renamed the Ktunaxa Nation Council).

<sup>152</sup> 2004 SCC 73 (*Haida*).

<sup>153</sup> *Haida*, para 35.

<sup>154</sup> [2010] 2 SCR 650 (*Rio Tinto*).

1 right; (2) contemplated Crown conduct; and (3) the potential that the contemplated  
2 conduct may adversely affect an Aboriginal claim or right.”<sup>155</sup>

### 3 **5.3 Aboriginal Claim or Right**

4 As outlined in the “First Nations Identification” section above, a number of First  
5 Nations assert Aboriginal rights and title in the area where the Waneta Dam is  
6 located.

7 In the context of the Waneta 2010 Transaction, BC Hydro undertook a preliminary  
8 strength of claim analysis with regard to the identified First Nations, concluding that  
9 the strength of claim was low, or low to moderate, overall. However, as described in  
10 more detail in the “Adverse Effects Analysis” section below, BC Hydro has  
11 determined that the Waneta 2017 Transaction will not “adversely affect an Aboriginal  
12 claim or right”, and therefore does not trigger the duty to consult. Accordingly, the  
13 previous preliminary assessment of strength of claim remains applicable for the  
14 purposes of this Application and does not require an update.

### 15 **5.4 Adverse Effects Analysis**

16 As set out in more detail below, the Waneta 2017 Transaction will not lead to any  
17 changes with respect to the operation of the Waneta Dam, or the associated assets,  
18 including the Transmission Assets. Thus, BC Hydro understands that there will be  
19 no impacts associated with the Waneta 2017 Transaction that would have any  
20 adverse effect on the Aboriginal claims or rights in the area.

21 Water flows through the Waneta generating units are currently governed in  
22 accordance with the CPA, and will continue to do so indefinitely into the future.<sup>156</sup>

23 Subject to possible minor modifications to the outage planning and approvals  
24 process as discussed in section 2.5.6.2, this will continue to be true regardless of  
25 who is the “Operator” under the COPOA, and it will continue to be true after the

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<sup>155</sup> *Rio Tinto*, para 31.

<sup>156</sup> The CPA extends to at least 2035.

1 Lease Period. In consequence, the Waneta 2017 Transaction would not lead to any  
2 changes with respect to the operation of Waneta that could affect the physical  
3 environment in the surrounding region. Further, there are no non-physical impacts  
4 that BC Hydro can foresee that would have any effect on the Aboriginal claims or  
5 rights in the area.

6 In the 2010 Waneta Decision regarding the Waneta 2010 Transaction, the  
7 Commission concluded that *“nothing about the Waneta Transaction, in itself,  
8 changes or has any potential adverse effect on any pre-existing and ongoing  
9 infringements or the day to day operations of the Waneta Assets.”*<sup>157</sup>

10 In 2010 (following the Waneta 2010 Transaction), the Supreme Court of Canada, in  
11 the *Rio Tinto* decision, stated:

12           The third element of a duty to consult is the possibility that the  
13           Crown conduct may affect the Aboriginal claim or right. The  
14           claimant must show a causal relationship between the proposed  
15           government conduct or decision and a potential for adverse  
16           impacts on pending Aboriginal claims or rights. Past wrongs,  
17           including previous breaches of the duty to consult, do not  
18           suffice.

19           ... Mere speculative impacts... will not suffice. ... The adverse  
20           effect must be on the future exercise of the right itself; an  
21           adverse effect on a First Nation’s future negotiating position  
22           does not suffice.<sup>158</sup>

23 Following this guidance, BC Hydro, in approaching the Waneta 2017 Transaction,  
24 has focused on the question of whether there is a claim or right that potentially may  
25 be adversely impacted by the *current* conduct or decision in question. BC Hydro  
26 believes that the answer is “no” and that, accordingly, the legal duty to consult is not  
27 triggered.

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<sup>157</sup> 2010 Waneta Decision, page 28.

<sup>158</sup> *Rio Tinto*, paras. 45-46.

1 Notwithstanding this conclusion, BC Hydro focuses on building relationships with  
2 First Nations across B.C., recognizing the importance of long-term relationships to  
3 support its business. With this broader objective in mind, BC Hydro has undertaken  
4 in the engagement process described below.

## 5 **5.5 Engagement**

6 Building relationships that represent the priorities of Indigenous<sup>159</sup> people and First  
7 Nations is critical to BC Hydro's mission to provide reliable, affordable, clean  
8 electricity throughout B.C., safely. Therefore, BC Hydro has developed and  
9 implemented a "Statement of Indigenous Principles" that outlines BC Hydro's focus  
10 on building relationships with First Nations across BC, recognizing the importance of  
11 long-term relationships to support our business. A copy of BC Hydro's "Statement of  
12 Indigenous Principles" is attached at Appendix P. One of the principles is that  
13 BC Hydro "will strive to provide the most clear, accessible and transparent  
14 information possible."

15 BC Hydro has worked with the Ktunaxa Nation Council, Okanagan Nation Alliance,  
16 Secwepemc Nation, and their member First Nations to understand their preferred  
17 engagement processes. Engagement with member First Nations of the Ktunaxa  
18 Nation Council and Okanagan Nation Alliance occurs through engagement with the  
19 Nation-level organization, while engagement with members of the Secwepemc  
20 Nation occurs at the individual member First Nation level.

21 Given the commitments made in the Statement of Indigenous Principles and through  
22 its relationships with each of the First Nations, BC Hydro is undertaking an  
23 engagement process with respect to the Waneta 2017 Transaction to communicate  
24 with the Nation-level organizations or member First Nations in accordance with the  
25 preferred engagement processes described above. The specific communities and

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<sup>159</sup> Section 35 of the *Constitution Act, 1982*, refers to "aboriginal" and "aboriginal peoples of Canada". However, recently, "indigenous" has become a preferred term for many First Nations, and BC Hydro has recently adopted that terminology.

1 organizations BC Hydro has engaged with are Ktunaxa Nation Council, Okanagan  
2 Nation Alliance, the Shuswap Indian Band and the Splots'in First Nation.<sup>160</sup>

3 To date engagement with the Nation-level organizations and member First Nations,  
4 as applicable, has included the following activities:

- 5 • Timely notification via telephone following the August 1, 2017 public  
6 announcement of the Waneta 2017 Transaction;
- 7 • Timely provision of all relevant BC Hydro press releases following the  
8 August 1, 2017 public announcement of the Waneta 2017 Transaction  
9 (attached at Appendix Q);
- 10 • Provision of a fact sheet, dated August 29, 2017, containing information about  
11 the nature of and schedule for the Waneta 2017 Transaction (provided in late  
12 August and attached at Appendix R), along with an offer to meet; and
- 13 • Responding to questions and input in respect of the Waneta 2017 Transaction:

14 The Ktunaxa Nation Council has expressed a concern that it was not notified about  
15 the transaction prior to it being publicly announced, and has expressed an interest in  
16 understanding the business rationale for the Waneta 2017 Transaction, the  
17 Commission's process, and next steps. BC Hydro and the Ktunaxa Nation Council  
18 are scheduling a meeting to discuss these matters further.

19 BC Hydro met with the Okanagan Nation Alliance on October 17, 2017. The  
20 Okanagan Nation Alliance expressed an interest in a further meeting to understand  
21 the Waneta 2017 Transaction in more detail, in particular its structure, content and  
22 history; operations going forward; and consideration of the Okanagan Nation  
23 Alliance's interests in the transaction. The Okanagan Nation Alliance also expressed  
24 a concern that it was not notified about the transaction prior to it being publicly

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<sup>160</sup> That is, BC Hydro has engaged with the entities listed in the CAD.

1 announced. BC Hydro will work with the Okanagan Nation Alliance to schedule a  
2 further meeting with them as requested.

3 To date, the Shuswap Indian Band and the Splots'in First Nation  
4 have not responded to the fact sheet or the information  
5 provided.

6 BC Hydro will be providing a copy of the Application to the  
7 Ktunaxa Nation Council, the Okanagan Nation Alliance, the  
8 Shuswap Indian Band and the Splots'in First Nation concurrently  
9 with or shortly after filing it with the Commission.

10 BC Hydro will continue to seek input and respond to questions from the groups  
11 identified above. Further, BC Hydro anticipates that the Commission's regulatory  
12 process will provide a complimentary avenue through which First Nations can obtain  
13 additional information about the Waneta 2017 Transaction and express their  
14 interests directly to the Commission. BC Hydro will direct the Nations and their  
15 member First Nations, as applicable, to the forthcoming Commission process as a  
16 source for more detailed information in respect of the Waneta 2017 Transaction.

17 Recently, the Supreme Court of Canada confirmed that meaningful Crown  
18 consultation (if the duty to consult is triggered) can be carried out through a  
19 regulatory process and the Crown may rely on steps taken by an administrative body  
20 to fulfill its duty to consult.<sup>161</sup> As discussed above, BC Hydro's view is that the legal  
21 duty to consult is not triggered in these circumstances (given that there is no  
22 adverse effect on an Aboriginal claim or right); however, the Commission's  
23 regulatory process can still play a valuable role as a source for detailed information  
24 and as a forum for further consideration and discussion of the Waneta 2017  
25 Transaction.

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<sup>161</sup> See: Clyde River (Hamlet) v. Petroleum Geo-Services Inc., 2017 SCC 40; and Chippewas of the Thames First Nation v. Enbridge Pipelines Inc., 2017 SCC 41.

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## 1 **5.6 Summary with Respect to Discharging Aboriginal** 2 **Consultation Obligations**

3 BC Hydro is dedicated to consulting with and, if appropriate, accommodating  
4 Aboriginal groups in a manner that meets the Crown's obligations having regard to  
5 the asserted Aboriginal rights and title and the extent of any adverse effects of  
6 BC Hydro's contemplated decisions on their claims. BC Hydro is also committed to  
7 meeting commitments made in its Statement of Indigenous Principles. Therefore,  
8 notwithstanding BC Hydro's view that this transaction does not trigger the legal duty  
9 to consult with the Okanagan, Secwepemc or Ktunxaxa Nations, or their individual  
10 member First Nations, BC Hydro has provided information to First Nations about the  
11 transaction, invited comments and questions, and will continue to consider and  
12 respond to such comments and issues as are raised in the engagement process  
13 described above and/or in the Commission's regulatory process.

## List of Appendices

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Appendix A	Draft Order
Appendix B	Sale Notice
Appendix C	Reply Notice
Appendix D	Operator Election Letter
Appendix E	Waneta Purchase Agreement
Appendix F	Waneta Lease Agreement
Appendix G	Comparison Table: Co-Ownership and Operating Agreement (2010) and Co-Possessors and Operating Agreement (2017)
Appendix H	Co-Possessors and Operating Agreement
Appendix I	Contract Bare Trust Agreement
Appendix J	Guarantee Agreement between Teck Resources Limited and BC Hydro
Appendix K	WAS Access Easement/Statutory Right of Way
Appendix L	Transaction Closing Matters Agreement
Appendix M	Transmission Agreement Term Sheet
Appendix N	Redacted Waneta 2017 Business Case
Appendix O	BC Hydro's LRB Outlooks Provided in the Current Site C Proceeding
Appendix P	Statement of Indigenous Principles
Appendix Q	Press Releases, dated August 1, 2017
Appendix R	First Nations Notice (Fact Sheet), dated August 29, 2017
Appendix S	Definitions, Acronyms and Abbreviations



## **Waneta 2017 Transaction**

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**Appendix A**

**Draft Order**



Suite 410, 900 Howe Street  
Vancouver, BC Canada V6Z 2N3  
P: 604.660.4700  
TF: 1.800.663.1385  
F: 604.660.1102

**ORDER NUMBER**  
**G-xx-xx**

IN THE MATTER OF  
the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

British Columbia Hydro and Power Authority (**BC Hydro**)

Acquisition From Teck Metals Ltd. (**Teck**) of an Undivided Two-Thirds Interest in the Waneta Dam and Associated Assets (the **Waneta 2017 Transaction**)

Before:

on Date

**ORDER**

**WHEREAS:**

- A. Since 2010, BC Hydro has been the owner of an undivided one-third interest in the Waneta dam and associated assets which it purchased from Teck for \$825 million (the **Waneta 2010 Transaction**). Teck is the owner of the remaining two-thirds interest. The Waneta 2010 Transaction was approved by the Commission pursuant to Order No. G-12-10 on February 23, 2010;
- B. As part of the Waneta 2010 Transaction, a “right of first offer” (**ROFO**) was established in regard to the subsequent sale by either party of their interest in Waneta and which permitted the non-selling party the first right to acquire the seller’s interest;
- C. In May 2017, following a competitive sales process, Teck informed BC Hydro that it had reached an agreement to sell its two-thirds interest in Waneta and related transmission assets to Fortis Inc. for \$1.2 billion;
- D. On June 1, 2017, Teck delivered a Sale Notice to BC Hydro which provided BC Hydro with the opportunity to match Fortis Inc.’s offer and purchase Teck’s two-thirds interest in Waneta under terms substantially equivalent to the Fortis offer;
- E. On August 1, 2017, BC Hydro delivered a Reply Notice to Teck which, together with the Sale Notice, constituted BC Hydro’s legally binding election to purchase Teck’s two-thirds interest in the Waneta Dam and associated assets;

.../2

- F. Attached to the Reply Notice was an executed Waneta Purchase Agreement which sets out the sale by Teck and purchase by BC Hydro of Teck's two-thirds interest in Waneta for \$1.203 billion cash. The parties agreed that closing of the Waneta 2017 Transaction must occur by August 1, 2018.
- G. A key term of the Waneta 2017 Transaction is that the two-thirds interest in Waneta will be leased to Teck for a 20-year period (extendable to 30 years at Teck's option) in consideration of lease payments from Teck to BC Hydro;
- H. Upon expiration of earlier termination of the lease, BC Hydro will purchase Teck's transmission assets, including Line 71 (collectively, the **Transmission Assets**) for \$20 million;
- I. After the lease period has ended, and after BC Hydro has acquired the Transmission Assets, BC Hydro will provide a transmission wheeling service to Teck between the U.S. border and Teck's smelter load, pursuant to the Teck Wheeling Agreement, as well as certain ancillary services, pursuant to the Waneta Interconnection Agreement;
- J. On October 30, 2017 BC Hydro made a filing (**Filing**) requesting the following orders from the British Columbia Utilities Commission (the **Commission**):
- a. Pursuant to section 44.2(3) of the *Utilities Commission Act* (the *UCA*), acceptance by the Commission of the expenditure schedule in regard to the Waneta 2017 Transaction as shown in the Filing;
  - b. Pursuant to sections 58-61 of the *UCA*, approval of the Teck Wheeling Agreement and Waneta Interconnection Agreement; and
  - c. Pursuant to section 49(a) of the *UCA*, approval of three adjustments to the Non-Heritage Deferral Account (**NHDA**) as described in the Filing;
- K. On October 30, 2017, BC Hydro filed the following agreements on the record of the proceeding:
- a. Waneta Transmission Agreement;
  - b. Teck Wheeling Agreement; and
  - c. Waneta Interconnection Agreement;
- L. On receipt of the Filing, the Commission has conducted a public hearing process as follows:
- a. [INSERT SUMMARY OF PROCESS]
- M. The Commission has considered the Filing, evidence and submissions of BC Hydro and all intervenors.

**NOW THEREFORE** the Commission orders as follows:

1. Pursuant to section 44.2(3)(a) of the *UCA*, the expenditure schedule contained in the Filing, consisting of a \$1.203 billion payment to Teck to acquire a two-thirds interest in Waneta; a \$20 million payment to Teck to acquire the Transmission Assets; and transaction costs up to \$50 million, is in the public interest and is accepted;
2. Pursuant to sections 58-61 of the *UCA*, approval of the Teck Wheeling Agreement and Waneta Interconnection Agreement, as filed;

3. Pursuant to section 49(a) of the *UCA*, approval of three adjustments to the NHDA, all as more fully described in the Filing, as follows:
- a. BC Hydro may defer its fiscal 2019 incremental lease revenues arising from the Waneta 2017 Transaction to the NHDA;
  - b. BC Hydro may exclude the portion of year-to-year variances between forecast and actual water rentals arising from the Waneta 2017 Transaction from the water rental variances that are deferred to the NHDA; and
  - c. BC Hydro may defer the revenue it will be required to recognize from time to time in consequence of Teck's capital expenditures at Waneta to the NHDA until the end of the Lease Period.

**DATED** at the City of Vancouver, in the Province of British Columbia, this (XX) day of 2018.

BY ORDER

(X. X. last name)  
Commissioner

Attachment Options

## **Waneta 2017 Transaction**

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**Appendix B**

**Sale Notice**

**Teck Metals Limited**  
Suite 3300, 550 Burrard Street  
Vancouver, BC Canada V6C 0B3

+1 604 699 4000 Tel  
+1 604 699 4707 Fax  
www.teck.com

**Teck****Confidential**

June 2, 2017

British Columbia Hydro and Power Authority  
18<sup>th</sup> Floor, 333 Dunsmuir St.  
Vancouver, B.C. V6B 5R3

Attention: Senior VP, Engineering, Aboriginal Relations and Generation, BC Hydro

Dear Sirs:

**Re: Waneta – Sale Notice**

We refer to the Co-ownership and Operating Agreement (“COA”) in relation to the Waneta dam between Teck Metals Ltd. (“TML”) and British Columbia Hydro and Power Authority (“BC Hydro”) dated as of March 5, 2010 (the “Agreement”). Capitalized terms used in this letter and not otherwise defined have the meanings ascribed to those terms in the Agreement.

This letter is a Sale Notice pursuant to section 25.3 of the Agreement in respect of the proposed Transfer of all of the Participation Interest of TML. TML hereby offers BC Hydro the right to purchase the Offered Participation Interest for \$1.180 billion in cash if BC Hydro is able to deliver an election pursuant to Section 16.1 of the Income Tax Act, or \$1.203 billion in cash if BC Hydro is not able to deliver that election (“Purchase Price”) on the terms and conditions set out in this letter (the “Offer”). The terms and conditions relating to the Section 16.1 election are more particularly set out in Section 2.5 of the Waneta Purchase Agreement (copy attached). The \$23 million differential ascribed to the Section 16.1 election represents our best estimate of the value of that election to us based on our internal financial forecast and our existing tax pools. The Purchase Price is due and payable on closing.

Subject to the variations noted below and the other terms and conditions of this letter, the terms and conditions of the Offer reflect a multi-step commercial transaction (the “Transaction”) to be completed pursuant to the following agreements (“Principal Agreements”) attached to this letter:

- Waneta Purchase Agreement
- Waneta Lease Agreement
- Decision Making Protocol Agreement
- Guarantee

**Brief Transaction Summary**

In general terms, the Transaction includes a sale of the Offered Participation Interest, followed by a lease back to TML of the same interest for 20 years, with an option for TML to extend the term of the lease for an additional 10 years. Contracts may not be leased, and accordingly certain contracts forming part of the



Offered Participation Interest will instead be held in trust, pursuant to a Contract Bare Trust Agreement (a schedule to the Waneta Purchase Agreement), for the benefit of TML during the lease term, and for the benefit of BC Hydro thereafter. The Decision Making Protocol Agreement governs certain decisions of the parties during the lease term, recognizing the shared interest in decision-making by one party during the lease term that could have material impacts to the other. TML's obligations under the Waneta Lease Agreement and Decision Making Protocol Agreement would be guaranteed by Teck Resources Limited ("TRL") pursuant to the Guarantee.

#### Variations from the Principal Agreements

The Waneta Purchase Agreement reflects TML's parent company, TRL, as the vendor. A pre-closing transfer of the beneficial interest from TML to TRL is contemplated for structuring purposes, which should not prejudice BC Hydro in any respect. TML acknowledges it may require BC Hydro's consent in respect of that transfer. In the event that consent is not provided, TML would be the vendor for purposes of the Waneta Purchase Agreement.

The Principal Agreements contemplate a transaction with a non-Crown corporation that is not a regulated utility. TML acknowledges that pursuant to Section 25.3(c) of the COA, the Offer may not contain any term or condition (other than the purchase price) that would have the effect of preventing BC Hydro (by virtue that BC Hydro is a Crown corporation and/or regulated utility) from completing the purchase and sale contemplated by the Offer. Accordingly, the following terms and conditions of the Principal Agreements are varied for purposes of the Offer:

- The definition of "Regulatory Support" in the Waneta Purchase Agreement would be expanded as required for BC Hydro, as a Crown corporation and/or regulated utility, to complete the Transaction, including to add an approval in respect of the Waneta Purchase Agreement, and for BC Hydro to incur and pay the Purchase Price.
- A condition would be added to Section 6.1 of the Waneta Purchase Agreement providing in effect that no event or circumstance has occurred that gives rise to reasonable grounds on which to determine that completing the Transaction would be inconsistent with maintaining the honour of the Crown as it relates to efforts to seek reconciliation in connection with aboriginal interests
- The Waneta Purchase Agreement contemplates the entering into of the Waneta Lease Agreement immediately after closing. Recognizing that BC Hydro may be prevented from disposing of a leasehold interest in the Offered Participation Interest after closing because BC Hydro's interest in the Offered Participation Interest may constitute a heritage asset, the Waneta Lease Agreement would instead be a pre-closing transaction – TRL (or TML, as applicable) would grant the Waneta Lease Agreement in favour of a wholly-owned subsidiary of TML; Transaction closing would occur; and then immediately post-closing the subsidiary would be wound up into TML. Any rent payable under the lease would be delayed until after closing.

If BC Hydro believes additional terms and conditions of the Principal Agreements must be varied in order for the Offer to comply with the requirements of Section 25.3(c) of the COA, TML is ready and willing to discuss this with BC Hydro.

As you will note, the Principal Agreements reflect a corresponding sale and lease back to TML of certain transmission assets not part of the Offered Participation Interest. For certainty, those elements of the Principal Agreements would be removed – the Offer and the Transaction is in respect of the Offered



Participation Interest only. Those elements include the provisions dealing with any sale or lease of the "Transmission Assets", the Transmission Rights of Way, the ROW Agreement for Sale, the Wheeling Agreement, the ESS Interconnection Agreement, the Escrow Agreement, the Transmission Limited Partnership, and the Transmission Limited Partnership Agreement. However, we draw your attention to the section "Transmission Adequacy Condition" below, which describes certain transmission requirements in connection with the Transaction.

In accordance with section 25.3 of the Agreement, certain details in the Waneta Purchase Agreement will need to be varied to also reflect section 25.3(e) of the COA, and the Offer contemplates that these amendments are made.

Other variations from the Principal Agreements driven by the identity of BC Hydro as the purchaser are as follows:

- Waneta Purchase Agreement
  - Deletion of all elements related to the Break Fee (other than Section 8.2(b))
  - Deletion of all elements related to the ROFO Notice and ROFO Rights
  - Deletion of all elements of the COA Operating Agreement (although TML notes that it remains interested in discussing this possibility with BC Hydro as part of the Transaction)
- Purchaser's representations and warranties throughout would be revised as required to reflect BC Hydro as the counterparty

In addition, while Schedule 1.1(bbb) to the Waneta Purchase Agreement contemplates a number of agreements that TML would assign as part of the Transaction (subject to the Contract Bare Trust Agreement), given BC Hydro's position with respect to some of those agreements alternate arrangements would be required:

COA	Would terminate and be replaced with Co-Possessors' Agreement (see Section 7.5(a) of the Waneta Lease Agreement)
CPA	Would not be assigned
CPA Subagreement	Would not be assigned
CPA Scheduling Agreement	Would not be assigned
1996 BC Hydro Co-Operation Letter Agreement re Post Canal Plant Agreement (CPC, CBT, FortisBC, Teck)	Would not be assigned
2010 Post Canal Plant Agreement (Teck, BPC)	Would not be assigned
Lt Agreement (October 1, 2005) re Extension of Section 3.2 of the Residual Power Supply Agreement	Would not be assigned
SPRA	Would not be assigned

#### Transmission Adequacy Condition

In order to complete any sale of the Offered Participation Interest on the terms and conditions of the Offer, including the lease back to TML of a 2/3 interest in Waneta, TML must ensure it has adequate transmission



facilities or rights to satisfy the obligations it will have in connection with that interest, including obligations under the Canal Plant Agreement and Canal Plant Subagreement, and the option to supply the Industrial Operations after the expiry of the lease term. For these reasons, the Waneta Purchase Agreement contains a condition precedent in Section 6.2(n) permitting TML to assess the adequacy of transmission before completing the sale.

One means of satisfying this condition involves the purchase and lease back to TML of the Transmission Assets as set out in the Principal Agreements and in the Transmission Lease and Operating Agreement (copy attached) and providing wheeling rights after the lease term pursuant to the Wheeling Agreement (copy attached). TML has acknowledged the adequacy of those arrangements in Section 6.4 of the Waneta Purchase Agreement. We are open to other arrangements that BC Hydro may propose to satisfy the condition.

TML acknowledges that if BC Hydro purchases the Offered Participation Interest, it has the option of purchasing the Line 71 Assets pursuant to Section 21.3(f) of the COA. A purchase by BC Hydro of the Line 71 Assets without a lease back to TML and wheeling rights, or without an alternative arrangement meeting the condition set out in Section 6.2(n) of the Waneta Purchase Agreement, will leave TML with inadequate transmission facilities or rights to meet its other obligations, and accordingly TML would not be able to complete the sale of the Offered Participation Interest to BC Hydro on that basis.

#### Other Terms

This Sale Notice is confidential and is subject to article 30 of the Agreement.

This Sale Notice also constitutes commercial and financial information of TML, which has been supplied in confidence and the disclosure of which could reasonably be expected to harm significantly the competitive position and/or interfere significantly with the negotiating position of TML. Accordingly, in TML's view such information should be exempt from disclosure to third persons in accordance with section 21 of the Freedom of Information and Protection of Privacy Act (British Columbia), as amended from time to time.

Should BC Hydro elect to accept the Offer as provided for in section 25.3(d) of the Agreement, TML will consent, notwithstanding any confidentiality obligations agreed between TML and BC Hydro, that BC Hydro may file this Sale Notice and its Reply Notice or any definitive agreement giving effect to the transactions contemplated hereby with applicable regulatory authorities. TML and Teck Resources Limited would be required to publicly disclose the fact of BC Hydro's acceptance of the Offer. In such event, we would coordinate our public announcement with BC Hydro and provide BC Hydro with reasonable opportunity to review and provide comments in advance of any press release.

We are at your disposal if you have any questions regarding this Sale Notice or the Offer.

Yours very truly,

Teck Metals Ltd.

By:



Andrew Golding  
Senior Vice President, Corporate Development

cc: British Columbia Hydro and Power Authority  
18<sup>th</sup> Floor, 333 Dunsmuir Street  
Vancouver, BC V6B 5R3  
Attention: BC Hydro Director, Generation Resource Management

Lawson Lundell LLP  
1600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2

## Waneta 2017 Transaction

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**Appendix C**

**Reply Notice**



COPY

August 1, 2017

**Confidential**

Teck Metals Ltd.  
Suite 3300, 550 Burrard Street  
Vancouver BC, Canada V6C 0B3

Attention: Peter Rozee  
Senior Vice President, Commercial and Legal Affairs

Re Waneta – Reply Notice

We refer to the Co-Ownership and Operating Agreement (“**COA**”) in relation to the Waneta dam between Teck Metals Ltd (“**Teck**”) and British Columbia Hydro and Power Authority (“**BC Hydro**”) dated as of March 5, 2010. Certain capitalized terms used in this letter and not otherwise defined have the meanings ascribed to those terms in the COA. We also refer to the June 2, 2017 letter from Teck to BC Hydro Re: Waneta – Sale Notice (the “**Sale Notice**”) given by Teck pursuant to section 25.3 of the COA in respect of the proposed Transfer of all the Participation Interest of Teck.

Since receipt of Teck’s Sale Notice, BC Hydro and Teck have undertaken discussions to clarify terms and conditions upon which BC Hydro would be able, if it so elected, to exercise its rights under the COA and purchase Teck’s Participation Interest pursuant to the Sale Notice.

#### **A. Election to Purchase.**

BC Hydro hereby elects to purchase the Offered Participation Interest and is pleased to give you this notice as a Reply Notice pursuant to Section 25.3(d) of the COA. The terms and conditions of BC Hydro’s purchase of Teck’s Participation Interest (the “**Teck/BC Hydro Transaction**”) pursuant to Section 25.3(d) are the terms and conditions set out in the Sale Notice, modified as follows:

1. As set out in the Sale Notice, since BC Hydro is unable to make the election pursuant to s. 16.1 of the Income Tax Act, the purchase price is Canadian \$1.203 billion.
2. The purchase agreement that was attached to the Sale Notice (the “**Teck/Fortis Purchase Agreement**”) as modified with certain other terms and conditions, including to reflect that BC Hydro, and/or an assignee acceptable to Teck, will be the purchaser (“**Waneta Purchase Agreement**”) accompanies this Reply Notice as **Exhibit A**. It has been executed by BC Hydro.
3. The lease agreement that was attached to the Teck/Fortis Purchase Agreement as Exhibit 3 as modified with certain other terms and conditions (“**Waneta Lease Agreement**”), including to reflect that BC Hydro will purchase Teck’s Participation Interest encumbered by such lease, such that after closing of the Teck/BC Hydro Transaction, BC Hydro will be the Landlord under such lease, which together with the COPOA (described

- below), will govern their relationship as landlord and tenant and co-possessors accompanies this Reply Notice as Exhibit 2 to the Waneta Purchase Agreement.
4. The Co-Possessors and Operating Agreement, which agreement was referred to in the Sale Notice as a “Co-Possessors’ Agreement” to replace the COA (“**COPOA**”) accompanies this Reply Notice as Exhibit 5 to the Waneta Purchase Agreement.
  5. The contract bare trust agreement that was attached to the Teck/Fortis Purchase Agreement as Exhibit 1 as modified with certain other terms and conditions (“**Contract Bare Trust Agreement**”), including to reflect that Teck’s, and Teck Resources Limited’s, interests in certain contracts will be held in trust for BC Hydro during the term of the Waneta Lease Agreement, accompanies this Reply Notice as Exhibit 1 to the Waneta Purchase Agreement.
  6. The guarantee agreement that was attached to the Teck/Fortis Purchase Agreement as Exhibit 11 as modified with certain other terms and conditions (“**TRL Guarantee**”), including to reflect that Teck Resources Limited (“**TRL**”) will guarantee Teck’s obligations under the Waneta Lease Agreement and the COPOA, accompanies this Reply Notice as Exhibit 4 to the Waneta Purchase Agreement.
  7. The decision making protocol agreement that was attached to the Teck/Fortis Purchase Agreement as Exhibit 13 will not be a stand-alone document in the Teck/BC Hydro Transaction, but its provisions, to the extent applicable, are reflected in the COPOA.
  8. The Sale Notice contemplated that, in the context of a Teck/BC Hydro Transaction, there would be a pre-closing transfer of the beneficial interest from Teck to TRL. Variations to that transfer are described as “Pre-Closing Transaction” (as defined in the Waneta Purchase Agreement) and the post-closing amalgamation of “TML Subco” (as defined in the Waneta Purchase Agreement) into Teck.
  9. BC Hydro and Teck have agreed that certain agreements (i) between them, and (ii) among them and certain other parties, will need to be amended as a condition of closing of the Teck/BC Hydro Transaction. The Transaction Closing Matters Agreement referred to in Part B below sets out a process for negotiating such required amendments.

## **B. Certain Consents, Waivers, Agreements**

Certain matters in connection with the Sale Notice and/or the Teck/BC Hydro Transaction require certain consents, waivers or agreements not to exercise certain elections or options. Provided the Teck/BC Hydro Transaction completes, BC Hydro has provided such consents, waivers and/or agreements in, and subject to the provisions of, a Transaction Closing Matters Agreement (“**Transaction Closing Matters Agreement**”). The Transaction Closing Matters Agreement has been executed by BC Hydro and accompanies this Reply Notice as **Exhibit B**.

## **C. Transmission**

The Offered Participation Interest does not include transmission assets and/or rights owned by Teck. However, under the Sale Notice, Teck has provided that satisfactory transmission

arrangements are a condition of completing the Teck/BC Hydro Transaction. Accompanying this Reply Notice as Exhibit 6 to the Waneta Purchase Agreement is a Transmission Agreement Term Sheet (the “**Transmission Agreement Term Sheet**”) from which Teck and BC Hydro will negotiate an agreement (the “**Transmission Agreement**”) to address a number of matters relating to transmission that will satisfy the condition of completing the Teck/BC Hydro Transaction. The Transaction Closing Matter Agreement contains terms relating to negotiation of the definitive form of the Transmission Agreement.

#### **D. Other Terms**

Pursuant to the Waneta Purchase Agreement, the completion of the Teck/BC Hydro Transaction is subject to BC Hydro being satisfied, in its reasonable discretion, that completion would be consistent with maintaining the honour of the Crown as it relates to efforts to seek reconciliation in connection with First Nation interests.

This Reply Notice, together with its attachments and Exhibits, is confidential and is subject to Section 30 of the COA. However, Teck consents, notwithstanding any confidentiality obligations agreed between Teck and BC Hydro, that BC Hydro may file the Sale Notice and this Reply Notice, together with any definitive agreements giving effect to the transactions contemplated hereby, with applicable regulatory authorities. BC Hydro consents, notwithstanding any confidentiality obligations agreed between Teck and BC Hydro, that Teck may share this Reply Notice, together with its attachments and Exhibits, with Fortis Inc. and its representatives provided that Teck informs Fortis that the contents are to be subject to the terms of the confidentiality agreement between them.

Teck and BC Hydro have agreed to vary the notice requirements of the COA for purposes of this Reply Notice, so that it may be delivered to the addressees by electronic mail and such delivery will constitute proper delivery under the COA.

#### **E. Election and Offer by BC Hydro**

The Sale Notice, together with and as modified by this Reply Notice, constitutes BC Hydro’s legally binding election to purchase Teck’s Offered Participation Interest, on the terms and conditions described and set out herein, including the accompanying Exhibits.

Please confirm Teck’s acknowledgement and agreement that this Reply Notice meets the requirements of the COA and that Teck agrees to the terms and conditions described and set out herein, including the accompanying Exhibits, by executing the attached copy of this Reply Notice, and executing, and arranging for Teck Resources Limited and TCAI Incorporated to execute, the Waneta Purchase Agreement and Transaction Closing Matters Agreement, and returning each of those items to BC Hydro.

In addition, subject to completion of the Teck/BC Hydro Transaction, this letter constitutes BC Hydro’s legally binding offer with respect to certain matters relating to Teck’s Line 71 Assets and certain other transmission assets, all more fully described and set out in the Transmission Agreement Term Sheet, and to be more fully described and set out in the Transmission Agreement. By Teck executing the attached copy of this letter and returning it to BC Hydro as provided for above, BC Hydro and Teck will also have a legally binding agreement with respect

to certain matters relating to Teck's Line 71 Assets and certain other transmission assets on the terms and conditions described and set out herein.

Sincerely,

British Columbia Hydro and Power Authority

By:



Chris O'Riley, President

cc:

Fasken Martineau DuMoulin LLP  
2900 - 550 Burrard Street  
Vancouver, B.C. V6C 0A3  
Attention: Ron Ezekiel

**F. Acknowledgement and Agreement by Teck Metals Ltd.**

To : British Columbia Hydro and Power Authority  
Attention: Chris O'Riley, President

With intent to be legally bound, Teck Metals Ltd. hereby confirms this Reply Notice meets the requirements of the COA and that Teck agrees to the terms and conditions described and set out herein, including the accompanying Exhibits, this 1st day of August, 2017.

Teck Metals Ltd.

By:

\_\_\_\_\_  
Peter Rozee  
Senior Vice President, Commercial and Legal Affairs

cc for the Acknowledgement by Teck Metals Ltd:

Mark Poweska  
Sr. Vice-President, Training, Development and Generation  
18<sup>th</sup> Floor, 333 Dunsmuir Street  
Vancouver, BC V6B 5R3

Lawson Lundell LLP  
1600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2  
Attention: Gordon Craig

to certain matters relating to Teck's Line 71 Assets and certain other transmission assets on the terms and conditions described and set out herein.

Sincerely,

British Columbia Hydro and Power Authority

By:



Chris O'Riley, President

cc:

Fasken Martineau DuMoulin LLP  
2900 - 550 Burrard Street  
Vancouver, B.C. V6C 0A3  
Attention: Ron Ezekiel

**F. Acknowledgement and Agreement by Teck Metals Ltd.**

To : British Columbia Hydro and Power Authority  
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Teck Metals Ltd.

By:



Peter Rozes  
Senior Vice President, Commercial and Legal Affairs

cc for the Acknowledgement by Teck Metals Ltd:

Mark Poweska  
Sr. Vice-President, Training, Development and Generation  
18<sup>th</sup> Floor, 333 Dunsmuir Street  
Vancouver, BC V6B 5R3

Lawson Lundell LLP  
1600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2  
Attention: Gordon Craig



**Waneta 2017 Transaction**

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**Appendix D**

**Operator Election Letter**

September 14, 2017

CONFIDENTIAL

Andrew Golding  
Senior Vice President, Corporate Development.  
Teck Metals Ltd.  
Suite 3300, 550 Burrard Street  
Vancouver, BC V6B 0B3

Email: Andrew.Golding@Teck.com

Teck Resources Limited  
Suite 3300, 550 Burrard Street  
Vancouver, BC V6B 0B3

Attention: Corporate Secretary  
Fax 604-699-4729

**Re: Operator election**

Dear Andrew:

We refer to Section 3.2 of the Transaction Closing Matters Agreement (TCMA) made as of August 1, 2017 among BC Hydro, Teck Metals Ltd. (Teck) and Teck Resources Limited (among other parties), and the form of Co-Possessors and Operating Agreement (COPOA) to become effective between BC Hydro and Teck, which is attached to the Waneta Purchase Agreement made as of August 1, 2017 between Teck Resources Limited, TCAI Incorporated, BC Hydro and Waneta Holdings (US) Inc.

Pursuant to Section 3.2(a) of the TCMA, and subject to the governance framework described below, BC Hydro hereby advises Teck of BC Hydro's election not to become the Operator under the COPOA.

Pursuant to Section 3.2(c) of the TCMA, BC Hydro proposes the following governance framework related to dam safety:

1. BC Hydro may direct any action and/or project and associated capital expenditures, and the timing thereof, with respect to dam safety. The Operator will prepare Dam Safety Plans and the applicable budgets(s) to include any such action and/or project and associated capital expenditures directed by BC Hydro. The Operator will undertake any such action and/or project in consultation with, and will confirm the overall scope, budget and schedule of any such action and/or project with BC Hydro.

2. If BC Hydro directs any action and/or project and associated capital expenditures with respect to dam safety (including any action and/or project that is incremental to what is proposed by the Operator or that would otherwise be required to comply with Legal Obligations and meet the underlying requirements of the Operating Standard from time to time, whichever is the higher standard), then the action and/or project and associated capital expenditures will be deemed to have been unanimously approved by the Operating Committee, provided that:
  - (a) the incremental portion of any such action and/or project and associated capital expenditures (incremental to any action and/or project and associated capital expenditures proposed by the Operator or that would otherwise be required to comply with Legal Obligations and meet the underlying requirements of the Operating Standard from time to time, whichever is the higher standard), will be considered to be a BC Hydro Upgrade and paid for by BC Hydro; and
  - (b) if Teck's entitlement capacity and/or entitlement energy under the CPA would be reduced solely as a result of any action and/or project directed by BC Hydro relating to dam safety that is incremental to any action and/or project proposed by the Operator or that would otherwise be required to comply with Legal Obligations and meet the underlying requirements of the Operating Standard from time to time (whichever is the higher standard), BC Hydro will ensure that Teck's entitlement capacity and/or entitlement energy under the CPA are not reduced to the extent resulting from the incremental action and/or project.
3. Unanimous approval of the Operating Committee will be required (but subject to the 3<sup>rd</sup> party referee process) for determining (i) the extent to which any action and/or project and associated capital expenditures directed by BC Hydro with respect to dam safety is incremental to any action and/or project proposed by the Operator or that would otherwise be required to comply with Legal Obligations and meet the underlying requirements of the Operating Standard from time to time (whichever is the higher standard), and (ii) the reduction of Teck's entitlement capacity and/or entitlement energy under the CPA solely as a result of any action and/or project directed by BC Hydro relating to dam safety that is incremental to any action and/or project proposed by the Operator or that would otherwise be required to comply with Legal Obligations and meet the underlying requirements of the Operating Standard from time to time (whichever is the higher standard).
4. If the Co-Possessors representatives on the Operating Committee are unable to reach agreement on the matters referred to in paragraph 3 above, the 3<sup>rd</sup> party referee process under the COPOA will be used to determine the matter. For greater certainty, the 3<sup>rd</sup> party referee would not have the authority to determine whether any action and/or project and associated capital expenditures with respect to dam safety directed by BC Hydro is or is not required, or the timing thereof. Rather, the 3<sup>rd</sup> party referee will determine (i) what action and/or project and associated capital expenditures has been proposed by the Operator or is otherwise required to comply with Legal Obligations and meet the underlying requirements of the Operating Standard from time to time, whichever is the higher standard (recognizing that the Operating Standard could include a range of

standards or practices, and in that event the applicable standard or practice shall be the one most consistent with then current practice at the Waneta Plant), and therefore (ii) the extent to which any action and/or project and the associated capital expenditures directed by BC Hydro are incremental. In addition, the 3<sup>rd</sup> party referee process will be used to determine any other disputes that may arise relating to these matters if the parties are unable to agree.

5. The Operator would be obligated to immediately report to BC Hydro if there is any change to dam safety risk or condition that could reasonably be expected to require a dam safety response.

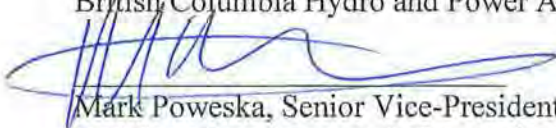
The foregoing governance framework is in addition to provisions of Section 3.2(f) of the TCMA, which are to be included in the COPOA.

BC Hydro is prepared to negotiate in good faith to conclude a governance framework pertaining to dam safety and to negotiate amendments to the COPOA to reflect the foregoing.

We look forward to discussing this matter with you at your convenience.

Sincerely,

British Columbia Hydro and Power Authority



Mark Poweska, Senior Vice-President,  
Training, Development & Generation

Copy: Fasken Martineau  
Suite 2900-550 Burrard Street  
Vancouver, BC V6C 0A3

Attention: Ron Ezekiel  
Fax 604-632-4708

## **Waneta 2017 Transaction**

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### **Appendix E**

### **Waneta Purchase Agreement**

**(Exhibit A to the Reply Notice)**

**TECK RESOURCES LIMITED**  
as Vendor

**- and –**

**TCAI INCORPORATED**  
as Covenantor

**- and -**

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**  
as Purchaser

**-and-**

**WANETA HOLDINGS (US) INC.**  
as WHUSI

---

**WANETA PURCHASE AGREEMENT**

**Dated August 1, 2017**

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Exhibit 5	Co-Possessors and Operating Agreement
Exhibit 6	Transmission Agreement Term Sheet

**WANETA PURCHASE AGREEMENT**

**THIS WANETA PURCHASE AGREEMENT** made as of August 1, 2017,

AMONG:

**TECK RESOURCES LIMITED**  
(the “Vendor”)

AND:

**TCAI INCORPORATED**  
(the “Covenantor”)

AND:

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**  
(the “Purchaser” or “BC Hydro”)

AND:

**WANETA HOLDING (US) INC.**  
(“WHUSI”)

**WHEREAS:**

- A. TML is the owner of the Purchased Interest (except for the Covenantor’s interests in the FERC License and the FERC Bare Trust Agreement).
- B. The Vendor will acquire the beneficial interest in the Purchased Interest (except for the Covenantor’s interests in the FERC License and the FERC Bare Trust Agreement) prior to the Closing or assign this Agreement to TML.
- C. The Purchaser wishes to acquire from the Vendor, and the Vendor wishes to sell to the Purchaser, the Purchased Interest (except for the Covenantor’s interests in the FERC License and the FERC Bare Trust Agreement) as more particularly set out herein.
- D. The Covenantor holds the FERC License and is party to the FERC Bare Trust Agreement, and has agreed to become a Party to this Agreement for the sole purpose of transferring, assigning or otherwise disposing of its interest in the FERC License to WHUSI and terminating the FERC Bare Trust Agreement and FERC License Security Documents as more particularly set out herein.
- E. WHUSI holds an undivided 1/3 beneficial interest in the FERC License and has agreed to become a Party to this Agreement for the sole purpose of receiving the transfer and assignment, subject to required consents, of the FERC License and terminating the FERC Bare Trust Agreement and FERC License Security Documents as more particularly set out herein.

**NOW THEREFORE** in consideration of the premises and the mutual covenants and agreements herein contained, each of the Parties covenants and agrees as follows:

## **ARTICLE 1 INTERPRETATION**

**1.1 Defined Terms.** In addition to those terms used and defined elsewhere in this Agreement (including, without limitation, in the recitals) and as used in this Agreement, including any schedule hereto, the following terms have the following meanings:

- (a) **“2010 Teck Security”** means the Reciprocal Security Agreement, Assignment (as security regarding contracts and permits), and Mortgage, each dated March 5, 2010, granted by TML in favour of BC Hydro in respect of a two-thirds undivided interest in the Waneta Assets (except the FERC License) and certain transmission assets, and a Security Agreement dated March 5, 2010 granted by the Covenantor in favour of BC Hydro regarding the FERC License.
- (b) **“2010 BC Hydro Security”** means the Reciprocal Security Agreement, Assignment (as security regarding contracts and permits), and Mortgage, each dated March 5, 2010, granted by BC Hydro in favour of TML in respect of a one-third undivided interest in the Waneta Assets.
- (c) **“Affiliate”** in the case of a corporation, has the meaning specified in the *Canada Business Corporations Act* (Canada) and in the case of any other Person, means a Person that controls or is controlled by such other Person or is under the same or common control as that Person. A Person shall be deemed to control a Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the term “controlled” shall have a similar meaning.
- (d) **“Agreement”** means this Waneta Purchase Agreement and all schedules and exhibits hereto, and instruments in amendment or confirmation of it; and the expressions **“Article”** and **“Section”** followed by a number mean and refer to the specified Article or Section of this Agreement.
- (e) **“Allocation”** has the meaning specified in Section 2.2(b).
- (f) **“Applicable Laws”** means, at any given time, all applicable federal, state, provincial, municipal, local and foreign statutes, codes, ordinances, decrees, rules, regulations and by-laws, and judicial, executive, arbitral, administrative, ministerial, departmental or regulatory judgments, decrees, decisions, rulings, awards, policies, requirements, standards, guidelines, permits, licences, authorizations, approvals and orders, and all applicable common law, in each case having the force of law and in effect at that time, including without limitation, all Environmental Laws.

- (g) “**Appurtenant Licenses**” means all water licenses, approvals or permits issued pursuant to the *Water Sustainability Act* (British Columbia) or predecessor legislation appurtenant to the Real Property or appurtenant to undertakings situate on all or part of the Real Property, or forming part of the Waneta Plant, and any orders issued pursuant thereto, including without limitation those set out in Schedule 1.1(g).
- (h) “**Assumed Contracts**” means those Material Contracts identified as Assumed Contracts on Schedule 1.1(xx).
- (i) “**Assumed Liabilities**” means any and all of TML’s, the Vendor’s and Covenantor’s obligations and liabilities (whether present, future, absolute or contingent) relating to the ownership, operation or maintenance of the Purchased Interest, whether before or after the Closing Date, that arise or become due or payable after the Closing Date, except for the following:
- (i) any obligations and liabilities arising under Material Contracts which are not Assumed Contracts;
  - (ii) any obligations and liabilities of TML arising under the Lease Arrangements;
  - (iii) those liabilities and obligations for which the Vendor is responsible pursuant to Section 4.7;
  - (iv) any obligations or liabilities with respect to employees of TML, the Vendor or the Covenantor; and
  - (v) any indebtedness for borrowed money of TML, the Vendor or the Covenantor.
- (j) “**Bare Trust Assumed Contracts**” means those Assumed Contracts that are indicated to be subject to the Contract Bare Trust Agreement in Schedule 1.1(xx).
- (k) “**BC/US Boundary**” means the international boundary between Canada (limited to the southern border of British Columbia) and the United States of America.
- (l) “**BCUC**” means the British Columbia Utilities Commission.
- (m) “**Buildings and Fixtures**” means all plant, buildings, structures, conduits, support structures, erections, improvements, appurtenances, generating apparatus and fixtures (including fixed machinery and fixed equipment).
- (n) “**Business Day**” means any day of the year except Saturdays, Sundays and any statutory holiday in the Province of British Columbia.
- (o) “**Closing**” means the completion of the Transaction.

- (p) “**Closing Date**” means the tenth (10<sup>th</sup>) Business Day following satisfaction of the conditions set out in Sections 6.1(d), 6.1(i), 6.1(j), 6.2(c), 6.2(g), 6.2(i) and 6.2(m), or such earlier or later date as the Parties may agree in writing, but in any event shall not be later than August 1, 2018.
- (q) “**Closing Time**” means 10:00 a.m. in the City of Vancouver on the Closing Date or such other time on the Closing Date as the Parties may agree upon as the time at which the Closing shall take place.
- (r) “**Consents**” means all consents from and acts of Governmental Entities required to complete the Transaction, including the transfer of the Purchased Interest to the Purchaser (or in the case of the Covenantor’s interest in the FERC License to WHUSI), and all consents and waivers of counterparties to the Assumed Contracts as may be required to complete the transactions contemplated in this Agreement and the Lease Arrangements, including as contemplated by the Contract Bare Trust Agreement where applicable, and all agreements to amend any Material Contracts as may be required in respect of same, and all such other consents, acts, waivers or amendments as may be required to complete such other arrangements as the Parties may agree upon, all as more particularly set out in Schedule 1.1(r).
- (s) “**Contract Bare Trust Agreement**” means the bare trust agreement in the form attached as Exhibit 1, or such other bare trust agreement as the Parties may agree upon.
- (t) “**Co-Ownership and Operating Agreement**” or “**COA**” means the co-ownership and operating agreement dated March 5, 2010 between TML and BC Hydro.
- (u) “**Co-Possessors and Operating Agreement**” or “**COPOA**” means the co-possessor’s agreement in the form attached as Exhibit 5, or such other form as the Parties may agree upon.
- (v) “**CPA**” means the Second Amended and Restated 2005 Canal Plant Agreement dated for reference November 15, 2011 among TML, BC Hydro and others.
- (w) “**Damages**” has the meaning specified in Section 9.1.
- (x) “**Data Room**” means the electronic data room established by the Vendor for purposes of the Transaction and to which the Purchaser had access.
- (y) “**Emerald Switching Station**” means the 63 kV switching station at Warfield, B.C.
- (z) “**Encumbrance**” means whether or not registered or registrable or recorded or recordable, and regardless of how created or arising, any:

- (i) mortgage, charge, pledge, lien, hypothec, assignment by way of security, lease, conditional sale or title retention agreement (including without limitation any capital lease), security created under the *Bank Act* (Canada) or any other encumbrance or security interest, howsoever created or arising, whether absolute or contingent, fixed or floating, legal or equitable, perfected or otherwise, and any other interest in property or assets that secures payment or performance of any obligation;
  - (ii) claim, licence, interest or estate against, of or in assets or property (whether real, personal, mixed, tangible or intangible), including, without limitation, easements, rights-of-way, servitudes or other similar rights in property granted to or reserved or taken by any Person;
  - (iii) option or other right to acquire, or to acquire any interest in, any assets or property (whether real, personal, mixed, tangible or intangible); and
  - (iv) any agreements to create, or right capable of becoming, any of the foregoing.
- (aa) “**Environment**” includes the air (including all layers of the atmosphere), land, (including soil, sediment deposited on land, fill, and lands submerged under water), and water (including oceans, lakes, reservoirs, rivers, streams, groundwater and surface water).
- (bb) “**Environmental Contaminants**” means any substance or material, the storage, manufacture, disposal, treatment, generation, use, transport, remediation, or release of which into the Environment is prohibited, regulated, controlled, or licensed by any Governmental Entity under any Environmental Laws including without limitation, any contaminant, pollutant, hazardous, corrosive or toxic substance, flammable material, explosive material, radioactive material, dangerous goods or substance, gas, microwaves, waste, urea formaldehyde, mercury, asbestos materials, hydrocarbon contaminant, deleterious substance, noxious substance, and compounds known as chlorobiphenyls, and hazardous waste, provided however, for purposes of this definition, water shall be considered an Environmental Contaminant only to the extent that it contains, or is itself a deleterious substance for purposes of Environmental Laws.
- (cc) “**Environmental Laws**” means, at any given time, any and all statutes, laws, regulations, orders, bylaws, standards, permits, licences, authorizations, approvals, orders and other lawful requirements of any international, federal, provincial, state, municipal, or other Governmental Entity, in each case having the force of law and in effect at that time with respect to (i) the protection of the Environment; (ii) plant species or wildlife (including without limitation, birds, land-based, and aquatic species) including the health or preservation thereof; (iii) human health including occupational health and safety; or (iv) the transportation of dangerous goods.

- (dd) “**Excluded Assets**” means the assets and property listed in Schedule 1.1(dd) and any rights and claims associated therewith.
- (ee) “**Exemption Order**” means the exemption order dated March 29, 1996 and made pursuant to then section 27 (now section 22) of the *Utilities Commission Act*, which exempts TML from most of the provisions of Part 3 of the *Utilities Commission Act*;
- (ff) “**FERC Bare Trust Agreement**” means the Bare Trust Agreement dated March 5, 2010 between the Covenantor and WHUSI in respect of an undivided one third beneficial interest in the FERC License.
- (gg) “**FERC License**” means that certain license issued by the Federal Energy Regulatory Commission of the United States of America and held by the Covenantor subject to the FERC Bare Trust Agreement in respect of rights to flood the geographic region known as Cedar Creek in connection with the operation of the Waneta Plant.
- (hh) “**FERC License Security Documents**” means:
- (i) the Direction to Grant Security dated March 5, 2010 whereby WHUSI directed TCAI, as trustee under the FERC Bare Trust Agreement, to enter into a security agreement with BC Hydro granting BC Hydro a security interest in WHUSI's one third beneficial interest in the FERC License;
  - (ii) the Security Agreement dated March 5, 2010 whereby WHUSI granted to TML a security interest in WHUSI's interest in the FERC License (and related collateral);
  - (iii) the Security Agreement dated March 5, 2010 whereby the Covenantor granted to the Purchaser a security interest in the Covenantor's interest in the FERC License (and related collateral);
  - (iv) the Acknowledgement Letter dated March 5, 2010 from the Covenantor to the Purchaser and TML, whereby the Covenantor acknowledged that it holds 1/3 of the FERC License on behalf of WHUSI and 2/3 on behalf of itself, and that it has received notice of the security interests referred to in (i) and (ii) above; and
  - (v) the Reciprocal Guarantee Agreement dated March 5, 2010 whereby the Purchaser guaranteed to the Covenantor payments from WHUSI to the Covenantor under the FERC Bare Trust Agreement, and TML guaranteed to WHUSI all obligations of the Covenantor under the FERC Bare Trust Agreement.
- (ii) “**Governmental Authorizations**” means the Appurtenant Licenses and those permits, licences and other authorizations from, or with, Governmental Entities listed in Schedule 1.1(ii).

- (jj) “**Governmental Entity**” means (i) any multinational, federal, provincial, state, municipal, local or other government or governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the foregoing, or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above, excluding BC Hydro other than in its capacity as transmission system operator, control area operator and similar functions.
- (kk) “**GST**” means the goods and services tax levied under the *Excise Tax Act* (Canada), and any successor or replacement tax therefor.
- (ll) “**IFRS**” means International Financial Reporting Standards.
- (mm) “**Indemnified Party**” has the meaning specified in Section 9.4(a).
- (nn) “**Indemnifying Party**” has the meaning specified in Section 9.4(a).
- (oo) “**Industrial Operations**” means TML’s zinc refinery, lead smelter and other industrial and commercial operations at or near Trail and Warfield, British Columbia, including the oxygen plant and other third party-owned facilities integrated into those operations.
- (pp) “**Interim Period**” means the period between the time of execution of this Agreement and the Closing.
- (qq) “**ITA**” means the *Income Tax Act* (Canada), as amended from time to time, and regulations thereunder.
- (rr) “**Lease**” means the lease agreement in the form attached as Exhibit 2, or such other form of lease agreement as the Parties may agree upon, to be granted by Vendor or TML, as landlord, to TML Subco, as tenant, as part of the Pre-Closing Transaction, and on Closing to be assigned by Vendor or TML to Purchaser.
- (ss) “**Lease Arrangements**” means the transactions contemplated by the Lease, the COPOA and the Contract Bare Trust Agreement, or such other arrangements as the Parties may agree upon.
- (tt) “**Lease Term**” means the term of the Lease.
- (uu) “**Lines 14-17**” means the four 63 kV transmission lines running between the Waneta Hydro Station and the Emerald Switching Station, including any upgrades or replacements thereof.
- (vv) “**Line 71**” means the 230 kV transmission line running from the Waneta Hydro Station to the Nelway substation and to the BC/US Boundary where it interconnects with the transmission system of Bonneville Power Administration, and includes any associated transformers, breakers and ancillary equipment owned by TML or the Vendor, and upgrades or replacements thereof.



- (ww) “**Material Adverse Change**” means any one or more changes, events or occurrences which either individually or in the aggregate are material and adverse to the value of the Purchased Interest, or to the Purchaser’s ability to receive the benefits of the Purchased Interest (taking into account the Lease Arrangements); provided however, that no Material Adverse Change shall occur solely from the fact that the Purchaser will not have the benefit after the Closing of the Excluded Assets.
- (xx) “**Material Contracts**” means those contracts and agreements listed in Schedule 1.1(xx).
- (yy) “**Modified BC Hydro Security**” means the 2010 BC Hydro Security granted by the Purchaser as amended to: (i) in each agreement, replace references to the COA with references to the COPOA, including in the definition of “Obligations” within each agreement, and (ii) to clarify that it is the Purchaser’s 1/3 undivided interest in the lands, collateral, contracts and permits that are subject to such security, in form and substance reasonably acceptable to Vendor’s counsel.
- (zz) “**New Teck Security**” means a debenture or other security instrument granted by TML and TML Subco in favour of the Purchaser granting a mortgage and security interest in:
- (i) TML Subco’s interest in the Lease, and TML’s and TML Subco’s interest in the Collateral (subject to Section 1.1(zz)(ii)), Contracts and Permits (all as defined in the relevant agreement constituting the 2010 Teck Security) in order to secure the Obligations (as that term is defined in the COPOA); and
  - (ii) TML’s interest in the Teck Transmission Personal Property (as defined in the Reciprocal Security Agreement forming part of the 2010 Teck Security) in order to secure only the Obligations (as that term is defined in the COPOA) of TML to the Purchaser under the Transmission Agreement;
- in form and substance reasonably acceptable to Purchaser’s counsel.
- (aaa) “**Ordinary Course**” means, with respect to an action taken by a Person, that such action is consistent with the past practices of the Person and is taken in the ordinary course of the normal day-to-day operations of the Person; provided that, unless otherwise indicated in this Agreement, an action will be considered to be in the Ordinary Course if it is taken pursuant to or as part of the completion of a Pre-Closing Transaction or the Transaction.
- (bbb) “**Parties**” means the Vendor, the Covenantor, the Purchaser and WHUSI and any other Person who may become a party to this Agreement, and a “**Party**” shall mean any one of them.
- (ccc) “**Permitted Encumbrances**” means any one or more of the following:

- (i) Encumbrances for Taxes, assessments or governmental charges or levies which are not delinquent;
  - (ii) Encumbrances for Taxes, assessments or governmental charges or levies, the validity of which is being contested at the time by TML or the Vendor in good faith by proper legal proceedings if, in the Purchaser's reasonable opinion, adequate provision has been made for their payment;
  - (iii) inchoate or statutory Encumbrances of contractors, subcontractors, mechanics, workers, suppliers, material men, carriers and others in respect of the construction, maintenance, repair or operation of the Waneta Assets, provided that such Encumbrances are related to obligations not due or delinquent, are not registered against title to any Waneta Assets and in respect of which adequate holdbacks are being maintained by one or more of TML, the Vendor and BC Hydro in respect of the Waneta Assets, as required by Applicable Laws;
  - (iv) the right reserved to or vested in any Governmental Entity pursuant to the original grant of title to the real properties, by any statutory provision or by the terms of any Governmental Authorization including rights to terminate any such Governmental Authorization or to require annual or other payments as a condition of their continuance;
  - (v) the Lease;
  - (vi) Encumbrances listed and described in Schedule 1.1(ccc);
  - (vii) the Surplus Power Rights Agreement;
  - (viii) the Power Asset Sale and Development Agreement (PASDA) referred to in Schedule 1.1(xx); and
  - (ix) an access easement in connection with TML's wide area site remediation activities in substantially the form attached as Exhibit 3.
- (ddd) **"Person"** means an individual, legal personal representative, corporation, body corporate, firm, partnership, trust, trustee, syndicate, joint venture, unincorporated organization, association or Governmental Entity.
- (eee) **"Personal Property"** means those chattels and items listed in Schedule 1.1(eee).
- (fff) **"Pre-Closing"** means the completion of the Pre-Closing Transaction.
- (ggg) **"Pre-Closing Transaction"** means one or more transactions, in the following order, pursuant to which:
- (i) TML will incorporate TML Subco, and TML Subco and BC Hydro will then execute the COPOA;

- (ii) TML will enter into the Lease with TML Subco;
  - (iii) TML will transfer its beneficial interest in the Purchased Interest (except for TCAI's interests in the FERC License and the FERC Bare Trust Agreement), and its interest in the Lease as landlord, to TRL Subco,
  - (iv) TML will enter into the Contract Bare Trust Agreement with TRL Subco and BC Hydro; and
  - (v) TRL Subco will be amalgamated or wound up into the Vendor, and thereafter the Vendor will hold all of the beneficial interest in the Purchased Interest (except for TCAI's interests in the FERC License and the FERC Bare Trust Agreement) and in the Lease as landlord, and hold a beneficial interest in the Bare Trust Contracts, subject to TML Subco's interest during the Lease Term, pursuant to the Contract Bare Trust Agreement.
- (hhh) **“Proceeding”** has the meaning specified in Section 9.4(b).
- (iii) **“PST”** means the provincial sales tax levied under the *Provincial Sales Tax Act* (BC), and any successor or replacement tax therefor.
- (jjj) **“Public Statement”** has the meaning specified in Section 10.3.
- (kkk) **“Purchase Price”** has the meaning specified in Section 2.2(a).
- (lll) **“Purchased Interest”** means:
- (i) except for the interest retained by TML pursuant to the Contract Bare Trust Agreement, all of TML's and the Vendor's right, title and interest in and to the Bare Trust Assumed Contracts (which interest may exceed but is never less than a two-thirds undivided interest) as more particularly set out in Schedule 1.1(xx);
  - (ii) all of the TML's and the Vendor's right, title and interest in and to the Assumed Contracts that are not Bare Trust Assumed Contracts, as more particularly set out in Schedule 1.1(xx);
  - (iii) all of the Covenantor's right, title and interest in and to the FERC License; and
  - (iv) a two-thirds undivided interest in all other Waneta Assets.
- (mmm) **“Purchaser Material Adverse Change”** means any one or more changes, events or occurrences which either individually or in the aggregate are material and adverse to Vendor's or TML's ability to receive the anticipated benefits of this Agreement and the Lease Arrangements, excluding in each case impacts from changes, events or occurrences related to Taxes resulting from a change in Applicable Law.

- (nnn) “**Purchaser’s Assignee**” has the meaning specified in Section 10.9(d).
- (ooo) “**Purchaser's Assignee's Nominee**” means, in the event of an assignment during the Interim Period of the Purchaser's entire interest in this Agreement to the Purchaser's Assignee, a US-resident Person nominated by the Purchaser's Assignee.
- (ppp) “**Purchaser’s Indemnified Persons**” has the meaning specified in Section 9.1.
- (qqq) “**Real Property**” means those lands and premises owned by TML or the Vendor and listed and described in Schedule 1.1(qqq).
- (rrr) “**Regulatory Approvals**” means all orders, approvals or decisions considered by any Party, in its sole discretion, to be necessary or advisable to be obtained from the BCUC with regard to any element of the Transaction, the Lease Arrangements, the Transmission Agreement, the Wheeling Agreement and the WHS IA Amending Agreement, without material variation to terms, or any exemptions pursuant to the Utilities Commission Act obviating the need therefor.
- (sss) “**Release**” means any release, spill, leak, emission, discharge, leach, dumping, migration, pumping, pouring, emitting, emptying, injecting, spraying, burying, abandoning, incinerating, seeping, escape, disposal or similar or analogous act contrary to any Environmental Laws.
- (ttt) “**Required Consents**” means those Consents specified as “required” as set out in Schedule 1.1(r).
- (uuu) “**Required Notices**” means the notices required to be given to any Person under Applicable Laws or pursuant to any Material Contract or other obligation to which TML, the Vendor or the Covenantor is a party or by which any of them is bound or which is applicable to the Purchased Interest in connection with the execution and delivery of this Agreement or the completion of the Transaction, as set out in Schedule 1.1(uuu).
- (vvv) “**Sale Notice**” means the Sale Notice delivered by TML to the Purchaser dated June 2, 2017, together with all attachments thereto.
- (www) “**Surplus Power Rights Agreement**” or “**SPRA**” means the Surplus Power Rights Agreement dated March 5, 2010 between TML and BC Hydro.
- (xxx) “**Tax**” and “**Taxes**” means any or all Canadian federal, provincial, local or foreign (i.e., non-Canadian) income, gross receipts, real property gains, goods and services, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add on minimum, or other taxes, levies, governmental charges or assessments of any kind whatsoever, including, without limitation, any estimated

tax payments, interest, penalties or other additions thereto, whether or not disputed.

- (yyy) “**TML**” means Teck Metals Ltd., a wholly-owned direct subsidiary of Teck Resources Limited.
- (zzz) “**TML Subco**” means a corporation that is a wholly-owned direct subsidiary of TML.
- (aaaa) “**Transaction**” means the transaction of purchase and sale provided for and contemplated in this Agreement.
- (bbbb) “**Transaction Closing Matters Agreement**” means the Transaction Closing Matters Agreement among the Parties made as of the same date as this Agreement.
- (cccc) “**Transfer Taxes**” means all sales taxes, sales and use taxes, value added taxes, goods and services taxes, property transfer taxes, harmonized sales taxes and other transfer taxes and similar charges, including, without limitation, any interest and penalties, required to be reported upon or paid to any Governmental Entity in respect of the Transaction.
- (dddd) “**Transmission Agreement**” means the definitive transmission agreement, to be developed by the Purchaser and Vendor pursuant to the Transaction Closing Matters Agreement, from the agreed terms and conditions set out in the term sheet attached as Exhibit 6, which will be executed and delivered on Closing.
- (eeee) “**TRL Subco**” means a corporation that is a wholly-owned direct subsidiary of the Vendor.
- (ffff) “**Unassigned Interests**” has the meaning specified in Section 7.7.
- (gggg) “**Vendor’s Indemnified Persons**” has the meaning specified in Section 9.2.
- (hhhh) “**Waneta Assets**” means, collectively, the Waneta Plant and those properties, assets, equipment, parts, permits, licenses, authorizations or agreements of every nature and kind, real, personal or mixed, and whether tangible or intangible that are owned by TML and/or the Vendor and BC Hydro or in which TML and/or the Vendor and BC Hydro have an interest, and that are used from time to time in connection with the operation and maintenance of the Waneta Plant, including the following:
- (i) the Real Property;
  - (ii) the Buildings and Fixtures located on, in or under the Real Property;
  - (iii) the Personal Property;
  - (iv) the Assumed Contracts;

- (v) the Governmental Authorizations; and
  - (vi) the prepaid expenses related to any of the foregoing,
- other than to the extent that any of them comprise Excluded Assets.

- (iii) **“Waneta Plant”** means the Waneta dam located on the Pend d’Oreille River, its powerhouse and generating apparatus, that portion of the Waneta Hydro Station that is not Excluded Assets, transmission infrastructure and equipment between the Waneta dam and the Waneta Hydro Station and all related tangible assets and equipment owned and used by TML and/or the Vendor and BC Hydro in connection with the operation and maintenance of those assets, including those items set out in Schedule 1.1(iii) other than to the extent that any of them comprise Excluded Assets.
- (jjj) **“Waneta Hydro Station”** means the tangible personal property of the substation located on the Real Property connecting the Waneta Plant’s generators to, among other things, Line 71 and Lines 14-17, also known as the Waneta Hydro Station.
- (kkk) **“Wheeling Agreement”** means the definitive wheeling agreement to be developed by the Purchaser and Vendor pursuant to the Transaction Closing Matters Agreement, from the agreed terms and conditions set out in the term sheet attached as Exhibit 6, which will be appended to the Transmission Agreement.
- (lll) **“WHS IA Amending Agreement”** means the definitive agreement, to be developed by the Purchaser and Vendor pursuant to the Transaction Closing Matters Agreement, and to be executed and delivered on Closing, which will amend and restate the Waneta Interconnection Agreement dated March 5, 2010 between TML and the Purchaser regarding the Waneta Hydro Station to substantially reflect the terms and conditions contained in the ESS Interconnection Agreement included as part of the Sale Notice, other than the points of interconnection, and other than the requirements of Section 6.1 and 6.2 thereof which shall be made subject to TML’s rights pursuant to Section 2.3(a) of the CPA, and with such other changes as the Parties may mutually agree upon acting reasonably.

**1.2 Gender and Number.** Any reference in this Agreement to gender includes all genders, and words importing the singular number only shall include the plural and vice versa.

**1.3 Headings, etc..** The provision of a table of contents, the division of this Agreement into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect its interpretation.

**1.4 Currency.** All references in this Agreement to dollars, unless otherwise specifically indicated, are expressed in Canadian currency.

**1.5 Certain Phrases, etc..** In this Agreement (i) the words “including” and “includes” mean “including (or includes) without limitation”, and (ii) the phrase “the aggregate of”, “the

total of”, “the sum of”, or a phrase of similar meaning means “the aggregate (or total or sum), without duplication, of”, and (iii) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

- 1.6 Knowledge.** Where any representation or warranty contained in this Agreement is expressly qualified by reference to the knowledge of the Vendor or the Covenantor, it shall be deemed to refer to the actual knowledge of one or more of those individuals identified on Schedule 1.6 in connection with the Vendor and the Covenantor at the time the representation or warranty is being made after, in each case, having made reasonable inquiry with respect to the subject matter of such representation or warranty, including, to the extent related to the Waneta Plant, having made inquiry of those employees of FortisBC Inc. and TML identified on Schedule 1.6. For purposes of Section 3.4(b)(ii) and Section 5.1, the knowledge of the Purchaser shall be deemed to refer to the actual knowledge of the individuals identified on Schedule 1.6 without further inquiry.
- 1.7 Accounting Terms.** All accounting terms not specifically defined in this Agreement shall be interpreted in accordance with IFRS.
- 1.8 Incorporation of Schedules.** The schedules and attachments attached to this Agreement shall, for all purposes of this Agreement, be incorporated by reference into this Agreement and form an integral part of it.
- 1.9 Calculation of Time Periods.** If the last day of a time period is not a Business Day, the time period shall end on the next Business Day.
- 1.10 Statutory Instruments.** Unless otherwise specifically provided in this Agreement, any reference in this Agreement to any Applicable Laws shall be construed as a reference to such Applicable Laws as amended or re-enacted from time to time or as a reference to any successor thereto.
- 1.11 Purchaser’s Assignee.** References in this Agreement to rights or obligations of the Purchaser shall, in the event of a permitted assignment during the Interim Period by the Purchaser to the Purchaser's Assignee of:
- (a) a partial interest of the Purchaser in this Agreement, be deemed to be references to the several rights and obligations of the Purchaser and the Purchaser’s Assignee in their respective proportions; or
  - (b) the Purchaser’s entire interest in this Agreement, be deemed to be references to the rights and obligations of the Purchaser’s Assignee;
- unless otherwise expressly stated.

**ARTICLE 2**  
**PURCHASED INTEREST AND PURCHASE PRICE**

**2.1 Purchase and Sale.**

- (a) Subject to the terms and conditions of this Agreement, the Vendor shall sell to the Purchaser, and the Purchaser shall purchase from the Vendor, all of the Vendor's right, title and interest in and to the Purchased Interest free and clear of all Encumbrances (other than Permitted Encumbrances), at the Closing Time on the Closing Date.
- (b) Unless the Vendor assigns this Agreement to TML prior to Closing, subject to the terms and conditions of this Agreement, the Vendor shall cause TML to transfer all of TML's right, title and interest in and to the Purchased Interest free and clear of all Encumbrances (other than Permitted Encumbrances) to the Purchaser, at the Closing Time on the Closing Date.
- (c) Subject to the terms and conditions of this Agreement, the Covenantor shall assign to WHUSI, and WHUSI shall assume from the Covenantor, all of the Covenantor's right, title and interest in and to the FERC License free and clear of all Encumbrances (other than Permitted Encumbrances), at the Closing Time on the Closing Date.
- (d) Subject to the terms and conditions of this Agreement, the Purchaser shall, and to the extent related to the FERC License WHUSI shall, assume and be responsible for the observance, performance and payment of all Assumed Liabilities from and after the Closing Time on the Closing Date.

**2.2 Purchase Price.**

- (a) The aggregate purchase price payable by the Purchaser in connection with the Transaction is the amount of \$1.203 billion (the "**Purchase Price**") and exclusive of any applicable Transfer Taxes payable by the Purchaser hereunder.
- (b) The allocation of the Purchase Price among the assets comprising the Purchased Interest shall be in accordance with the particulars set forth in the attached Schedule 2.2(b) (the "**Allocation**"), unless otherwise mutually agreed by the Parties. Except to the extent otherwise required by Law, the Parties will file all Tax returns in a manner consistent with the Allocation and will not make any inconsistent statement or adjustment on any returns or during the course of any Tax audit.
- (c) The Purchaser shall pay the Purchase Price at Closing by wire transfer of immediately available funds to or to the order of the Vendor.

- 2.3 Transfer Taxes.** The Purchaser shall pay all Transfer Taxes arising out of or in connection with the purchase of the Purchased Interest by the Purchaser (or in the case of the Covenantor's interest in the FERC License, the assignment thereof to WHUSI),



including any interest and penalties thereon resulting from the non-payment by the Purchaser of such Transfer Taxes, provided that, for greater certainty, the Purchaser shall not be responsible for or required to pay any capital gains Tax, income Tax, profits Tax, gross receipts Tax, real property gains Tax, payroll Tax, employment Tax, windfall profits Tax, withholding Tax, social security Tax, property Tax, unemployment Tax, alternative or add on minimum Tax or similar Tax incurred by, assessed upon or otherwise sustained by the Vendor, TML or Covenantor in connection with the sale of the Purchased Interest to the Purchaser (or in the case of the Covenantor's interest in the FERC License, the assignment thereof to WHUSI), or any Transfer Taxes payable on transfer of the Purchased Interest or any part thereof by TML to the Vendor or a subsidiary of the Vendor in connection with a Pre-Closing Transaction.

- 2.4 PST Clearance Certificate.** With respect to the Transaction, as required under subsection 187(3) of the *Provincial Sales Tax Act* (British Columbia), the Vendor shall secure a clearance certificate from the British Columbia Ministry of Finance and provide a copy to the Purchaser on or before the Closing Time. The Vendor shall indemnify and save harmless the Purchaser from and against all Damages incurred by the Purchaser arising out of the failure of the Vendor to provide such clearance certificate.

### ARTICLE 3 REPRESENTATIONS AND WARRANTIES

- 3.1 Representations and Warranties of the Vendor and Covenantor.** Each of the Vendor and the Covenantor represents and warrants to the Purchaser and WHUSI that as of the date hereof (except where otherwise specified):

- (a) **Incorporation and Qualification.** It is a corporation duly incorporated or amalgamated and validly existing under the Applicable Laws of its jurisdiction of incorporation or amalgamation. It has the corporate power and capacity to own and operate its property, carry on its business and enter into and perform its obligations under this Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement.
- (b) **Due Authorization, Absence of Conflict.** The execution, delivery and performance by it of this Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement:
- (i) have been duly authorized by all necessary corporate action on its part;
  - (ii) do not (and would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or a violation of or default under, or conflict with any of the terms or provisions of, or allow any other Person to exercise any rights under or terminate or cancel, its constating documents or by-laws or any contracts (including the Material Contracts) or instruments to which it is a party or pursuant to which any of its assets or property may be affected (subject in each case to obtaining applicable Consents) or any judgment, order, writ, injunction or,

to the best of its knowledge, any decree of any Government Entity having jurisdiction over it;

- (iii) to the knowledge of the Vendor, will not result in a breach or contravention of, or cause the termination, revocation, suspension or adverse alteration of, any Governmental Authorization (subject to obtaining applicable Consents);
  - (iv) will not result in the violation of any Applicable Laws (subject to obtaining applicable Consents);
  - (v) will not give any Person the right to remove any of the Purchased Interest, or result in the creation or imposition of any Encumbrance on any of the Purchased Interest, except such as may be created or imposed pursuant to this Agreement or any documents, instruments and agreements required to be delivered pursuant to this Agreement, or result in the crystallization of any floating charge on the Purchased Interest; and
  - (vi) will not result in any fees, duties, Taxes, assessments or other amounts becoming due or payable to a Governmental Entity relating to the Purchased Interest other than Transfer Taxes and the Vendor's income taxes.
- (c) **Enforceability.** This Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement constitute legal, valid and binding obligations, enforceable against it in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.

**3.2 Representations and Warranties of the Vendor.** The Vendor represents and warrants to the Purchaser and WHUSI that as of the date hereof (except where otherwise specified):

- (a) **TML.**
  - (i) **Incorporation and Qualification.** TML is a corporation duly incorporated or amalgamated and validly existing under the Applicable Laws of its jurisdiction of incorporation or amalgamation. TML has the corporate power and capacity to own and operate its property, carry on its business and enter into and perform its obligations under all documents, instruments and agreements required to be delivered by it pursuant to this Agreement.
  - (ii) **Due Authorization, Absence of Conflict.** The execution, delivery and performance by TML of all documents, instruments and agreements required to be delivered by it pursuant to this Agreement:

- (A) have been duly authorized by all necessary corporate action on TML's part;
  - (B) do not (and would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or a violation of or default under, or conflict with any of the terms or provisions of, or allow any other Person to exercise any rights under or terminate or cancel, its constating documents or by-laws or any contracts (including the Material Contracts) or instruments to which it is a party or pursuant to which any of its assets or property may be affected (subject in each case to obtaining applicable Consents) or any judgment, order, writ, injunction or, to the Vendor's knowledge, any decree of any Government Entity having jurisdiction over TML;
  - (C) to the knowledge of the Vendor, will not result in a breach or contravention of, or cause the termination, revocation, suspension or adverse alteration of, any Governmental Authorization (subject to obtaining applicable Consents);
  - (D) will not result in the violation of any Applicable Laws (subject to obtaining applicable Consents);
  - (E) will not give any Person the right to remove any of the Purchased Interest, or result in the creation or imposition of any Encumbrance on any of the Purchased Interest, except such as may be created or imposed pursuant to the this Agreement or any documents, instruments and agreements required to be delivered pursuant to this Agreement, or result in the crystallization of any floating charge on the Purchased Interest; and
  - (F) will not result in any fees, duties, Taxes, assessments or other amounts becoming due or payable to a Governmental Entity relating to the Purchased Interest other than Transfer Taxes and the Vendor's income taxes.
- (iii) **Enforceability.** All documents, instruments and agreements required to be delivered by TML pursuant to this Agreement constitute legal, valid and binding obligations, enforceable against TML in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.
- (b) **Sufficiency of Waneta Assets.** Except for the Excluded Assets and as disclosed in Schedule 3.2(b), the Waneta Assets comprise all of the assets (including all permits, licences, registrations, consents, authorizations, approvals, privileges, waivers, exemptions, orders, certificates, rulings, agreements and other

concessions from, of or with any Governmental Entity) reasonably necessary to operate the Waneta Plant substantially in the same manner as now being operated and to hold, operate and use the Waneta Assets substantially in the same manner as now being held, operated and used by TML and BC Hydro.

- (c) **Compliance with Applicable Laws.** To the knowledge of the Vendor, except as disclosed in Schedule 3.2(c), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, TML and the Vendor have owned, operated and used the Purchased Interest (except for the Covenantor's interest in the FERC License) in compliance with all Applicable Laws, except for acts of non-compliance which, in the aggregate, would not constitute a Material Adverse Change.
- (d) **Title and Exclusivity to Purchased Interest.** Except for the Covenantor's interest in the FERC License, TML is the registered and beneficial owner of the Purchased Interest and, except for BC Hydro's rights as co-owner of the Waneta Assets, as disclosed in Schedule 3.2(d) or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, TML has the exclusive right to use, possess and occupy the Purchased Interest, and subject to obtaining all applicable Consents with respect to the Material Contracts and Governmental Authorizations, TML has good and marketable title thereto, and the right to dispose thereof, free and clear of all Encumbrances (except for Permitted Encumbrances and financial Encumbrances to be discharged on or before the Closing Time).
- (e) **Governmental Authorizations.** Except as disclosed in Schedule 3.2(c) or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, all of the Governmental Authorizations are validly issued, are in full force and effect, are in good standing and are being complied with in all material respects, and no notice of breach or default or defect in respect of any of their terms has been received by TML or the Vendor and to the knowledge of the Vendor there are no matters which could give rise to any such notice. To the knowledge of the Vendor, there are no proceedings in progress, pending or threatened in writing which could result in the cancellation, revocation, suspension or adverse alteration of any Governmental Authorization.
- (f) **Consents and Notices under Governmental Authorizations.** Provided that all applicable Consents are obtained and Required Notices are given, no authorization, approval, consent, order or any other action of, or any registration, declaration, filing or notice with or to, any Governmental Entity or any other Person is required under or in respect of any such Governmental Authorizations in order for TML, the Vendor and the Covenantor to complete the Transaction.
- (g) **Material Contracts.** Except as disclosed in Schedule 3.2(g), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017:

- (i) each Material Contract is valid, subsisting and in good standing, except for the Lease, which will come into effect as part of the Pre-Closing Transaction;
- (ii) none of TML, the Vendor or the Covenantor is in material default or breach of any Material Contract;
- (iii) to the knowledge of the Vendor, no proceeding is pending or has been threatened in writing to revoke or limit any Material Contract;
- (iv) no event, condition or occurrence exists which, after notice or lapse of time or both, could constitute a default by TML, the Vendor or the Covenantor (or, to the knowledge of the Vendor, a default by any other party) under any of the Material Contracts or which would materially and detrimentally affect the entitlement of TML, the Vendor or the Covenantor to the benefits of such Material Contracts;
- (v) all of the Material Contracts are enforceable in accordance with their terms against TML, the Vendor and/or the Covenantor (as applicable) and the other parties thereto and none of the Material Contracts have been amended; and
- (vi) except Excluded Assets, the Material Contracts are all of the contracts and agreements to which TML, the Vendor or the Covenantor are a party that meet any of the following criteria:
  - (A) any agreement related to the Waneta Assets entered into by TML, the Vendor or the Covenantor with any Affiliate or non-arm's length party;
  - (B) any agreement related to the Waneta Assets which involves a cost, expenditure, obligation or liability of TML, the Vendor or the Covenantor of \$100,000 or more for each such agreement;
  - (C) any agreement (but for certainty, not Governmental Authorizations) which expressly restricts the ability of TML, the Vendor or the Covenantor to operate the Waneta Assets or conduct the business of TML, the Vendor or the Covenantor related thereto in a specific manner;
  - (D) any agreement which includes a commitment to make capital expenditures or to acquire or construct fixed assets in respect of the Waneta Assets in excess of \$100,000;
  - (E) any leases or subleases, either as lessee or sublessee, lessor or sublessor, of equipment, personal property or intangibles related to the Waneta Assets where the lease or sublease provides for payment in excess of \$100,000;

- (F) any agreements of agency, representation or distribution related to the Waneta Assets which cannot by their terms be cancelled without payment or penalty of more than \$25 million;
  - (G) any agreement related to the Waneta Assets for sale, purchase, or exchange or for future delivery of capacity and/or energy, hedging contract, forward contract, swap agreement, futures contract, or other derivative agreement or option or any rate protection agreement or option that could reasonably be expected to impact the Vendor's obligations pursuant to this Agreement, or TML's or the Vendor's obligations under the Surplus Power Rights Agreement or any other Material Contract;
  - (H) other than this Agreement, any agreement related to the Waneta Assets that has not been entered into in the Ordinary Course; and
  - (I) any agreement related to the Waneta Assets which is required for the ongoing operation of the Waneta Assets in a manner consistent with past practice where the agreement provides for payment in excess of \$100,000.
- (h) **Consents and Notices under Material Contracts.** Provided that all applicable Consents are obtained and Required Notices are given, no authorization, approval, consent, order or any other action of, or any registration, declaration, filing or notice with or to, any Person is required under or in respect of any of the Material Contracts in order for the Vendor, TML and the Covenantor to complete the Transaction.
- (i) **Partnerships or Joint Ventures.** Except to the extent any of the Material Contracts qualify, none of TML, the Vendor or the Covenantor is a partner or participant in any partnership, joint venture or profit sharing arrangement with respect to the Waneta Assets.
- (j) **Environmental Matters.** Except as disclosed in Schedule 3.2(j), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017:
- (i) all of the Waneta Assets are in compliance in all material respects with all Environmental Laws and to the knowledge of the Vendor no condition exists or event has occurred with respect to the Waneta Assets which, with or without notice or the passage of time or both, would constitute a material violation of or give rise to material liability under any applicable Environmental Laws;
  - (ii) to the knowledge of the Vendor, there are no Environmental Contaminants located on or in or under the surface of any Real Property in material contravention of Applicable Laws, and no Release of any Environmental Contaminants has occurred on, in or from any Real Property or has

resulted from the operation of the Waneta Plant and/or ownership of the Purchased Interest, in material contravention of Applicable Laws;

- (iii) all Environmental Contaminants used in whole or in part in the operation of the Waneta Plant have been disposed of, treated and stored in compliance with all Environmental Laws in all material respects; and
  - (iv) the Vendor has provided or made available to the Purchaser true and complete copies of all environmental audits, evaluations, assessments, studies or tests that are reasonably expected to be material to the Purchaser, and all material correspondence with any Governmental Entity relating to the Waneta Assets regarding Environmental Contaminants or any non-compliance with Environmental Laws of which TML, the Vendor or the Covenantor have possession or control.
- (k) **Environmental Charges.** None of TML, the Vendor or the Covenantor has ever been charged with or convicted of any offence for non-compliance with Environmental Laws in connection with the operation of the Waneta Plant and/or ownership of the Waneta Assets, and none of them have received any notices of judgment or commencement of proceedings of any nature related to the Waneta Assets and, except as disclosed in Schedule 3.2(j), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, to the knowledge of the Vendor, there are no actions or proceedings pending or threatened in writing related to any material non-compliance, by any Person, with Environmental Laws in connection with the ownership or operation of the Waneta Assets.
- (l) **Adverse Proceedings.** To the knowledge of the Vendor, there are no material actions, suits or proceedings, at law or in equity, judicial or administrative, by any Person, or any arbitration, prosecution, compliance directive, or administrative or other proceeding by or before any Governmental Entity materially affecting any of the Waneta Assets, and to the knowledge of the Vendor there are no such suits or proceedings pending or threatened in writing, or investigations by or before any Governmental Entity materially affecting any of the Waneta Assets, and except as disclosed in Schedule 3.2(j), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, to the knowledge of the Vendor, there is no basis for any such suits, proceedings or investigations arising from or related to the Waneta Assets.
- (m) **No Rights to Purchased Interest.** Except for Permitted Encumbrances, as disclosed in Schedule 1.1(xx), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, there is no agreement, contract, option, commitment or other right in favour of, or held by, any Person other than the Purchaser to acquire, lease or possess any of the Purchased Interest, or except for BC Hydro's rights as co-owner, to occupy any part of the Real Property.

- (n) **Property Taxes on Real Property.** All property, municipal, general and special taxes, rates, assessments, local improvements charges, frontage taxes, business taxes, development cost charges, other subdivision charges and costs and other levies which are chargeable against TML's or the Vendor's interest in the Real Property have been paid in full unless the same are not due and payable.
- (o) **Encroachment on Real Property.** Except as disclosed in Schedule 3.2(d), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, the Purchased Interest does not infringe upon or contravene the provisions of any easement, right of way or encumbrance registered against or otherwise affecting any of the Real Property; each of the Waneta dam, its powerhouse and generating apparatus, the Waneta Hydro Station and transmission infrastructure comprising the Waneta Plant is wholly situated within the boundaries of the Real Property and lands occupied by TML and BC Hydro pursuant to the Appurtenant Licenses. To the knowledge of the Vendor, there are no buildings, fixtures, improvements or facilities on any adjoining lands, whether public or private, that encroach on any of the Real Property that materially and detrimentally affect the current operation and use of the Waneta Plant.
- (p) **Personal Property.** The Personal Property is a true and complete list, in all material respects, of the material tangible personal property owned or leased by TML, the Vendor or the Covenantor and used in connection with the Purchased Interest.
- (q) **Tax Affairs.** Each of TML and the Vendor have filed all material returns, material elections and material designations required to be filed by it with all taxation authorities and has paid in full all amounts owing to all taxation authorities due and payable by it and no circumstances exist in relation to the Tax affairs of TML, the Vendor or the Covenantor that will give rise to an Encumbrance other than Permitted Encumbrances (whether prospectively or retroactively) on the Purchased Interest.
- (r) **GST Registration.** The Vendor is registered for the purposes of GST under registration number 893110981 RT0001.
- (s) **PST Registration.** The Vendor is registered for the purposes of PST under registration number PST-1014-5647.
- (t) **Residence of the Vendor.** The Vendor is not a non-resident of Canada within the meaning of the ITA.
- (u) **No Seizure.** To the knowledge of the Vendor, there is no appropriation, condemnation, expropriation or seizure of any of the Waneta Assets that is pending or has been threatened in writing.
- (v) **Insurance.** TML and the Vendor are insured in respect of the Purchased Interest as set out in the summary of insurance disclosed in the Data Room. Except as



disclosed in Schedule 3.2(v), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017:

- (i) neither TML nor the Vendor is in default with respect to any of the provisions contained in any such insurance policies, nor has TML or the Vendor failed to give any notice or present any claim relating to the Waneta Assets under any such insurance policy in a due and timely fashion, and each of TML and the Vendor is entitled to all of its rights and benefits thereunder;
- (ii) the Vendor has provided to the Purchaser a true copy of all provisions of each insurance policy referred to in the summary of insurance; and
- (iii) no notice of cancellation or non-renewal with respect to, nor disallowance of any claim under, any of such insurance policies has been received by TML or the Vendor, and all premiums due in connection with such policies have been paid.

**3.3 Representations and Warranties of the Vendor and the Covenantor.** The Vendor and the Covenantor jointly and severally represent and warrant to the Purchaser and WHUSI that as of the date hereof (except where otherwise specified):

- (a) **Title and Exclusivity to FERC License.** Except as disclosed in Schedule 3.2(d), or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, the Covenantor holds and has title to the FERC License, and subject to obtaining all applicable Consents with respect thereto, the Covenantor has the right to dispose of the Purchased Interest therein, free and clear of all Encumbrances (except for Permitted Encumbrances and financial Encumbrances to be discharged on or before the Closing Time).
- (b) **FERC License.** The FERC License is validly issued, is in full force and effect, is in good standing and is being complied with in all material respects, and no notice of breach or default or defect in respect of any of its terms has been received by TML, the Vendor or the Covenantor and to the knowledge of the Vendor and Covenantor there are no matters which could give rise to any such notice. To the knowledge of the Vendor, there are no proceedings in progress, pending or threatened in writing which could result in the cancellation, revocation, suspension or adverse alteration of the FERC License.
- (c) **Consents and Notices under Governmental Authorizations.** Provided that all applicable Consents are obtained and Required Notices are given, no authorization, approval, consent, order or any other action of, or any registration, declaration, filing or notice with or to, any Governmental Entity or any other Person is required under or in respect of the FERC License in order for the Vendor and the Covenantor to complete the Transaction.

**3.4 Representations and Warranties of the Purchaser.** The Purchaser represents and warrants to the Vendor and to the Covenantor that as of the date hereof:

- (a) **Formation and Qualification.** It is a corporation duly continued and validly existing under the Applicable Laws of its jurisdiction of formation. It has the corporate power and capacity to own and operate its property, carry on its business and enter into and perform its obligations under this Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement.
- (b) **Due Authorization, Absence of Conflict.** The execution, delivery and performance by it of this Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement:
- (i) have been duly authorized by all necessary corporate action on its part;
  - (ii) do not (and would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or a violation of or default under, or conflict with any of the terms or provisions of, or allow any other Person to exercise any rights under or terminate or cancel, its constating documents or by-laws or any contracts or instruments to which it is a party or pursuant to which any of its assets or property may be affected (subject in each case to obtaining applicable Consents) or any judgment, order, writ, injunction or, to the best of its knowledge, any decree of any Government Entity having jurisdiction over it; and
  - (iii) will not result in the violation of any Applicable Laws (subject to obtaining applicable Consents and the approvals contemplated by Section 9.7).
- (c) **Consents and Notices under Governmental Authorizations.** Provided that all applicable Consents and Regulatory Approvals are obtained and Required Notices are given, no authorization, approval, consent, order or any other action of, or any registration, declaration, filing or notice with or to, any Governmental Entity or any other Person is required in order for the Purchaser to complete the Transaction.
- (d) **Enforceability.** This Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement constitute legal, valid and binding obligations, enforceable against it in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency and other laws affecting the rights of creditors generally and except that equitable remedies may be granted only in the discretion of a court of competent jurisdiction.
- (e) **GST Registration.** The Purchaser is registered for the purposes of GST under registration number R121454151.
- (f) **PST Registration.** The Purchaser is registered for the purposes of PST under registration number PST-1002-2437.

- (g) **Residence of Purchaser.** The Purchaser is not a non-resident of Canada within the meaning of the ITA.

**3.5 Survival of Representations, Warranties and Covenants.** All representations and warranties and covenants made by each of the Parties in this Agreement or in any certificate delivered pursuant to this Agreement shall survive the Closing for a period of 18 months, and each of the Parties acknowledges and confirms that the other Parties are relying upon such representations and warranties in connection with the completion of the Transaction. After the expiration of such period, no Party shall have any further liability to any other Party with respect to such representations, warranties and covenants except with respect to claims properly made in accordance with Article 9 within such time period (subject to Section 9.3(d)). Notwithstanding the foregoing, the representations and warranties and covenants in Sections 2.1(d), 2.3, 3.1(a), 3.1(b)(i), 3.1(b)(ii), 3.2(a)(i), 3.2(a)(ii)(A), 3.2(a)(ii)(B), 3.2(d), 3.4(a), 3.4(b)(i), 3.4(b)(ii), 4.7, 9.1(c) and 9.2(c) shall survive indefinitely, and the representations and warranties in Sections 3.2(n) and 3.2(q) shall survive the Closing and continue in full force and effect until the expiration of the period, if any, during which an assessment, reassessment or other form of recognized document assessing liability for Tax under the applicable Tax legislation in respect of any taxation year to which such representations and warranties extend could be issued under the applicable Tax legislation.

#### **ARTICLE 4 COVENANTS OF THE PARTIES**

**4.1 Vendor's Conduct Prior to Closing.** During the Interim Period, without in any way limiting any other obligations of the Vendor hereunder, the Vendor shall:

- (a) and shall cause TML to, in all material respects, operate, use and maintain the Purchased Interest in the Ordinary Course;
- (b) and shall cause TML to, in all material respects, maintain in full force and effect all policies of insurance or renewals thereof now in effect in connection with the Waneta Assets, with such changes thereto as may be reasonable in the Ordinary Course; and
- (c) and shall cause TML to, either complete the Pre-Closing Transaction with respect to the acquisition of TML's beneficial interest in the Purchased Interest, or assign this Agreement to TML.

**4.2 Reasonable Access.** Subject to any Applicable Laws, the Vendor shall, and shall cause TML to, permit the Purchaser and its employees, agents, counsel, accountants or other representatives during the Interim Period, without undue interference to the ordinary conduct of the businesses of TML or the Vendor, to have reasonable access on a supervised basis during normal business hours and upon reasonable notice to the Waneta Plant for the purposes of completing and confirming reasonable transition planning activities.

**4.3 Filings and Consents.** Each of the Parties hereto, as promptly as practicable after the execution and delivery of this Agreement, will to the extent such steps have not already been undertaken and as specified in Schedule 1.1(r):

- (a) make, or cause to be made, all such filings and submissions under all Applicable Laws (including Required Notices), as may be required for it to, and in the case of the Vendor for TML to, purchase or sell the Purchased Interest, as applicable, in accordance with the terms of this Agreement and consummate the Transaction;
- (b) use all its commercially reasonable efforts to obtain, or cause to be obtained, and secure all Consents necessary or advisable to be obtained by it in order to consummate the Transaction as soon as reasonably practicable, and the Parties shall, acting reasonably, cooperate with each other as required to secure the Consents including, where required by Governmental Entities or counterparties to the Assumed Contracts, agreeing to joint and several liability together with appropriate indemnities to allocate those liabilities among the Parties; and
- (c) use all reasonable efforts to take, or cause to be taken, all other actions necessary, proper or advisable in order for it to fulfill its obligations under this Agreement including fulfilling as soon as is practicable any reasonable requests for additional information.

Subject to any Applicable Laws, the Vendor and the Covenantor on the one hand, and the Purchaser and WHUSI on the other hand, will coordinate and co-operate with one another in exchanging such information and supplying such assistance as may be reasonably requested by each in connection with the foregoing including, without limitation, providing each other with all notices and information supplied or filed with any Governmental Entity and all notices and correspondence received from any Governmental Entity.

**4.4 Regulatory Approvals.** Without limiting the generality of Section 4.3, the Purchaser will use all reasonable commercial efforts to obtain the Regulatory Approvals, and the Vendor will cooperate with and support the Purchaser's efforts to obtain the Regulatory Approvals including providing information requested by a participant in any BCUC proceeding initiated for the purpose of seeking Regulatory Approvals, and not taking any action inconsistent with obtaining any Regulatory Approvals.

**4.5 First Nations Consultation.** During the Interim Period the Parties shall cooperate with, and use reasonable commercial efforts to assist, the Purchaser and Governmental Entities undertaking consultation activities in connection with the Crown's obligations to First Nations required in connection with the completion of the Transaction.

**4.6 Site Profile Waiver.** The Purchaser hereby waives the requirement for the Vendor to provide the Purchaser with a Site Profile (as that term is defined in the *Environmental Management Act* (BC)).

**4.7 Remediation Covenant.** The Vendor shall or shall cause TML to, at its own expense, undertake or perform in respect of the Real Property such investigations, studies,

remediation activities and any other obligations or actions as it shall be required to undertake in connection with its current wide area site process, including any wide area remediation plan (as that term is defined in the *Contaminated Sites Regulation* (BC)) or any other similar settlement, remediation plan or like arrangement in substitution thereof with respect to Environmental Contaminants, or where no such remediation plan or similar settlement, plan or arrangement applies to any or all of the Real Property but such remediation plan or similar settlement, plan or arrangement applies to TML in respect of other real property in the Trail, British Columbia area, then the Vendor shall, or shall cause TML to, at its own expense, undertake or perform, in respect of the Real Property, or parts thereof (as applicable), to which such remediation plan or similar settlement, plan or arrangement does not apply, such investigations, studies, remediation activities and any other obligations or actions as it shall be required to undertake for comparably contaminated real properties to which the remediation plan or similar settlement, plan or arrangement does apply. In either case, the Purchaser will not be responsible for remediation of any Environmental Contaminants on the Real Property to the extent that such Environmental Contaminants are being managed or are proposed to be managed in accordance with such wide area remediation plan or such similar settlement, plan or arrangement applicable to the Real Property pursuant to this Section 4.7.

## **ARTICLE 5 RELIANCE**

- 5.1 Reliance.** Each of the Vendor and the Covenantor acknowledge and agree that the Purchaser and WHUSI are entitled to rely on the representations, warranties, covenants and obligations of the Vendor and the Covenantor contained in this Agreement notwithstanding any information conveyed in any oral communication from the Vendor, TML, the Covenantor, or their representatives, and notwithstanding that the Purchaser is a co-owner of the Waneta Assets, and that no information which is now known or should be known or which may hereafter become known to the Purchaser or WHUSI or each of their employees, representatives or agents solely as a consequence of such oral communication or such co-ownership will limit or extinguish the rights of the Purchaser or WHUSI with respect to any misrepresentation or breach of any representation, warranty, covenant or obligation of the Vendor or the Covenantor. Each of the Purchaser and WHUSI acknowledges and agrees that neither the Vendor nor the Covenantor will have any liability (for indemnification or otherwise) for any breach or inaccuracy of any representation or warranty given by it in this Agreement to the extent that at the time such representation or warranty was given, the Purchaser or WHUSI had actual knowledge (as defined in Section 1.6) of any breach or inaccuracy of such representation or warranty, unless such actual knowledge was acquired solely as a consequence of an oral communication with the Vendor, TML, the Covenantor, or their representatives as referred to above. Each of the Vendor and the Covenantor acknowledges and agrees that neither the Purchaser nor WHUSI will have any liability (for indemnification or otherwise) for any breach or inaccuracy of any representation or warranty given by it in this Agreement to the extent that, at the time such representation or warranty was given, the Vendor or the Covenantor had actual knowledge (as defined in Section 1.6) of any breach or inaccuracy of such representation or warranty.

**ARTICLE 6**  
**CONDITIONS OF CLOSING**

**6.1 Conditions for the Benefit of the Purchaser.** The obligation of the Purchaser to complete the purchase and sale of the Purchased Interest as described herein is subject to the following conditions to be fulfilled or performed, to the Purchaser's reasonable satisfaction, on or before the date specified, or if no date is specified prior to or contemporaneous with Closing, which conditions are for the exclusive benefit of the Purchaser and may be waived, in whole or in part, by the Purchaser in its sole discretion:

- (a) **No Material Adverse Change.** There shall not have been any Material Adverse Change in the physical condition of the Waneta Assets or with respect to the Material Contracts or Governmental Authorizations.
- (b) **Truth of Representations and Warranties.** The representations and warranties of the Vendor and the Covenantor made pursuant to the certificates referred to in Section 7.4(e) shall be true and correct in all material respects as of the Closing Date, and shall be equivalent, in all material respects, as those contained in Article 3 of this Agreement, except as follows:
  - (i) if the Vendor has assigned this Agreement to TML prior to Closing:
    - (A) all references to the Vendor or TML shall instead refer to TML; and
    - (B) the number in Section 3.2(r) shall be: 844848135 RT0001;
  - (ii) if the Vendor has not assigned this Agreement to TML prior to Closing:
    - (A) references to TML in Section 3.2(b) and 3.2(o) shall instead refer to both TML and the Vendor;
    - (B) Section 3.2(d) shall be amended to read:

**Title and Exclusivity to Purchased Interest.** Except for the Covenantor's interest in the FERC License, TML is the registered and the Vendor is the beneficial owner of the Purchased Interest and, except for BC Hydro's rights as co-owner of the Waneta Assets, as disclosed in Schedule 3.2(d) or disclosed in the Data Room or otherwise disclosed in writing to the Purchaser in either case on or before July 31, 2017, TML and the Vendor together have the exclusive right to use, possess and occupy the Purchased Interest, and subject to obtaining all applicable Consents with respect to the Material Contracts and Governmental Authorizations, TML and the Vendor have good and marketable title thereto, and the right to dispose thereof, free and clear of all Encumbrances (except for Permitted Encumbrances and financial

Encumbrances to be discharged on or before the Closing Time);  
and

- (iii) the disclosures contained in the certificates referred to in Section 7.4(e), shall include, without limitation, the terms and conditions of all Material Contracts, or amendments to Material Contracts, executed during the Interim Period, notwithstanding the inclusion of item 40 (contracts entered into during the Interim Period in the Ordinary Course) in Schedule 1.1(xx),

and provided the disclosures contained in the certificates referred to in Section 7.4(e) do not individually or in the aggregate constitute a Material Adverse Change, the representations and warranties made pursuant to such certificates shall be deemed equivalent, in all material respects, to those contained in Article 3 of this Agreement.

- (c) **Performance of Covenants.** Each of the Vendor and the Covenantor shall have fulfilled or complied with all of its covenants contained in this Agreement and the Transaction Closing Matters Agreement in all material respects, and each of the Vendor and the Covenantor shall have executed and delivered to the Purchaser a certificate, executed by a senior officer(s) on behalf of such Party to that effect.
- (d) **Regulatory Approvals.** The Regulatory Approvals shall have been obtained and remain in effect (whether or not any directives, orders, judgments or decrees have been granted in connection with any appeal or review of the Regulatory Approvals).
- (e) **Deliveries.** The Vendor shall have delivered or cause to be delivered to the Purchaser the documents specified in Sections 7.2 and 7.4.
- (f) **No Insolvency Proceedings.** None of TML, the Vendor or the Covenantor shall have initiated material proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver shall have been appointed in respect of TML, the Vendor or the Covenantor or any of their assets and no execution or distress shall have been levied upon any of their assets.
- (g) **No Adverse Proceedings.** No directives, orders, judgments or decrees of a Governmental Entity shall have been withdrawn, varied or granted to any Person (other than the Purchaser or its Affiliates) to enjoin, restrict or prohibit: (i) the Transaction; or (ii) the right of the Purchaser to receive the benefits of the Purchased Interest (taking into account the Lease Arrangements), the Transmission Agreement, Wheeling Agreement and the WHS IA Amending Agreement.
- (h) **Longstop Date.** The Closing shall have occurred by August 1, 2018.

- (i) **Consents.** All Required Consents having been obtained on terms acceptable to the Purchaser acting reasonably.
- (j) **Release of Encumbrances.** The Vendor shall have obtained the release or discharge of all Encumbrances over and against the Purchased Interest, except for Permitted Encumbrances.
- (k) **Honour of the Crown.** BC Hydro shall be satisfied, in its reasonable discretion, that completion of the Transaction would be consistent with maintaining the honour of the Crown as it relates to efforts to seek reconciliation in connection with First Nation interests.

**6.2 Conditions for the Benefit of the Vendor and Covenantor.** The obligation of the Vendor and Covenantor to complete the purchase and sale of the Purchased Interest as described herein is subject to the following conditions to be fulfilled or performed, to the reasonable satisfaction of the Vendor, on or before the date specified, or if no date is specified prior to or contemporaneous with the Closing, which conditions are for the exclusive benefit of the Vendor and Covenantor and may be waived, in whole or in part, by the Vendor in its sole discretion:

- (a) **Truth of Representations and Warranties.** The representations and warranties of the Purchaser made pursuant to the certificate referred to in Section 7.5(c) shall be true and correct in all material respects as of the Closing Date, and shall be equivalent, in all material respects, as those contained in Article 3 of this Agreement. For certainty, provided the disclosures contemplated by Sections 7.5(c) do not constitute a Purchaser Material Adverse Change, the representations and warranties made pursuant to the certificate referred to in Section 7.5(c) shall be deemed equivalent, in all material respects, to those contained in Article 3 of this Agreement.
- (b) **Performance of Covenants.** The Purchaser shall have fulfilled or complied with all of its covenants contained in this Agreement and the Transaction Closing Matters Agreement in all material respects, and the Purchaser shall have executed and delivered to the Vendor a certificate, executed by a senior officer(s) on behalf of such Party to that effect.
- (c) **Regulatory Approvals.** The Regulatory Approvals shall have been obtained and remain in effect (whether or not any directives, orders, judgments or decrees have been granted in connection with any appeal or review of the Regulatory Approvals).
- (d) **Deliveries.** The Purchaser shall have delivered or cause to be delivered to the Vendor the documents specified in Sections 7.4 and 7.5.
- (e) **No Insolvency Proceedings.** The Purchaser shall not have initiated material proceedings with respect to a compromise or arrangement with its creditors or for its winding up, liquidation or dissolution. No receiver shall have been appointed



in respect of the Purchaser or any of its assets and no execution or distress shall have been levied upon any of its assets.

- (f) **No Adverse Proceedings.** Except directives, orders, judgments or decrees granted in connection with any appeal or review of the Regulatory Approvals, no directives, orders, judgments or decrees of a Governmental Entity shall have been withdrawn, varied, or granted to any Person (other than the Vendor or its Affiliates), or no action or proceeding shall be pending by any Person, in each case to enjoin, restrict or prohibit: (i) the Transaction; (ii) or the right of TML to receive the benefits of the Lease Arrangements, the Transmission Agreement, Wheeling Agreement and the WHS IA Amending Agreement.
- (g) **Consents.** All Required Consents having been obtained on terms acceptable to the Vendor acting reasonably.
- (h) **Longstop Date.** The Closing shall have occurred by August 1, 2018.
- (i) **Water Rentals.** By no later than October 31, 2017, the Vendor shall have received assurance satisfactory to the Vendor, acting reasonably, that TML will be eligible to pay water fees pursuant to the *Water Sustainability Act* (BC) at the commercial power use category for CPA entitlement used at the Industrial Operations during the Lease Term.
- (j) **Adequacy of Transmission.** The Vendor shall be satisfied, in its sole and absolute discretion, that TML will have adequate transmission facilities or rights to:
  - (i) during the Lease Term: (A) satisfy TML's obligations under the Canal Plant Agreement and Canal Plant Subagreement as required to ensure there is no reduction in entitlement available to TML resulting from a transmission limitation; (B) make BC Hydro's Share of Actual Generation (as defined in the COPOA) available as required under the Transmission Agreement; and (C) maintain existing scheduling rights under the Line 71 Agreement; and
  - (ii) after the Lease Term, import up to 300MW of power from the US with a schedule priority equivalent to those available to TML under the Line 71 Agreement, and transmit that power to Emerald Switching Station on a firm basis.
- (k) **Power Quality and Reliability.** The Vendor shall be satisfied, in its sole and absolute discretion that, from and after Closing, power quality and reliability for the Industrial Operations shall be consistent with the power quality and reliability before Closing, including in respect of the voltage range, frequency range and reactive power flows.
- (l) **Transmission.** BC Hydro shall have agreed to waive its pre-emptive right, pursuant to section 21.3(f) of the COA, to purchase Line 71 and certain other

transmission assets, without prejudice to BC Hydro's further rights with respect to such assets pursuant to the Transmission Agreement, the COA and the COPOA.

- (m) **Indemnities.** By no later than October 31, 2017, or such later date as may be specified by the Vendor from time to time, but not later than August 1, 2018, the Purchaser shall have delivered evidence satisfactory to the Vendor, acting reasonably, that the Purchaser has received all of the approvals required by Section 9.7.

### 6.3 Actions to Satisfy Closing Condition.

- (a) Each of the Vendor and Covenantor shall take all such actions, steps and proceedings as are reasonably within its control as may be necessary to ensure that all of the conditions set forth in Section 6.2 are fulfilled at or before the time specified in such Section.
- (b) By no later than November 3, 2017, the Vendor shall notify the Purchaser whether or not the condition set out in Section 6.2(i) [Water Rentals] has been fulfilled or waived by the Vendor.
- (c) The Vendor shall keep the Purchaser reasonably informed as to the status of the proceedings relating the satisfaction of the condition set out in Section 6.2(i) [Water Rentals], promptly advise the Purchaser of any material written or verbal communications with the office of the Comptroller of Water Rights or Water Manager, provide the Purchaser with copies of information submitted to the office of the Comptroller of Water Rights or Water Manager and use all commercially reasonable efforts to satisfy, as promptly as reasonably practicable, all requests for additional information and documentation received from the office of the Comptroller of Water Rights or Water Manager.
- (d) The Purchaser shall take all such actions, steps and proceedings as are reasonably within its control as may be necessary to ensure that all of the conditions set forth in Section 6.1 are fulfilled at or before the time specified in such Section.

### 6.4 Condition Acknowledgments

- (a) The Vendor acknowledges that provided the conditions set out in Sections 6.2(c) and 6.2(f) are also satisfied in connection therewith, the execution and delivery by the Purchaser on Closing of the Transmission Agreement is sufficient to satisfy the condition set out in Section 6.2(j).
- (b) The Vendor acknowledges that provided the conditions set out in Sections 6.2(c) and 6.2(f) are also satisfied in connection therewith, the execution and delivery by the Purchaser on Closing of the WHS IA Amending Agreement is sufficient to satisfy the condition set out in Section 6.2(k).

**ARTICLE 7  
PRE-CLOSING AND CLOSING**

- 7.1 Date, Time and Place of Closing.** The Pre-Closing and Closing shall take place at the Vancouver offices of the Vendor's legal counsel, immediately prior to and at the Closing Time, respectively, on the Closing Date or at such other place, on such other date and at such other time as may be agreed upon in writing between the Vendor and the Purchaser.
- 7.2 Vendor's Pre-Closing Deliveries.** On or before the Pre-Closing, the Vendor shall deliver or cause to be delivered to the Purchaser the following documents:
- (a) all deeds, bills of sale, conveyances, transfers, assignments, instruments and other documents which are necessary to complete the Pre-Closing, including a "Certificate of Exemption Production Machinery and Equipment" (FIN 492) in respect of the Lease; and
  - (b) the COPOA, duly executed by TML Subco.
- 7.3 Purchaser's Pre-Closing Deliveries.** On or before the Closing, the Purchaser shall deliver or cause to be delivered to the Vendor the following documents:
- (a) all consents the Purchaser is required to deliver pursuant to the Transaction Closing Matters Agreement in respect of the Pre-Closing Transaction; and
  - (b) the COPOA, duly executed by the Purchaser.
- 7.4 Vendor's Closing Deliveries.** On or before the Closing, the Vendor shall deliver or cause to be delivered to the Purchaser the following documents:
- (a) certified copies of resolutions of the directors of the Vendor approving the completion of the Transaction and the other transactions contemplated hereunder including, without limitation, the sale of the Purchased Interest (except the Covenantor's interest in the FERC License), execution and delivery by the Vendor (regardless of whether this Agreement is assigned to TML) of the TRL Guarantee, and the execution and delivery by the Vendor of this Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement;
  - (b) certified copies of resolutions of the directors of the Covenantor approving the completion of the Transaction and the other transactions contemplated hereunder and the execution and delivery by the Covenantor of this Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Agreement;
  - (c) certified copies of resolutions of the directors of TML approving the execution and delivery by TML of all documents, instruments and agreements it is required to deliver in connection with this Agreement;

- (d) certified copies of resolutions of the directors of TML Subco and of TRL Subco approving the execution and delivery by them of all documents, instruments and agreements they are required to deliver in connection with this Agreement;
- (e) a certificate of the Vendor and a certificate from the Vendor and the Covenantor, jointly, each executed by a senior officer of each of the Parties giving the certificates, confirming that, except as contemplated by Section 6.1(b) and as disclosed in the certificates, the representations and warranties of the Vendor and the Covenantor contained in this Agreement are true and correct in all material respects as of the Closing Date with the same effect as though they had made representations and warranties to that effect as of the Closing Time;
- (f) the certificate referred to in Section 6.1(c);
- (g) the clearance certificate referred to in Section 2.4;
- (h) all Consents obtained by either of the Vendor or the Covenantor;
- (i) all deeds, bills of sale, conveyances, transfers, assignments, instruments and other documents which are necessary to assign, sell and transfer to the Purchaser the Purchased Interest, each effective as of the Closing Time on the Closing Date as contemplated by this Agreement in such form and content as the Purchaser may reasonably require to give effect to the Transaction, duly executed by TML, the Vendor or the Covenantor, as applicable;
- (j) the TRL Guarantee in the form attached as Exhibit 4, or such other form as mutually agreed upon by the Parties, duly executed by Teck Resources Limited;
- (k) the Transmission Agreement, duly executed by TML;
- (l) an agreement documenting that the FERC Bare Trust Agreement and all FERC License Security Documents are terminated, duly executed by TML and the Covenantor;
- (m) an assignment and assumption of the Vendor's (and if the Vendor is not TML, TML's) interest in the Lease from the Vendor (and TML, if applicable) to the Purchaser, duly executed by the Vendor (and TML, if applicable);
- (n) the New Teck Security, duly executed by TML Subco and TML;
- (o) the Modified BC Hydro Security, duly executed by TML;
- (p) the WHS IA Amending Agreement, duly executed by TML;
- (q) all other agreements, certificates and other instruments to be delivered or given pursuant to this Agreement to give effect to the Transaction and the other transactions contemplated hereunder, duly executed by the parties thereto (except the Purchaser and WHUSI);

- (r) the Required Notices, whether delivered prior to the Closing or to be delivered following Closing, duly executed by TML, the Vendor and the Covenantor as applicable;
- (s) an opinion of counsel to the Vendor regarding this Agreement and TML's, the Vendor's, the Covenantor's, TML Subco's and TRL Subco's closing deliveries with respect to capacity, authority and execution in such reasonable form and content as approved by the Purchaser, acting reasonably; and
- (t) all such other assurances, consents, agreements, documents and instruments as may be reasonably required by the Purchaser to complete the Transaction and the other transactions contemplated hereunder.

**7.5 Purchaser's Closing Deliveries.** On or before the Closing, the Purchaser shall deliver or cause to be delivered to the Vendor the following documents and payments:

- (a) certified copies of resolutions of the directors of the Purchaser approving the completion of the Transaction and the other transactions contemplated hereunder including, without limitation, the purchase of the Purchased Interest (except for the Covenantor's interest in the FERC License), and the execution and delivery of this Agreement and all documents, instruments and agreements required to be delivered by the Purchaser pursuant to this Agreement;
- (b) certified copies of resolutions of the directors of WHUSI approving the completion of the Transaction and the other transactions contemplated hereunder including, without limitation, the assumption of the Covenantor's interest in the FERC License;
- (c) a certificate, executed by a senior officer(s) of the Purchaser confirming that, except as disclosed in the certificate, the representations and warranties of the Purchaser contained in this Agreement are true and correct in all material respects as of the Closing Date, with the same effect as though the Purchaser had made representations and warranties to that effect as of the Closing Time;
- (d) the certificate referred to in Section 6.2(b);
- (e) all Consents obtained by the Purchaser;
- (f) evidence of the Regulatory Approvals;
- (g) all deeds, bills of sale, conveyances, transfers, assignments, instruments and other documents which are necessary to assign, sell and transfer to the Purchaser the Purchased Interest, each effective as of the Closing Time on the Closing Date, and for the Purchaser and WHUSI to assume the Assumed Liabilities, as contemplated by this Agreement in such form and content as the Vendor may reasonably require to give effect to the Transaction, duly executed by the Purchaser and WHUSI, as applicable;

- (h) the TRL Guarantee in the form attached as Exhibit 4, or such other form as mutually agreed upon by the Parties, duly executed by the Purchaser;
- (i) the Transmission Agreement, duly executed by the Purchaser;
- (j) an agreement documenting that the FERC Bare Trust Agreement and all FERC License Security Documents are terminated, duly executed by the Purchaser and WHUSI;
- (k) the Modified BC Hydro Security, duly executed by the Purchaser;
- (l) the New Teck Security, duly executed by the Purchaser;
- (m) an assignment and assumption of the Vendor's (and if the Vendor is not TML, TML's) interest in the Lease from the Vendor (and TML, if applicable) to the Purchaser, duly executed by the Purchaser;
- (n) releases and registrable discharges of the 2010 Teck Security, duly executed by the Purchaser;
- (o) the WHS IA Amending Agreement, duly executed by the Purchaser;
- (p) all other agreements, certificates and other instruments to be delivered or given pursuant to this Agreement to give effect to the Transaction and the other transactions contemplated hereunder, duly executed by the Purchaser and WHUSI, as applicable;
- (q) an opinion of counsel to the Purchaser regarding this Agreement and the Purchaser's and WHUSI's closing deliveries with respect to capacity, authority and execution in such reasonable form and content as approved by the Vendor, acting reasonably; and
- (r) all such other assurances, consents, agreements, documents and instruments as may be reasonably required by the Vendor to complete the Transaction and the other transactions contemplated hereunder.

**7.6 Closing Procedure.** On the Closing Date, if all documents and funds have been delivered as provided in Sections 7.2 to 7.5, all documents and funds will be held in escrow and released in accordance with the following, except as otherwise mutually agreed among the Parties:

- (a) The following Pre-Closing documents will be released from escrow first, each delivered and effective in the same order as set out below (except where any such document explicitly provides for a later effective time):
  - (i) all of the Pre-Closing Transaction documents and funds required to incorporate TML Subco and TRL Subco;
  - (ii) all of the consents referenced in Section 7.3(a);

- (iii) the COPOA;
  - (iv) all of the Pre-Closing Transaction documents and funds required to give effect to the Lease;
  - (v) all of the Pre-Closing Transaction documents and funds required for TML to transfer its beneficial interest in the Purchased Interest (except for TCAI's interests in the FERC License and the FERC Bare Trust Agreement), and its interest in the Lease as landlord, to TRL Subco, and to enter into the Contract Bare Trust Agreement with TRL Subco;
  - (vi) all of the Pre-Closing Transaction documents and funds required for TRL Subco to be amalgamated or wound up into TRL;
- (b) once the Parties, acting reasonably, have determined that the Pre-Closing Transaction is complete and effective, then the following documents will be released from escrow:
- (i) Modified BC Hydro Security;
  - (ii) The transfer(s) of the Purchased Interest in the Real Property; and
  - (iii) the New Teck Security,

and such documents and the Lease will be dealt with as follows:

- (iv) counsel to the Purchaser shall cause a search of titles to the Real Property to be conducted in the records of the appropriate Land Title Office and provided that search confirms that title to the Purchased Interest in the Real Property is registered in the name of TML, subject only to the Permitted Encumbrances, counsel to the Purchaser shall submit or cause to be submitted to the said Land Title Office the following documents as a package for registration in the same order:
    - (A) the Lease;
    - (B) the amendment to the mortgage forming part of the Modified BC Hydro Security;
    - (C) the transfer(s) of the Purchased Interest in the Real Property; and
    - (D) the mortgage forming part of the New Teck Security,and obtain a post application search of titles to the Real Property showing such instruments as pending;
- (c) provided the post application search of titles to the Real Property indicates that in the normal routine of the Land Title Office:

- (A) the Lease will be registered against title to the Real Property in priority to all financial encumbrances other than the mortgage forming part of the Modified BC Hydro Security;
- (B) title to the Purchased Interest in the Real Property will issue in the name of the Purchaser subject only to the Permitted Encumbrances; and
- (C) the mortgages forming part of the Modified BC Hydro Security and New Teck Security will be registered against TML Subco's leasehold interest, and against the Purchaser's 1/3 undivided interest in the title, as applicable, in priority to all other financial encumbrances,

the Purchase Price and all Transfer Taxes required to be collected and remitted by the Vendor or Covenantor in immediately available funds pursuant to and in accordance with this Agreement shall be paid to the Vendor, and upon receipt, the escrow shall terminate and the balance of the Vendor's and Covenantor's closing deliveries shall be released to the Purchaser, the Purchaser's and WHUSI's closing deliveries shall be released to the Vendor, and the transactions effected thereby shall be deemed to have occurred in the order and sequence set forth in Sections 7.4 and 7.5 (with counterpart transactions in each Section occurring together in that sequence), or as otherwise mutually agreed among the Parties.

**7.7 Un-assignable Assumed Contracts and Governmental Authorizations.** With respect to interests in Assumed Contracts and Governmental Authorizations that form part of the Purchased Interest for which Consents are not received on or before Closing (collectively, the “**Unassigned Interests**”), and if those Consents are Required Consents then only if the Parties proceed to complete the Transaction notwithstanding the absence of those Required Consents, the transfer and assignment of the Unassigned Interests will not be effective in each case until the applicable Consent has been received, and such Unassigned Interests will be held by the Vendor or the Covenantor, or the Vendor will cause such Unassigned Interests to be held by TML, as applicable, following the Closing in trust (to the extent permitted by Applicable Laws) for the benefit and exclusive use of the Purchaser or WHUSI (as applicable). The Vendor, the Purchaser, WHUSI and Covenantor as applicable, shall continue to use their commercially reasonable efforts to obtain the applicable Consents and until such time as they are received, the Vendor or the Covenantor shall, or the Vendor shall cause TML to, as applicable, only make use of any Unassigned Interests in accordance with the lawful directions of the Purchaser that do not conflict with the terms of such Unassigned Interests. The Purchaser will reimburse the Vendor and Covenantor, as applicable, for all out-of-pocket liabilities, costs and expenses incurred by TML, the Vendor and Covenantor from and after the Closing Date at the direction of the Purchaser arising out of the Vendor's and Covenantor's performance of their respective obligations under this Section 7.7.

**7.8 Amalgamation/winding-up of TML Subco.** The Vendor shall cause TML Subco to be wound-up into TML, or amalgamated with TML, as soon as reasonably practicable after Closing and shall provide the Purchaser with prompt notice thereof.



## ARTICLE 8 TERMINATION

**8.1 Termination by Purchaser.** If any of the conditions set forth in Section 6.1 have not been fulfilled or waived on or before the date specified for their fulfillment or if no date is specified on or before the Closing Time, other than as a result of any failure of the Purchaser to perform or fulfil, in all material respects, any of its covenants under this Agreement to be performed or fulfilled on or before the Closing Time, the Purchaser may terminate this Agreement by notice in writing to the Vendor, and in such event the Purchaser shall be released from all obligations hereunder save and except for its obligations under Sections 10.3, 10.4 and 10.12, which shall survive.

**8.2 Termination by Vendor.**

(a) If the condition set forth in Section 6.2(i) has not been fulfilled, the Vendor may terminate this Agreement by notice in writing to the Purchaser, and in such event the Vendor and the Covenantor shall be released from all obligations hereunder save and except for their obligations under this Sections 8.2 and Sections 10.3, 10.4 and 10.12, which shall survive. In addition, unless such condition was not fulfilled as a result of any failure of the Purchaser to perform or fulfil, in all material respects, any of its covenants under this Agreement to be performed or fulfilled on or before the date specified for the condition's fulfillment, the Vendor shall pay the Purchaser within two (2) Business Days of receipt of an invoice from Purchaser, 50% of the Purchaser's and its Affiliates reasonable and documented fees and expenses, which for the sake of clarity do not include fees and expenses of any financial advisor or fixed fees not based on actual work undertaken during the relevant period incurred from August 1, 2017 to the date the Vendor terminates this Agreement in connection with the transactions contemplated hereunder.

(b) If any of the other conditions set forth in Section 6.2 have not been fulfilled or waived on or before the date specified for their fulfillment or if no date is specified on or before the Closing Time, other than as a result of any failure of the Vendor or Covenantor to perform or fulfil, in all material respects, any of its covenants under this Agreement to be performed or fulfilled on or before the Closing Time, the Vendor may terminate this Agreement by notice in writing to the Purchaser, and in such event the Vendor and the Covenantor shall be released from all obligations hereunder save and except for their obligations under this Section 8.2 and Sections 10.3, 10.4 and 10.12, which shall survive.

**8.3 Effect of Termination.** Each Party's right of termination under this Article 8 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. For clarity, any termination hereunder will be without prejudice to BC Hydro's continuing right of first offer pursuant to section 25.3 of the COA. Except as otherwise expressly provided in this Article 8, nothing in this Article 8 shall limit or affect any other rights or causes of action any Party may have with respect to the representations, warranties, covenants and indemnities in its favour contained in this Agreement.

**ARTICLE 9**  
**INDEMNIFICATION AND LIMITATION OF LIABILITY**

**9.1 Indemnification in Favour of the Purchaser and WHUSI.** Subject to Sections 9.3 and 9.4, the Vendor shall indemnify and save each of the Purchaser, WHUSI, and their directors, officers, employees and agents (collectively, the “**Purchaser’s Indemnified Persons**”) harmless of and from any loss, liability, claim, damage (specifically excluding indirect, incidental or consequential damage) or expense (whether or not involving a third-party claim) including legal expenses (collectively, “**Damages**”) suffered by, imposed upon or asserted against any of the Purchaser’s Indemnified Persons to the extent they are the result of, in respect of, connected with, or arising out of, under, or pursuant to:

- (a) any failure of the Vendor or Covenantor to perform or fulfil any of their respective covenants under this Agreement;
- (b) subject to Section 5.1, any breach or inaccuracy of any representation or warranty given by the Vendor or Covenantor in this Agreement; and
- (c) any and all obligations and liabilities (whether present, future, absolute or contingent) relating to the ownership, operation or maintenance of the Purchased Interest that are not Assumed Liabilities.

**9.2 Indemnification in Favour of the Vendor.** Subject to Sections 9.3 and 9.4, the Purchaser shall indemnify and save each of the Vendor, the Covenantor, and their directors, officers, employees and agents (collectively, the “**Vendor’s Indemnified Persons**”) harmless of and from any Damages suffered by, imposed upon or asserted against any of the Vendor’s Indemnified Persons to the extent they are the result of, in respect of, connected with, or arising out of, under or pursuant to:

- (a) any failure of the Purchaser or WHUSI to perform or fulfil any of their respective covenants under this Agreement;
- (b) subject to Section 5.1, any breach or inaccuracy of any representation or warranty given by the Purchaser in this Agreement; and
- (c) any failure of the Purchaser or WHUSI to pay, discharge or perform any of their respective Assumed Liabilities or the Vendor or Covenantor being subject to any of the Assumed Liabilities.

**9.3 Limitations.**

- (a) Subject to Sections 9.3(c) and 9.3(d), and except with respect to any breach by the Vendor or the Covenantor in respect of their respective obligations to pay, discharge or perform obligations and liabilities (whether present, future, absolute or contingent) relating to the ownership, operation or maintenance of the Purchased Interest that are not Assumed Liabilities, the Vendor will have no liability (for indemnification or otherwise) with respect to the matters described in

Section 9.1, until the total of all Damages with respect to such matters exceeds \$10,000,000; provided that, once the total of all Damages with respect to such matters exceeds such amount, the Vendor shall be liable for the full amount of such Damages without reduction or deduction.

- (b) Except with respect to any breach by the Purchaser or WHUSI in respect of its obligation to pay, discharge or perform the Assumed Liabilities, or to deliver the Purchase Price and Transfer Taxes pursuant to and in accordance with this Agreement, the Purchaser will have no liability (for indemnification or otherwise) with respect to the matters described in Section 9.2 until the total of all Damages with respect to such matters exceeds \$10,000,000; provided that, once the total of all Damages with respect to such matters exceeds such amount, the Purchaser shall be liable for the full amount of such Damages without reduction or deduction.
- (c) Notwithstanding any provision in this Agreement to the contrary, but subject to Section 9.3(d) and except with respect to the obligations of the Vendor under Section 4.7, the aggregate maximum indemnification obligation of the Vendor with respect to the matters described in Section 9.1 shall not exceed an amount equal to twenty percent (20%) of the Purchase Price.
- (d) Notwithstanding any provision in this Agreement to the contrary, any claim made under this Agreement by the Purchaser or WHUSI which is based upon or relates to actual fraud intended to mislead or deceive the Purchaser or WHUSI by the Vendor and/or the Covenantor may be made or brought by the Purchaser and/or WHUSI at any time after the Closing Date and is not subject to any limitations set forth in this Section 9.3.

#### 9.4 Procedure for Indemnification - Third Party Claims.

- (a) Promptly after receipt by an indemnified party (an “**Indemnified Party**”) of a notice of the commencement of any proceeding against it by a third party for which it wishes to seek indemnification under Section 9.1 or 9.2, the Indemnified Party will give notice to the indemnifying party (an “**Indemnifying Party**”) of the commencement of such claim and the particulars of the basis and amount of such claim to the extent known to the Indemnified Party. The failure to so notify the Indemnifying Party will not relieve the Indemnifying Party of any liability that it may have to any Indemnified Party, except to the extent that the Indemnifying Party demonstrates that the defense of such action is prejudiced by the Indemnified Party’s failure to give such notice.
- (b) If any proceeding referred to in Section 9.4(a) (a “**Proceeding**”) is brought against an Indemnified Party and it gives notice to the Indemnifying Party in accordance with Section 9.4(a), the Indemnifying Party will be entitled to participate in the Proceeding. Subject to the next following sentence, to the extent that the Indemnifying Party wishes to assume the defense of the Proceeding with counsel satisfactory to the Indemnified Party, acting reasonably, it may do so provided the Indemnifying Party first acknowledges in writing to the Indemnified

Party the Indemnifying Party's liability for the claim that is the subject of such Proceeding and reimburses the Indemnified Party for all of its out-of-pocket expenses arising prior to or in connection with such assumption. The Indemnifying Party may not assume defense of the Proceeding if (i) the Indemnifying Party is also a party to the Proceeding and the Indemnified Party determines in good faith that joint representation would be inappropriate, or (ii) the Indemnifying Party fails to provide reasonable assurance to the Indemnified Party of its financial capacity to defend the Proceeding and provide indemnification with respect to the Proceeding. After notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense of the Proceeding, the Indemnifying Party will not, as long as it diligently conducts such defense, be liable to the Indemnified Party under this Section 9.4(b) for any fees of other counsel or any other expenses with respect to the defense of the Proceeding, in each case subsequently incurred by the Indemnified Party in connection with the defense of the Proceeding, other than reasonable costs of investigation approved in advance by the Indemnifying Party. If the Indemnifying Party assumes the defense of a Proceeding (i) it will be conclusively established for purposes of this Agreement that the claims made in that Proceeding are within the scope of, and subject to, indemnification, (ii) no compromise or settlement of such claims may be made by the Indemnifying Party without the Indemnified Party's consent acting reasonably unless (y) there is no finding or admission of any violation of Applicable Laws or any violation of the rights of any Person and no effect on any other claims that may be made against the Indemnified Party, and (z) the sole relief provided is monetary damages that are paid in full by the Indemnifying Party, and (iii) the Indemnified Party will have no liability with respect to any compromise or settlement of such claims effected without its consent. If notice is given to an Indemnifying Party of any Proceeding in accordance with Section 9.4(a) and the Indemnifying Party does not, within thirty (30) days after receipt of such notice, give notice to the Indemnified Party of its election to assume the defense of the Proceeding, the Indemnifying Party will be bound by any determination made in the Proceeding or any compromise or settlement effected by the Indemnified Party.

- (c) Notwithstanding the foregoing, if an Indemnified Party determines in good faith that there is a reasonable probability that a Proceeding may adversely affect it or its Affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the Indemnified Party may, by notice to the Indemnifying Party, assume the exclusive right to defend, compromise, or settle the Proceeding. In such case, the Indemnifying Party will not be bound by any determination of a Proceeding so defended or any compromise or settlement effected without its consent (which may not be unreasonably withheld).
- (d) Where the defense of a Proceeding is being undertaken and controlled by the Indemnifying Party, the Indemnified Party will use all reasonable efforts to make available to the Indemnifying Party those employees whose assistance, testimony or presence is necessary to assist the Indemnifying Party in evaluating and

defending any such claims. However, the Indemnifying Party shall be responsible for the expense associated with any employees made available by the Indemnified Party to the Indemnifying Party pursuant to this Section 9.4(d), which expense shall be equal to an amount to be mutually agreed upon per person per hour or per day for each day or portion thereof that the employees are assisting the Indemnifying Party and which expenses shall not exceed the actual cost to the Indemnified Party associated with the employees.

- (e) With respect to any Proceeding, the Indemnified Party shall make available to the Indemnifying Party or its representatives on a timely basis all documents, records and other materials in the possession of the Indemnified Party, at the expense of the Indemnifying Party, reasonably required by the Indemnifying Party for its use in defending any such claim and shall otherwise co-operate on a timely basis with the Indemnifying Party in the defense of such claim.
- (f) With respect to any re assessment for income, corporate, sales, excise, or other Tax or other liability enforceable by Encumbrance against the property of the Indemnified Party, the Indemnifying Party's right to so contest shall only apply after payment of the re assessment or the provision of such security as is necessary to avoid an Encumbrance being placed on the property of the Indemnified Party.

**9.5 Procedure for Indemnification - Other Claims.** A claim for indemnification for any matter not involving a third-party claim may be asserted by notice to the Party from whom indemnification is sought, setting out the nature of the claim in reasonable detail.

**9.6 Other Remedies.** No Party shall have the right to bring any proceeding against any other Party for damages, compensation or any other relief for which such Party could, or could but for limitations contained in this Article 9, seek relief pursuant to this Article 9, provided however, that the obligations of the Parties with respect to the indemnities provided in this Article 9 shall not limit their ability to seek relief for breach of contract in the alternative except that the limitations and exceptions set out in this Article 9 shall apply equally to all such proceedings.

**9.7 Approvals.** The indemnities set out in Section 9.2, and any other guarantees and indemnities to be given by BC Hydro pursuant to this Agreement, the Lease, or any of the other documents or agreements referred to in Sections 7.3 or 7.5, shall not be effective or legally binding on BC Hydro unless and until BC Hydro has first obtained approval or assurance pursuant to the Guarantees and Indemnities Regulation under the Financial Administration Act (BC) with respect to the granting of any such guarantees and indemnities. BC Hydro shall forthwith after executing this Agreement apply for and use all reasonable efforts to diligently seek and obtain such approvals on or before October 31, 2017.

**ARTICLE 10  
MISCELLANEOUS**

**10.1 Notices.** Any notice, direction or other communication given under this Agreement shall be in writing and given by delivering it by courier or sending it by facsimile, unless otherwise provided, addressed:

(a) To the Purchaser at:

British Columbia Hydro and Power Authority  
18th Floor, 333 Dunsmuir Street  
Vancouver, BC V6B 5R3

Attention: General Counsel  
Fax: 604-623-4155

With a copy to:

Lawson Lundell LLP  
1600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2

Attention: Gordon Craig  
Fax: 604-669-1620

(b) To the Vendor or Covenantor at:

Teck Resources Limited  
Suite 3300, 550 Burrard Street  
Vancouver, BC V6C 0B3

Attention: Corporate Secretary  
Fax: 604 699-4729

With a copy to:

Fasken Martineau  
Suite 2900, 550 Burrard Street  
Vancouver, BC V6C 0A3

Attention: Ron Ezekiel  
Fax: 604 632-4708

Any such communication shall be deemed to have been validly and effectively given (i) if personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next Business Day, or (ii) if transmitted by facsimile or similar means of recorded communication on the date of such transmission if such date is a Business Day and such

delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next Business Day. Any Party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to such Party at its changed address.

- 10.2 Time of the Essence.** Time shall be of the essence of this Agreement and every provision hereof, including without limitation those relating to Closing hereunder.
- 10.3 Announcements.** Any press release or public statement or announcement (a “**Public Statement**”) with respect to the execution of this Agreement or the completion of the Transaction shall be made only with the prior written consent and joint approval of the Vendor and the Purchaser unless such Public Statement is required by Law, to obtain the Regulatory Approvals or is required by any stock exchange, in which case the Party required to make the Public Statement shall use its best efforts to consult with the other Party as to the form, nature and extent of the disclosure. For certainty, testimony given by any witness before the BCUC and responses to questioning at any workshop or other meeting held in connection therewith shall not be considered to be a Public Statement for purposes of this Section 10.3, but each Party will use its best efforts to consult with the other Party in advance of filing any such information or giving any such testimony that might reasonably be expected to affect the interests of the other Party.
- 10.4 Expenses.** Except as otherwise expressly provided in this Agreement all costs and expenses (including the fees and disbursements of legal counsel, investment advisers and accountants) incurred in connection with the Transaction shall be paid by the Party incurring such expenses.
- 10.5 Amendments.** This Agreement may only be amended, supplemented or otherwise modified by written agreement signed by the Parties.
- 10.6 Waiver.** No waiver of any of the provisions of this Agreement shall be deemed to constitute a waiver of any other provision (whether or not similar); nor shall such waiver be binding unless executed in writing by the Party to be bound by the waiver. No failure on the part of any Party to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver of such right; nor shall any single or partial exercise of any such right preclude any other or further exercise of such right or the exercise of any other right.
- 10.7 Non-Merger.** Except as contemplated by Section 3.5 or as otherwise expressly provided in this Agreement, the covenants, representations and warranties shall not merge on and shall survive the Closing and, notwithstanding such Closing or any investigation made by or on behalf of any Party, shall continue in full force and effect. Closing shall not prejudice any right of one Party against any other Party in respect of anything done or omitted under this Agreement or in respect of any right to damages or other remedies.
- 10.8 Entire Agreement.** This Agreement together with all ancillary agreements referred to herein constitutes the entire agreement among the Parties with respect to the subject matter of this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. There are no

representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties in connection with the subject matter of this Agreement except as specifically set forth herein and therein and none of the Parties has relied or is relying on any other information, discussion or understanding in entering into and completing the Transaction. If there is any conflict or inconsistency between the provisions of this Agreement and the provisions of any documents, instruments and agreements required to be delivered by it pursuant to this Agreement, the provisions of this Agreement shall govern, unless such other agreement or document expressly provides that it shall govern.

### 10.9 Successors and Assigns.

- (a) This Agreement shall become effective when executed by the Parties and after that time shall be binding upon and enure to the benefit of the Parties and their respective successors and permitted assigns.
- (b) Neither this Agreement nor any of the rights or obligations under this Agreement shall be assignable or transferable by the Vendor and/or the Covenantor without the prior written consent of the Purchaser, except that the Vendor may assign this Agreement and all of its rights and obligations under this Agreement to TML prior to Closing.
- (c) Neither this Agreement nor any of the rights or obligations under this Agreement shall be assignable or transferable by the Purchaser and/or WHUSI without the prior written consent of the Vendor and the Covenantor, not to be unreasonably withheld or delayed.
- (d) If the Purchaser or WHUSI wishes to assign any of the rights or obligations under this Agreement during the Interim Period to an assignee ("**Purchaser's Assignee**"), the Parties shall negotiate in good faith and use reasonable commercial efforts to, if necessary or advisable, restructure the Transaction, the Lease Arrangements, the Transmission Agreement and the Wheeling Agreement to reflect the new circumstances and prepare new documentation relating thereto which may include:
  - (i) revisions to this Agreement to contemplate an adjustment to the Purchase Price if the Purchaser's Assignee is able to provide an effective election pursuant to s. 16.1 of the ITA;
  - (ii) a co-ownership agreement;
  - (iii) an operating agreement;
  - (iv) a decision making protocol agreement; and
  - (v) a trust agreement relating to the FERC License;



all of which shall, as closely as reasonably possible, reflect the terms and conditions contained in the documentation attached to the Sale Notice, insofar as they applied to the Waneta Assets, and such other arrangements as the Parties may mutually agree upon, acting reasonably, as required to address transmission requirements and to satisfy the conditions in Sections 6.2(j) and 6.2(k). The Purchaser shall reimburse the Vendor and the Covenantor for the reasonable and documented fees and expenses, including legal fees, incurred by the Vendor and the Covenantor pursuant to this Section 10.9(d), whether or not the Vendor or Covenantor ultimately consent to such assignment.

- (e) Without limiting 10.9(c), the Vendor or the Covenantor may reasonably withhold consent if:
- (i) the Parties are unable to agree on the documentation required to restructure the Transaction, the Lease Arrangements, the Transmission Agreement and the Wheeling Agreement as contemplated by Section 10.9(d) by June 1, 2018; or
  - (ii) the Purchaser is unable to demonstrate to the satisfaction of the Vendor or the Covenantor, respectively, acting reasonably, that the Purchaser's Assignee:
    - (A) has credit capacity and quality at least equivalent to the Purchaser's, and
    - (B) is able to carry out those of the Purchaser's obligations pursuant to the restructured agreements contemplated by Section 10.9(d) in a manner equivalent to the Purchaser's ability to carry out its obligations pursuant to this Agreement, the Lease Arrangements, the Transmission Agreement and the Wheeling Agreement,

in each case as at the time of the proposed assignment, and in the event of a partial assignment of the Purchaser's obligations as contemplated by Section 1.11, that the Purchaser and the Purchaser's Assignee having several obligations pursuant to this Agreement, the Lease Arrangements, the Transmission Agreement or the Wheeling Agreement does not adversely impact the Vendor, TML or the Covenantor.

**10.10 Severability.** If any provision of this Agreement shall be determined by any court of competent jurisdiction to be illegal, invalid or unenforceable, that provision shall be severed from this Agreement and the remaining provisions shall continue in full force and effect.

**10.11 Governing Law.** This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein. Each Party hereby irrevocably attorns to the non-exclusive jurisdiction of the courts of the Province of British Columbia with respect to any matter arising under or related to this Agreement.

**10.12 Dispute Resolution.**

- (a) Except for disputes specifically required to be resolved pursuant to any other provision of this Agreement, should any dispute or disagreement of any kind arise at any time with respect to this Agreement (or a document or instrument to be executed and delivered pursuant to this Agreement), its interpretation or application, its performance by the Parties, or in respect of any defined legal relationship associated therewith or derived therefrom, the Parties agree that the dispute or disagreement shall be referred to the Parties' respective Presidents or their designates for resolution.
- (b) If within the next following ten (10) Business Days the dispute or disagreement shall not have been resolved to the satisfaction of the Parties, then the dispute or disagreement shall be referred for final and binding arbitration. Matters referred to final and binding arbitration pursuant to this Agreement shall be arbitrated in accordance with the Commercial Arbitration Act of British Columbia in accordance with the following procedures:
  - (i) The arbitration shall be conducted by a single arbitrator appointed by mutual agreement of the Parties or in the event of failure to reach agreement within fifteen (15) days, any Party may apply to a judge of the British Columbia Supreme Court to appoint an arbitrator;
  - (ii) The arbitrator shall be qualified by education and training to pass upon the matter to be decided;
  - (iii) The arbitrator shall be instructed that time shall be of the essence in proceeding with the determination of the dispute;
  - (iv) The arbitration shall be conducted in Vancouver, British Columbia; and
  - (v) The arbitration decision shall be in writing and shall be final and binding upon the Parties, not subject to any appeal and shall deal with the question of costs of arbitration.
- (c) The Parties agree that good faith negotiations and arbitration shall all be without recourse to the courts and that the award of the arbitrator shall be final and binding, except that any Party may apply to a court of competent jurisdiction:
  - (i) for an interim measure of protection; or
  - (ii) for any order for equitable relief which the arbitrator does not have the jurisdiction to provide.

**10.13 Further Assurances.** From time to time after the Closing Date, each Party shall, at the request and cost of any other Party, execute and deliver such additional conveyances, transfers and other assurances as may be reasonably required to effectively transfer the Purchased Interest to the Purchaser (or in the case of the FERC License, to WHUSI) and


to otherwise carry out the intent of this Agreement or any documents, instruments and agreements required to be delivered by it pursuant to this Agreement.

**10.14 Counterparts.** This Agreement may be executed in counterparts and be returned by fax or email with a PDF attachment, each of which when executed and delivered shall constitute an original, and all of which together shall constitute one and the same Agreement.

*[The next page is the execution page.]*

**IN WITNESS WHEREOF** each of the Parties has executed and delivered this Agreement.

**TECK RESOURCES LIMITED**

By:   
Name: **PETER ROZEE**  
Title: **SENIOR VICE PRESIDENT,  
COMMERCIAL & LEGAL AFFAIRS**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TCAI INCORPORATED**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**BRITISH COLUMBIA HYDRO AND  
POWER AUTHORITY**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**WANETA HOLDINGS (US) INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

*Signature Page to Waneta Purchase Agreement*


IN WITNESS WHEREOF each of the Parties has executed and delivered this Agreement.

**TECK RESOURCES LIMITED**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**TCAI INCORPORATED**

By:   
Name: Phillip A. Resek  
Title: Vice President

**BRITISH COLUMBIA HYDRO AND  
POWER AUTHORITY**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**WANETA HOLDINGS (US) INC.**

By: \_\_\_\_\_  
Name:  
Title:

*Signature Page to Waneta Purchase Agreement*

**IN WITNESS WHEREOF** each of the Parties has executed and delivered this Agreement.

**TECK RESOURCES LIMITED**


By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

**TCAI INCORPORATED**

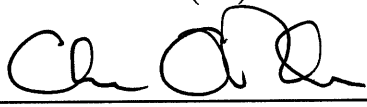
By: \_\_\_\_\_  
Name:  
Title:

**BRITISH COLUMBIA HYDRO AND  
POWER AUTHORITY**

By:   
Name: **CHRIS O'RILEY**  
Title: **PRESIDENT**

By: \_\_\_\_\_  
Name:  
Title:

**WANETA HOLDINGS (US) INC.**

By:   
Name: **CHRIS O'RILEY**  
Title: **DIRECTOR**

*Signature Page to Waneta Purchase Agreement*

**Schedule 1.1(g)  
Appurtenant Licenses**

Water Licences

1. Conditional Water Licence 109112, precedence dated November 8, 2007
2. Conditional Water Licence 108632, precedence dated May 2, 1991
3. Final Water Licence 047382, precedence dated January 9, 1964
4. Final Water Licence 017774, precedence dated February 18, 1930 (as amended)
5. Final Water Licence 017862, precedence dated August 30, 1955 (as amended)
6. Final Water Licence 047383, precedence dated December 5, 1960

Permit

1. Permit issued pursuant to Section 26 of the *Water Act* authorizing holder of CWL 109112, CWL 108632, FWL 17774, FWL 17862, FWL 47383 and FWL 47382 to occupy Crown Land, dated October 23, 2008

Orders

2. Order issued pursuant to Section 34 of the *Water Act* authorizing extension of rights under Final Water Licences 17774, 17862, 47382, 47383 and Conditional Licence 108632, dated May 3, 2012
3. Order issued pursuant to Section 15 of the *Water Act* amending Final Water Licence 17774, dated January 24, 1962
4. Order issued pursuant to Section 15 of the *Water Act* amending Final Water Licence 17774 and 17862, dated October 15, 1963

## Schedule 1.1(r) Consents

### Legend

Brilliant Power Corporation.....	“BPC”
British Columbia Hydro and Power Authority .....	“BCH”
British Columbia Transmission Corporation (now BCH).....	“BCTC”
Columbia Power Corporation.....	“CPC”
FortisBC Inc. (formerly West Kootenay Power and Light Company, Aquila Networks Canada (British Columbia) Ltd.).....	“FortisBC”
Province of British Columbia .....	“Province”
Teck Metals Ltd. (formerly Teck Cominco Metals Ltd., Cominco Ltd., The Consolidated Mining and Smelting Company of Canada Limited).....	“Teck” or “TML”
Waneta Expansion Limited Partnership.....	“WELP”
Waneta Expansion Power Corporation .....	“WEPC”
Waneta Holdings (US) Inc.....	“WHUSI”

### **REQUIRED CONSENTS**

#### (a) Required Consents from Governmental Authorities

- (i) Consent of the Minister of the Environment to the transfer to Purchaser of the Purchased Interest in (a) the Project Approval Certificate E97-01 (the “**PAC**”), and (b) the Waneta Assets (excluding the PAC)
- (ii) Consent of the Minister of Fisheries and Oceans to the form of the Purchaser’s assumption of ongoing rights and obligations under DFO Authorization No. 94-HPAC-PA1-000-000008 (June 7, 1999)
- (iii) Consent of the Federal Energy Regulatory Commission to the transfer to the Purchaser’s nominee of the FERC Permit
- (iv) either: (i) the Commissioner of Competition (the “Commissioner”) shall have issued an advance ruling certificate under Section 102 of the *Competition Act* (Canada) with respect to the Transaction; or (ii) each of the Parties shall have filed all notices and information required under Part IX of the *Competition Act* (Canada) and the applicable waiting periods shall have expired or been terminated; or (iii) the obligation to give the requisite notice has been waived pursuant to subsection 113(c) of the *Competition Act* (Canada); and, in the case of (ii) or (iii), the Commissioner or his delegate shall have advised the Purchaser in writing that he does not, at that time, intend to make an application under Section 92 of the *Competition Act* (Canada) in respect of the Transaction.



- (b) Required Consents from Counterparties under the following agreements:
- (i) Power Asset Sale and Development Agreement (“PASDA”) (May 18, 1994) between Teck and the Province as subsequently amended by the Power Asset Amendment Agreement (Brilliant) (May 22, 1996) and assigned
  - (ii) Consent Agreement in respect of PASDA (February 26, 2010) among Teck, BCH, CPC, CBT Power, WEPC and the Province
  - (iii) Substation Lands Letter Agreement (September 11, 2008) between Teck and WEPC
  - (iv) Consent Agreement in respect of Substation Lands Letter Agreement (September 11, 2008) between Teck, BCH and WEPC
  - (v) Amended and Restated Waneta Release Coordination Agreement (November 15, 2011) between Teck and WELP
  - (vi) Waneta Expansion Sizing Agreement (October 22, 2009) between Teck and WEPC, as subsequently amended February 15, 2010
  - (vii) Consent Agreement in respect of Waneta Expansion Sizing Agreement (February 26, 2010) among Teck, BCH and WEPC
  - (viii) Waneta Cooperation Agreement (June 30, 2004) among Teck, CPC, CBT Energy Inc. and WEPC, as subsequently amended
  - (ix) Consent Agreement in respect of Waneta Cooperation Agreement (February 26, 2010) among Teck, BCH, WEPC, CPC and CBT Energy Inc.
  - (x) 1996 Interconnection Agreement (April 4, 1996) among Teck, FortisBC and CPC, in respect of obligations related to the Waneta Assets and load determination
  - (xi) Interconnection Agreement (April 5, 2004) between BCTC and Teck, in respect of obligations related to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements
  - (xii) Interconnection Agreement (July 18, 2003) between FortisBC and Teck, in respect of obligations related to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements
  - (xiii) Fibre Optic Indefeasible Right of Use Agreement (October 1, 2014) between Teck and Columbia Basin Broadband Corporation
  - (xiv) Letter Agreement in respect of Shared Fibre Optic Communications (March 4, 2014) between Teck and WELP
  - (xv) WPP-8 (July 16, 2001), WPP-11 (April 29, 2002) and related agreements between Teck and General Electric Canada, as amended and assigned (to the extent of any continuing rights and obligations)
  - (xvi) Consent Agreement in respect of assignment of continuing rights and obligations under WPP-8, WPP-11 and related agreements (February 26, 2010) between Teck, BCH and

Andritz Hydro Canada Inc.

- (xvii) Statutory Right of Way (CA1765893) granted by Waneta Expansion General Partner over PID 028-352-963
- (c) Required Consents in the form of amendments to Material Contracts
- (i) All amendments required to the CPA and CPA Subagreement such that:
    - (A) Teck will have all of the rights and responsibilities of an Entitlement Party (as defined in the CPA) in respect of the Purchased Interest for the Lease Term, as if Teck had retained its ownership interest therein, and Waneta will cease to be a Plant, and cease to have any entitlement associated with it, after the Lease Term; and
    - (B) post Lease Term definition of the KI will change as per the Transmission Agreement Term Sheet.
  - (ii) Post Lease Term modifications and consents to other CPA-related agreements as are required in connection with the Transaction, including various Interconnection Agreements, the ARWA, MAA and Accounting Procedures, and the CPA Operating Procedures, and a form of dispatch agreement with Fortis if responsible for WAX dispatch, which needs to be coordinated with WAN dispatch for water management reasons.
  - (iii) All amendments required to the Amended and Restated Waneta Release Coordination Agreement (November 15, 2011) such that:
    - (A) The definition of “Waneta Owner” will include, for the Lease Term, TML as to its leasehold interest in the Purchaser’s undivided interest in the Waneta Plant and that thereafter the Purchaser and not TML will be the Waneta Owner in respect of the Purchaser’s undivided interest in the Waneta Plant.
  - (iv) All amendments required to the Waneta Expansion Sizing Agreement (October 22, 2009), as subsequently amended, such that the water priorities set out in Section 2.1 continue to apply for purposes of determining the CPA entitlements attributable to the Waneta Expansion Project.

#### CONSENTS

- (d) Consents from Governmental Authorities
  - (i) Consent of the Director pursuant to the *Environmental Management Act* to the transfer of Permit No. PE-2047 (April 4, 1973), as subsequently amended (July 22, 2009)
- (e) Consents from Counterparties
  - (i) None

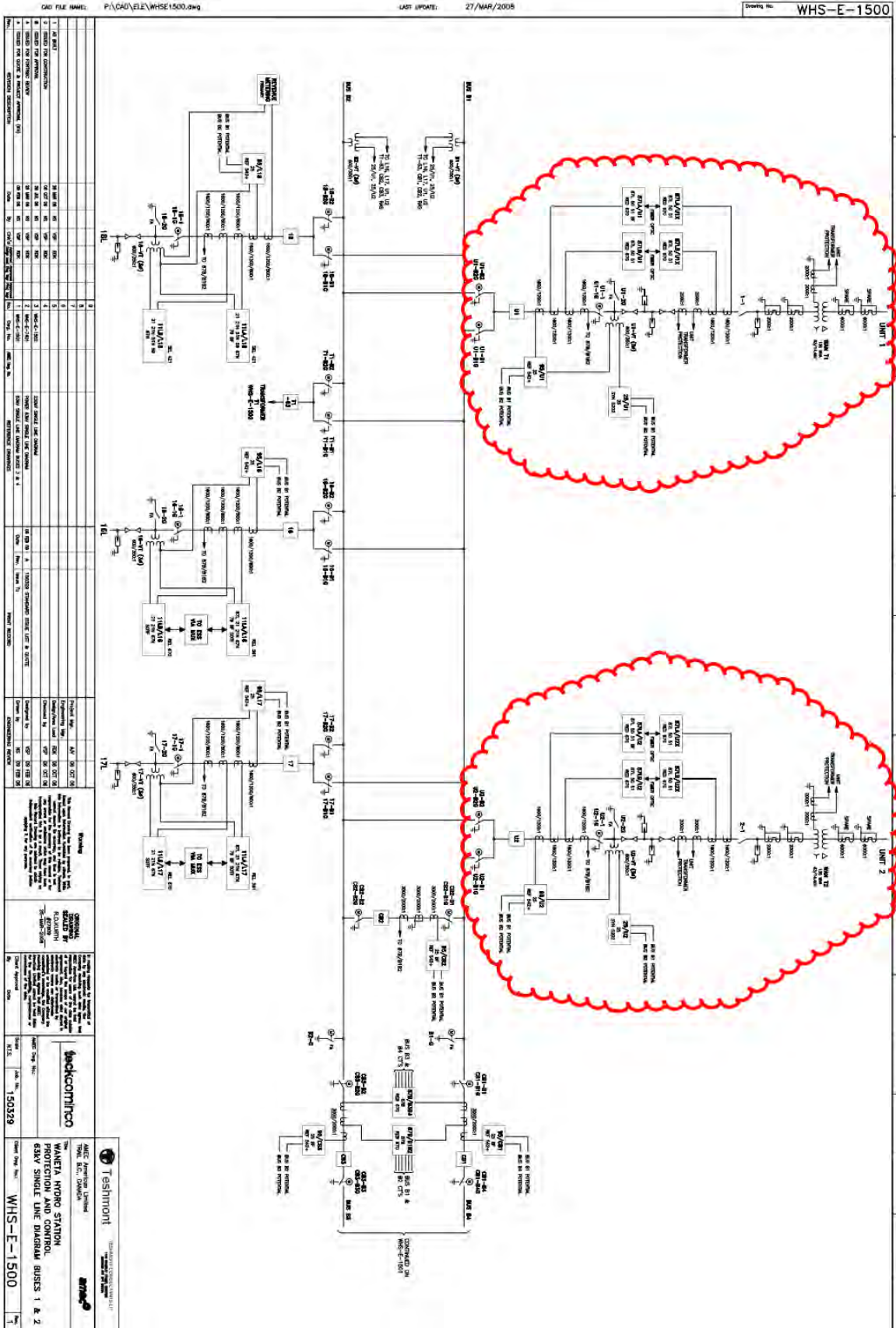
**Schedule 1.1(dd)**  
**Excluded Assets**

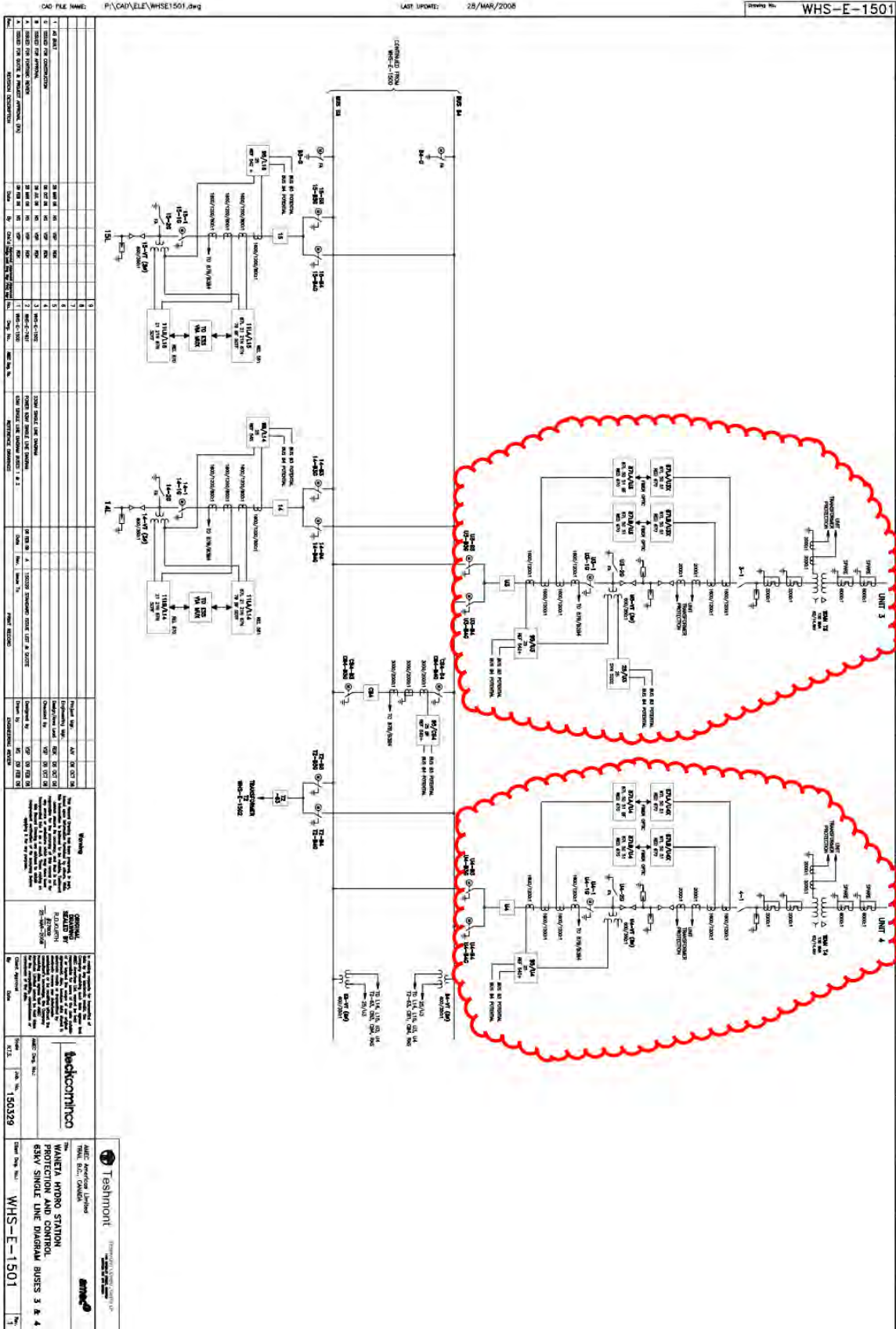
1. In respect of the Line 18 transmission assets owned by FortisBC running between the Waneta Hydro Station and Beaver Park Substation, all of the Interconnection Facilities, as such term is defined in the Waneta 18 Line Agreement (May 1, 2007) between TML and FortisBC;
2. Lines 14-17
3. Line 71
4. All tangible personal property of one or more of TML, the Vendor, the Covenantor and BC Hydro that is used periodically in connection with the operation or maintenance of the Waneta Assets but primarily for other purposes.
5. Material Contracts that are not Assumed Contracts.
6. Exemption Order
7. National Energy Board Permit EPE-390 for the authorization to export electricity
8. Waneta Hydro Station, except for the four generation feeder transmission lines running from the Waneta Dam powerhouse to their respective 63kV Circuit Breakers with integrated Current Transformers located at the Waneta Hydro Station.

For certainty, the U1 through U4 disconnects, along with the following equipment, are not Excluded Assets, but are part of the Waneta Assets, all as depicted within the bubbles in the attached one-line diagram:

- (i) Combined Busbar Disconnect/Grounding Switch;
- (ii) Combined Line Disconnect/Grounding Switch;
- (iii) Potential Transformer; High Speed Grounding Switch;
- (iv) Cable End housing with insulator;
- (v) Integrated local control cabinet;
- (vi) REL551-C1 Cable Differential Protection Terminal;
- (vii) REL 316 Backup Cable Protection Terminal;
- (viii) REF 542+ Bay Controller;
- (ix) Control Cabinet; and

Revenue quality unit generation meter.





**Schedule 1.1(ii)  
Governmental Authorizations**

1. Project Approval Certificate E97-01 dated May 26, 1998, as amended February 25, 2010
2. Department of Fisheries and Oceans Authorization No. 94-HPAC-PA1-000-000008, dated June 7, 1999
3. Order of the International Joint Commission, dated July 25, 1952
4. Permit No. PE-02047, dated April 4, 1973, as amended July 22, 2009
5. FERC License
6. Certificate of Exemption from *International River Improvements Act*, dated August 14, 1956

**Schedule 1.1(xx)**  
**Material Contracts and Assumed Contracts**

**Legend**

Brilliant Power Corporation.....	“BPC”
British Columbia Hydro and Power Authority .....	“BCH”
British Columbia Transmission Corporation (now BCH).....	“BCTC”
Columbia Power Corporation.....	“CPC”
FortisBC Inc. (formerly West Kootenay Power and Light Company, Aquila Networks Canada (British Columbia) Ltd.).....	“FortisBC”
Province of British Columbia .....	“Province”
Teck Metals Ltd. (formerly Teck Cominco Metals Ltd., Cominco Ltd., The Consolidated Mining and Smelting Company of Canada Limited).....	“Teck” or “TML”
Waneta Expansion Power Corporation .....	“WEPC”

**Material Contracts**

1. The Waneta Management Agreement (May 1, 1996), as subsequently amended January 1, 1998 and July 18, 2003 and January 21, 2010
2. The Mandatory Reliability Services Agreement between TML and Fortis Pacific Holdings Inc.
3. A service order under a Master Agreement with Amec Foster Wheeler Environment and Infrastructure to advise on aquatic issues at Waneta Dam and on matters related to outstanding compensation commitments under Project Approval Certificate E97-01, as amended, and Department of Fisheries and Oceans Authorization No. 94-HPAC-PA1-000-000008 (see Waneta Governmental Authorizations)
4. Tone Equipment Replacement Agreement (December 16, 2014) between Teck and BC Hydro
5. If entered into prior to Closing, a services contract with Hatch and additional contracts in connection with investigation of the buried channel
6. CPA
7. CPA Subagreement
8. Letter Agreement (September 26, 2007) between WEPC and Teck re. compensation for water discharge restriction in Waneta Expansion Environmental Assessment Certificate
9. Letter Agreement (October 1, 2005) between Teck and FortisBC re. Extension of Section 3.2 of Residual Power Supply Agreement and Use of Capacity
10. Notice to Teck re. Assignment of Agreements (April 2, 2004) (assignment of CPC/CBT interests to BPC)
11. Amended and Restated Post-Canal Plant Agreement (February 15, 2010) between Teck and BPC
12. Post Canal Plant Agreement dated May 22, 1996 and entered into among Cominco Ltd., Columbia Power Corporation and CBT Power Corp.
13. 1971 Agreement with Province



- 14. Letter Agreement (November 15, 2011) between TML and BC Hydro regarding Speed No Load Operation, Redeterminations relating to WAX and Replacement CPA
- 15. SPRA
- 16. Indemnity Agreement (April 5, 2004) pursuant to Interconnection Agreement between BCTC and Teck

Material Contracts that are Waneta Assumed Contracts

<b>Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.</b>	<b>Comments</b>	<b>Subject to Contract Bare Trust Agreement</b>
<p>17. Power Asset Sale and Development Agreement (“PASDA”) (May 18, 1994), as subsequently amended by the Power Asset Amendment Agreement (Brilliant) (May 22, 1996) and assigned by:</p> <ul style="list-style-type: none"> <li>(i) the Assignment and Assumption of Power Asset Agreement (May 18, 1994) (between the Province and CPC),</li> <li>(ii) the Assignment of Expansion Rights (May 25, 1994) (between Teck and CPC),</li> <li>(iii) the Assignment of Power Asset Agreement (April 1, 2000) (between CPC and CBT), and</li> <li>(iv) the Assignment of Power Asset Agreement (November 26, 2003) (among CPC, CBT and WEPC)</li> </ul> <p>other than in respect of s. 5.9</p>	<p>Assignment excludes:</p> <ul style="list-style-type: none"> <li>(a) the rights contained in the following provisions: 3.4.11(a)(i), (ii) and (iv), 4.8, 4.10, 4.19, and Article 9 (<i>in toto</i>);</li> <li>(b) the obligations contained in the following provisions: 3.5, 5.9, and Article 9 (<i>in toto</i>)</li> <li>(c) all rights contained in the following provision except to the extent relating to Waneta Dam: 3.4.11(a)(iii);</li> <li>(d) all the obligations contained in the following provision except to the extent relating to Waneta Dam: 5.7;</li> <li>(e) all the rights contained in the following provision except to the extent relating to the Real Property: 3.4.8; and</li> <li>(f) all of the obligations contained in the following provisions except to the extent relating to the Real Property: 3.4.11(b), 5.1, 5.1.1, 5.1.2, 5.1.3, 5.1.4, 5.3, 5.14, 5.14.1, 5.14.1(a),</li> </ul>	<p>Yes</p>

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
	5.14.1(b), 5.14.1(c), 5.14.2, 5.14.3, and 12.5.2.	
18. Waneta Substation Letter Agreement (March 3, 2006), as augmented and amended by the Substation Letter Agreement (November 28, 2008), both between Teck and WEPC		Yes
19. Letter Agreement (September 11, 2008) between Teck and WEPC regarding exclusion of land on which Waneta Substation is located from exercise of PASDA option		Yes
20. Amended and Restated Waneta Release Coordination Agreement (November 15, 2011), and, if executed prior to closing, a further amendment or amendment and restatement to address certain matters raised by the BC Comptroller of Water Rights, as generally outlined in the Comptroller’s email of February 15, 2017	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
21. Letter to Ministry of Environment, Water Stewardship Division (November 8, 2006) regarding intention to coordinate the operation of Waneta Plant and Waneta Expansion pursuant to the Water Release Coordination Agreement		Yes
22. 1996 Interconnection Agreement (April 4, 1996) among Teck, West Kootenay Power Ltd. and CPC in respect of obligations relating to the Waneta Assets and load determination	Assignment limited to obligations relating to the Waneta Assets and load determination	Yes
23. Interconnection Agreement between BCTC and Teck (April 5, 2004) in respect of obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Assignment limited to obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Yes
24. Interconnection Agreement between Fortis and Teck (July 18, 2003) in respect of obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Assignment limited to obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Yes
25. Waneta Line 18 Agreement (May 1, 2007) between Teck and FortisBC in respect of obligations	Assignment limited to obligations relating to the	Yes

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
relating to the Waneta Assets	Waneta Assets	
26. Letter Agreement (October 14, 2008) between WEPC and Teck, Waneta Interface Protocol (October 2008) and Billing Arrangements (April 8, 2009) between Teck and CPC, all relating to the Waneta Interface Protocol		Yes
27. Waneta Cooperation Agreement (June 30, 2004) as subsequently amended, up to and including the 9 <sup>th</sup> Amendment (November 15, 2011) and the 2016 email exchange eliminating the requirement to appoint an arbitrator.	<p>Assignment excludes:</p> <p>(a) the rights contained in the following provisions: 2.5, 2.9(a), Schedule A (in toto), and Schedule C (in toto, including Appendices);</p> <p>(b) the obligations contained in the following provisions: 2.1(e), 2.3, 2.5, Schedule A (<i>in toto</i>), and Schedule C (<i>in toto</i>, including Appendices); and</p> <p>(c) the obligations contained in the following provisions except to the extent relating to Waneta Assets: 2.6, 2.8 (further excluding the obligation to meet with BCH).</p>	Yes
28. PAC - Agreement for Payment of Monitoring the Effects of Water Discharges on White Sturgeon Reproduction and Egg Incubation (February 23, 1999), as subsequently amended by Letter Agreement (August 21, 2008) and Ministry Acceptance of PAC and associated White Sturgeon Monitoring Fund (October 1, 2008)		Yes
29. Boundary Reservoir Emergency Drawdown Procedure (April 2, 2003)		Yes
30. Letter to Environmental Assessment Office agreeing to modify water discharge restrictions when Waneta Expansion starts producing power (September 27, 2007)		Yes
31. Letter Agreement (October 24, 2006) among Teck, WEPC and the Ministry of Transportation		Yes

<b>Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.</b>	<b>Comments</b>	<b>Subject to Contract Bare Trust Agreement</b>
regarding closure of internal wagon road and dedication of Waneta Nelway Road as public road		
32. Waneta Expansion Sizing Agreement (October 22, 2009) between Teck and WEPC, as subsequently amended February 15, 2010, and if executed prior to Closing, an amendment to the Waneta Expansion Sizing Agreement to address certain matters raised by the BC Comptroller of Water Rights as generally outlined in the Comptroller’s letter of August 25, 2015 and email of February 15, 2017	Assignment excludes the rights and obligations in Sections 2.2 and 3.1	Yes
33. Contract WPP-8 Turbine Upgrade (July 16, 2001), Contract WPP-11 Generator Rewind (April 29, 2002), between the Teck and General Electric Canada		Yes
34. Interconnection Agreement (March 5, 2010) between Teck and BC Hydro regarding Waneta Substation in respect of the Waneta Assets only	Assignment limited to obligations relating to Waneta Assets only	Yes
35. Fibre Optic Agreement (October 1, 2014) between Teck and Columbia Basin Broadband Corporation		Yes
36. Fibre Optic Letter Agreement (March 4, 2014) between Teck and WELP		Yes
37. Statutory Right of Way (Access) CA1765891 from Waneta Expansion General Partner Ltd.		No
38. Statutory Right of Way CA1765892, as extended and modified by LB494466- LB494467		No
39. If entered into prior to Closing, an easement over PID 012-799-998 for a fish habitat enhancement project on the Salmo River		No
40. Such other agreements, and arrangements entered into by, or granted to, Teck in relation to the Waneta Assets in the Ordinary Course prior to Closing.		Yes
41. Consent Agreement in respect of PASDA (February 26, 2010) among Teck, BCH, CPC, CBT Power, WEPC and the Province	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
42. Conditions to Consent Letter to CPC, CBT Power Corp. and WEPC in connection with item #41	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
43. Consent Agreement in respect of Waneta Release Coordination Agreement (February 26, 2010) between Teck, BCH and WEPC	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
44. Consent Agreement in respect of Substation Lands Letter Agreement (September 11, 2008) between Teck, BCH and WEPC	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
45. Consent Agreement in respect of Waneta Expansion Sizing Agreement (February 26, 2010) among Teck, BCH and WEPC	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
46. Consent Agreement in respect of Waneta Cooperation Agreement (February 26, 2010) among Teck, BCH, WEPC, CPC and CBT Energy Inc.	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
47. Consent Agreement in respect of 2003 Interconnection Agreement (February 26, 2010) among FortisBC, Teck and BCH	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
48. Consent Agreement in respect of the Waneta Line 18 Agreement (February 26, 2010) between Teck, BCH and WEPC	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
49. Consent Agreement in respect of assignment of	Assignment includes all of	Yes

**Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.**

		<b>Comments</b>	<b>Subject to Contract Bare Trust Agreement</b>
50.	Waneta Lease Agreement (as Landlord)	<p>TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement</p> <p>To be entered into as part of the Pre-Closing Transaction</p>	No

**Schedule 1.1(ccc)**  
**Permitted Encumbrances**

**1. Registered Encumbrances**

- (a) Charges registered against **SUBLOT 2 TOWNSHIP 7A KOOTENAY DISTRICT PLAN X66 (PID 016-344-511)**
  - (i) Reservation 14099D – The Nelson and Fort Sheppard Railway Company
  - (ii) Option to Purchase XH14192 – Waneta Expansion General Partner Ltd.
  - (iii) Statutory Right of Way XH14193 – Waneta Expansion General Partner Ltd.
  - (iv) Mortgage CA1478698 – British Columbia Hydro and Power Authority (Related to 2/3 interest of the Vendor)
  - (v) Mortgage CA1478699 – Teck Metals Ltd. (Related to 1/3 interest of BC Hydro)
  
- (b) Charges registered against **LOT B TOWNSHIP 7A KOOTENAY DISTRICT PLAN NEP86182 (PID 027-434-923)**
  - (i) Reservation 14099D – The Nelson and Fort Sheppard Railway Company
  - (ii) Option to Purchase XH14192 – Waneta Expansion General Partner Ltd.
  - (iii) Statutory Right of Way XH14193 – Waneta Expansion General Partner Ltd.
  - (iv) Statutory Right of Way LB354783 – Teck Metals Ltd.
  - (v) Mortgage CA1478698 – British Columbia Hydro and Power Authority (Related to 2/3 interest of the Vendor and Statutory Right of Way LB354783)
  - (vi) Mortgage CA1478699 – Teck Metals Ltd. (Related to 1/3 interest of BC Hydro)
  - (vii) Statutory Right of Way CA1765905 – Waneta Expansion General Partner Ltd.
  - (viii) Priority Agreement CA1765906 (Granting CA1765905 priority over LB354783, CA1478698 and CA1478699)
  
- (c) Charges registered against **LOT A TOWNSHIP 7A KOOTENAY DISTRICT PLAN NEP86182 (PID 027-434-915)**
  - (i) Reservation V18721 – The Nelson and Fort Sheppard Railway

## Company

- (ii) Right of Way N21935 – British Columbia Hydro and Power Authority
  - (iii) Option to Purchase XH14192 – Waneta Expansion General Partner Ltd.
  - (iv) Statutory Right of Way XH14193 – Waneta Expansion General Partner Ltd.
  - (v) Statutory Right of Way KW20368 – British Columbia Hydro and Power Authority
  - (vi) Statutory Right of Way CA1344788 – FortisBC Inc.
  - (vii) Statutory Right of Way CA1344789 – FortisBC Inc.
  - (viii) Statutory Right of Way CA1344790 – FortisBC Inc.
  - (ix) Statutory Right of Way LB354783 – Teck Metals Ltd.
  - (x) Mortgage CA1478698 – British Columbia Hydro and Power Authority (Related to 2/3 interest of the Vendor and Statutory Right of Way LB354783)
  - (xi) Mortgage CA1478699 – Teck Metals Ltd. (Related to 1/3 interest of BC Hydro)
  - (xii) Statutory Right of Way CA1765895 – Waneta Expansion General Partner Ltd.
  - (xiii) Priority Agreement CA1765896 (Granting CA1765895 priority over LB354783, CA1478698 and CA1478699)
  - (xiv) Statutory Right of Way CA1765897 – Waneta Expansion General Partner Ltd.
  - (xv) Statutory Right of Way CA1765898 – Waneta Expansion General Partner Ltd.
  - (xvi) Priority Agreement CA1765899 (Granting CA1765897 priority over LB354783, CA1478698 and CA1478699)
  - (xvii) Priority Agreement CA1765900 (Granting CA1765898 priority over LB354783, CA1478698 and CA1478699)
  - (xviii) Statutory Right of Way CA2299428 – Waneta Expansion General Partner Ltd.
- (d) Charges registered against SUBLOT 1 TOWNSHIP 7A KOOTENAY DISTRICT PLAN X66, EXCEPT PART INCLUDED IN PLAN 11116 (PID 016-344-502)
- (i) Reservation 14099D – The Nelson and Ford Sheppard Railway Company
  - (ii) Mortgage CA1478698 – British Columbia Hydro and Power Authority (Related to 2/3 interest of the Vendor)
  - (iii) Mortgage CA1478699 – Teck Metals Ltd. (Related to 1/3 interest of BC Hydro)



**2. Unregistered Encumbrances**

The Encumbrances arising under or created by any of the Assumed Contracts, to the extent to be assumed by Purchaser pursuant to this Agreement.

**3. WAX Tenures**

Registered or unregistered rights of way for facilities related to the Waneta Expansion Project granted by Teck Metals Ltd., or by Teck Metals Ltd. and BC Hydro, to the Waneta Expansion General Partner Ltd. (“WELP GP”) prior to Closing, if any, in lieu of WELP GP’s rights pursuant to Section 3.4 of the Power Asset Sale and Development Agreement (May 18, 1994), as amended and assigned.

**Schedule 1.1(eee)  
Personal Property**

1. All tangible personal property, assets, equipment, and parts owned and used by the Vendor in connection with the ownership, operation or maintenance of the Waneta Plant that are not Buildings and Fixtures or Excluded Assets, including:
  - (a) spare components and replacement equipment;
  - (b) emergency equipment, including an emergency power diesel generator; and
  - (c) communication and microwave equipment.

All tangible personal property, assets, and equipment owned by the Vendor (including property acquired by FortisBC as agent of the Vendor) and used by FortisBC in the operation and / or maintenance of the Waneta Plant pursuant to the Waneta Management Agreement, including tools, supplies, spare components and replacement equipment wherever situated but excluding vehicles.

**Schedule 1.1(qqq)  
Real Property**

Parcel Identifier	Legal Description
016-344-511	Sublot 2 Township 7A Kootenay District Plan X66
027-434-923	Lot B Township 7A Kootenay District Plan NEP86182
027-434-915	Lot A Township 7A Kootenay District Plan NEP86182
016-344-502	Sublot 1 Township 7A Kootenay District Plan X66 Except Part Included in Plan 11116

**Schedule 1.1(uuu)  
Required Notices**

**A. REQUIRED NOTICES UNDER APPLICABLE LAWS**

1. Unless the Vendor assigns this Agreement to TML prior to Closing:
  - a. Notice to be given in writing to the Comptroller of Water Rights by TML in respect of the disposition by TML to TRL of a beneficial interest in the Purchased Interest in the Real Properties in connection with the Pre-Closing Transaction; and
  - b. Notice to be given in writing to the Comptroller of Water Rights by the Vendor in respect of the disposition by the Vendor to the Purchaser of the Purchased Interest in the Real Properties
2. If the Vendor assigns this Agreement to TML prior to Closing:

Notice to be given in writing to the Comptroller of Water Rights by TML in respect of the disposition by TML to the Purchaser of the Purchased Interest in the Real Properties

**B. REQUIRED NOTICES PURSUANT TO MATERIAL CONTRACTS**

1. None

**C. REQUIRED NOTICES PURSUANT TO OTHER OBLIGATIONS**

1. None

**Schedule 1.1(iii)**  
**Waneta Plant**

All plant, buildings, structures, conduits, support structures, erections, improvements, appurtenances and fixtures (including fixed machinery and fixed equipment) that form part of or are affixed to the following, together with all of the assets and equipment required for the operation and maintenance of the following:

1. The Waneta Dam located on the Pend d'Oreille River, including:
  - (a) headworks;
  - (b) sluiceways;
  - (c) gates and associated structures and equipment;
  - (d) pipes;
  - (e) trash rack installations including material handling systems;
  - (f) cranes; and
  - (g) stop log equipment;
2. The Waneta Dam generating station, including:
  - (a) four hydroelectric generating installations situated therein, including but not limited to associated turbines, generators, runners, generator rewinds and generator exciters and related control and other equipment used in connection thereto;
  - (b) travelling cranes and other fixed assets of a similar type;
  - (c) gates and associated frame support and controls;
  - (d) generating station control and communications systems;
  - (e) transformers and electric distribution systems including all cables, poles, grounding equipment, lightning arresters and supporting equipment; and
  - (f) equipment installed at the generating station and used in connection with its operation including lighting systems, electrical supply, HVAC and other ancillary equipment;
3. Waneta Hydro Station, including:
  - (a) the Waneta Hydro Station building and ancillary equipment including lighting systems, electrical supply and HVAC
  - (b) the Waneta Hydro Station yard and the security fencing which surrounds it;
  - (c) all electrical equipment providing for the transfer of electricity from the Waneta Dam generating station to transmission assets including Line 18, the four transmission lines running from Waneta Hydro Station to Emerald Switching Station and Line 71, located on, under or in the Waneta Hydro Station and / or the Waneta Hydro Station yard;
4. The four generation feeder transmission lines running from the generating apparatus at the Waneta Dam powerhouse to the Waneta Hydro Station

**Schedule 1.6  
Individuals with Knowledge**

**In respect of the Vendor Parties and Covenantor:**

Andrew Golding

Richard Deane

Adam Brooks

**In respect of Purchaser:**

Rohan Soulsby

Ryan Layton

**FortisBC Inc. Employees for purposes of 1.6 only:**

Mike Leclair

Jamie King

**Schedule 2.2(b)**  
**Allocation of Purchase Price**

Waneta Assets

Real Property, Buildings and Fixtures located on, in or under Real Property	\$ 1,193,162,000*
Real Property-Appurtenant Licences	\$ 1,000,000
Tangible Personal Property (parts and other) not subject to PST on Lease Back	\$ 2,081,000
Tangible Personal Property (parts and other) subject to PST on Lease Back	\$ 757,000
Intangible Property - Assumed Contracts, Gov't Authorizations	\$ 6,000,000
Subtotal	\$ 1,203,000,000
Total	\$1,203,000,000

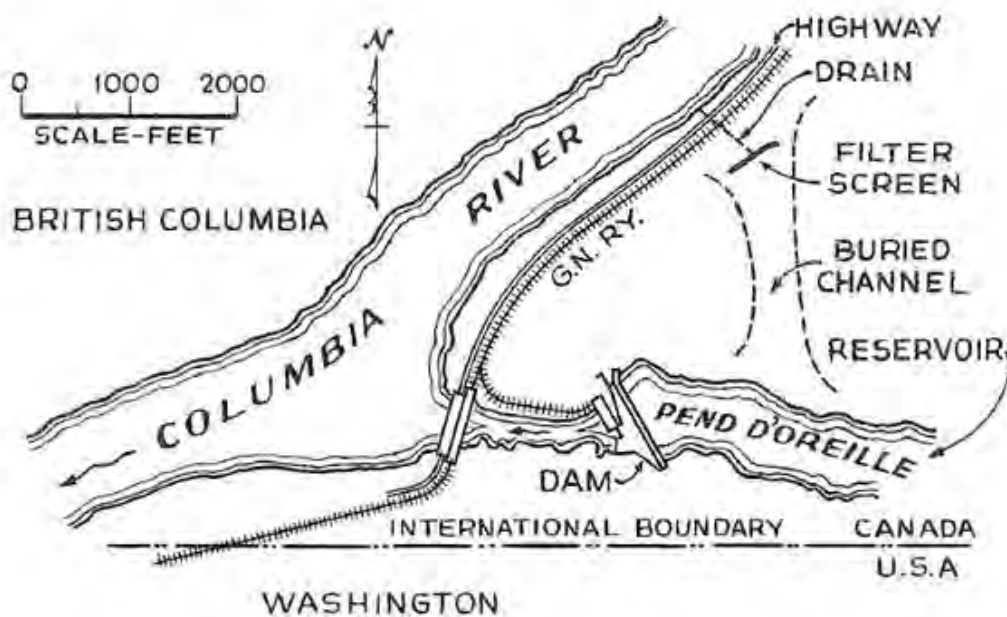
\*Of which the Parties agree \$16,496,000 is allocable to fixtures that are “tangible personal property” within the meaning of the *Provincial Sales Tax Act* (British Columbia), as amended from time to time.

The parties agree that  $(\$16,496,000 + \$757,000)/\$1,203,000,000$  or 1.43% of the value of property leased back under the Waneta Lease Agreement is attributable to tangible personal property subject to BC provincial sales tax.

**Schedule 3.2(b)**  
**Sufficiency of Assets**

**Buried Channel**

The existence of a buried channel and a drainage filter that was installed near the Waneta Dam during its construction in the early 1950s were recently re-discovered. See diagram below for approximate location and scale. Work continues to locate drainage features using surveyors, then to investigate conditions at outlet and in the observation wells. Some or all of the relevant monitoring locations are beyond the boundaries of the Real Property.



**South Abutment**

The south abutment of the Waneta Dam extends onto Lot 3, Plan X-66 (PID: 016-711-297).

**WAN – WAX Fibre Easement**

TML does not currently have in place an easement or other tenure across lands owned by Waneta Expansion General Partner Ltd. for fibre optic lines running between the Waneta Plant and the Waneta Expansion Project.



**Schedule 3.2(c)**  
**Compliance with Applicable Laws**

---

**Prime Contractor Designation**

TML, as the designated Operator under the COA, has not had until May 11, 2017 a written agreement with FortisBC pursuant to which FortisBC agrees to be the “prime contractor” of the Waneta Plant or Transmission Plant for purposes of Part 3 of the *Workers Compensation Act*, RSBC 1996. TML has not undertaken some or all of the responsibilities of a prime contractor pursuant to the *Workers Compensation Act*, RSBC 1996.

**Mitigation Plan for Mandatory Reliability Standards (MRS)**

By British Columbia Utilities Commission (Commission) Order G-123-09, the Commission approved the Compliance Monitoring Program (CMP) for monitoring and enforcement of adopted reliability standards, and appointed the Western Electricity Coordinating Council (WECC) as its Administrator for registration and monitoring compliance.

The CMP has required TML, as an entity subject to the MRS, to file a Mitigation Plan (MP) when an alleged violation is confirmed by the Commission. The current status of open action items relating to TML’s previous alleged violations are as follows:

PRC-005-1.1b R1 – TML was found in violation of Requirement 1 PRC-005-1 at the Company’s November 2011 audit (BCUC2014000532). The violation was deemed to exist beginning 11/10/2010, which is the effective date of Requirement 1 PRC-005-1. The Open Action was confirmed to be ongoing at TML’s 2014 audit. On 1/27/2017, WECC’s Compliance Enforcement verified TML’s Mitigation Plan was complete with a 12/9/2016 effective date. The audit team’s review of TML’s PRC-005- 1.1b R1 evidence indicates TML is compliant with R1 for the remainder of the audit period.

PRC-005-1.1b R2 – TML was found in violation of Requirement 2 PRC-005-1 at the Company’s November 2011 audit (BCUC2014000533). The violation was deemed to exist beginning 11/10/2010, which is the effective date of Requirement 2 PRC-005-1. The Open Action was confirmed to be ongoing at TML’s 2014 audit. On 4/12/2017, WECC’s Compliance Enforcement accepted TML’s Mitigation Plan with a proposed 12/1/2017 completion date.

**Compliance with Section 34 Orders**

The Comptroller of Water Rights (CWR) accepted the Waneta Release Coordination Agreement dated June 30, 2004 (WRCA-2004) as satisfying certain requirements pursuant to the Waneta Governmental Authorizations. TML subsequent entered into the Amended and Restated Waneta Release Coordination Agreement dated November 15, 2011 (WRCA-2011) and the Waneta Expansion Sizing Agreement dated October 22, 2009 (WESA) without re-confirming the CWR’s acceptance. The CWR has requested some changes in relation to WRCA-2011 and WESA in

order to accept WRCA-2011 as a replacement of the WRCA-2004. TML, the CWR and other related parties are undergoing discussions regarding such potential changes.

**Commitments under PAC and DFO Permit**

TML has not yet completed all of the conditions contained in Project Approval Certificate E97-01, as amended, and Department of Fisheries and Oceans Authorization No. 94-HPAC-PA1-000-000008 (see Waneta Governmental Authorizations). See also Section 2.2.4 of the Data Room.

**Schedule 3.2(d)  
Exceptions to Title**

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Nil

**Schedule 3.2(g)**  
**Status of Material Contracts**

---

**Communication and Microwave Agreements**

TML and BC Hydro entered into a Letter Agreement dated June 10, 2002, regarding the use of BC Hydro's Blizzard (BLZ) Microwave Site and other matters relating to the provision of services by BC Hydro relating to microwave links at Emerald Substation and the Waneta Plant. The Letter Agreement was incorporated into an agreement titled the Nelway Agreement dated December 6, 2002, made between TML and BC Hydro. The Letter Agreement contemplates that BC Hydro would enter into (i) a further license agreement with TML, pursuant to which TML would have the use of a telecommunications site at BLZ; and (ii) a maintenance and operating services contract with TML, pursuant to which BC Hydro would provide services to TML. TML and BC Hydro have not entered into those agreements at this time. TML has no alternate arrangements in place with respect to the operation and maintenance of this equipment.

**Schedule 3.2(j)**  
**Environmental Matters**

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**Forebay Sediments**

In the course of the Waneta expansion project, soil and sediments contamination has been identified in the forebay area, including as described in Section 8.3.2 of the Data Room.

**Wide Area Site**

Trail, British Columbia has been the site of a major lead and zinc smelting facility for over 100 years. As with many industrial operations, dust can be generated and released to surrounding lands. The deposition of dust and other emissions from Trail operations is permitted and overseen by the BC Ministry of Environment (MOE). The dust includes lead, arsenic, cadmium, and zinc from smelting and refining operations.

Soil conditions in the Trail area, including in an about the Waneta Plan and the Transmission Plan, are well studied under the direction of the Trail Area Health & Environment Committee (THEC). Information related to the THEC and a Phase 4 Human Health Risk Assessment of those soil conditions was made available in Section 6.8 of the Data Room.

**Schedule 3.2(v)**  
**Insurance**

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- (a) Comprehensive General Liability (renewed June 30, 2016);
- (b) Umbrella Liability (renewed June 30, 2016);
- (c) 1<sup>st</sup> Excess Liability (renewed June 30, 2016);
- (d) 2<sup>nd</sup> Excess Liability (renewed June 30, 2016);
- (e) 3<sup>rd</sup> Excess Liability (renewed June 30, 2016);
- (f) 4<sup>th</sup> Excess Liability (renewed June 30, 2016);
- (g) 5<sup>th</sup> Excess Liability (renewed June 30, 2016);
- (h) 6<sup>th</sup> Excess Liability (renewed June 30, 2016);
- (i) 7<sup>th</sup> Excess Liability (renewed June 30, 2016);
- (j) 8<sup>th</sup> Excess Liability (renewed June 30, 2016); and
- (k) 9<sup>th</sup> Excess Liability (renewed June 30, 2016).

**Exhibit 1**  
**Contract Bare Trust Agreement**

See attached.

**Exhibit 2  
Lease**

See attached



**Exhibit 3  
WAS Access Easement**

**Exhibit 4  
TRL Guarantee**

[See attached]

**Exhibit 5  
Co-Possessors and Operating Agreement**

See attached

**Exhibit 6**  
**Transmission Agreement Term Sheet**

## **Waneta 2017 Transaction**

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### **Appendix F**

### **Waneta Lease Agreement**

**(Exhibit 2 to Waneta Purchase Agreement)**

**TECK METALS LTD.  
as Landlord**

**- and -**

**TECK [SUBSIDIARY] LTD.  
as Tenant**

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**WANETA LEASE AGREEMENT**

**Dated <@>, 2017**

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**EXHIBIT**

- Exhibit 1
- Exhibit 2

**TITLE**

- CO-OWNERSHIP AND OPERATING AGREEMENT
- CO-POSSESSORS AND OPERATING AGREEMENT

**WANETA LEASE AGREEMENT**

**THIS LEASE AGREEMENT** is made as of <@>, 2017.

BETWEEN:

**TECK METALS LTD.**  
(the “**Landlord**”)

AND:

**TECK [SUBSIDIARY] LTD.**  
(the “**Tenant**”)

**WHEREAS:**

- A. As at the date and time this Lease Agreement is entered into, the Landlord owns a 2/3 undivided interest in the Waneta Plant and related Waneta Assets (the “**2/3 Interest**”) and BC Hydro owns a 1/3 undivided interest in the Waneta Plant and related Waneta Assets (the “**1/3 Interest**”) and the Landlord and BC Hydro together operate the Waneta Plant and related Waneta Assets pursuant to the Co-Ownership and Operating Agreement, and under and in accordance with the Waneta Assumed Contracts and the Waneta Governmental Authorizations.
- B. The Landlord and the Tenant have agreed to the lease to the Tenant of the 2/3 Interest in respect of the Waneta Real Property, the Waneta Buildings and Fixtures and the Waneta Personal Property and that the Tenant shall have the benefit of the 2/3 Interest in the other Waneta Assets, including the Waneta Assumed Contracts and the Waneta Government Authorizations, for the Term.
- C. For certainty, it is the intention of the Landlord and the Tenant that the disposition of the 2/3 Interest in respect of the Waneta Real Property, the Waneta Buildings and Fixtures and the Waneta Personal Property for the Term, pursuant to and in accordance with this Lease Agreement, including the lease of the 2/3 Interest in respect of the Waneta Owned Land, shall include all appurtenances thereto, including specifically the Appurtenant Licences as provided in Section 25 of the *Water Sustainability Act*, SBC 2014, c. 15, and that during the Term the Tenant shall have the benefit of the Entitlement Capacity and Entitlement Energy under the CPA attributable to the 2/3 Interest as more particularly described in the Waneta Operating Agreement.
- D. The Landlord and the Tenant acknowledge their expectation that, following the execution of this Lease Agreement, (i) Teck Metals Ltd. will transfer its beneficial interest in the 2/3 Interest and this Lease Agreement to a wholly owned subsidiary of Teck Resources Limited; (ii) that wholly owned subsidiary of Teck Resources Limited will be amalgamated or wound up into Teck Resources Limited, and thereafter Teck Resources Limited will hold all of the beneficial interest to the 2/3 Interest and this Lease Agreement; (iii) Teck Resources Limited, as vendor, will transfer to BC Hydro all of its beneficial interest in the 2/3 Interest and this Lease Agreement and will cause Teck

Metals Ltd. to transfer to BC Hydro all of the remaining interest in the Waneta Real Property, the Waneta Buildings and Fixtures and the Waneta Personal Property (all subject to the Leasehold Estate) and this Lease Agreement, and thereafter BC Hydro will constitute the Landlord for all purposes under this Lease Agreement, and (iv) the Tenant will be amalgamated or wound up into Teck Metals Ltd., and thereafter Teck Metals Ltd. will constitute the Tenant for all purposes under this Lease Agreement.

**NOW THEREFORE** in consideration of the premises and the mutual covenants and agreements herein contained, each of the Parties covenants and agrees as follows:

## ARTICLE 1 BASIC TERMS, INTERPRETATION

### 1.1 Basic Terms.

- (a) Landlord: Teck Metals Ltd.
- (b) Tenant: Teck [Subsidiary] Ltd.
- (c) Leased Property: As defined in Section 2.1
- (d) Commencement Date: <@>
- (e) Term: means the term commencing on the Commencement Date and ending on the Expiration Date
- (f) Basic Rent, excluding Rental Taxes:

Period	Per Lease Year	Per Quarter
Lease Year 1	\$74,180,644	\$18,545,161
Lease Year 2	\$75,664,256	\$18,916,064
Lease Year 3	\$77,177,542	\$19,294,385
Lease Year 4	\$78,721,092	\$19,680,273
Lease Year 5	\$80,295,514	\$20,073,879
Lease Year 6	\$81,901,425	\$20,475,356
Lease Year 7	\$83,539,453	\$20,884,863
Lease Year 8	\$85,210,242	\$21,302,561
Lease Year 9	\$86,914,447	\$21,728,612
Lease Year 10	\$88,652,736	\$22,163,184
Lease Year 11	\$90,425,791	\$22,606,448
Lease Year 12	\$92,234,306	\$23,058,577
Lease Year 13	\$94,078,993	\$23,519,748
Lease Year 14	\$95,960,572	\$23,990,143
Lease Year 15	\$97,879,784	\$24,469,946
Lease Year 16	\$99,837,380	\$24,959,345
Lease Year 17	\$101,834,127	\$25,458,532
Lease Year 18	\$103,870,810	\$25,967,702
Lease Year 19	\$103,140,303	\$25,785,076

Period	Per Lease Year	Per Quarter
Lease Year 20	\$105,203,109	\$26,300,777

[NTD: The Basic Rent amounts shown in the above table assume an August 1 2018 Commencement Date. If the Commencement Date is later than August 1, 2018 then the payment for Lease Year 1 will be increased by 0.1667% for each month after August 1, 2018 that the Commencement Date occurs and the rent for subsequent years will be adjusted accordingly based on the same escalation as in the above table.]

- (g) Permitted Use: The generation and transmission of electricity and all ancillary purposes.
- 1.2 **Defined Terms.** When used in this Lease Agreement, including the Recitals, all capitalized words and phrases defined in Schedule 1 will have the meanings ascribed to them therein, unless the context requires otherwise.
- 1.3 **Gender and Number.** Any reference in this Lease Agreement to gender includes all genders, and words importing the singular number only shall include the plural and vice versa.
- 1.4 **Headings, etc.** The provision of a table of contents, the division of this Lease Agreement into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect its interpretation.
- 1.5 **Currency.** All references in this Lease Agreement to dollars, unless otherwise specifically indicated, are expressed in Canadian currency.
- 1.6 **Certain Phrases, etc.** In this Lease Agreement (i) the words “including” and “includes” mean “including (or includes) without limitation”, and (ii) the phrase “the aggregate of”, “the total of”, “the sum of”, or a phrase of similar meaning means “the aggregate (or total or sum), without duplication, of”, and (iii) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”, and (iv) the words “substantial damage to or destruction of the Waneta Plant” has the same meaning in this Lease Agreement as in the Waneta Operating Agreement.
- 1.7 **Accounting Terms.** All accounting terms not specifically defined in this Lease Agreement shall be interpreted in accordance with IFRS applied on a basis consistent with that of prior periods but subject to any changes to IFRS itself.
- 1.8 **Incorporation of Schedules.** The schedules and attachments attached to this Lease Agreement (other than Exhibit 1 and Exhibit 2), shall, for all purposes of this Lease Agreement, be incorporated by reference into this Lease Agreement, and the agreements set out in Exhibit 1 and Exhibit 2, together with this Lease Agreement, constitute one indivisible agreement in accordance with Section 17.12.
- 1.9 **Calculation of Time Periods.** Except for the last day of the Initial Term or of the Renewal Term, as applicable, if the last day of a time period or the time for taking any

action does not fall on a Business Day, the last day of the time period or the time for taking such action shall fall on the next Business Day.

- 1.10 **Statutory Instruments.** Unless otherwise specifically provided in this Lease Agreement, any reference in this Lease Agreement to any Applicable Laws shall be construed as a reference to such Applicable Laws as amended or re-enacted from time to time or as a reference to any successor thereto.

## ARTICLE 2 DEMISE AND ASSIGNMENT

- 2.1 **Demise.** In consideration of the Rent, covenants and agreements hereinafter reserved and contained on the part of the Tenant to be paid, observed and performed, the Landlord demises and leases to the Tenant for the Term and the Tenant leases from the Landlord for the Term all of the Landlord's two-thirds undivided interest in:

- (a) the Waneta Real Property;
- (b) the Waneta Buildings and Fixtures; and
- (c) the Waneta Personal Property;

(collectively, the "**Leased Property**").

- 2.2 **Other Rights and Interests.** If, after the Commencement Date, the Landlord holds or acquires any fee simple or leasehold interests in real property or tangible personal property required to enjoy and use the Waneta Assets and the benefits arising in connection therewith, or required in connection with the operation and maintenance of the Waneta Plant, and such real or tangible personal property is not subject to Section 2.1, then the Landlord and the Tenant shall take all steps reasonably required to effect the lease of an undivided two-thirds interest in such property to the Tenant, for no additional consideration, by such transactions and instruments supplemental to this Lease Agreement as may be needed, on the terms and conditions set out herein, *mutatis mutandis*, and any lease made under this Section 2.2 shall be deemed to have been completed under Section 2.1 and for all purposes under this Lease Agreement the term "**Leased Property**" shall be read as if including all such real and tangible personal property.

## ARTICLE 3 TERM

- 3.1 **Term.** The term of this Lease Agreement shall be the Term.
- 3.2 **Use of Premises.** The Tenant covenants and agrees that the Leased Property will be used solely for the purposes set out in Section 1.1(g), and for no other purpose.

## ARTICLE 4 RENT

4.1 **Absolute Net Lease.** Except as expressly provided for in this Lease Agreement, it is the intention of the Parties that:

- (a) the Basic Rent shall be net to the Landlord of all Rental Taxes, costs and other charges arising from or relating to the Leased Property; and
- (b) the Landlord shall not be obligated to incur any cost or expense with respect to the use, maintenance, repair, operation, management or occupation of the Leased Property during the Term,

provided, however, that the Landlord and not the Tenant shall be obligated to pay: (i) the Landlord's income taxes, depreciation on or in respect of the Waneta Buildings and Fixtures and Waneta Personal Property and (ii) in any period during which the Landlord is BC Hydro, the amounts specified in the Waneta Operating Agreement to be paid by the Co-Owner or Co-Possessor (as applicable) of the 1/3 Interest.

4.2 **Payment of Basic Rent.** During the Term the Tenant shall pay to the Landlord the Basic Rent in advance in accordance with the following:

- (a) the Tenant shall pay to the Landlord on the 5<sup>th</sup> Business Day after the Commencement Date, an amount equal to the quarterly Basic Rent in respect of the First Quarter prorated by the number of days remaining in the First Quarter from the Commencement Date;
- (b) thereafter the Tenant shall pay to the Landlord on the first Business Day of each following Quarter (other than Quarter referred to in Section 4.2(c) below), an amount equal to the quarterly Basic Rent for the Quarter in which the payment is made; and
- (c) the Tenant shall pay to the Landlord on the first Business Day of the Quarter in which the twentieth anniversary of the Commencement Date occurs, an amount equal to the quarterly Basic Rent in respect of that Quarter prorated by the number of days from the beginning of that Quarter until the twentieth anniversary of the Commencement Date.

4.3 **Allocation of Basic Rent.** The Landlord and Tenant agree that 1.43% of Basic Rent paid by the Tenant shall be allocated to the leasing of "tangible personal property" (as defined in the *Provincial Sales Tax Act* (British Columbia)) that is included in the Leased Property, which the Parties acknowledge is consistent with the allocation of value set out in Schedule 2.2(b) of the 2017 Waneta Purchase Agreement.

4.4 **Additional Amounts Payable by the Tenant**

- (a) During the Term, the Tenant shall pay the amounts specified in the Waneta Operating Agreement to be paid by the Co-Owner or Co-Possessor (as applicable) of the 2/3 Interest.

(b) The Landlord has all the rights against the Tenant for default in the Tenant's payments under this Section 4.4 that it has against the Tenant for default in payment of Basic Rent, and whether or not payable as reimbursement or compensation to the Landlord for expenses to which it has paid or been put.

4.5 **Intentionally Deleted.**

4.6 **Intentionally Deleted.**

4.7 **Rental Taxes.** The Tenant will pay the Rental Taxes to the Landlord or if required by Applicable Laws, directly to the appropriate Governmental Entity.

4.8 **Rent Past Due.** If the Tenant fails to pay any Basic Rent when the same is due and payable under this Lease Agreement, the unpaid amount shall bear interest from the date such Basic Rent becomes due pursuant to Section 4.2, until the date paid by the Tenant, at an interest rate of the Prime Rate from time to time plus two (2%) percent per annum, compounded annually.

4.9 **Abatement of Rent.** In the event of substantial damage to or destruction of the Waneta Plant, and in no other event, the Basic Rent payable in respect of each Quarter shall abate in whole or in part, in proportion to the Tenant's Entitlement Capacity (as reduced owing to such damage or destruction), as compared to the Tenant's Entitlement Capacity as at (i) the beginning of the Quarter in which such event occurred or (ii) if the event occurred on the first day of a Quarter then the beginning of the preceding Quarter.

## ARTICLE 5 CONDITION OF PREMISES

5.1 **Environmental Conditions.** The Tenant acknowledges and agrees that the Landlord has made no representations or warranties with respect of the environmental condition of the Waneta Owned Land, the Waneta Related Land and the Waneta Buildings and Fixtures, and that the Tenant is leasing its interest in the Leased Property under this Lease Agreement on an "as is, where is" basis with respect to the environmental conditions thereof.

5.2 **Intentionally Deleted.**

5.3 **Intentionally Deleted.**

5.4 **Intentionally Deleted.**

5.5 **Waste, Nuisance.**

(a) The Tenant shall not:

(i) do or permit any Person for whom it is at law responsible to do any wilful or voluntary waste or damage or injury to the Leased Property;

- (ii) use or permit any Person for whom it is at law responsible to use any part of the Leased Property for any illegal or unlawful purpose or any dangerous, noxious or offensive trade or business; or
  - (iii) cause or permit any Person for whom it is at law responsible to cause any nuisance in, at or on the Leased Property.
- (b) The Parties acknowledge and agree that all uses of and activities on the Leased Property that are consistent with the uses of and the activities on the Leased Property prior to the Commencement Date in connection with the maintenance, repair and operation of the Waneta Plant, Transmission Assets and Excluded Assets, including for certainty the existence on the Waneta Owned Land and the Waneta Related Land of the Waneta Plant, are permitted hereunder and shall not contravene Section 5.5(a).
- 5.6 **Tenant's Obligation to Maintain.** The Parties acknowledge and agree that during the Term the Tenant (i) shall be entitled to possession and control of the Leased Property, and (ii) shall have the ability and obligation to exercise the rights and undertake the responsibilities as the holder of the Appurtenant Licences under the *Water Sustainability Act*, all to the extent of the 2/3 Interest therein or rights thereto. The Tenant shall have no obligation to operate, repair or maintain the Leased Property, and shall have no obligation to investigate or remediate the environmental conditions thereof, other than as expressly set out in this Lease Agreement and the Waneta Operating Agreement.

## ARTICLE 6 UPGRADES, PROHIBITED CHARGES AND ENTITLEMENTS

- 6.1 **Intentionally Deleted.**
- 6.2 **BC Hydro Upgrades.** At any time during the Term, if the Landlord undertakes a BC Hydro Upgrade, then the Parties agree as follows:
- (a) the Tenant will negotiate and enter into access arrangements with the Landlord and its contractors, which arrangements shall provide, for nominal consideration and otherwise on terms and conditions acceptable to the Tenant and the Landlord, each acting reasonably, such access to the Leased Property and to the personnel of Tenant as may reasonably be required by the Landlord and its contractors for the planning, development, design, permitting, engineering, procurement and construction of such BC Hydro Upgrade;
  - (b) the Tenant will continue to pay all Rent when due under this Lease Agreement during the planning, development, design, permitting, engineering, procurement and construction of such BC Hydro Upgrade;
  - (c) the Landlord will cooperate with the Tenant to identify measures to mitigate where feasible the impact of the construction of such BC Hydro Upgrade on the Tenant's Entitlement Capacity, the Tenant's Entitlement Energy and the Industrial



Operations, and the Landlord will take all reasonable steps during the planning and construction of the BC Hydro Upgrade to reduce such impacts to the extent the Landlord, acting reasonably, considers technically and economically feasible;

- (d) to the extent the Landlord and its contractors do not mitigate the impact of the construction of such BC Hydro Upgrade on the Tenant's Entitlement Capacity, the Tenant's Entitlement Energy or the Industrial Operations, the Landlord shall be responsible to compensate the Tenant for all costs and liabilities incurred by the Tenant directly or indirectly as a result of the impact of the construction of such BC Hydro Upgrade on the Tenant's Entitlement Capacity, the Tenant's Entitlement Energy and the Industrial Operations, including:
  - (i) any replacement costs for any portion of the Tenant's Entitlement Capacity and the Tenant's Entitlement Energy that is rendered unavailable as a result directly or indirectly of the construction of such BC Hydro Upgrade, including after such construction is complete, and
  - (ii) the cost of any transmission rights which the Tenant must secure to utilize capacity and energy to replace the Tenant's Entitlement Capacity and the Tenant's Entitlement Energy that is rendered unavailable as a result directly or indirectly of the construction of such BC Hydro Upgrade, including after such construction is complete; and
- (e) for the balance of the Term, following the completion of the BC Hydro Upgrade, the Tenant shall, for no other consideration, cooperate as reasonably required to provide and make available to the Landlord the benefit, monetary and otherwise, arising from the incremental Entitlement Energy and Entitlement Capacity resulting from such BC Hydro Upgrade, provided that if the Landlord requests the Tenant's assistance in this regard, then the Landlord shall reimburse the Tenant for all reasonable out-of-pocket expenses that are incurred by the Tenant in relation to the provision of such assistance.

6.3 **Prohibited Charges.** If a Prohibited Charge is filed or registered against one or more of the Titles then the Tenant shall, within 30 days after receiving notice of such filing (but in any case within 15 days after the Landlord notifies the Tenant of commencement of any enforcement proceedings thereunder), commence appropriate action to cause such Prohibited Charge to be paid, discharged, or cleared from Title. The Tenant shall thereafter prosecute such action with reasonable diligence and continuity until such Prohibited Charge has been paid, discharged, or cleared from Title. If the Landlord receives notice of any such filing, then the Landlord shall promptly notify the Tenant of same. Nothing in this Lease Agreement shall be construed to limit the Tenant's right to Contest any Prohibited Charge or obligate the Tenant regarding any lien that results from any act or omission by the Landlord. Notwithstanding the foregoing if the Tenant has not caused the Prohibited Charge to be paid, discharged, or cleared from Title within 60 days after receiving Notice from the Landlord, then subject to the Tenant's right to Contest the Landlord may in its sole, absolute, and unfettered discretion, cause the Prohibited Charge to be cleared from Title and, without prejudice to any other right or remedy it may have, take such steps or proceedings, including full payment, settlement, or compromise of the

Prohibited Charge, payment into court, or posting of security, as the Landlord determines in its sole, absolute, and unfettered discretion to be necessary to cause the release or discharge of the Prohibited Charge. The Tenant will indemnify the Landlord from any losses arising in any way from a Prohibited Charge which will be paid by the Tenant on demand, and the Tenant shall reimburse the Landlord for any expenditures of the Landlord under this Section 6.3.

6.4 **Tenant's Entitlements.** The Landlord and the Tenant acknowledge and agree, subject to Section 6.2(e):

- (a) that as lessee of the Leased Property hereunder, and as the holder of a beneficial interest in the Bare Trust Assumed Contracts, the Tenant shall be entitled for the Term to use, including in its Industrial Operations, deal with, sell or otherwise dispose of, and to enjoy all benefits, monetary and otherwise, arising in connection with all or any portion of the Tenant's Entitlement Energy and the Tenant's Entitlement Capacity, and two-thirds of the benefits arising under the Waneta Assumed Contracts in connection thereto, all to the extent such dealings are in accordance with Applicable Laws and the provisions of the Waneta Assumed Contracts; and
- (b) it is the intention of the Parties that all costs and all revenues accruing from the use, sale or disposal of all or any portion of the Tenant's Entitlement Energy and the Tenant's Entitlement Capacity, and two-thirds of the benefits arising under the Waneta Assumed Contracts in connection therewith, shall be for the Tenant's account.

## ARTICLE 7 OTHER COVENANTS

7.1 **Compliance with Lawful Obligations.** Subject to the provisions of this Lease Agreement relating to the respective responsibilities of the Landlord and the Tenant, each of the Landlord and the Tenant shall not act in a manner that results in a material breach of any of the Waneta Agreements, the Appurtenant Licences, the Waneta Governmental Authorizations or any Applicable Laws relating to the operation, maintenance, repairs, replacements, alterations, additions, changes, substitutions, or improvements on, of or to the Leased Property.

7.2 **Landlord's Right to Cure.** If

- (a) the Tenant is in default under Section 7.1, or circumstances exist which would constitute a default under Section 7.1 with the passage of time or an act by a Governmental Entity or third party;
- (b) the cure or avoidance of such default requires actions to be taken on or in respect of the Leased Property; and
- (c) the Landlord has provided written notice to the Tenant of such default or such circumstances and:

- (i) if such notice refers to a default that has occurred and is continuing, the Tenant fails to promptly take such commercially reasonable steps as the Tenant has the authority to take to cure such default; or
- (ii) if such notice refers to circumstances which would, failing immediate action, constitute a default under Section 7.1 and such default, if it occurs, would, in the opinion of the Landlord, reasonably formed, result in a material adverse impact on (A) the Landlord as landlord under the Lease Agreement or (B) the Leased Property or any material part or parts thereof;

then the Landlord and its employees, contractors or representatives shall have the right to enter upon the Leased Property from time to time, with persons and equipment, to ensure compliance with the Waneta Agreements, the Appurtenant Licences, the Waneta Governmental Authorizations (including the FERC License) and any regulations and orders of the Governmental Entity issuing such Waneta Governmental Authorization and any Applicable Laws, and to take such steps with respect to the Leased Property as the Landlord deems reasonably necessary to maintain its status thereunder, and to perform, or to obtain Tenant's timely performance of, any and all acts required by Applicable Laws or by any order of the issuing Governmental Entity or its successor regarding the Leased Property, all without the prior approval of Tenant or any other Person.

7.3 **Provision of Certificates under Provincial Sales Tax Act.** By no later than the Commencement Date:

- (a) the Landlord shall provide to the Tenant the Landlord's PST number or a duly signed "Certificate of Exemption General" (FIN 490); and
- (b) the Tenant shall provide to the Landlord a duly signed "Certificate of Exemption Production Machinery and Equipment" (FIN 492);

each in form and substance satisfactory to the Parties (each acting reasonably).

## ARTICLE 8 INTENTIONALLY DELETED

## ARTICLE 9 INDEMNITIES

9.1 **Indemnification in Favour of Landlord.** The Tenant shall indemnify and save each of the Landlord, and its directors, officers, employees, agents, successors, and assigns (the "**Landlord's Indemnified Persons**") harmless of and from any loss, liability, claim, damage (specifically excluding indirect, incidental or consequential damage) or expense (whether or not involving a third-party legal action or proceeding) including reasonable legal expenses (collectively, "**Damages**") suffered by, imposed upon or asserted against any of the Landlord's Indemnified Persons to the extent they are the result of, in respect of, connected with, or arising out of, under, or pursuant to:

- (a) any material failure of the Tenant or a Person for whom the Tenant is at law responsible to perform any of its covenants under this Lease Agreement; and
- (b) any material breach or inaccuracy of any representation or warranty given by the Tenant in this Lease Agreement;

provided however that the Tenant will not indemnify the Landlord's Indemnified Persons for any such Damages to the extent the events giving rise to such Damages are caused or contributed to by the Landlord or any Person for whom the Landlord is at law responsible, including for certainty any Operator other than the Tenant.

9.2 **Indemnification in Favour of the Tenant.** The Landlord shall indemnify and save each of the Tenant, and its directors, officers, employees, agents, successors, and assigns (collectively, the "**Tenant's Indemnified Persons**") harmless of and from any Damages suffered by, imposed upon or asserted against any of the Tenant's Indemnified Persons to the extent they are the result of, in respect of, connected with, or arising out of, under or pursuant to:

- (a) any material failure of the Landlord or a Person for whom the Landlord is at law responsible to perform any of its covenants under this Lease Agreement;
- (b) any material breach or inaccuracy of any representation or warranty given by the Landlord in this Lease Agreement; and
- (c) any material failure of the Landlord or a Person for whom the Landlord is at law responsible, including for certainty any Operator other than the Tenant, to perform any of its covenants or obligations under any Waneta Assumed Contracts that are not Bare Trust Assumed Contracts, or under any Waneta Governmental Authorizations;

provided however that the Landlord will not indemnify the Tenant's Indemnified Persons for any such Damages to the extent the events giving rise to such Damages are caused or contributed to by the Tenant or any Person for whom the Tenant is at law responsible.

## ARTICLE 10 ASSIGNMENTS, TRANSFERS

10.1 **Transfer by Tenant Restricted.**

- (a) The Tenant shall not effect any Transfer to any Person unless (i) it has received the prior written consent of the Landlord, which consent may be withheld for any reason or for no reason, or (ii) the circumstances of the proposed Transfer are such that (A) a transfer of its Participation Interest (as that term is defined in the Waneta Operating Agreement) would be permitted pursuant to Article 25 of the Waneta Operating Agreement, and (B) all of its interest in the other Waneta Agreements (excluding, if the Tenant is Teck Metals Ltd., its interest in the Bare Trust Assumed Contracts in its capacity as Bare Trustee under the Contract Bare Trust Agreement) are assigned to the same Transferee, at the same time and as part of the same transaction.

- (b) For greater certainty, the Landlord and the Tenant acknowledge and agree that the amalgamation or wind-up of the Tenant into Teck Metals Ltd. as contemplated in Recital D will not constitute a Transfer for purposes of Section 10.1(a).

10.2 **Assumption and Release.** If the Tenant completes a Transfer in accordance with Sections 10.1(a), and the Transferee has entered into an agreement between the Tenant, the Transferee and the Landlord, in a form satisfactory to the Landlord, acting reasonably, whereby the Transferee covenants to observe and perform the covenants and obligations of the Tenant under this Lease Agreement, the other Waneta Agreements (to the extent applicable), the CPA Scheduling Agreement (so long as it is in effect) and the Surplus Power Rights Agreement (so long as it is in effect), the Tenant shall be automatically released of its obligations under this Lease Agreement upon completion of such Transfer, provided that the Transfer is an assignment of all of the Tenant's Leasehold Estate in all of the Leased Property and the Transferee (or the guarantor of the Transferee's obligations under this Lease Agreement and under the other Waneta Agreements) is, at the time of the Transfer, of equal or better creditworthiness than the higher rated of: 1) Guarantor, or 2) the Tenant, at that time.

10.3 **Intentionally Deleted.**

10.4 **Intentionally Deleted.**

10.5 **Assignment by Landlord.**

- (a) The Landlord may at any time sell or otherwise dispose of the whole, but not part of its interest in the Leased Property, and assign its rights and interest under this Lease Agreement as part of such disposition, upon notice to, but without the consent of, the Tenant, provided that the circumstances of the proposed disposition are such that (A) a transfer of its Participation Interest (as that term is defined in the Waneta Operating Agreement) would be permitted pursuant to Article 25 of the Waneta Operating Agreement, and (B) all of its interest in the other Waneta Agreements are assigned to the same Transferee, at the same time and as part of the same transaction. The Landlord shall cause the purchaser, assignee or transferee, as the case may be, under the sale or other disposition to enter into an agreement with the Tenant and the Landlord in a form satisfactory to the Tenant, acting reasonably, whereby such purchaser, assignee or transferee, covenants to observe and perform the covenants and obligations of the Landlord hereunder on and subject to the completion of the sale or other disposition (including this provision which will apply to each and every subsequent sale or other disposition of the Leased Property on the part of the Landlord, and the Tenant shall attorn to such purchaser, assignee or transferee, as the case may be.
- (b) The Landlord and the Tenant acknowledge and agree that for purposes of Section 10.5(a), the series of transactions described in Recital D shall be deemed to be a single transaction constituting the sale of the whole of the Leased Property by Teck Metals Ltd. to BC Hydro which will not constitute a disposition or assignment by the Landlord for the purposes of Section 10.5(a).

**ARTICLE 11  
REPRESENTATIONS AND WARRANTIES**

11.1 **Representations of Landlord.** The Landlord represents and warrants to the Tenant that as of the Commencement Date:

- (a) it is a corporation duly continued and validly existing under the Applicable Laws of its jurisdiction of formation. It has the corporate power and capacity to own and operate its property, carry on its business and enter into and perform its obligations under this Lease Agreement and all documents, instruments and agreements required to be delivered by it pursuant to this Lease Agreement;
- (b) the execution, delivery and performance by it of this Lease Agreement have been duly authorized by all necessary corporate action on its part;
- (c) it is not a non-resident of Canada within the meaning of the ITA;
- (d) it is registered for the purposes of GST under registration number 844848135 RT0001; and
- (e) it is registered for the purposes of PST under registration number PST-1002-2437.

11.2 **Representations of the Tenant.** The Tenant represents and warrants to the Landlord that as of the Commencement Date:

- (a) it is a corporation duly incorporated or amalgamated and validly existing under the Applicable Laws of its jurisdiction of its incorporation or amalgamation. It has the corporate power and capacity to own and operate its property, carry on its business and enter into and perform its obligations under this Lease Agreement;
- (b) the execution, delivery and performance by it of this Lease Agreement has been duly authorized by all necessary corporate action on its part;
- (c) it is not a non-resident of Canada within the meaning of the ITA;
- (d) it is registered for the purposes of GST under registration number \_\_\_\_\_; and
- (e) it is registered for the purposes of PST under registration number \_\_\_\_\_.

**ARTICLE 12  
QUIET ENJOYMENT**

12.1 **Quiet Enjoyment.** The Landlord covenants with the Tenant that the Tenant paying the rent hereby reserved, and performing the covenants hereinbefore on its part contained, shall and may peaceably possess and enjoy the Leased Property for the Term, without any interruption or disturbance from the Landlord, its successors or assigns, or any other person or persons lawfully claiming by, from, or under it, or any of them or otherwise claiming any right or interest in the Leased Property.

- 12.2 **Waneta Operating Agreement.** From and after the time that BC Hydro becomes the Landlord under this Lease Agreement, the Landlord and Tenant shall possess, operate and enjoy the 1/3 Interest and the 2/3 Interest, respectively, pursuant to and in accordance with the terms of the Co-Possessors and Operating Agreement.

**ARTICLE 13  
DEFAULT, TERMINATION AND EXPIRY**

- 13.1 **Events of Default.** A Party shall be in default under this Lease Agreement if any of the following events occurs:

- (a) the Party is in material default of or material breach of any of its representations, warranties, covenants or agreements to be performed or observed under this Lease Agreement (other than those addressed by Section 13.1(b)), or under any other Waneta Agreement (including default in making any payment required to be paid thereunder), after written notice of such material default or breach is given to that Party (the “**Defaulting Party**”) by the other Party (the “**Non-Defaulting Party**”) and:
- (i) in the case of a material default or breach that is capable of being corrected within 45 days of notice, the material default or breach is not corrected within 45 days after receipt of notice of such default or breach is given to the Defaulting Party by the Non-Defaulting Party;
  - (ii) in the case of other material defaults or breaches that are capable of being corrected, the Defaulting Party fails to commence to use its reasonable commercial efforts to correct the material default or breach within 45 days after receipt by the Defaulting Party of notice of the material default or breach from the Non-Defaulting Party, or fails diligently to pursue such correction to completion; or
  - (iii) in the case of material defaults or breaches that are not capable of being corrected, the Defaulting Party fails, within 90 days after receipt by the Defaulting Party of notice of the material default or breach from the Non-Defaulting Party, to do or cause to be done such acts and works as are commercially reasonable in the circumstances to remedy the harm to the Non-Defaulting Party caused by such default or breach and to restore the Non-Defaulting Party to the extent practicable to the position it would have been in had the default or breach not occurred;
- (b) subject to Section 13.3, the Defaulting Party is the Tenant and it fails to pay in whole or in part when due any payment required to be paid by the Tenant pursuant to this Lease Agreement, if such failure is not remedied within 45 days after written notice of such failure is given to the Tenant by the Landlord;

or if any of the following events occurs:

- (c) (i) the Tenant or its successor or assign holding the Leasehold Estate and the rights and interests under this Lease Agreement admits in writing its inability to pay its debts generally as they become due, or makes a general assignment for the benefit of creditors or otherwise takes the benefit of Applicable Laws (including the *Bankruptcy and Insolvency Act* (Canada)) for the benefit of insolvent debtors;
- (ii) a receiver, receiver and manager, trustee, custodian or official or person acting in a like capacity is appointed by or on behalf of, or at the instance of, or for the benefit of, one or more creditors (other than by or on behalf of, or at the instance of, or for the benefit of BC Hydro, under any security granted by Teck in favour of BC Hydro over the Leasehold Estate) of the Tenant or its successor or assign holding the Leasehold Estate and the rights and interests under this Lease Agreement to take possession or control of the Leasehold Estate, or the business conducted on the Leased Property, and such appointment is not contested with diligence and continuity by appropriate legal proceedings and vacated as the result of such proceedings or by compromise in the course thereof;
- (iii) any creditor takes Control of the Tenant or its successor or assign holding the Leasehold Estate and the rights and interest under this Lease Agreement and such taking of Control is not contested with diligence and continuity by appropriate legal proceedings and vacated as the result of such proceedings or by compromise in the course thereof;
- (iv) proceedings are instituted under Applicable Laws (including the *Bankruptcy and Insolvency Act* (Canada) and the *Companies' Creditors Arrangement Act* (Canada)) that result in the Tenant or its successor or assign holding the Leasehold Estate and the rights and interests under this Lease Agreement being adjudged a bankrupt, or the confirmation of a composition, arrangement, plan of reorganization of it or with respect to it or its debts or obligations, and such judgement or confirmation is not contested with diligence and continuity by appropriate legal proceedings and vacated as the result of such proceedings or by compromise in the course thereof;
- (v) resolutions are passed or other corporate actions of the Tenant or its successor or assign holding the Leasehold Estate and the rights and interests under this Lease Agreement are taken to authorize any winding-up, liquidation or other termination of the existence thereof; or
- (vi) attachment or execution is levied on the Leasehold Estate, or any property of the Tenant or its successor or assign holding the Leasehold Estate and the rights and interest under this Lease Agreement situate upon the Leased Property that is required for the operation of the Waneta Plant in accordance with Applicable Laws and Good Utility Practice, and is not contested with diligence and continuity by appropriate legal proceedings



and vacated as the result of such proceedings or by compromise in the course thereof;

(each an “**Event of Default**”).

13.2 **Rights on Events of Default.** If an Event of Default occurs, the Non-Defaulting Party may at its option upon written notice to the Defaulting Party, exercise any or all of the following rights and remedies, which shall be cumulative and without prejudice to any other rights that the Non-Defaulting Party may have under this Lease Agreement, any other Waneta Agreement or Applicable Laws:

- (a) claim damages for the default or breach;
- (b) set off any Rent or other amounts owing by the Defaulting Party to the Non-Defaulting Party under this Lease Agreement or any other Waneta Agreement against any amounts payable by the Non-Defaulting Party to the Defaulting Party under this Lease Agreement or any other Waneta Agreement;
- (c) in the case where the Tenant is the Defaulting Party and BC Hydro is the Landlord, the Non-Defaulting Party may exercise its rights under any security granted over the Leasehold Estate by Teck in favour of BC Hydro, including the right to take possession or control of the Leasehold Estate, or the business conducted by the Tenant on the Leased Property, but only if the circumstances are such that the Non-Defaulting Party is permitted under Sections 24.4 or 24.5 of the Waneta Operating Agreement to exercise such rights in connection with any default thereunder;
- (d) terminate this Lease Agreement on notice to the Defaulting Party, effective immediately upon the giving of such notice, and upon such termination all rights of the Tenant under this Lease Agreement, and all rights of any Persons claiming under the Tenant, will thereupon cease, and all Rent and other monies that are then due under this Lease Agreement will forthwith become due, and such amounts, together with all other amounts then due or which thereafter become owing under any of the other Waneta Agreements by the Tenant to the Landlord or vice versa, including as a result of the termination of this Lease Agreement, will be subject to set-off, and the net amount will be payable to the Party owed the net amount; and for greater certainty the Landlord and the Tenant acknowledge that such termination right is distinct from the rights of action under the security documents that each Party either amended or granted in favour of the other pursuant to the 2017 Waneta Purchase Agreement, and such termination right is not subject to any restrictions under Sections 24.4 or 24.5 of the Waneta Operating Agreement;

provided, however, that the Non-Defaulting Party shall not be entitled to terminate this Lease Agreement in law or in equity or otherwise for an Event of Default described in Section 13.1(a) unless the Defaulting Party’s breach or default constitutes a Material Adverse Default.

- 13.3 **Dispute as to Payments.** If the Tenant in good faith believes it is not obligated to pay the whole or any part of any amounts payable under this Lease Agreement included in a notice given under Section 13.1(b) and the Tenant notifies the Landlord of the portion of such amounts payable that the Tenant believes it is not obligated to pay within 15 days of receiving such notice from the Landlord, then the Landlord shall not terminate the Leasehold Estate and this Lease Agreement, provided that the Tenant makes payment:
- (a) of any amounts payable under this Lease Agreement included in the notice given under Section 13.1(b) that are not disputed by the Tenant by notice given under this Section 13.3;
  - (b) of amounts payable under this Lease Agreement included in the notice given under Section 13.1(b) that are disputed by the Tenant by notice given under this Section 13.3 that the Tenant is determined to be liable to pay under Article 15, together with interest thereon under the provisions of this Lease Agreement, within 30 days of such determination being made.
- 13.4 **Termination by Tenant.** Upon the occurrence of any of the following events, the Tenant may by notice, terminate the Leasehold Estate and this Lease Agreement effective immediately upon the giving of such notice, and upon such termination all rights of the Tenant under this Lease Agreement, and all rights of any persons claiming under the Tenant, will thereupon cease, and all Rent and other monies that are then due under this Lease Agreement will forthwith become due, and such amounts, together with all other amounts then due or which thereafter become owing under any of the other Waneta Agreements by the Tenant to the Landlord or vice versa, including as a result of the termination of this Lease Agreement, will be subject to set-off, and the net amount will be payable to the Party owed the net amount:
- (a) if, in the event of substantial damage to or destruction of the Waneta Plant, the Landlord fails to approve the repair, reconstruction or rebuilding of the damaged or destroyed facilities within 18 months; or
  - (b) if, following the substantial damage to or destruction of the Waneta Plant, the repair, reconstruction or rebuilding of the damage or destroyed facilities is approved by the Landlord but is not anticipated by it, acting reasonably, to be completed prior to the end of the Term.
- 13.5 **Expiration.** On the Expiration Date:
- (a) the Tenant shall peaceably surrender and give up unto the Landlord the Leased Property, provided that the Tenant shall be relieved of any obligation in respect of the condition and state of repair of the Leased Property on its return except to the extent of any of its responsibilities as Operator under the Waneta Operating Agreement;
  - (b) for certainty any additions or improvements to the Waneta Buildings and Fixtures and Waneta Personal Property undertaken during the Term shall become the Landlord's property;

- (c) the Tenant shall cease to have any right, title, or interest in and to the Leased Property and shall deliver such evidence and confirmation thereof as the Landlord reasonably requires; and
- (d) the Landlord, without further notice to the Tenant, will have the right to immediately enter the Leased Property, to take possession thereof with or without process of law, and in all respects to take possession of the Leased Property as of the Landlord's original estate, without incurring any liability to the Tenant or to any other Person for any damage caused or sustained by reason of such entry and taking of possession unless due to the negligence or wilful misconduct of the Landlord or Person for whom the Landlord is in law responsible;

and, thereafter, the Parties shall undertake in good faith to adjust on a pro rata basis any Basic Rent or Rental Taxes payable, as appropriate to the extent such amounts are in respect of periods before and after the Expiration Date, and shall make such payments between them as may be appropriate on account of such adjustments.

#### **Article 14 RIGHT OF CONTEST**

- 14.1 **Tenant's Right to Contest.** Notwithstanding anything to the contrary in this Lease Agreement, the Tenant shall have the exclusive right to contest, at its sole cost, by appropriate legal proceedings diligently conducted in good faith, the validity of any Prohibited Charges (each, a "**Contest**"). Subject to Section 14.2, the Tenant may defer payment or performance of any contested obligation pending the outcome of the Contest.
- 14.2 **Contest Conditions.** The Tenant shall cause the following conditions (the "**Contest Conditions**") to remain satisfied pending the outcome of any Contest:
- (a) such deferral or noncompliance shall not subject the Landlord to a material risk of any fine or penalty;
  - (b) such deferral or noncompliance shall not create any material risk of a lien, charge, or other liability of any kind against the Fee Estate;
  - (c) the Contest shall be without cost, liability or expense to the Landlord;
  - (d) the Tenant shall prosecute such Contest with reasonable diligence and in good faith and in a manner that is consistent with the Waneta Operating Agreement;
  - (e) if required for such Contest, the Tenant shall have paid the amount subject to the Contest;
  - (f) if the Landlord has been named as a party in any legal proceeding relating to a Contest, then the Tenant shall, is so requested by the Landlord, cause the Landlord to be removed as a party and the Tenant substituted in the Landlord's place, if permissible under the circumstances.

14.3 **Landlord Obligations.** The Landlord need not join in any Contest unless: (a) the Tenant has complied with the Contest Conditions and (b) such Contest must be initiated or prosecuted in the Landlord’s name. The Landlord shall give the Tenant any documents, deliveries and information in the Landlord’s possession and control necessary for the Tenant to prosecute the Contest. The Landlord shall otherwise assist the Tenant in such Contest as the Tenant reasonably requests in writing. The Tenant shall, at the Landlord’s reasonable request in writing, advance such reasonable costs and expenses as the Landlord incurs or reasonably anticipates incurring (at the time such costs are incurred) in respect of the Tenant’s Contest and any assistance provided by the Landlord in connection with such Contest.

**ARTICLE 15  
DISPUTE RESOLUTION**

15.1 **Disputes.** If any dispute, question or difference of opinion between the Parties arises out of or under this Lease Agreement, then such dispute shall be resolved in accordance with the provisions of section 29 of the Waneta Operating Agreement, which provisions shall apply to the dispute *mutatis mutandis*.

**ARTICLE 16  
RENEWAL**

16.1 **Renewal Term.** So long as:

- (a) the Tenant is not then in default under this Lease Agreement beyond the applicable notice and cure period;
- (b) this Lease Agreement is in full force and effect; and
- (c) either,
  - (i) the Tenant’s or the Guarantor’s then-applicable credit ratings from two NRSROs (at least one of which must either be Moody’s or S&P (or in either such case, a successor thereto)) are equivalent to or higher than the applicable credit ratings set out in the table below:

NRSRO	Credit Rating
Moody’s	Ba3
Fitch	BB
DBRS	BBH
S&P	BB
Egan-Jones	B

Morningstar	B+
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; or,

- (ii) the Tenant or Guarantor otherwise demonstrates to the satisfaction of the Landlord, acting reasonably, that it has credit capacity and quality at least equivalent to the requirements of clause (i),

then the Landlord shall, at the expiration of the Term, subject to Section 16.4, at the Tenant's written request delivered to the Landlord in the manner provided in this Lease not earlier than thirty-six (36) months and not later than twenty-four (24) months prior to the expiration of the Term, grant to the Tenant a renewal lease of the Leased Property for the Renewal Term, upon all of the covenants, agreements, conditions, and provisos contained in this Lease Agreement except for:

- (d) this covenant for renewal, which shall be excluded; and
- (e) the Basic Rent to be paid during the Renewal Term, which shall be as provided in Section 16.2.

16.2 **Renewal Basic Rent.** Effective the first day of the Renewal Term, Section 1.1(f) shall be deemed to be amended by deleting the table set out therein and replacing it with the following table:

Period	Per Lease Year	Per Quarter
Lease Year 21	\$144,409,031	\$36,102,258
Lease Year 22	\$147,297,212	\$36,824,303
Lease Year 23	\$150,243,156	\$37,560,789
Lease Year 24	\$153,248,019	\$38,312,005
Lease Year 25	\$156,312,979	\$39,078,245
Lease Year 26	\$159,439,239	\$39,859,810
Lease Year 27	\$162,628,024	\$40,657,006
Lease Year 28	\$165,880,584	\$41,470,146
Lease Year 29	\$169,198,196	\$42,299,549
Lease Year 30	\$172,582,160	\$43,145,540

**[NTD: The foregoing assumes a Commencement Date of August 1, 2018. If the Commencement Date is later than August 1, 2018 then the payment for Lease Year 21 will be increased by 0.1667% for each month after August 1, 2018 that the Commencement Date occurs and the rent for subsequent years will be adjusted accordingly based on the same escalation as in the above table.]**

16.3 **Intentionally Deleted.**

16.4 **Other Waneta Agreements.** The Landlord shall be obliged to grant the Renewal Term to the Tenant only if the other Waneta Agreements are then in effect and granting the Renewal Term shall automatically continue the term of the other Waneta Agreements.

**ARTICLE 17  
MISCELLANEOUS**

17.1 **Notices.** Any notice, direction or other communication given under this Lease Agreement shall be in writing and given by delivering it or sending it by facsimile or other similar form, unless otherwise provided, of recorded communication addressed:

(a) To the Landlord at:

British Columbia Hydro and Power Authority  
18th Floor, 333 Dunsmuir Street  
Vancouver, BC V6B 5R2

Attention: General Counsel  
Fax: 604-623-4155

With a copy to:

Lawson Lundell LLP  
1600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2

Attention: Gordon Craig  
Fax: 604-669-1620

To the Tenant at:

Teck Metals Ltd.  
Suite 3300, 550 Burrard Street  
Vancouver, BC V6C 0B3

Attention: Corporate Secretary  
Fax: 604 699-4729

With a copy to:

Fasken Martineau  
Suite 2900, 550 Burrard Street  
Vancouver, BC V6C 0A3

Attention: Ron Ezekiel  
Fax: 604 632-4708

Any such communication shall be deemed to have been validly and effectively given (i) if personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next

Business Day, or (ii) if transmitted by facsimile or similar means of recorded communication on the date of such transmission if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next Business Day. Any Party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to such Party at its changed address.

- 17.2 **Effect of Waiver or Forbearance.** No waiver by either Party of any breach by the other Party of any of its covenants, agreements or obligations contained in this Lease Agreement shall be or be deemed to be a waiver of any subsequent breach thereof or the breach of any other covenants, agreements or obligations, nor shall any forbearance by either Party to seek a remedy for any breach by the other Party be a waiver by the Party so forbearing of its rights and remedies with respect to such breach or any subsequent breach. The subsequent acceptance of Rent by the Landlord shall not be deemed a waiver of any preceding breach by the Tenant of any term, covenant or condition regardless of the Landlord's knowledge of such preceding breach at the time of the acceptance of such Rent.
- 17.3 **Registration.** The Tenant shall register the Leasehold Estate against the Titles. Upon the expiration or earlier termination of the Term, the Tenant shall immediately discharge or otherwise vacate any such registration, notice or caveat. The Landlord may register a first priority mortgage or other security interest granted by the Tenant in favour of the Landlord against the registered Leasehold Estate, so that such mortgage or security interest is registered against the Titles.
- 17.4 **Severability.** If any Article or Section or part or parts of an Article or Section in this Lease Agreement or the other Waneta Agreements is or is held to be illegal or unenforceable, it or they shall be considered separate and severable from the Waneta Agreements and the remaining provisions of the Waneta Agreements shall remain in full force and effect and shall be binding on the Landlord and the Tenant as though such Article or Section or part or parts thereof had never been included in the Waneta Agreements.
- 17.5 **Entire Agreement.** There are no covenants, representations, warranties, agreements or other conditions expressed or implied, collateral or otherwise, forming part of or in any way affecting or relating to this Lease Agreement, save as expressly set out or incorporated by reference herein, in the other Waneta Agreements or in the Transmission Agreement, and this Lease Agreement, the other Waneta Agreements and the Transmission Agreement constitute the entire agreement related to the subject matter thereof duly executed by the parties, and no amendment, variation or change to this Lease Agreement, the other Waneta Agreements and the Transmission Agreement shall be binding unless the same shall be in writing and signed by the Parties.
- 17.6 **Survival.** Sections 9.1, 9.2 and 13.5 and Article 15 shall survive the termination of this Lease Agreement.
- 17.7 **Successors and Assigns.** The rights and liabilities of the parties shall enure to the benefit of their respective successors and permitted assigns.

- 17.8 **Governing Law.** This Lease Agreement will be construed in accordance with, and governed by, the laws of the province of British Columbia and the laws of Canada applicable therein.
- 17.9 **Time of the Essence.** Time is of the essence of this Lease Agreement, except as specified otherwise in this Lease Agreement.
- 17.10 **Non-Resident Landlords.** Notwithstanding any other provision this Lease Agreement, in respect of any period that the Landlord is a non-resident of Canada within the meaning of the ITA, the Tenant will withhold a portion of the Basic Rent and other amounts payable under this Lease Agreement and remit such amounts to the applicable Governmental Entity, as required by Applicable Laws.
- 17.11 **Intentionally Deleted.**
- 17.12 **Indivisible Agreements.** The Parties acknowledge and agree that this Lease Agreement and the other Waneta Agreements have been negotiated and agreed concurrently, that one of them cannot exist without the others, and that all of them cumulatively constitute one indivisible agreement governing the relationship among Teck Metals Ltd., BC Hydro and the other parties to the Waneta Agreements as it relates to the Waneta Assets, operations, and the Bare Trust Assumed Contracts.
- 17.13 **Counterparts.** This Lease Agreement may be executed in counterparts and be returned by fax or email with a PDF attachment, each of which when executed and delivered shall constitute an original, and all of which together shall constitute one and the same Agreement.

*[The next page is the execution page.]*



**IN WITNESS WHEREOF** each of the Parties has executed and delivered this Lease Agreement.

**TECK METALS LTD.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TECK [SUBSIDIARY] LTD.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

*Signature Page to Waneta Lease Agreement*

### Schedule 1 Definitions

- (a) “**1/3 Interest**” has the meaning ascribed to it in Recital A.
- (b) “**2/3 Interest**” has the meaning ascribed to it in Recital A.
- (c) “**2017 Waneta Purchase Agreement**” means the asset purchase agreement dated <@> among the Landlord, BC Hydro, Teck Resources Limited, TCAI Incorporated and Waneta Holdings (US) Inc.
- (d) “**Affiliate**” in the case of a corporation, has the meaning specified in the *Canada Business Corporations Act* (Canada) and in the case of any other Person, means a Person that controls or is controlled by such other Person or is under the same or common control as that Person. A person shall be deemed to control a Person if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the term “controlled” shall have a similar meaning.
- (e) “**Applicable Laws**” means, at any given time, all applicable federal, state, provincial, municipal, local and foreign statutes, codes, ordinances, decrees, rules, regulations and by-laws, and judicial, executive, arbitral, administrative, ministerial, departmental or regulatory judgments, decrees, decisions, rulings, awards, policies, requirements, standards, guidelines, permits, licences, authorizations, approvals and orders, and all applicable common law, in each case having the force of law and in effect at that time, including all Environmental Laws.
- (f) “**Appurtenant Licenses**” means all water licenses, approvals or permits issued pursuant to the *Water Sustainability Act* (British Columbia) or predecessor legislation appurtenant to the Waneta Owned Land and the powerhouse and dam located thereon, or appurtenant to the Waneta Plant, and the production of electrical power therefrom, and all other undertakings all or part of which are situate on the Waneta Owned Land or the Waneta Related Land or both, and any orders issued pursuant thereto, including those set out in Schedule 2.
- (g) “**Bare Trust Assumed Contracts**” means those Waneta Assumed Contracts that are indicated to be subject to the Contract Bare Trust Agreement in Schedule 5, as may be amended, modified or replaced from time to time.
- (h) “**Basic Rent**” means the basic rent set out in Section 1.1(e), payable by the Tenant pursuant to Section 4.2.
- (i) “**BC Hydro**” means the British Columbia Hydro and Power Authority.
- (j) “**BC Hydro Upgrade**” has the meaning ascribed to that term in the COPOA.
- (k) “**Business Day**” means any day of the year except Saturdays, Sundays and any statutory holiday in the Province of British Columbia.

- (l) “**Commencement Date**” means the date described as the commencement date in Section 1.1(d).
- (m) “**Contest**” has the meaning specified in Section 14.1.
- (n) “**Contest Conditions**” has the meaning specified in Section 14.2.
- (o) “**Contract Bare Trust Agreement**” means a bare trust agreement dated <@>, among Teck Metals Ltd., Teck Resources Limited, TML Subco and BC Hydro as may be amended, modified or replaced from time to time.
- (p) “**Co-Owner**” has the meaning specified in the Co-Ownership and Operating Agreement.
- (q) “**Co-Ownership and Operating Agreement**” or “**COA**” means the co-ownership and operating agreement, attached as Exhibit 1, which is in effect between Teck Metals Ltd. and BC Hydro as of the date this Lease Agreement is executed until the COPOA comes into effect.
- (r) “**Co-Possessor**” has the meaning specified in the Co-Possessors and Operating Agreement.
- (s) “**Co-Possessors and Operating Agreement**” or “**COPOA**” means the co-possessors and operating agreement, attached as Exhibit 2, which has been executed by TML Subco and BC Hydro as of the date of this Lease Agreement and which will enter into effect in accordance with its terms upon BC Hydro becoming the owner of both the 1/3 Interest and the 2/3 Interest.
- (t) “**CPA**” means the Second Amended and Restated 2005 Canal Plant Agreement dated for reference November 15, 2011 among the Teck Metals Ltd., BC Hydro and others, as may be amended, modified or replaced from time to time.
- (u) “**CPA Scheduling Agreement**” means the Teck Cominco CPA Scheduling Agreement made as of the 1st day of July, 2005 between Teck Metals Ltd. and BC Hydro, as may be amended, modified or restated from time to time.
- (v) “**Damages**” has the meaning specified in Section 9.1.
- (w) “**Defaulting Party**” has the meaning specified in Section 13.1(a).
- (x) “**Encumbrance**” means whether or not registered or registrable or recorded or recordable, and regardless of how created or arising, any:
  - (i) mortgage, charge, pledge, lien, hypothec, assignment by way of security, lease, conditional sale or title retention agreement (including any capital lease), security created under the *Bank Act* (Canada) or any other encumbrance or security interest, howsoever created or arising, whether absolute or contingent, fixed or floating, legal or equitable, perfected or otherwise, and any other interest in property or assets that secures payment or performance of any obligation;

- (ii) claim, licence, interest or estate against, of or in assets or property (whether real, personal, mixed, tangible or intangible), including easements, rights-of-way, servitudes or other similar rights in property granted to or reserved or taken by any Person;
  - (iii) option or other right to acquire, or to acquire any interest in, any assets or property (whether real, personal, mixed, tangible or intangible); and
  - (iv) any agreements to create, or right capable of becoming, any of the foregoing.
- (y) “**Entitlement Capacity**” has the meaning specified in the CPA.
  - (z) “**Entitlement Energy**” has the meaning specified in the CPA.
  - (aa) “**Environment**” includes the air (including all layers of the atmosphere), land (including soil, sediment deposited on land, fill, and lands submerged under water), and water (including oceans, lakes, reservoirs, rivers, streams, groundwater and surface water).
  - (bb) “**Environmental Laws**” means, at any given time, any and all statutes, laws, regulations, orders, bylaws, standards, permits, licences, authorizations, approvals, orders and other lawful requirements of any international, federal, provincial, state, municipal, or other Governmental Entity, in each case having the force of law and in effect at that time with respect to (i) the protection of the Environment; (ii) plant species or wildlife (including without limitation, birds, land-based and aquatic species) including the health or preservation thereof; (iii) human health including occupational health and safety; or (iv) the transportation of dangerous goods.
  - (cc) “**Event of Default**” has the meaning specified in Section 13.1.
  - (dd) “**Excluded Assets**” means the assets and property listed in Schedule 3 and described as “Excluded Assets” and any rights and claims associated therewith.
  - (ee) “**Expiration Date**” means (i) the last day of the Initial Term or (ii) if the Tenant renews the Lease Agreement pursuant to Section 16.1, the last day of the Renewal Term.
  - (ff) “**Fee Estate**” means the Landlord’s estate in the Waneta Owned Land, including the Landlord’s reversionary interest therein after the Expiration Date.
  - (gg) “**FERC License**” means that certain license issued by the Federal Energy Regulatory Commission of the United States of America in respect of rights to flood the geographic region known as Cedar Creek in connection with the operation of Waneta Plant.
  - (hh) “**First Quarter**” means the Quarter within which the Commencement Date falls.
  - (ii) “**Good Utility Practice**” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in the Western Electricity Coordinating Council region during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the

desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be acceptable practices, methods or acts generally accepted in the Western Electricity Coordinating Council region.

- (jj) **“Governmental Entity”** means (i) any multinational, federal, provincial, state, municipal, local or other government or governmental or public department, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the foregoing, or (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the above, excluding BC Hydro other than in its capacity as transmission system operator, control area operator and similar functions.
- (kk) **“Guarantor”** means Teck Resources Ltd.
- (ll) **“IFRS”** means International Financial Reporting Standards.
- (mm) **“Industrial Operations”** means the Tenant’s zinc refinery, lead smelter and other industrial and commercial operations at or near Trail and Warfield, British Columbia, including the oxygen plant and other third party-owned facilities integrated into those operations.
- (nn) **“Initial Term”** means the period beginning on the Commencement Date and ending on (i) the date immediately preceding the 20<sup>th</sup> anniversary of the Commencement Date or (ii) if this Lease Agreement is terminated in accordance with its terms before that date, the date on which such termination is effective.
- (oo) **“ITA”** means the *Income Tax Act* (Canada), as amended from time to time.
- (pp) **“Landlord’s Indemnified Persons”** has the meaning specified in Section 9.1.
- (qq) **“Lease Agreement”** means this lease agreement and all schedules and Exhibits hereto and instruments in amendment or confirmation of it.
- (rr) **“Lease Year”** means (i) the 12 month period starting on the Commencement Date, (ii) each subsequent 12-month period starting on an anniversary of the Commencement Date falling wholly within the Term and (iii) the period starting on the last anniversary of the Commencement Date in the Term and ending on the Expiration Date.
- (ss) **“Leased Property”** is as defined in Section 2.1.
- (tt) **“Leasehold Estate”** means the Tenant’s leasehold estate, and all of the Tenant’s rights and interests in and to the Leased Property under and by virtue of this Lease Agreement upon and subject to the terms, conditions and provisos contained herein.
- (uu) **“Lines 14-17”** means the four 63 kV transmission lines running between the Waneta Hydro Station and the Emerald Switching Station including any upgrades or replacements thereof.

- (vv) **“Line 71”** means the 230 kV transmission line running from the Waneta Hydro Station to the Nelway substation and to the BC/US Boundary where it interconnects with the transmission system of Bonneville Power Administration, and includes any associated transformers, breakers and ancillary equipment owned by the Tenant, and upgrades or replacements thereof.
- (ww) **“Material Adverse Default”** means any of the following:
- (i) means a continuing Event of Default by the Defaulting Party that, either on its own or in combination with continuing defaults by the Defaulting Party pursuant to one or more of the Waneta Agreements, substantially deprives the Non-Defaulting Party of the benefit of the Waneta Agreements; and
  - (ii) a continuing Event of Default by the Tenant under Section 6.3 (Prohibited Charges) that would prevent the Landlord from selling or encumbering the Waneta Owned Land.
- (xx) **“Non-Defaulting Party”** has the meaning specified in Section 13.1(a).
- (yy) **“NRSRO”** means a nationally recognized statistical rating organization designated by the US Securities and Exchange Commission.
- (zz) **“Operator”** has the meaning specified in the Waneta Operating Agreement.
- (aaa) **“Parties”** means the Landlord and the Tenant and any other Person who may become a party to this Lease Agreement, and a “Party” shall mean any one of them.
- (bbb) **“Permitted Encumbrance”** has the meaning given to it in the 2017 Waneta Purchase Agreement.
- (ccc) **“Person”** means an individual, legal personal representative, corporation, body corporate, firm, partnership, trust, trustee, syndicate, joint venture, unincorporated organization, association or Governmental Entity.
- (ddd) **“Prime Rate”** means, on any date, the annual rate of interest publicly announced from time to time by the Royal Bank of Canada at its principal office in Vancouver, British Columbia as its reference rate for determining floating rates of interest for loans made by it in Canadian dollars to Canadian borrowers and as to which from time to time a certificate of an officer of the Royal Bank of Canada shall be conclusive evidence.
- (eee) **“Prohibited Charge”** means an Encumbrance of any nature whatsoever, other than a Permitted Encumbrance, filed or registered against one or more of the Titles or that arises in any way from any work or activity by or on behalf of the Tenant or authorized or permitted by the Tenant on or about the Leased Property, or that secures or enforces any debt or claim against the Tenant, and includes any claim of builders lien registered against the Titles but only in respect of work done for or on behalf of the Tenant.

- (fff) “**Quarter**” means each of the following 3-month periods in any calendar year, part or all of which falls within the Term: (i) January, February, March, (ii) April, May, June, (iii) July, August, September, and (iv) October, November, December.
- (ggg) “**Receiver**” means a receiver, receiver and manager, receiver-manager, custodian, trustee in bankruptcy, liquidator, monitor, court or any Person with like powers.
- (hhh) “**Renewal Term**” means the period beginning on the date that is one day after the expiry of the Initial Term and ending on (i) the date immediately preceding the 10<sup>th</sup> anniversary of that date or (ii) if this Lease Agreement is terminated in accordance with its terms before that date, the date on which such termination is effective.
- (iii) “**Rent**” means the Basic Rent and amounts payable by the Tenant pursuant to Section 4.4(a).
- (jjj) “**Rental Taxes**” means all taxes or duties imposed on the Landlord or the Tenant measured by or based in whole or in part on the Rent payable under the Lease Agreement, whether existing at the date of this Lease or hereinafter imposed by any Governmental Entity, including goods and services tax, value added tax, business transfer tax, sales tax, federal sales tax, excise taxes or duties, or any tax similar to any of the foregoing including any interest and penalties, but expressly excluding any income or similar taxes payable by the Landlord in respect of any Rent received under this Lease Agreement.
- (kkk) “**Surplus Power Rights Agreement**” means the Surplus Power Rights Agreement dated March 10, 2010 between BC Hydro and Teck Metals Ltd., as may be amended, modified or restated from time to time.
- (lll) “**Tax**” and “**Taxes**” means any or all Canadian federal, provincial, local or foreign (i.e., non-Canadian) income, gross receipts, goods and services, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add on minimum, or other taxes, levies, governmental charges or assessments of any kind whatsoever including, without limitation, any estimated tax payments, interest, penalties or other additions thereto, whether or not disputed.
- (mmm) “**Tenant’s Entitlement Capacity**” means, during the Term, the Entitlement Capacity under the CPA attributable to the Tenant’s interest in the Waneta Plant and the Appurtenant Licences, excluding Entitlement Capacity resulting from a BC Hydro Upgrade.
- (nnn) “**Tenant’s Entitlement Energy**” means, during the Term, the Entitlement Energy under the CPA attributable to the Tenant’s interest in the Waneta Plant and the Appurtenant Licences, excluding Entitlement Energy resulting from a BC Hydro Upgrade.
- (ooo) “**Tenant’s Indemnified Persons**” has the meaning specified in Section 9.2.

- (ppp) “**Term**” means, together, the Initial Term and the Renewal Term (if any).
- (qqq) “**Titles**” means the indefeasible titles maintained in the land title office under the Land Title Act R.S.B.C. 1996 c. 250 in respect of any of the lands included in the Waneta Owned Land.
- (rrr) “**TML Subco**” means a corporation that is a wholly-owned subsidiary of Teck Metals Ltd. and the original Tenant under this Lease Agreement.
- (sss) “**Transfer**” means any transaction whereby (i) any of the Leased Property is sublet or licensed by the Tenant to any other Person; (ii) any rights of the Tenant under this Lease Agreement or to the Leased Property, or, for certainty, to the Leasehold Estate, are assigned or transferred to another Person, other than for security, or (iii) any right of use or occupancy of all or any part of the Leased Property is shared with or conferred upon any Person (other than pursuant to the Waneta Management Agreement).
- (ttt) “**Transferee**” means any Person to whom a Transfer is or is to be made.
- (uuu) “**Transmission Assets**” means those assets, whether real, personal or mixed, and whether tangible or intangible, listed in Schedule 3 and described as “Transmission Assets”, other than to the extent that any of them comprise Excluded Assets.
- (vvv) “**Waneta Agreements**” means this Lease Agreement, the Co-Possessors and Operating Agreement, and the Contract Bare Trust Agreement.
- (www) “**Waneta Assets**” means all of the interest in, collectively, the Waneta Plant and those properties, assets, equipment, parts, permits, licenses, authorizations or agreements of every nature and kind, real, personal or mixed, and whether tangible or intangible that are used from time to time in connection with or relate to the operation or maintenance of the Waneta Plant, or obtaining any benefit or advantage of or from the operation of the Waneta Plant that were transferred to the Landlord or its successor under the 2017 Waneta Purchase Agreement, including the following:
- (i) the Waneta Real Property;
  - (ii) the Waneta Buildings and Fixtures;
  - (iii) the Waneta Personal Property;
  - (iv) the Waneta Assumed Contracts; and
  - (v) the Waneta Governmental Authorizations.
- other than to the extent that any of them comprise Transmission Assets or Excluded Assets.
- (xxx) “**Waneta Assumed Contracts**” means those contracts identified as Waneta Assumed Contracts in Schedule 5.



- (yyy) **“Waneta Buildings and Fixtures”** means all plant, buildings, structures, conduits, support structures, erections, improvements, appurtenances, generating apparatus and fixtures that are components of the Waneta Plant and are located on, in or under the Waneta Owned Land or the Waneta Related Land.
- (zzz) **“Waneta Governmental Authorizations”** means those permits, licences and other authorizations from, or with, Governmental Entities listed in Schedule 6 and those permits, licences and other authorizations issued by any Governmental Entities during the Term in connection with any of the Waneta Assets, all as amended or replaced from time to time.
- (aaaa) **“Waneta Hydro Station”** means the tangible personal property of the substation located on the Waneta Owned Land connecting the Waneta Plant’s generators to, among other things Line 71 and Lines 14-17.
- (bbbb) **“Waneta Management Agreement”** means a management agreement dated as of May 1, 1996 between the Cominco Ltd. (now the Tenant) and West Kootenay Power Ltd. (now FortisBC Inc.), as amended, or any successor or replacement agreement, including with another counterparty, as may be in effect from time to time.
- (cccc) **“Waneta Operating Agreement”** means the Co-Ownership and Operating Agreement until BC Hydro becomes the owner of both the 1/3 Interest and the 2/3 Interest, and thereafter means the Co-Possessors and Operating Agreement.
- (dddd) **“Waneta Owned Land”** means the lands listed in Schedule 9.
- (eeee) **“Waneta Personal Property”** means those chattels listed in Schedule 7.
- (ffff) **“Waneta Plant”** means the Waneta dam located on the Pend d’Oreille River and its generating apparatus, and any Upgrades thereto from time to time, that portion of the Waneta Hydro Station which does not comprise Transmission Assets, the transmission infrastructure and equipment between the Waneta dam and the Waneta Hydro Station and all related tangible assets and equipment that are owned and used by the Landlord in connection with the operation and maintenance of those assets, including those items set out in Schedule 8 other than to the extent that any of them comprise Transmission Assets or Excluded Assets.
- (gggg) **“Waneta Real Property”** means the Waneta Owned Land and all waters, watercourses, liberties, privileges, easements, profits, commodities, emoluments, hereditaments, and appurtenances appurtenant to the Waneta Owned Land, including for certainty the Appurtenant Licences.
- (hhhh) **“Waneta Related Land”** means all lands the use or occupation of which is authorized by the Appurtenant Licences or any Waneta Governmental Authorizations.

## Schedule 2 Appurtenant Licenses

### Water Licences

1. Conditional Water Licence 109112, precedence dated November 8, 2007
2. Conditional Water Licence 108632, precedence dated May 2, 1991
3. Final Water Licence 047382, precedence dated January 9, 1964
4. Final Water Licence 017774, precedence dated February 18, 1930 (as amended)
5. Final Water Licence 017862, precedence dated August 30, 1955 (as amended)
6. Final Water Licence 047383, precedence dated December 5, 1960

### Permit

1. Permit issued pursuant to Section 26 of the *Water Act* authorizing holder of CWL 109112, CWL 108632, FWL 17774, FWL 17862, FWL 47383 and FWL 47382 to occupy Crown Land, dated October 23, 2008

### Orders

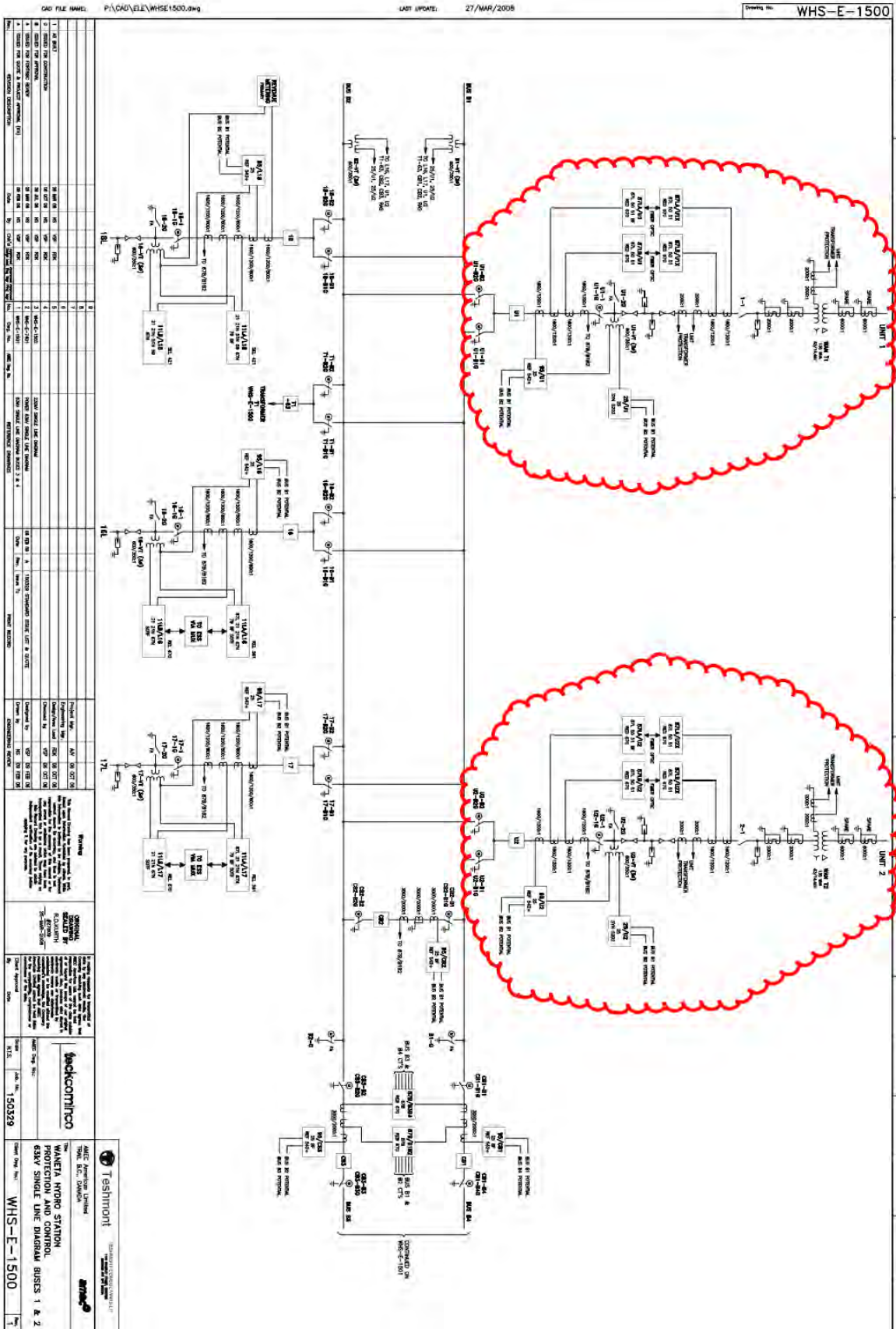
1. Order issued pursuant to Section 34 of the *Water Act* authorizing extension of rights under Final Water Licences 17774, 17862, 47382, 47383 and Conditional Licence 108632, dated May 3, 2012
2. Order issued pursuant to Section 15 of the *Water Act* amending Final Water Licence 17774, dated January 24, 1962
3. Order issued pursuant to Section 15 of the *Water Act* amending Final Water Licence 17774 and 17862, dated October 15, 1963

**Schedule 3**  
**Transmission Assets and Excluded Assets**

**Transmission Assets**

- 1 Lines 14-17
- 2 Line 71
- 3 the Waneta Hydro Station except:
  - (a) the U1 through U4 disconnects, along with the following equipment, all as depicted within the bubbles in the attached one-line diagram:
    - (i) Combined Busbar Disconnecter/Grounding Switch;
    - (ii) Combined Line Disconnecter/Grounding Switch;
    - (iii) Potential Transformer; High Speed Grounding Switch;
    - (iv) Cable End housing with insulator;
    - (v) Integrated local control cabinet;
    - (vi) REL551-C1 Cable Differential Protection Terminal;
    - (vii) REL 316 Backup Cable Protection Terminal;
    - (viii) REF 542+ Bay Controller;
    - (ix) Control Cabinet; and
    - (x) Revenue quality unit generation meter
  - (b) all of the Interconnection Facilities, as such term is defined in the Waneta 18 Line Agreement (May 1, 2007) between the Tenant and FortisBC Inc., and those parts of Line 18 within the Waneta Hydro Station.





- 4 Emerald Switching Station
- 5 those properties, assets, equipment, parts, permits, licenses, authorizations or agreements of every nature and kind, real, personal or mixed, and whether tangible or intangible that are owned by the Landlord or Tenant or in which the Landlord or Tenant have an interest and that are used from time to time in connection with the operation and maintenance of the assets described in 1 through 3 above, other than to the extent that any of them comprise Waneta Assets.

**Excluded Assets**

1. All tangible personal property of the Landlord that is used periodically in connection with the operation or maintenance of the Waneta Assets or the Transmission Assets but primarily for other purposes.

**Schedule 4  
Intentionally Deleted**

**Schedule 5  
Waneta Assumed Contracts**

See attached.



**Schedule 6**  
**Waneta Governmental Authorizations**

Waneta Governmental Authorizations

- 1 Project Approval Certificate E97-01 dated May 26, 1998, as amended February 25, 2010
- 2 Department of Fisheries and Oceans Authorization No. 94-HPAC-PA1-000-000008, dated June 7, 1999
- 3 Order of the International Joint Commission, dated July 25, 1952
- 4 Permit No. PE-02047, dated April 4, 1973, as amended July 22, 2009
- 5 FERC License
- 6 Certificate of Exemption from *International River Improvements Act*, dated August 14, 1956

**Schedule 7  
Waneta Personal Property**

1. All tangible personal property, assets, equipment, and parts owned by the Landlord in connection with the ownership, operation or maintenance of the Waneta Plant that are not Buildings and Fixtures, Transmission Assets or Excluded Assets, including:
  - (a) spare components and replacement equipment;
  - (b) emergency equipment, including an emergency power diesel generator; and
  - (c) communication and microwave equipment.
  
2. All tangible personal property, assets, and equipment owned by the Landlord (including property acquired by FortisBC as agent of the Landlord) and used by FortisBC in the operation and / or maintenance of the Waneta Plant pursuant to the Waneta Management Agreement, including tools, supplies, spare components and replacement equipment wherever situated but excluding vehicles.

**SCHEDULE 8  
Waneta Plant**

All plant, buildings, structures, conduits, support structures, erections, improvements, appurtenances and fixtures (including fixed machinery and fixed equipment) that form part of or are affixed to the following, together with all of the assets and equipment required for the operation and maintenance of the following:

1. The Waneta Dam located on the Pend d'Oreille River, including:
  - (a) headworks;
  - (b) sluiceways;
  - (c) gates and associated structures and equipment;
  - (d) pipes;
  - (e) trash rack installations including material handling systems;
  - (f) cranes; and
  - (g) stop log equipment;
2. The Waneta Dam generating station, including:
  - (a) four hydroelectric generating installations situated therein, including but not limited to associated turbines, generators, runners, generator rewinds and generator exciters and related control and other equipment used in connection thereto;
  - (b) travelling cranes and other fixed assets of a similar type;
  - (c) gates and associated frame support and controls;
  - (d) generating station control and communications systems;
  - (e) transformers and electric distribution systems including all cables, poles, grounding equipment, lightning arresters and supporting equipment; and
  - (f) equipment installed at the generating station and used in connection with its operation including lighting systems, electrical supply, HVAC and other ancillary equipment;
3. Waneta Hydro Station, including:
  - (a) the Waneta Hydro Station building and ancillary equipment including lighting systems, electrical supply and HVAC
  - (b) the Waneta Hydro Station yard and the security fencing which surrounds it;
  - (c) all electrical equipment providing for the transfer of electricity from the Waneta Dam generating station to transmission assets including Line 18, the four transmission lines running from Waneta Hydro Station to Emerald Switching Station and Line 71, located on, under or in the Waneta Hydro Station and / or the Waneta Hydro Station yard;
4. The four generation feeder transmission lines running from the generating apparatus at the Waneta Dam powerhouse to the Waneta Hydro Station

**Schedule 9  
Real Property**

**Waneta Owned Land**

Parcel Identifier	Legal Description
016-344-511	Sublot 2 Township 7A Kootenay District Plan X66
027-434-923	Lot B Township 7A Kootenay District Plan NEP86182
027-434-915	Lot A Township 7A Kootenay District Plan NEP86182
016-344-502	Sublot 1 Township 7A Kootenay District Plan X66 Except Part Included in Plan 11116

**Exhibit 1  
Co-Ownership and Operating Agreement**

See attached.

**Exhibit 2  
Co-Possessors and Operating Agreement**

See attached.



## **Waneta 2017 Transaction**

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### **Appendix G**

**Comparison Table:  
Co-Ownership and Operating Agreement (2010)  
and  
Co-Possessors and Operating Agreement (2017)**



# CO-POSSESSORS AND OPERATING AGREEMENT

Between British Columbia Hydro and Power Authority (BC Hydro) and Teck Ltd. (Teck)

**Summary Comparison Table – Co-Owners and Operating Agreement (COA) and Co-Possessors and Operating Agreement (COPOA)<sup>1</sup>**

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Representations and Warranties; Title to Assets (Section 2)</p>	<p>Standard representations and warranties regarding capacity to enter into Agreement, respective interests held free and clear of encumbrances (except for permitted encumbrances) (Section 2.1)</p> <p>Title to Waneta Assets is held in the names of the co-owners (BC Hydro and Teck) in proportion to their participation percentage (initially 33.333 per cent BC Hydro and 66.667 per cent Teck).</p> <p>Teck represents that its wholly-owned subsidiary holds the FERC License in trust for Waneta Holdings (U.S.) Inc. (a wholly owned subsidiary of BC Hydro) as to a one-third interest, and guarantees the obligations of its subsidiary to maintain the FERC license in good standing. (Section 2.3)</p>	<p>Essentially the same, <u>except</u> BC Hydro now represents it is 100 per cent owner (subject to the terms of the Waneta Lease Agreement (Lease) and the Contract Bare Trust Agreement (the Trust Agreement) and Teck represents that it is owner of a leasehold interest as to the two-thirds interest, free and clear of encumbrances (except for permitted encumbrances). (Section 2.1(e) and (f))</p> <p>The FERC license is now held by Waneta Holdings (US) Inc. BC Hydro provides reps and warranties with respect to the FERC license. (Section 2.3)</p>

<sup>1</sup> Capitalized terms used throughout this comparison table which are not defined in the glossary indicate a defined term in either the COA or COPOA.

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Term (Section 3.2)</p>	<p>900 years. (Section 3.2)</p>	<p>20 to 30 years. The term of the COPOA aligns with the term of the Lease i.e., the COPOA is in effect until the Lease expires or terminates. (Section 3.2)</p>
<p>Relationship between the Parties (Section 4)</p>	<p>The parties are co-owners, and not partners. (Section 4.1)</p>	<p>BC Hydro will own 100 per cent of Waneta, and lease Teck's two-thirds interest to Teck. Under the COPOA, the parties are "co-possessors" of Waneta, such that BC Hydro continues to receive the benefit of its one-third interest as an owner and Teck continues to receive the benefit of its two-thirds interest as a lessee. The parties are not partners. (Section 4.1)</p>
<p>Obligations / Liability</p>	<p>All rights, duties, obligations and liabilities of the parties are separate, and not collective, and each party is responsible only for its share of the costs (which in most cases is in proportion to its percentage interest). (Section 4.2)</p>	<p>Essentially unchanged from the COA. (Section 4.2)</p>
<p>Other Business Opportunities</p>	<p>The COA contains a clause that requires each co-owner to consult with and reasonably consider the interests of the other before taking any action that would materially and disproportionately affect either Waneta or the other co-owner's interests in the generation from Waneta. (Section 4.3)</p>	<p>The COPOA will continue to contain a clause substantially in the same form as the COA. There is a new sentence to reflect the fact that each party is to consider the different interests of the other party (i.e., BC Hydro now as 100 per cent owner and Teck as a tenant whose interest will expire at the end of the Lease Period). (Section 4.3)</p>
<p>Decision making</p>	<p>Most decisions in connection with Waneta are made by the Operating Committee (discussed below) under the COA.</p>	<p>There are new provisions (Sections 4.6, 4.7 and 4.8) that cover decision-making authority of each of the parties with respect to the two-thirds</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
		<p>interest: with respect to Teck, regarding decisions pursuant to the Bare Trust Assumed Contracts all of which will be held in trust for Teck by the Bare Trustee; and with respect to BC Hydro, regarding certain fundamental decisions such as renewal of governmental authorizations, initiation of legal actions, etc.</p> <p>For example, Teck is entitled to decide matters in respect of the interest in the Bare Trust Assumed Contracts held in trust by the Bare Trustee for Teck and (following the Lease Period) BC Hydro (defined under the Trust Agreement), including:</p> <ul style="list-style-type: none"> <li>(i) legal actions or proceedings by or against third-parties; (ii) legal actions or proceedings by Governmental Entities in respect of alleged breaches of applicable laws by Teck (other than in Teck's capacity as Operator); and (iii) legal actions or proceedings against Governmental Entities in respect of actions or decisions taken by Teck pursuant to applicable laws.</li> </ul> <p>On the other hand, for example, BC Hydro has sole discretion with respect to decisions regarding: (i) Non-Sustaining Capital Expenditures; (ii) repair/rebuild of Waneta if substantial damage/destruction occurs; and (iii) governmental authorizations.</p> <p>If certain decisions in Teck or BC Hydro's discretion are made which could negatively impact the other co-possessor, the COPOA provides a mechanism for these decisions to be settled by the Operating Committee, or, a third party referee (either an expert engineer or commercial arbitrator, depending on the technical nature of the matter).</p> <p>(Sections 4.6 – 4.8)</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
Interest of Parties (Section 5)	<p>Each party contributed its interest in Waneta to the joint venture and, in the case of Teck, its rights under the Canal Plant Agreement (CPA). Teck also agrees to use its transmission-related rights, including its rights and benefits to Line 71, as required under the COA. (Section 5.1)</p>	<p>The concept of "contributions" to a co-ownership relationship made legal sense in the context of the COA, but not in the context of a co-possessor (i.e., landlord/tenant) relationship. As such, s. 5.1 of the COA was not carried over to the COPOA.</p>
Participation Percentages	<p>The initial participation percentages for the co-owners are agreed as: (Section 5.2)</p> <ul style="list-style-type: none"> <li>• BC Hydro 33.333 per cent</li> <li>• Teck 66.667 per cent</li> </ul> <p>*These percentages could be adjusted.</p>	<p>The participation percentages for the co-possessors are agreed as: (Section 5.2)</p> <ul style="list-style-type: none"> <li>• BC Hydro 33.333 per cent</li> <li>• Teck 66.667 per cent</li> </ul> <p>*Unlike the COA, the COPOA does not allow for these percentages to be adjusted.</p>
Capacity and Energy	<p>The parties are entitled to capacity and energy from Waneta equal to one-third (BC Hydro) and two-thirds (Teck), by value. The actual capacity and energy available to each party will be different from the one-third-two-thirds split, but is agreed to represent one-third-two-thirds by value of the aggregate capacity and energy generated by Waneta. (Section 5.3)</p>	<p>The adjusted capacity and energy available to the parties remains the same as agreed to in the COA. (Section 5.3)</p>
Operating Committee (Section 6)	<p>There is a four-member Operating Committee with oversight over the Operator (initially Teck). The Operating Committee is comprised of two representatives of each co-owner, with voting in proportion to participation percentages. The Operating Committee meets at least quarterly, and the COA provides a detailed procedure for calling and holding such meetings. As the majority owner, Teck's decisions govern most matters. (Sections 6.1 – 6.5)</p>	<p>The Operating Committee operates essentially the same under the COPOA, being comprised of two representatives of each co-possessor, with voting in proportion to participation percentages. If BC Hydro steps in as Operator, then its voting percentage is to be increased to 51 per cent. (Sections 6.1 – 6.5)</p> <p>Because Teck's interest in Waneta will now only be for the Lease Period, new provisions have been included in the COPOA to address decision making and cost sharing for capital expenditures that may need to be made during the Lease Period, but will have post-Lease benefits.</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Majority Approval</p>	<p><u>Matters requiring majority approval:</u> (Section 6.6)</p> <ul style="list-style-type: none"> <li>• Insurance coverage;</li> <li>• Budgets (with certain exceptions that require unanimous approval);</li> <li>• Non-Sustaining Capital Expenditures that are \$10 million or less;</li> <li>• Legal actions/settlements \$2 million or less;</li> <li>• Appointment of certain representatives to certain operating and technical committees;</li> <li>• Decisions to dispute assessment notices related to the values of the Waneta Assets.</li> </ul>	<p><u>Matters requiring majority approval:</u> (Section 6.6)</p> <ul style="list-style-type: none"> <li>• Essentially the same as under the COA, <u>except</u> that all Non-Sustaining Capital Expenditures and Budgets (other than Shared Upgrades) are to be BC Hydro's responsibility.</li> <li>• Certain Operating Budgets and Sustaining Capital Budgets still require unanimous approval, as outlined below.</li> </ul>
<p>Unanimous Approval (subject to referee)</p>	<p><u>Matters requiring unanimous approval (subject to binding resolution by a third-party referee):</u> (Section 6.7)</p> <ul style="list-style-type: none"> <li>• Approval of Operating and Management Plans;</li> <li>• Sustaining Capital Expenditures greater than \$10M;</li> <li>• Operating Budgets that vary more than 10 per cent from average of recent previous years;</li> <li>• Appointment/change of the Independent Accountant;</li> <li>• Appointment/change of a non-co-owner third party Operator;</li> <li>• Various matters in connection to the Accounting Procedure;</li> <li>• Approval/development/modification/termination/replacement of an operating procedure.</li> </ul>	<p><u>Matters requiring unanimous approval (subject to binding resolution by a third-party referee):</u> (Section 6.7)</p> <ul style="list-style-type: none"> <li>• Essentially the same as under the COA, <u>except</u> along with Sustaining Capital Expenditures greater than \$10 million, the COPOA also includes Extraordinary Refurbishment Cost thresholds (i.e., \$5 million for the initial term of the Lease and \$2.5 million for any renewal term).</li> </ul> <p><u>Note:</u> the appointment of a 3<sup>rd</sup> party referee and related dispute resolution process under Section 6.7 is analogous to the process under Section 4.8 (Resolution of Decisions with respect to two-thirds interest).</p>
<p>Unanimous approval (not subject to referee)</p>	<p><u>Matters requiring unanimous approval (not subject to resolution by a third-party referee):</u> (Section 6.8)</p> <ul style="list-style-type: none"> <li>• The appointment of any sub-committees of the Operating</li> </ul>	<p><u>Matters requiring unanimous approval (not subject to resolution by a third-party referee):</u> (Section 6.8)</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
	<p>Committee;</p> <ul style="list-style-type: none"> <li>• Determination of whether an action/expenditure constitutes an Upgrade;</li> <li>• Any action/expenditure that reduces capacity of any Unit by more than 5 per cent;</li> <li>• Non-Sustaining Capital Expenditures greater than \$10 million;</li> <li>• Reconstruction or replacements of assets after damage or destruction;</li> <li>• Abandonment of all or a material portion of the Waneta assets, or permanent cessation of generation at the Waneta Plant;</li> <li>• Legal actions/settlements greater than \$2 million.</li> <li>• If any such matter is not unanimously agreed, dispute resolution procedures will not apply and the Operator will not proceed with the matter.</li> </ul>	<ul style="list-style-type: none"> <li>• Essentially the same as under the COA, <u>except</u>: (i) determination of "Upgrades" is replaced with determination of "Shared Upgrades" (being upgrades unanimously approved by the Operating Committee) - Upgrades that are not unanimously agreed to be "Shared Upgrades" will be entirely BC Hydro's responsibility; (ii) Non-Sustaining Capital Expenditures and Budgets (other than Shared Upgrades) will be entirely BC Hydro's responsibility; and (iii) reconstruction or replacements of assets after damage or destruction will be entirely BC Hydro's responsibility (subject to insurance provisions).</li> </ul> <p>BC Hydro Upgrades are dealt with under a new section (Section 6.12), which provides that these upgrades are at BC Hydro's sole discretion and cost; and BC Hydro would have the benefit of such upgrades. Teck agrees to reasonably cooperate with and assist BC Hydro in completing BC Hydro Upgrades, with BC Hydro reimbursing Teck for such cooperation and assistance.</p> <p>The Upgrade referred to in the COA as the "Unit 3 Life Extension Upgrade" has been re-characterised in the COPOA as an "Expected Lease Term Refurbishment Project", meaning that its costs will be shared between BC Hydro (one-third) and Teck (two-thirds) (provided it is undertaken during the initial Lease Period; if later it will be subject to the formula governing costs of "Extraordinary Refurbishment Projects").</p>
Operator (Section 7)	Teck is appointed as the initial Operator and is responsible for day-to-day operations and management. The Operator is required to operate to a prudent owner standard, exercising the degree of care and diligence of an experienced dam operator	Essentially the same as under the COA.

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
	<p>and in accordance with good utility practice. Specific duties of the Operator include:</p> <ul style="list-style-type: none"> <li>• Complying with the CPA;</li> <li>• Dispatching each party's participation percentage;</li> <li>• Managing and maintaining governmental authorizations;</li> <li>• Remediation or clean-up in order to comply with environmental laws;</li> <li>• Preparing and presenting Budgets;</li> <li>• Preparing and submitting Operating and Management Plans (which includes the Dam Safety Plan, Emergency Response Plan, Environmental Management Plan, Public Safety Plan and Worker Safety Plan) to the Operating Committee;</li> <li>• Various reporting requirements. (Sections 7.1 – 7.6)</li> </ul> <p>The co-owners are required to reimburse the Operator for all costs incurred in performing its obligations under the COA. (Section 7.8)</p> <p>The Operator is required to arrange for annual financial audits of Operations, including operating and capital expenditures, and a co-owner is entitled to require a compliance audit at shared cost, not more often than every three years, or more frequently at its cost if it believes the Operator is not meeting its obligations. (Sections 7.9 - 7.11)</p> <p>The Operator is deemed automatically to have offered to resign in certain circumstances – e.g., failure of a material covenant/obligation which is not remedied after notice, commencement of insolvency proceedings related to any portion of the Operator's assets, etc. The COA also provides a procedure for a transition or change of Operator, including the assignment of the Management Agreement and delivery of</p>	

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
	books and records, funds, assets, etc. to the new Operator. (Sections 7.12 – 7.13)	
Manager (Section 8)	The Operator is entitled to appoint a manager to carry out certain duties on behalf of the Operator (including certain duties set out in Sections 7.2 and 7.4) under the guidance and oversight of the Operator. FortisBC continued as manager pursuant to a pre-existing Management Agreement with Teck. (Section 8.1)	Essentially the same as under the COA.
Financial (Sections 9 and 10)	<p>Operations shall be conducted and assets acquired pursuant to approved Budgets and Operating and Management Plans. Budgets shall be prepared by the Operator annually and reviewed by the Operating Committee. The Operator shall notify the Operating Committee of any material departure (where actual and forecast operating costs are over 105 per cent or under 95 per cent) from an approved Operating Budget. (Sections 9.1 – 9.5)</p> <p>All operating and capital (sustaining and non-sustaining) costs are borne one-third by BC Hydro and two-thirds by Teck (with the exception of property taxes and water rentals which are paid separately on an agreed basis). Each co-owner is required to fund its share of operating and capital costs, either in advance or after the fact, at the option of the Operator. (Sections 10.1 – 10.5)</p> <p>If a co-owner fails to make a payment when due under this section of the COA, it shall be liable for any interest or cost incurred by the Operator as a result of such failure to pay, and interest from the due date of the payment at a rate equal to the Prime Rate plus 5 per cent. If a co-owner fails to pay its share of costs, then in addition to other remedies, the defaulting co-owner's interest in Waneta could be diluted. (Sections 10.6 and 10.7(c))</p>	<p>What were sections 9.1 - 9.5 of the COA are essentially unchanged in the COPOA.</p> <p>In addition to payments made under the Lease, Teck will be responsible for two-thirds of all operating costs and two-thirds of certain sustaining capital costs (shared in specific cases with BC Hydro) during the Lease Period. In particular, <u>Teck will pay:</u></p> <ul style="list-style-type: none"> <li>• Two-thirds of Sustaining Capital Expenditures (and its share of Extraordinary Refurbishment Costs, pro-rated based on its portion of refurbished asset life within the Lease Period);</li> <li>• Two-thirds of Operating &amp; Maintenance Expenditures;</li> <li>• Two-thirds of Insurance Costs;</li> <li>• Teck's share of costs for Shared Upgrades;</li> <li>• Teck's share of Water Rental Fees;</li> <li>• Teck's share of Property Taxes;</li> <li>• Two-thirds of any cost not set out above for Teck.</li> </ul> <p>(All of which exclude costs in connection with</p>



Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
		<p>BC Hydro Upgrades).</p> <p>Generally, BC Hydro will pay one-third of the costs mentioned above, along with all non-sustaining capital costs (with some contribution from Teck in certain cases). In particular, <u>BC Hydro will pay:</u></p> <ul style="list-style-type: none"> <li>• Non-Sustaining Capital Expenditures;</li> <li>• One-third of Sustaining Capital Expenditures (plus BC Hydro's share of Extraordinary Refurbishment Costs, pro-rated based on its portion of refurbished asset life outside of the Lease Period);</li> <li>• One-third of Operating and Maintenance Expenditures;</li> <li>• If substantial damage/destruction of Waneta occurs, all costs for repair, reconstruction or rebuild;</li> <li>• One-third of all Waneta Insurance Costs, and all excess insurance costs not contemplated by the COPOA;</li> <li>• BC Hydro's share of costs for Shared Upgrades;</li> <li>• BC Hydro's share of Water Rental Fees;</li> <li>• BC Hydro's share of Property Taxes;</li> <li>• One-third of any cost not set out above for BC Hydro.</li> </ul> <p>(Section 9.1)</p> <p>If Teck fails to pay its share of costs, and BC Hydro makes a payment to cover such default, in addition to other remedies, BC Hydro</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
		<p>may elect to recover such money owed by Teck by way of a reduction to Teck's energy and capacity entitlements, in accordance with a specific formula set out in the COPOA. (Section 10.7(c))</p> <p><u>Note:</u> Given that BC Hydro will own Waneta outright, the dilution provision in Section 10.7(c) of the COA is no longer suitable. The above provision is the parties' agreed alternative.</p>
Water Rental Fees (Section 11)	Each of BC Hydro and Teck's share of water rental fees is based on their respective participation percentages (BC Hydro = one-third; Teck = two-thirds), with certain adjustments. (Section 11.1)	These provisions are essentially the same as the COA (although new COPOA language does recognise the possibility that Teck's water rental fees may change and Teck bears all risk of such a change).
Property Taxes (Section 12)	Each of BC Hydro and Teck are separately responsible for all property taxes applicable to each's respective participation interest (BC Hydro = one-third; Teck = two-thirds). (Section 12.1)	Essentially the same as under the COA.
Share of Generation (Sections 13, 14 and 15)	<p>The COA contains detailed provisions allocating the Waneta capacity and energy between the co-owners. The allocation is achieved by adjusting the capacity and energy entitlements of Teck pursuant to the CPA, thereby reducing the obligation of BC Hydro under the CPA to deliver capacity and energy to Teck.</p> <p>Prior to 2036, unit outages, transmission constraints, CPA redeterminations and force majeure generally will not affect the capacity and energy attributable to BC Hydro's share of Waneta generation. In other words, Teck's share of Waneta/CPA output is charged with any reduction in Waneta generation and, if Teck's share is insufficient to keep BC Hydro whole, Teck is obligated to replace lost energy in the market or pay liquidated damages.</p>	Essentially the same as under the COA, with certain alterations made to account for changes in capacity/energy caused by certain categories of upgrades to the project.

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
	<p>From 2036 on, there are no adjustments and BC Hydro is entitled to one-third of the actual generation from Waneta. Teck's two-thirds interest will continue to be subject to the CPA or a replacement CPA. Under the CPA, Teck will be entitled to a fixed amount of entitlement capacity/energy and BC Hydro will be entitled to the actual generation relating to Teck's two-thirds interest in Waneta. (Sections 13 and 14)</p>	
<p>Waneta Expansion Delay (Section 16)</p>	<p>This provision governs the potential reduction of forecasted energy and capacity entitlement due to any expansion of hydro-electric facilities at Waneta. (Sections 16.1 and 16.2)</p>	<p>This provision has been removed from the COPOA.</p>
<p>CPA to Continue Between Parties (Section 17)</p>	<p>The co-owners agree that, if any party to the CPA provides notice to terminate the CPA, the parties shall negotiate a new, conceptually similar agreement in good faith. Additionally, if the CPA Scheduling Agreement is terminated on or after January 1, 2036, Teck's energy entitlement under the CPA shall be adjusted accordingly. (Sections 17.1 and 17.2)</p>	<p>Essentially the same as under the COA.</p>
<p>Transmission Prior to 2036 and Transmissions after 2036 (Sections 19 and 20)</p>	<p>BC Hydro did not acquire any transmission facilities with its acquisition of its one-third interest in Waneta. However, Teck, which owns Line 71, agreed to make BC Hydro's share of generation from Waneta available at the Kootenay Interconnection (KI) which comprises a number of physical delivery points in the region. This is the same delivery point at which 'coordination transfers' under the CPA are made both to and from BC Hydro.</p> <p>Prior to 2036, BC Hydro's share of generation is made available at the KI without cost or losses and Teck must pay liquidated damages if it fails to make delivery at the KI. BC Hydro can also elect for Waneta generation (and other generation made available by BC Hydro at the KI) to be delivered to the BC/US border without cost, subject to a maximum (one-third of Waneta generation) and certain limitations. (Section 19)</p> <p>After January 1, 2036, Teck is to make available BC Hydro's</p>	<p>This provision has not been included in the COPOA. Instead, a substantially similar provision is included in the Transmission Agreement Term Sheet (and ultimately will be included in the Waneta Transmission Agreement), which provides that BC Hydro will purchase Line 71 and other Teck transmission assets related to Waneta (collectively, the Transmission Assets) at the expiration or termination of the Lease.</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
	<p>share of Waneta generation, subject to a maximum (one-third of the capacity of Line 71) and certain limitations. Capital and operating costs of Line 71 are shared on a proportionate basis after 2035.</p>	
<p>Transmission Losses and Operating Costs/Covenants (Section 21)</p>	<p>Prior to January 1, 2036, Teck is responsible for:</p> <ul style="list-style-type: none"> <li>• All transmission losses associated with making BC Hydro's share of generation available at the KI;</li> <li>• Costs associated with operating and maintaining Line 71;</li> <li>• Fees, charges and taxes related to Teck's National Energy Board permits for Line 71.</li> </ul> <p>After January 1, 2036, BC Hydro is responsible for:</p> <ul style="list-style-type: none"> <li>• Transmission losses associated with scheduling and delivery of BC Hydro's share of generation, with Teck being responsible for all other losses on Teck's transmission system;</li> <li>• A percentage of sustaining capital, operating and maintenance costs incurred by Teck in connection with Line 71 equal to BC Hydro's participating interest;</li> <li>• A portion of the fees, charges and taxes relating to the usage of Line 71 and the export of energy on Line 71. (Sections 21.1 and 21.2)</li> </ul> <p>If BC Hydro acquires Teck's participation interest, BC Hydro has the option to purchase Line 71 at fair market value. (Section 21.3(f))</p>	<p>This provision has not been included in the COPOA. Instead, a substantially similar provision is included in the Transmission Agreement Term Sheet (and ultimately will be included in the Waneta Transmission Agreement), which provides that BC Hydro will purchase the Transmission Assets at the expiration or termination of the Lease.</p> <p>*BC Hydro has declined to exercise the option to purchase Line 71 that is set out in COA s. 21.3(f). This is because BC Hydro is not initially purchasing the Transmission Assets but rather, will purchase the Transmission Assets, including Line 71, at the expiry or termination of the Lease.</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Environmental Attributes (Section 22)</p>	<p>Until 2036, BC Hydro is entitled to claim environmental attributes associated with its share of generation only in order to claim that such output is “clean or renewable electricity” (the BC government standard). Teck is entitled to claim all other environmental attributes associated with BC Hydro’s share of generation and Teck’s share of generation. After January 1, 2036, each party can claim all environmental attributes associated with its share of actual generation. (Section 22.1)</p>	<p>No change from the COA.</p>
<p>Remedies for Excess Use and/or Failure to Deliver (Section 23)</p>	<p>Teck is obligated to pay liquidated damages to BC Hydro if it uses an excess of, fails to acquire, schedule, deliver or make available to BC Hydro its one-third interest. Such amount will be equal to 110 per cent of the Replacement Price of such energy, or 100 per cent of the Replacement Price if such failure by Teck is due to a force majeure. (Section 23.2)</p> <p>BC Hydro is obligated to pay liquidated damages to Teck in certain limited circumstances where BC Hydro fails to schedule and deliver energy to Teck at the KI in accordance with the COA. Such amount will be equal to 110 per cent of the daily ICE Index for firm “Off-peak” electricity for the month during which energy was delivered to BC Hydro, plus reasonably attributed additional charges. (Section 23.3)</p> <p>For outages longer than 18 months (prior to July 1, 2034), BC Hydro can replace such energy/capacity with an equivalent clean resource at Teck’s cost. (Section 23.5)</p>	<p>No change from the COA.</p>
<p>Events of Default (Section 24)</p>	<p>The following are defined as Events of Default:</p> <ul style="list-style-type: none"> <li>• A co-owner fails to pay, in whole or in part when due, monthly invoices, cash calls, invoices for liquidated damages and other payments required by or pursuant to the COA, if such failure is not remedied within five business days of notice;</li> <li>• A material default or breach of the COA by a co-owner,</li> </ul>	<p>The defined Events of Default and rights upon default are essentially the same as under the COA, although under the COPOA, an Event of Default under the Lease will also constitute an Event of Default under the COPOA.</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
	<p>which is not corrected within 30 days of notice;</p> <ul style="list-style-type: none"> <li>• Failure by Teck to pay liquidated damages as required under the COA;</li> <li>• A co-owner disclaims or otherwise terminates all or part of the CPA or related agreements;</li> <li>• A person holding a permitted encumbrance takes possession of any material portion of a co-owners participation interest.</li> </ul> <p>(Section 24.1)</p> <p>On the occurrence of an Event of Default, the non-defaulting party may:</p> <ul style="list-style-type: none"> <li>• Claim damages;</li> <li>• Until January 1, 2036, terminate the Surplus Power Rights Agreement (<b>SPRA</b>);</li> <li>• If the defaulting party is Operator, elect to become the Operator in its place;</li> <li>• Exercise its rights under the BC Hydro Security Documents or Teck Security Documents, as applicable;</li> <li>• In the case where Teck is the defaulting party, BC Hydro may, as agent of Teck, operate Line 71 and Waneta Substation and other assets;</li> <li>• Set off any amounts owing by the defaulting party to the non-defaulting party against amounts owing by the non-defaulting party to the defaulting party.</li> </ul> <p>(Section 24.2)</p> <p>The non-defaulting party may provide notice to the defaulting party of the early termination of certain transactions (including the SPRA) and provide a calculation of a net "Termination Payment" owing to the non-defaulting party as liquidated</p>	

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Transfer of Interest (Section 25)</p>	<p>damages for such termination(s). (Section 24.3)</p> <p>Each party has agreed to forego its rights under its security to sell the other party's interest in secured property following a default, as long as the operation of such property will generate sufficient revenues to pay off all outstanding liabilities within 2 years (the "Standstill Period"), or the defaulting party has posted satisfactory security. (Section 24.4)</p> <p>There are limitations placed on each party's ability to transfer its participation interest, in particular:</p> <ul style="list-style-type: none"> <li>• A transfer of less than a co-owner's entire participation requires prior written consent (which can be arbitrarily withheld);</li> <li>• Transferees must agree to be bound by the COA and the SPRA;</li> <li>• Transferees must grant security in favour of the non-transferring party on the same terms and conditions as set out in each party's respective security documents;</li> <li>• Where the transferor is Teck, the entity which Teck transfers its interest to must become bound by the CPA. (Section 25.2)</li> </ul> <p>Each party is also granted a right of first offer (<b>ROFO</b>) in the event that a party wishes to sell its interest in Waneta. The ROFO provides that a party wishing to sell its interest must first offer to sell its participating interest to the non-selling party on the same terms and conditions as contained in the selling party's offer to sell to a third- party. In certain circumstances, where the selling co-owner is the Operator and has majority voting rights on the Operating Committee, the non-seller co-owner can become the Operator with majority voting rights on the Operating Committee. (Section 25.3)</p>	<p>The provision remains substantially the same in the COPOA, <u>except</u>:</p> <ul style="list-style-type: none"> <li>• Neither party may transfer its participating interest unless its entire interest under both the COPOA and the Lease are transferred (although BC Hydro may transfer part of its interest with prior written consent of Teck);</li> <li>• Transfers by Teck of its interest (whole or part) require BC Hydro's consent (which can be withheld for any reason) except for circumstances where: (i) Teck is transferring all of its interest as part of a bona fide reorganization and the transferee will also own Teck's Industrial Operations, or (ii) concurrently with the transfer and sale of Teck's Industrial Operations to the same purchaser; in either case provided the transferee assumes various agreements including the Lease;</li> <li>• Teck can become the Operator (if it is not already) upon a transfer of BC Hydro's participating interest or a change of control;</li> <li>• BC Hydro can become the Operator if, in conjunction with a sale of its participating interest, Teck sells its Industrial Operations, or there is a change of control of Teck or Teck</li> </ul>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Security (Section 26)</p>	<p>The ROFO does not apply to transfers to affiliates of the co-owners, or in the case of Teck, bona fide internal reorganizations or a sale of its Industrial Operations. (Section 25.4)</p> <p>Concurrently with the execution of the COA, Security Documents (being security documents delivered under the Asset Purchase Agreement) were executed and delivered. These Security Documents create a first priority over the property and assets that they create a charge over, subject only to permitted encumbrances. (Sections 26.1 and 26.2)</p>	<p>Resources Ltd.; (Sections 25.1 – 25.6)</p> <p>The ROFO provision has been removed from the COPOA, given BC Hydro's 100 per cent ownership of Waneta.</p>
		<p>Similar to the COA, there will be security documents with first priority.</p> <p>In particular, BC Hydro will have security over Teck's leasehold interest (on the two-thirds interest) and Teck's Transmission Assets, whereas Teck will continue to have security over BC Hydro's one-third ownership interest. BC Hydro will also receive a parental guarantee from Teck Resources (although this guarantee will not cover Teck Metal's obligations as Operator under the COPOA).</p> <p>As mentioned above, the parties have agreed to a Standstill Provision where each will forego its rights under its security to sell the other's interest in the secured property following a default, provided that such property will generate sufficient revenues to pay outstanding liabilities, or the defaulting party has posted satisfactory security. (Section 24)</p>



Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Insurance (Section 27)</p>	<p>The Operator is to maintain property damage and liability insurance, but not business interruption insurance. Until January 1, 2036, Teck is to maintain business interruption insurance. Each party may opt out of the insurance maintained by the Operator and provide its own insurance.</p> <p>Premiums are to be allocated in proportion to each co-owner's participation percentage.</p> <p>Under the Security Documents, each party has security over insurance proceeds. (Sections 27.1 – 27.8)</p>	<p>Essentially the same as under the COA, although BC Hydro, at its option, may maintain business interruption insurance to cover the abatement of rent under the Lease in the event of substantial damage or destruction. (Section 27.1(e))</p>
<p>Obligations on Substantial Damage or Destruction (Section 28)</p>	<p>In the event of substantial damage or destruction to Waneta prior to 2036, the Operating Committee shall have 18 months to determine (unanimously) whether to repair/replace the damaged facilities. If the Operating Committee does not approve the repair/replacement of the facilities, the Operator shall have 90 days to pay the insurance proceeds received by the Operator (subject to any Termination Payments) to the co-owners. (Section 28.1)</p> <p>On or after 2036, in the event that the Operating Committee has not unanimously approved the repair/replacement of the Waneta Plant, a co-owner may deliver an offer to buy/sell that co-owner's participation interest. The other co-owner must either buy such co-owner's interest, or sell upon the same terms. (Section 28.2)</p>	<p>Essentially the same as under the COA, <u>except</u>:</p> <ul style="list-style-type: none"> <li>• BC Hydro, as 100 per cent owner, will make all decisions and bear all costs regarding repair or rebuilding after substantial damage or destruction of Waneta;</li> <li>• The provisions dealing with Termination Payments have been removed, although BC Hydro retains its rights under s. 24.3;</li> <li>• The option to buy/sell the co-possessor's interest is removed.</li> </ul>
<p>Dispute Resolution (Section 29)</p>	<p>Disputes are to be submitted to binding arbitration. As noted above, certain decisions requiring unanimous Operating Committee approval are referred to a third party referee for determination.</p>	<p>Essentially the same as under the COA, with provisions added: (i) acknowledging the expansion of the role of a third party referee (e.g., under new s. 4.8); (ii) allowing for the consolidation of arbitrations under the various Waneta agreements and related agreements, and (iii) to generally update the clause from a drafting point of view.</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>Confidentiality (Section 30)</p>	<p>All information obtained in connection with the COA must be kept confidential by the parties, with certain limited exceptions where disclosure is permitted (to affiliates, consultants, transferees, etc. on a need-to-know basis, and for BC Hydro, to Governmental Authorities). (Sections 30.1 – 30.2)</p> <p>Confidentiality obligations survive for two years following expiry of the COA or transfer of interest. (Section 30.3)</p>	<p>No change from the COA.</p>
<p>Liabilities and Indemnities (Section 31)</p>	<p>The Operator must indemnify the co-owners against losses, etc. arising from its own, or the manager's, negligence or wilful misconduct. There is no liability for indirect or consequential damages. (Section 31.1)</p> <p>Where the Operator is a co-owner, each co-owner, in proportion to its participating percentage, must indemnify the Operator against losses incurred by the Operator as a consequence of performing its duties as the Operator under the COA. (Section 31.2)</p> <p>Each co-owner indemnifies the other co-owner against Liabilities in excess of the latter's participating interest, for the indemnifying co-owner's breach, and for any other separate liabilities of the indemnifying co-owner (e.g., taxes). (Section 31.3)</p> <p>Teck agrees to be responsible for liabilities arising from the Excluded Waneta Equipment, being electrical and ancillary equipment located at the Waneta Substation. (Section 31.4)</p> <p>BC Hydro must compensate Teck for loss of capacity and energy entitlements from Waneta if such loss is due to changes in water flows agreed to by BC Hydro but not Teck, or are imposed on Teck or Waneta because BC Hydro (as a Crown entity) is an owner (with various exceptions). (Section 31.5)</p> <p>Teck agrees to remediate certain properties.</p>	<p>Essentially the same as the COA.</p>

Section	Co-Owners and Operating Agreement	Co-Possessors and Operating Agreement
<p>General (Section 32)</p>	<p>(Section 31.6) There is no liability for any indirect or consequential damages. (Section 31.7)</p> <p>Operator has power to settle third party claims, subject to prior written consent of co-owners. (Section 32.1)</p> <p>Governed by law of BC and Canada. (Section 32.8)</p>	<p>Essentially the same as under the COA, <i>except</i> provisions were added: (i) to expressly state the intension of the parties that the COPOA and other Waneta agreements (including the Lease) form a single integrated commercial deal (Section 32.17); and (ii) to deem the COA to be terminated (notwithstanding certain rights, liabilities, etc. which survive termination) upon the effective date of the COPOA. (Section 32.18)</p>

## **Waneta 2017 Transaction**

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### **Appendix H**

### **Co-Possessors and Operating Agreement**

**(Exhibit 5 to the Waneta Purchase Agreement)**

**TECK [SUBSIDIARY] LTD.**

- and -

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**

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**CO-POSSESSORS AND OPERATING AGREEMENT**

**Dated as of <@>, 2017**

**CO-POSSESSORS AND OPERATING AGREEMENT**

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**CO-POSSESSORS AND OPERATING AGREEMENT**

**THIS AGREEMENT** is executed as of the \_\_\_\_ day of <@>, 2017

**BETWEEN:**

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**, a Crown corporation organized and existing under the laws of British Columbia

(“**BC Hydro**”)

**AND:**

**TECK [SUBSIDIARY] LTD.**, a company incorporated under the laws of Canada

(“**Teck**”)

**WHEREAS**, As at the date and time of the execution of this Co-Possessors and Operating Agreement, BC Hydro owns a 1/3 undivided ownership interest in the Waneta Plant and the balance of the Waneta Assets (the “**1/3 Interest**”) which it acquired pursuant to the Asset Purchase Agreement (2009), and Teck Metals Ltd. owns the remaining 2/3 undivided ownership interest in the Waneta Plant and the balance of the Waneta Assets (the “**2/3 Interest**”) and Teck Metals Ltd. and BC Hydro together operate the Waneta Plant and related Waneta Assets pursuant to the Co-Ownership and Operating Agreement.

**AND WHEREAS**, BC Hydro and Teck acknowledge their expectation that, following the execution of this Co-Possessors and Operating Agreement, (i) Teck Metals Ltd. will grant to Teck [Subsidiary] Ltd. a leasehold interest over the real property, fixtures and tangible personal property comprising the 2/3 Interest for a term of 20 years with an option to extend the term for an additional 10 years (the “**Waneta Lease**”) (ii) Teck Metals Ltd. will enter into a bare trust agreement (the “**Contract Bare Trust Agreement**”), pursuant to which certain contractual rights and responsibilities, together comprising a part of the 2/3 Interest, will be held by Teck Metals Ltd. in trust for the benefit of the current owner or lessee of the real property, fixtures and tangible personal property comprising the 2/3 Interest; (iii) Teck Metals Ltd. will transfer its beneficial interest in the 2/3 Interest and the Waneta Lease to a wholly owned subsidiary of Teck Resources Limited; (iv) that wholly owned subsidiary of Teck Resources Limited will be amalgamated or wound up into Teck Resources Limited, and thereafter Teck Resources Limited will hold all of the beneficial interest to the 2/3 Interest and the Waneta Lease; (v) Teck Resources Limited, as vendor, will transfer to BC Hydro all of its beneficial interest in the 2/3 Interest and the Waneta Lease and will cause Teck Metals Ltd. to transfer to BC Hydro all of the remaining interest in real property, fixtures and tangible personal property comprising the 2/3 Interest (all subject to the Leasehold Estate) and the Waneta Lease, and thereafter BC Hydro will constitute the landlord for all purposes under the Waneta Lease, (vi) the Co-Ownership and Operating Agreement will terminate and this Co-Possessors and Operating Agreement will enter into effect immediately upon the completion of BC Hydro’s acquisition of the real property

comprising the 2/3 Interest (subject to the Leasehold Estate), and (vii) Teck [Subsidiary] Ltd. will be amalgamated or wound up into Teck Metals Ltd., and thereafter Teck Metals Ltd. will constitute the tenant for all purposes under the Waneta Lease and the Co-Possessor for all purposes under this Co-Possessors and Operating Agreement in respect of the 2/3 Interest (to the extent of the Teck's Leasehold Estate during the Lease Term and Teck's beneficial interest in the Bare Trust Assumed Contracts pursuant to the Contract Bare Trust Agreement).

**AND WHEREAS**, BC Hydro and Teck wish to set out their respective rights and obligations with respect to their joint possession and control of the Waneta Plant and the balance of the Waneta Assets and the management and operation thereof pursuant to the terms of this Agreement.

**NOW THEREFORE**, this Agreement witnesses that for good and valuable consideration, the receipt and sufficiency of which each of the Parties acknowledges, the Parties hereto agree as follows:

1. **DEFINITIONS AND INTERPRETATIONS**

1.1. **Definitions**

- (a) “**1/3 Interest**” has the meaning set forth in the recitals to this Agreement.
- (b) “**2/3 Interest**” has the meaning set forth in the recitals to this Agreement.
- (c) “**Accounting Procedure**” means the accounting procedure that is in effect between the Parties immediately before the Effective Date, as it may be amended, modified or restated from time to time.
- (d) “**Adjustment Factor**” has the same meaning as set forth in the CPA.
- (e) “**Affiliate**” means, with respect to any Person, any other Person which directly or indirectly Controls, is Controlled by or is under common Control with, such Person.
- (f) “**Agreed Inflation Factor**” means, on any date, the fraction obtained where the numerator is the Consumer Price Index for Canada (all Items) for the applicable year and the denominator is the Consumer Price Index for Canada (all Items) for the immediately preceding year, with appropriate mathematical adjustment made to ensure that both numerator and denominator have been prepared on the same basis.
- (g) “**Aggregate CPA Energy Reduction**” has the same meaning as set forth in Section 10.7(c).
- (h) “**Agreement**” means this Agreement, including all written amendments and modifications thereof, and all Schedules and exhibits, which are incorporated herein by this reference.

- (i) **“Alternate Means”** means overcoming a KI Delivery Limitation or making BC Hydro’s Share of Actual Generation available at the Kootenay Interconnection or another point of interconnection with the BC Hydro System by alternate means, which may include, without limitation, new or upgraded transmission, use of other available transmission rights or wheeling on third party systems.
- (j) **“Applicable Laws”** means at any given time all applicable international, federal, state, provincial, municipal, local and foreign statutes, codes, ordinances, decrees, rules, regulations and by-laws, and judicial, executive, arbitral, administrative, ministerial, departmental or regulatory judgments, decrees, decisions, rulings, awards, policies, requirements, standards, guidelines, permits, licences, authorizations, approvals, orders and requirements of any Governmental Authority and other laws (including common law), in each case having the force of law and in force or effect at that time, including all Environmental Laws.
- (k) **“Asset Purchase Agreement (2009)”** means the asset purchase agreement dated September 22, 2009 among BC Hydro, Teck Metals Ltd., Teck Resources Limited and TCAI Incorporated.
- (l) **“Bare Trust Assumed Contracts”** has the meaning set out in the Contract Bare Trust Agreement.
- (m) **“Bare Trustee”** has the meaning set out in the Contract Bare Trust Agreement.
- (n) **“BC Hydro Impacts”** means the net financial benefits and burdens accruing to BC Hydro in connection with its interest in the 2/3 Interest (including BC Hydro's rights and obligations under the Waneta Agreements) resulting from a decision or determination considered by Teck under Section 4.6, other than any financial benefits and burdens that BC Hydro is likely to experience in any event.
- (o) **“BC Hydro Security Documents”** means the security documents delivered by BC Hydro to Teck Metals Ltd. pursuant to the Asset Purchase Agreement (2009) as replaced, amended or supplemented pursuant to the Waneta Purchase Agreement (2017) and any additional documents that may be delivered from time to time by BC Hydro pursuant thereto or pursuant to Section 26 and all other security held by Teck from time to time for any of BC Hydro’s Obligations.
- (p) **“BC Hydro’s Share of Actual Generation”** has the meaning set forth in Section 13.1(a).
- (q) **“BC Hydro’s Share of Extraordinary Refurbishment Costs”** means an amount equal to one third of all Extraordinary Refurbishment Costs plus either (i) or (ii) below:
  - (i) for each Extraordinary Refurbishment Project during the Initial Term, the result obtained from the following calculation:

$$C \times \frac{A - B}{A}$$

where:

- A** = the reasonably anticipated operating lifetime of the component of the Waneta Assets that is being replaced or refurbished (expressed in months), as determined by the Operating Committee as of the commencement of the Extraordinary Refurbishment Project or, if applicable, as determined by the Third Party Referee pursuant to Section 6.7(b); and
- B** = the number of months remaining in the Initial Term as of the commencement of the Extraordinary Refurbishment Project (assuming the Waneta Lease is not earlier terminated in accordance with its terms);
- C** = in respect of any period, the amount of Extraordinary Refurbishment Costs actually paid or incurred during that period multiplied by two-thirds;

provided that if the result of such calculation is less than or equal to zero, BC Hydro's Share of Extraordinary Refurbishment Costs, in respect of that Extraordinary Refurbishment Project, shall be deemed to be nil; or

- (ii) for each Extraordinary Refurbishment Project during the Renewal Term, the result obtained from the following calculation:

$$\left[ C \times \frac{A - B}{A} \right] - D$$

where:

- A** = the reasonably anticipated operating lifetime of the component of the Waneta Assets that is being replaced or refurbished (expressed in months), as determined by the Operating Committee as of the commencement of the Extraordinary Refurbishment Project or, if applicable, as determined by the Third Party Referee pursuant to Section 6.7(b);
- B** = the number of months remaining in the Renewal Term as of the commencement of the Extraordinary Refurbishment Project (assuming the Waneta Lease is not earlier terminated in accordance with its terms);

- C** = in respect of any period, the amount by which the Extraordinary Refurbishment Costs actually paid or incurred during that period, multiplied by two-thirds exceed the amount remaining in the Deferred Refurbishment Cost Pool (if any); and
- D** = the amount remaining in the Renewal Term Refurbishment Adjustment Pool (if any);

provided that if the result of such calculation is less than or equal to zero, BC Hydro's Share of Extraordinary Refurbishment Costs, in respect of that Extraordinary Refurbishment Project, shall be deemed to be nil.

- (iii) Following each calculation of BC Hydro's Share of Extraordinary Refurbishment Costs, the amount remaining in the Deferred Refurbishment Cost Pool and the Renewal Term Refurbishment Adjustment Pool will be adjusted as follows:
- A. the amount remaining in the Deferred Refurbishment Cost Pool will be reduced by the amount from that pool used to reduce the value of C in that calculation, provided that in no event shall the amount remaining in the Deferred Refurbishment Cost Pool be reduced to a value less than zero; and
- B. the amount remaining in the Renewal Term Refurbishment Adjustment Pool will be reduced by the value of D to the extent D was used in that calculation to reduce BC Hydro's Share of Extraordinary Refurbishment Costs, provided that in no event shall the amount remaining in the Renewal Term Refurbishment Adjustment Pool be reduced to a value less than zero; and
- (iv) A sample calculation, illustrating the Parties' intended methodology for determining BC Hydro's Share of Extraordinary Refurbishment Costs in respect of components of the Waneta Assets refurbished during the Initial Term and Renewal Term is attached as Exhibit 1.
- (r) **"BC Hydro System"** means the transmission, protection, control and communication facilities owned and operated by BC Hydro in British Columbia, and includes all modifications thereto and repairs or replacements thereof.
- (s) **"BC Hydro Upgrade"** means any Upgrade, or other project the costs of which are Non-Sustaining Capital Expenditures, other than a Shared Upgrade.
- (t) **"BCUC"** means the British Columbia Utilities Commission.
- (u) **"BC/US Boundary"** means the international boundary between Canada (limited to the southern border of British Columbia) and the United States of America, or as otherwise determined pursuant to the Transmission Agreement.

- (v) **“Books and Records”** means the documents and records of any nature or kind and in any form (including software, passwords and other information and means of or for access thereto), in each case relating to the Waneta Assets, of the Operator required to be maintained in accordance with the Operating Standard or to comply with Applicable Laws or Governmental Authorizations and of the Manager required to be maintained pursuant to the Management Agreement, including agreements; construction drawings and specifications; operating records; maintenance, inspection, test results, improvement and upgrading records; spare parts records; equipment specifications; age and condition reports on major equipment; manuals; engineering, environmental, appraisal and feasibility studies or reports; accounting records, financial statements and financial working papers.
- (w) **“Budget”** means each Operating Budget and Sustaining Capital Budget.
- (x) **“Budgetary Period”** means for each Budget, the first Fiscal Year contemplated by each such Budget.
- (y) **“Business Day”** means any day of the year except Saturdays, Sundays and statutory holidays in the Province of British Columbia.
- (z) **“Cash Call”** has the meaning set forth in Section 10.4.
- (aa) **“Clean or Renewable Electricity”** means:
  - (i) electricity that meets the requirements for clean or renewable electricity set out in the guidelines issued by the British Columbia Ministry of Energy, Mines and Petroleum Resources in June 2008, including any amendments thereto from time to time, and
  - (ii) in the event that such requirements are substantially amended, modified, restated or replaced, electricity that meets any future requirements of the Province of British Columbia from time to time relating to acceptable sources of electricity for the purposes of contributing towards the Province’s goal of electricity self-sufficiency or other targets involving acceptable generation resources or technologies.
- (bb) **“Consolidation Order”** has the meaning set forth in Section 29.1(b)(vi).
- (cc) **“Contract Bare Trust Agreement”** has the meaning set out in the recitals to this Agreement.
- (dd) **“Control”** as used in Section 1.1(e): (i) when applied to the relationship between a Person and a corporation, means the right by that Person to the exercise of, directly or indirectly, more than 50% of the voting rights attributable to the shares of the corporation; (ii) when applied to the relationship between a Person and a partnership, means either the beneficial ownership by that Person at the relevant time of more than 50% of the ownership interests of the partnership in



circumstances where it can reasonably be expected that such Person directs the affairs of the partnership or that such Person otherwise directs the affairs of the partnership as a result of being, or having the right to exercise, directly or indirectly, more than 50% of the voting rights attributable to the shares of, the general partner or managing partner of the partnership; and (iii) when applied to the relation between a Person and a trust, means that Person that can reasonably be expected to direct the affairs of such trust. Without limiting the foregoing, the Province of British Columbia is deemed to Control a corporation: (i) that is, under an Act, an agent of the government, (ii) of which the government owns, directly or indirectly, more than 50% of the issued voting shares, or (iii) when a majority of the members of the corporation or of its board of directors or board of management consists of either or both of the following: (A) persons appointed as members by the Lieutenant Governor in Council, by a minister or by an Act; or (B) public officers acting as public officers.

- (ee) **“Co-Ownership and Operating Agreement”** or **“COA”** means the Co-Ownership and Operating Agreement dated March 10, 2010 between Teck Metals Ltd. and BC Hydro.
- (ff) **“Co-Possessor”** means a Person that has a Participation Interest.
- (gg) **“Costs”** means all items of outlay and expense whatsoever, direct or indirect, with respect to Operations, including:
  - (i) Sustaining Capital Expenditures;
  - (ii) Non-Sustaining Capital Expenditures related to the completion of any Shared Upgrades;
  - (iii) Operating and Maintenance Expenditures;
  - (iv) reimbursement of any Co-Possessor for costs (A) it incurs (in its capacity other than as Operator) in completing tasks assigned to it with the unanimous approval of the Operating Committee or (B) as determined by the Third Party Referee; and
  - (v) other items of outlay and expense expressly identified as Costs under this Agreement,

but for certainty, excluding all items of outlay and expense whatsoever, direct or indirect, incurred by the Operator in connection with, or arising from, any assets of either Co-Possessor that are not Waneta Assets, including the Excluded Assets; and excluding property taxes and Water Rental Fees.

- (hh) **“Cover Payment”** has the meaning set forth in Section 10.7(a).
- (ii) **“CPA”** means the Second Amended and Restated 2005 Canal Plant Agreement dated for reference November 15, 2011 among BC Hydro, FortisBC, Teck Metals

Ltd., Brilliant Power Corporation, Brilliant Expansion Power Corporation and Waneta Expansion Power Corporation, as may be further amended, modified or restated from time to time.

- (jj) “**CPA Reduction Election Notice**” has the meaning set forth in Section 10.7(c).
- (kk) “**CPA Scheduling Agreement**” means the Teck Cominco CPA Scheduling Agreement made as of the 1st day of July, 2005 between Teck Metals Ltd. and BC Hydro, as may be amended, modified or restated from time to time.
- (ll) “**CPA Subagreement**” means the Second Amended and Restated CPA Subagreement dated for reference November 15, 2011 among FortisBC, Teck Metals Ltd., Brilliant Power Corporation, Brilliant Expansion Power Corporation, and Waneta Expansion Power Corporation, as may be amended, modified or restated from time to time.
- (mm) “**Dam Safety Plan**” means a plan, program or system (by whatever name it is identified and in whatever format it is prepared) that conforms to dam engineering and safety assessment practices as set out in Applicable Laws, including the *Water Sustainability Act* and British Columbia *Dam Safety Regulations*, and requirements and expectations of the Water Comptroller including to the extent applicable the principles of the Canadian Dam Association’s Dam Safety Guidelines, as may be amended or replaced from time to time, including any existing or future requirement to prepare, and to file with regulatory authorities as and when required, any operational or dam safety management details such as: (i) an operating, maintenance and surveillance manual (ii) an annual dam safety report, (iii) annual pro-forma reports and compliance forms, (iv) an annual instrumentation plan, (v) emergency response plans, and (vi) periodic third party dam safety reviews. Such plan or system shall be designed for assuring the safety and operational integrity of the Waneta Plant throughout the range of operating conditions (including emergency conditions), to reduce or otherwise manage the risk of uncontrolled release of water associated with the Waneta Plant.
- (nn) “**Defaulting Party**” has the meaning set forth in Section 24.1.
- (oo) “**Deferred Refurbishment Amount**” means an aggregate amount, calculated as of the last day of the Initial Term by the Operating Committee, or, if applicable, as determined by the Third Party Referee pursuant to Section 6.7(b), in respect of any aspect of the Expected Lease Term Refurbishment Projects that (i) have been deferred and not commenced during the Initial Term but (ii) as of the last day of the Initial Term, are still expected to be required to ensure that the Waneta Assets continue to provide safe and reliable generation in accordance with Good Utility Practice, which amount shall be two-thirds of the net present cost (calculated using a nominal discount rate of five percent (5%)) of completing such aspects of the deferred Expected Lease Term Refurbishment Projects by the date such aspects are reasonably anticipated to be required if such date is known, or as soon

as reasonably practicable following the last day of the Initial Term if such date is not known.

- (pp) **“Deferred Refurbishment Cost Pool”** means, as of the first day of the Renewal Term, an amount equal to the Deferred Refurbishment Amount and thereafter shall equal such amount as adjusted from time to time in accordance with subsection (iii) of the definition of “BC Hydro’s Share of Extraordinary Refurbishment Costs”.
- (qq) **“Dispute”** has the meaning set forth in Section 29.1.
- (rr) **“Dispute Notice”** has the meaning set forth in Section 29.1.
- (ss) **“Early Termination Date”** has the meaning set forth in Section 24.3.
- (tt) **“Effective Date”** means the date on which this Co-Possessors and Operating Agreement comes into effect in accordance with Section 3.2.
- (uu) **“Emerald Switching Station”** means the 63 kV switching station at Warfield, B.C.
- (vv) **“Emergency Decision”** means any decision that must be completed as a result of an emergency, but only to the extent reasonably necessary to abate the emergency.
- (ww) **“Emergency Response Plan”** means a plan, program or system (by whatever name it is identified and in whatever format it is prepared) that is designed to assist in responding to emergency incidents associated with the Waneta Plant and Operations as they occur.
- (xx) **“Entitlement Calculation Program”** has the same meaning as set forth in Schedule A of the CPA.
- (yy) **“Entitlement Capacity”** has the same meaning as set forth in the CPA.
- (zz) **“Entitlement Capacity Deficit”** has the meaning set forth in Section 15.1(a).
- (aaa) **“Entitlement Energy”** has the same meaning as set forth in the CPA.
- (bbb) **“Entitlement Energy Deficit”** has the meaning set forth in Section 15.1(b).
- (ccc) **“Entitlement Parties”** has the same meaning as set forth in the CPA.
- (ddd) **“Environment”** includes the air (including all layers of the atmosphere), land, (including soil, sediment deposited on land, fill, and lands submerged under water), and water (including oceans, lakes, reservoirs, rivers, streams, groundwater and surface water).

- (eee) **“Environmental Attributes”** means all attributes of an environmental nature that are created or otherwise arise from energy generated by or attributable to the Waneta Plant, including tags, certificates or similar products or rights that may be associated with the Waneta Plant as a “green” or “renewable” electric generation resource, including all credits, allowances, offsets and similar rights issued, recognized, created or otherwise arising and associated with energy generated by or attributable to the Waneta Plant which may be used to claim responsibility for, or ownership of, any avoidance or reduction of emissions or pollutants, and specifically including the right to claim the energy as Clean or Renewable Electricity.
- (fff) **“Environmental Contaminants”** means any substance or material, the storage, manufacture, disposal, treatment, generation, use, transport, remediation, or release of which into the Environment is prohibited, regulated, controlled, or licenced under any Environmental Laws or by any Governmental Authority pursuant to any Environmental Laws including any contaminant, pollutant, hazardous, corrosive or toxic substance, flammable material, explosive material, radioactive material, dangerous goods or substance, gas, microwaves, waste, urea formaldehyde, mercury, asbestos materials, hydrocarbon contaminant, deleterious substance, noxious substance, and compounds known as chlorobiphenyls, and hazardous waste, provided however for purposes of this definition, water shall be considered an Environmental Contaminant only to the extent that it contains, or is itself, a deleterious substance for purposes of Environmental Laws.
- (ggg) **“Environmental Laws”** means at any given time all applicable international, federal, state, provincial, municipal, local and foreign statutes, codes, ordinances, decrees, rules, regulations and by-laws, and judicial, executive, arbitral, administrative, ministerial, departmental or regulatory judgments, decrees, decisions, rulings, awards, policies, requirements, standards, guidelines, permits, licences, authorizations, approvals, orders and requirements of any Governmental Authority and other laws (including common law), in each case having the force of law and in force and effect at that time in any way relating to (i) the protection of the Environment; (ii) plant species or wildlife (including birds, land-based and aquatic species, fish and fish habitat) including the health or preservation thereof; (iii) human health including occupational health and safety; or (iv) the transportation of dangerous goods.
- (hhh) **“Environmental Management Plan”** means a plan, program or system (by whatever name it is identified and in whatever format it is prepared) that is designed to remove or reduce the risk of environmental hazards and impacts associated with the Waneta Plant and Operations (including impacts on fish and fish habitat) and which (i) identifies actual and potential environmental hazards and impacts; (ii) identifies the physical barriers and non-physical control measures in place and/or to be employed to address the environmental hazards and impacts; and (iii) identifies the risks associated with the hazards and impacts before and after barriers and control measures are in place.

- (iii) “**Event of Default**” has the meaning set forth in Section 24.1.
- (jjj) “**Exchange Accounts**” has the same meaning as set forth in the CPA.
- (kkk) “**Excluded Assets**” means the Excluded Assets identified in Schedule 1.1(dd) of the Waneta Purchase Agreement (2017) and all tangible personal property of BC Hydro or Teck that is used periodically in connection with Operations but primarily for other purposes and is not in the ordinary course located at the Waneta Plant.
- (lll) “**Existing Waneta Upgrades**” means those upgrades to the Units forming part of the Waneta Plant that were completed from 1996 to 2007 and which resulted in the output from the Waneta Plant being increased from 375MW to 493MW.
- (mmm) “**Expected Lease Term Refurbishment Projects**” means one or more projects for the enhancement, replacement or refurbishment of components of the Waneta Assets, listed in Schedule C and described as “Lease Term Refurbishment Projects” and which are required by the Operating Standard but excluding any repairs or reconstruction activities following the substantial damage or destruction of the Waneta Assets.
- (nnn) “**Expected Post-Lease Refurbishment Projects**” means one or more projects for the enhancement, replacement or refurbishment of components of the Waneta Assets, listed in Schedule C and described as “Post-Lease Refurbishment Projects” and which are required by the Operating Standard.
- (ooo) “**Expected Refurbishment Costs**” means an amount equal to two-thirds of all costs or expenses incurred or payable during the Initial Term in respect of the Expected Lease Term Refurbishment Projects.
- (ppp) “**Expiration Date**” has the meaning set forth in the Waneta Lease.
- (qqq) “**Extraordinary Refurbishment Costs**” means all costs and expenses incurred or payable during the Lease Term in respect of the Extraordinary Refurbishment Projects.
- (rrr) “**Extraordinary Refurbishment Projects**” means
  - (i) during the Initial Term:
    - A. Expected Post-Lease Refurbishment Projects which are commenced during the Initial Term, for any reason; or
    - B. any project for the enhancement, replacement or refurbishment of components of the Waneta Assets commenced during the Initial Term of which all of the following are true:

- I. the project must commence during the Initial Term to ensure that the Waneta Assets continue to provide safe and reliable generation in accordance with Good Utility Practice;
- II. as of the Effective Date, the project was not likely to be required during the Initial Term; and
- III. the project is reasonably expected to cost \$5,000,000 or more;

but for certainty excluding any Expected Lease Term Refurbishment Projects and any repairs or reconstruction activities following the substantial damage or destruction of the Waneta Assets which are undertaken during the Initial Term; and

- (ii) during the Renewal Term, any project for the enhancement, replacement or refurbishment of components of the Waneta Assets commenced during the Renewal Term, to ensure that the Waneta Assets continue to provide safe and reliable generation in accordance with Good Utility Practice, and that is reasonably expected to cost \$2,500,000 or more, but for certainty excluding (A) any repairs or reconstruction activities following the substantial damage or destruction of the Waneta Assets which are undertaken during the Renewal Term and (B) any aspects of such projects that are undertaken following the Lease Term.
- (sss) “**FERC License**” has the same meaning as set forth in the Asset Purchase Agreement (2009).
- (ttt) “**Fiscal Year**” means a calendar year, provided that the first Fiscal Year shall commence on the Effective Date and end on the following December 31.
- (uuu) “**Force Majeure**” means any event or circumstance which prevents one Party from performing its obligations under this Agreement, which event or circumstance is not within the reasonable control of, or the result of the negligence of, that Party, and which, by the exercise of due diligence, that Party is unable to overcome or avoid or cause to be avoided.
- (vvv) “**FortisBC**” means FortisBC Inc.
- (www) “**Forward Price**” means a forward price (in US\$ per MWh) for energy delivered flat on all hours during the Specified Period at Mid-C, as published by a recognized source, minus the cost of firm wheeling and losses from the BC/US Boundary to Mid-C, converted into Canadian dollars per MWh at the Bank of Canada's daily rate as published on its website for the last Business Day preceding the Business Day on which BC Hydro notifies Teck of the Forward Price in accordance with Section 10.7(c).

- (xxx) “**Freshet**” means the calendar months of May, June and July of each year.
- (yyy) “**Good Utility Practice**” means any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry in the Western Electricity Coordinating Council region during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to be acceptable practices, methods or acts generally accepted in the Western Electricity Coordinating Council region.
- (zzz) “**Governmental Authority**” means any federal, provincial, state, municipal, county or regional government or governmental or regulatory authority, domestic or foreign, having jurisdiction over the subject matter, and includes any department, commission, bureau, board, administrative agency or regulatory body of any of the foregoing, but for certainty, excludes BC Hydro.
- (aaaa) “**Governmental Authorizations**” means those permits, licenses, authorizations, approvals and orders forming part of the Waneta Assets from time to time including as at the Effective Date those permits, licences authorizations, approvals and orders set forth in Schedule 1.1(ii) to the Waneta Purchase Agreement (2017).
- (bbbb) “**Hourly CPA Capacity Reduction**” has the meaning set forth in Section 10.7(c).
- (cccc) “**ICE Index**” means for any given day:
- (i) for On-Peak hours, the Mid-C Peak Index, being the volume-weighted “average” price for Mid-C day ahead transactions in On-Peak hours in that day (or days where the index covers more than one day), as published in the ICE (Intercontinental Exchange) Day Ahead Power Price Report; and
  - (ii) for Off-Peak hours, the Mid-C Off-Peak Index, being the volume-weighted “average” price for Mid-C day ahead transactions in Off-Peak hours in that day (or days where the index covers more than one day), as published in the ICE (Intercontinental Exchange) Day Ahead Power Price Report,
- as the case may be, and as such index may be amended, updated or revised from time to time.
- (dddd) “**IFRS**” means International Financial Reporting Standards.
- (eeee) “**Independent Accountant**” means the accountant appointed pursuant to Section 6.7(a)(iv).
- (ffff) “**Industrial Load**” means the electricity requirements of the Industrial Operations, net of any self-generation.

(gggg) “**Industrial Operations**” means Teck Metals Ltd.’s zinc refinery, lead smelter and other industrial and commercial operations at or near Trail and Warfield, British Columbia, including the oxygen plant and other third party-owned facilities integrated into those industrial operations.

(hhhh) “**Initial Negotiation Period**” has the meaning set forth in Section 29.1.

(iiii) “**Initial Term**” has the meaning set out in the Waneta Lease.

(jjjj) “**Insolvency Proceeding**” means any:

- (i) action or proceeding for the winding up or dissolution of either Party, including the appointment or application for appointment of any liquidator or Person with similar powers for such purposes;
- (ii) action or proceeding in respect of either Party (including the making of a general assignment for the benefit of creditors, the filing of a proposal or plan of arrangement or an application for appointment of any Receiver) under any bankruptcy or insolvency legislation or any other legislation providing for a moratorium or restructuring of debts and other liabilities (including the *Bankruptcy and Insolvency Act* (Canada) and the *Companies’ Creditors Arrangement Act* (Canada)); or
- (iii) appointment (whether pursuant to any instrument or by court order) of a Receiver over all or substantially all of the assets of a Co-Possessor or any part of a Co-Possessor’s Participation Interest.

(kkkk) “**KI Delivery Limitations**” means one or more of the following circumstances:

- (i) Teck being prevented from making BC Hydro’s Share of Actual Generation available at the Kootenay Interconnection by reason of:
  - A. BC Hydro terminating any of the Nelway Arrangements to which it is a party, unless as a result of breach by Teck;
  - B. BC Hydro terminating or disconnecting Teck’s Line 71 access to the Kootenay Interconnection at the Nelway Substation, as a result of the Waneta Plant failing to comply with generator standards or other generator-related requirements of applicable interconnection agreements; or
  - C. BC Hydro terminating or disconnecting Teck’s Line 71 access to the Kootenay Interconnection at the Nelway Substation for any other reason, unless as a result of breach by Teck under the Nelway Arrangements or applicable interconnection agreements or by mutual agreement between BC Hydro and Teck;



- (ii) termination of the 1996 Exemption Order (or any replacement order) if the effect thereof is that Teck would incur incremental costs to make BC Hydro's Share of Actual Generation available at the Kootenay Interconnection; and
  - (iii) the obligation of Teck pursuant to section 5.9 of the PASDA to not unreasonably deny access to Line 71 for electricity generated at the Waneta Expansion or the Brilliant Expansion, to the extent it is determined to limit the Line 71 transmission capacity available to Teck to comply with its obligations under the Transmission Agreement.
- (llll) **"Kootenay Interconnection"** has the meaning set forth in Schedule B to the CPA, or in any Replacement CPA, and any additional points of interconnection that BC Hydro designates as being included within the "Kootenay Interconnection" scheduling point.
- (mmmm) **"Lease Term"** means the term of the Waneta Lease.
- (nnnn) **"Leasehold Estate"** has the meaning set forth in the Waneta Lease.
- (oooo) **"Legal Obligations"** means at any given time, obligations pursuant to, and the requirements of, Applicable Laws, Governmental Authorizations, and the Bare Trust Assumed Contracts and any other agreements, contracts or commitments forming part of the Waneta Assets at that time.
- (pppp) **"Legal Rights Decision"** means any decision to act, where an immediate failure to do so could materially and negatively impact the Party's legal rights in any legal action or proceeding by or against a third party, including in order to prevent default judgment being taken against the Party, but only to the extent reasonably necessary to abate the material and negative impact.
- (qqqq) **"Liabilities"** means claims, actions, causes of action, suits, proceedings, assessments, losses, damages, liabilities, debts, costs and expenses (including interest, penalties and reasonable legal fees on a solicitor and his own client basis) of every nature and kind.
- (rrrr) **"Lien"** means, whether or not registered or registrable or recorded or recordable and regardless of how created or arising, any:
  - (i) mortgage, security interest, pledge, lien, hypothec, assignment by way of security, lease, conditional sale or title retention agreement (including any capital lease), or security created under the *Bank Act* (Canada), that secures performance of any obligation or payment to any Person, including Taxes;
  - (ii) encumbrance, charge or interest in property or assets, howsoever created or arising, whether absolute or contingent, fixed or floating, legal or

equitable, perfected or otherwise, that secures performance of any obligation or payment to any Person, including Taxes; and

- (iii) agreement to create, or right capable of becoming, any of the foregoing.
- (ssss) “**Line 71**” means the 230 kV transmission line running from the Waneta Hydro Station to the Nelway substation and to the BC/US Boundary where it interconnects with the transmission system of Bonneville Power Administration, and includes any associated transformers, breakers and ancillary equipment and upgrades or replacements thereto owned by Teck Metals Ltd. from time to time.
- (tttt) “**Line 71 Agreement**” means the agreement dated April 15, 2002 between Teck Metals Ltd. and BC Hydro, as amended by the Line 71 Amending Agreement dated for reference December 6, 2002, which describes the rights and obligations between the parties thereto relating to Teck Metals Ltd.’s power exports to and imports from the United States of America, as may be further amended, modified, or restated from time to time.
- (uuuu) “**Management Agreement**” means the Waneta Management Agreement made the 1<sup>st</sup> day of May, 1996 between Cominco Ltd. (now Teck Metals Ltd.) and West Kootenay Power Ltd. (now FortisBC), as amended by the Waneta Management Amending Agreement dated January 1, 1998, the Waneta Management Amending Agreement No. 2 dated July 18, 2003 and the Waneta Management Amending Agreement No. 3 dated as of January 21, 2010, as may be further amended, modified or restated from time to time, or any replacement agreement pursuant to which the Operator engages the services of the Manager, regardless of whether FortisBC is a party thereto or not.
- (vvvv) “**Manager**” means the Person appointed under Section 8.
- (wwww) “**Minimum Take**” has the same meaning as set forth in the CPA.
- (xxxx) “**Monthly CPA Energy Reduction**” has the same meaning as set forth in Section 10.7(c).
- (yyyy) “**Monthly Invoice**” has the meaning set forth in Section 10.3.
- (zzzz) “**Nelway Arrangements**” means:
  - (i) the Nelway Agreement between Teck Cominco Metals Ltd. (now Teck Metals Ltd.) and BC Hydro dated December 6, 2002;
  - (ii) the right of way granted by BC Hydro to Teck Metals Ltd. registered in the Kamloops Land Title Office under no’s LB350362, LB350363, LB357643 and LB357644; and
  - (iii) the interconnection agreement dated April 5, 2004 between Teck Metals Ltd. and BC Hydro.

- (aaaaa) “**NERC Holiday**” means any day designated as a holiday by the North American Electric Reliability Council or any successor organization or other applicable regional reliability organization.
- (bbbbb) “**Non-Defaulting Party**” means the Co-Possessor that is not the Defaulting Party.
- (ccccc) “**Non-Routine Compliance Audit**” has the meaning set forth in Section 7.11.
- (dddd) “**Non-Sustaining Capital Expenditures**” means all capital expenditures made or to be made other than Sustaining Capital Expenditures, including the cost of developing and constructing any Upgrades; provided that, if any Upgrade is undertaken in conjunction with any other work that results in Sustaining Capital Expenditures, only the incremental costs of such Upgrade beyond such Sustaining Capital Expenditures shall be Non-Sustaining Capital Expenditures.
- (eeee) “**Obligations**” means, with respect to a Party, all obligations to be performed by such Party under this Agreement (whether as Co-Possessor or Operator), the CPA (including any Replacement CPA), the Surplus Power Rights Agreement, the Waneta Lease, the Transmission Agreement and the Security Documents, which for greater certainty shall include any obligation of such Party thereunder to pay money to the other Party, including any obligation of such Party to pay to the other Party:
- (i) damages arising from any breach, disclaimer, termination or cancellation (including by any Person acting on behalf of such Party or on behalf of its creditors in any Insolvency Proceeding) of this Agreement, the CPA (including any Replacement CPA), the Surplus Power Rights Agreement, the Waneta Lease, the Transmission Agreement and/or the Security Documents or any of the representations, warranties, covenants or obligations of such Party under them (whether or not specifically payable under any such agreement), including any liquidated or agreed damages provided for in any such agreement;
  - (ii) all costs incurred by the other Party in the enforcement of this Agreement, the CPA (including any Replacement CPA), the Surplus Power Rights Agreement, the Waneta Lease, the Transmission Agreement and/or Security Documents (including all amounts expended by or on behalf of the other Party in performance of any of the Obligations following default thereof by such Party); and
  - (iii) interest on amounts payable by such Party to the other Party under or in respect of any of this Agreement, the CPA (including any Replacement CPA), the Surplus Power Rights Agreement, the Waneta Lease, the Transmission Agreement and/or the Security Documents, from the due date to the date of payment, at the applicable rate specified in the

applicable agreement, or if no rate is specified at the rate specified in Section 10.6(b).

- (fffff) **“Off-Peak”** means hours ending (“HE”) 0100 through HE 0600 and HE 2300 through HE 2400 PPT and all hours on Sundays and NERC Holidays.
- (ggggg) **“On-Peak”** means hours ending (“HE”) 0700 through HE 2200 (16 hours per day) PPT, Monday through Saturday (6 days per week), excluding NERC Holidays.
- (hhhhh) **“Operating and Maintenance Expenditures”** means all costs and expenses incurred by the Operator for operation and maintenance of the Waneta Assets including the costs charged by the Manager pursuant to the Management Agreement in performing its obligations thereunder as they relate solely to the Waneta Assets, out of pocket costs, labour charges including benefits for its employees directly engaged in Operations and a reasonable allocation of overhead (excluding head office overhead), and any costs incurred by the Operator in accordance with Section 9.6, all as determined and allocated in the manner set forth in the Accounting Procedure.
- (iiiiii) **“Operating and Management Plan”** means the Dam Safety Plan, Emergency Response Plan, Environmental Management Plan, Public Safety Plan and Worker Safety Plan.
- (jjjjj) **“Operating Budget”** means a detailed estimate of Costs (other than Sustaining Capital Expenditures and Non-Sustaining Capital Expenditures) to be incurred by the Co-Possessors by month during the Budgetary Period in connection with owning, operating, managing and maintaining the Waneta Assets in accordance with the Operating and Management Plan, and an estimate of annual Operating and Maintenance Expenditures for at least the next succeeding four Fiscal Years (the Co-Possessors recognizing that the estimates will be less detailed and accurate in the later Fiscal Years), in each case together with reasonable supporting documentation with respect to each category of Costs.
- (kkkkk) **“Operating Committee”** means the committee established under Section 6 to oversee the Operator and to make certain fundamental decisions regarding Operations.
- (lllll) **“Operating Month”** has the meaning set forth in Section 10.4.
- (mmmmm) **“Operating Standard”** has the meaning set forth in Section 7.1.
- (nnnnn) **“Operations”** means all activities carried out from and after the Effective Date in respect of the management, operation and maintenance of the Waneta Assets including capital work and operation and maintenance of the Waneta Plant.
- (ooooo) **“Operations Account”** has the meaning set forth in the Accounting Procedure.

- (ppppp) “**Operator**” means the Person appointed as operator under Section 7, or any successor Operator.
- (qqqqq) “**Participation Interest**” means,
- (i) in respect of Teck, the 2/3 Interest (to the extent of Teck’s Leasehold Estate during the Lease Term and Teck’s beneficial interest in the Bare Trust Assumed Contracts pursuant to the Contract Bare Trust Agreement) and all of Teck's rights and obligations arising under the Waneta Agreements, but excluding Teck Metals Ltd.'s rights and obligations as trustee under the Contract Bare Trust Agreement, and
  - (ii) in respect of BC Hydro, the 1/3 Interest and the 2/3 Interest (subject to Teck’s Leasehold Estate during the Lease Term, Teck Metals Ltd.'s rights and obligations as trustee under the Contract Bare Trust Agreement, and Teck’s beneficial interest in the Bare Trust Assumed Contracts pursuant to the Contract Bare Trust Agreement) and all of BC Hydro's rights and obligations arising under the Waneta Agreements.
- (rrrrr) “**Participation Percentage**” means the Participation Percentages of the Co-Possessors as set forth in Section 5.2.
- (sssss) “**Party**” means a party to this Agreement, its successors and permitted assigns.
- (ttttt) “**PASDA**” means the Power Asset Sale and Development Agreement made the 18th day of May, 1994 between Her Majesty the Queen in right of the Province of British Columbia as represented by the Minister of Employment and Investment, and Cominco Ltd., as amended by the Power Asset Amendment Agreement (Brilliant) between Cominco Ltd. and Columbia Power Corporation dated May 22, 1996, and as may be amended, modified or restated from time to time.
- (uuuuu) “**Permitted Encumbrances**” means
- (i) inchoate, unregistered Liens for Taxes which are not delinquent;
  - (ii) other Liens for Taxes, provided and for so long as the validity of the liability for such Taxes is being contested at the time in good faith by proper legal proceedings and provided further that adequate provision has been made for their payment;
  - (iii) inchoate or statutory Liens of contractors, subcontractors, mechanics, workers, suppliers, material men, carriers and others in respect of the construction, maintenance, repair or operation of the Waneta Assets, provided adequate holdbacks are being maintained as required by Applicable Laws;
  - (iv) Liens granted by a Co-Possessor in favour of a Person, provided that such Person has agreed in writing with and in favour of the other Co-Possessor

(such agreement to be in form and substance to the satisfaction of the other Co-Possessor acting reasonably), that such Liens rank subordinate in all respects to the interests of the other Co-Possessor (including the interest of such other Co-Possessor under the Security Documents held by such other Co-Possessor and are subject to the terms of this Agreement, that enforcement of its Liens shall be in accordance with, and subject to the terms of, this Agreement and for greater certainty, such Person shall be bound by the obligations of such granting Co-Possessor under Section 25 with respect to any Transfer arising from such enforcement;

- (v) the encumbrances and tenures included in the definition of “Permitted Encumbrances” as that term is defined in the Waneta Purchase Agreement (2017), including those encumbrances and tenures set out on schedule 1.1(ccc) (Permitted Encumbrances) to the Waneta Purchase Agreement (2017); and
  - (vi) Purchase Money Liens.
- (vvvvv) “**Person**” means an individual, legal personal representative, corporation, body corporate, firm, partnership, trust, trustee, syndicate, joint venture, unincorporated organization, association or Governmental Authority.
- (wwwww) “**PPT**” means the prevailing time in the Pacific time zone.
- (xxxxx) “**Prime Rate**” means, on any date, the annual rate of interest publicly announced from time to time by The Royal Bank of Canada at its principal office in Vancouver, BC as its reference rate for determining floating rates of interest for loans made by it in Canadian Dollars to Canadian borrowers and as to which from time to time a certificate of an officer of The Royal Bank of Canada shall be conclusive evidence.
- (yyyyy) “**Projected Deficiency**” has the meaning set forth in Section 24.4(a)(i).
- (zzzzz) “**Projected Net Operating Proceeds**” has the meaning set forth in Section 24.4(a)(i).
- (aaaaa) “**Public Safety Plan**” means a plan, program or system (by whatever name it is identified and in whatever format it is prepared) that is designed to remove or reduce the risk of public injury or death at, or associated with the Waneta Assets and Operations, and which (i) identifies public safety hazards related to public access to the Waneta Assets and its infrastructure, the headpond and the immediately affected river downstream as well as related banks and slopes; (ii) identifies public activities in the area affected by the Waneta Assets and Operations; and (iii) identifies safety control measures to be employed to protect the public.
- (bbbbb) “**Purchase Money Lien**” means any Lien (including, for greater certainty, any capital lease and any refinancing of such Lien which does not increase the

principal amount secured or extend the charge of such Lien to other property) on property comprising Waneta Assets which:

- (i) secures payment of the unpaid purchase price of such property (together with interest thereon and associated costs);
  - (ii) does not charge any other Waneta Assets;
  - (iii) arises after the Effective Date in accordance with this Agreement;
  - (iv) charges the Participation Interest of each Co-Possessor in such property and has been consented to by each such Co-Possessor; and
  - (v) the holder thereof has provided to the Co-Possessors any consent or agreement required or contemplated by this Agreement in connection with the charging of such property by the Security Documents.
- (ccccc) **“Receiver”** means a receiver, receiver and manager, receiver-manager, custodian, trustee in bankruptcy, liquidator, monitor, court or any Person with like powers.
- (dddddd) **“Referral Period”** has the meaning set forth in Section 29.1.
- (eeeeee) **“Renewal Term”** has the meaning set forth in the Waneta Lease.
- (ffffff) **“Renewal Term Refurbishment Adjustment Amount”** means an aggregate amount, calculated as of the last day of the Initial Term by the Operating Committee, or, if applicable, as determined by the Third Party Referee pursuant to Section 6.7(b), equal to the sum of, in respect of each Extraordinary Refurbishment Project commenced or undertaken during the Initial Term, an amount equal to:
- (i) BC Hydro’s Share of Extraordinary Refurbishment Costs in respect thereof calculated using the number of months between the date the applicable costs were incurred and the last day of the Initial Term; minus
  - (ii) BC Hydro’s Share of Extraordinary Refurbishment Costs in respect thereof calculated using the number of months between the date the applicable costs were incurred and the last day of the Renewal Term.
- (gggggg) **“Renewal Term Refurbishment Adjustment Pool”** means, as of the first day of the Renewal Term, an amount equal to the Renewal Term Refurbishment Adjustment Amount and thereafter such amount as adjusted from time to time in accordance with subsection (iii) of the definition of “BC Hydro’s Share of Extraordinary Refurbishment Costs”.
- (hhhhh) **“Replacement Contract”** has the meaning set forth in Section 23.5(b).

- (iiiiii) “**Replacement CPA**” means any agreement that replaces the CPA as between Teck and BC Hydro, or among Teck, BC Hydro and others, including any agreement entered into pursuant to Section 17.1(a), and any replacement agreement contemplated by Section 17.1(f) that replaces such agreement, in each case, as may be amended, modified or restated from time to time.
- (jjjjjj) “**Replacement Price**” has the meaning set forth in Section 23.2(d).
- (kkkkkk) “**Reviewing Party**” has the meaning set forth in Section 7.11.
- (llllll) “**Routine Compliance Audit**” has the meaning set forth in Section 7.11.
- (mmmmmm) “**Sale Circumstances**” has the meaning set forth in Section 24.4.
- (nnnnnn) “**Season**” has the same meaning as set forth in the CPA.
- (oooooo) “**Security Documents**” means the BC Hydro Security Documents or the Teck Security Documents, as the context may require.
- (pppppp) “**Segregated Bank Account**” has the meaning set forth in Section 10.4.
- (qqqqqq) “**Segregated Insurance Account**” has the meaning set forth in Section 27.9.
- (rrrrrr) “**Settlement Amount**” has the meaning set forth in Section 24.3(b).
- (ssssss) “**Shared Upgrade**” means any Upgrade that the Operating Committee has unanimously approved and designated as a Shared Upgrade for the purposes of this Agreement.
- (tttttt) “**Specified Debt**” has the same meaning as set forth in Section 10.7(c).
- (uuuuuu) “**Specified Period**” means a period of one-year, commencing on a date specified by BC Hydro that is not more than 60 days after BC Hydro has delivered a CPA Reduction Election Notice, during which Teck’s Entitlement Capacity and Teck’s Entitlement Energy will be reduced.
- (vvvvvv) “**Standstill Period**” has the meaning set forth in Section 24.4.
- (wwwwww) “**Surplus Power Rights Agreement**” means the Surplus Power Rights Agreement dated March 10, 2010 between BC Hydro and Teck Metals Ltd., as may be amended, modified or restated from time to time.
- (xxxxxx) “**Sustaining Capital Budget**” means an estimate of all Sustaining Capital Expenditures to be incurred by the Co-Possessors for the next ensuing 5 Fiscal Years or longer period, pursuant to (i) approved capital projects and plans, (ii) capital projects and plans for which approval is sought, and (iii) capital projects and plans under consideration but for which approval is not yet sought, in each



case relating to sustaining capital items, including a detailed description and estimates of Sustaining Capital Expenditures by month for the Budgetary Period, together with supporting documentation for each project or plan for which approval is sought, which shall include project scope documents, and capital project approval process documentation (presently known as ‘capital project stage gating process’) for the Budgetary Period and future Fiscal Years for which it is available.

- (yyyyyy) **“Sustaining Capital Expenditures”** means all capital expenditures made or to be made with a view to maintaining and sustaining the existing output and reliability of the Waneta Plant (or increasing the existing output or reliability of the Waneta Plant where such increase is incidental to non-discretionary replacement of existing equipment), including for greater certainty all costs or expenses incurred or payable during the Term in connection with projects for the enhancement, replacement or refurbishment of components of the Waneta Assets including Expected Lease Term Refurbishment Projects and Extraordinary Refurbishment Projects.
- (zzzzzz) **“Table 1”** means the table designated as Table 1 in Section 14.3.
- (aaaaaaa) **“Table 2”** means the table designated as Table 2 in Section 14.3.
- (bbbbbbb) **“Table 3”** means the table designated as Table 3 in Section 14.5(a).
- (ccccccc) **“Table 4”** means the table designated as Table 4 in Section 14.5(c).
- (ddddddd) **“Tax”** and **“Taxes”** means any or all Canadian federal, provincial, local or foreign (i.e., non-Canadian) income, gross receipts, real property gains, goods and services, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add on minimum, or other taxes, levies, governmental charges or assessments of any kind whatsoever.
- (eeeeeee) **“Teck Security Documents”** means the security documents delivered by Teck and/or Teck Metals Ltd. to BC Hydro pursuant to the Waneta Purchase Agreement (2017) and any additional documents that may be delivered from time to time by Teck and/or Teck Metals Ltd. pursuant thereto or pursuant to Section 26 and all other security held by BC Hydro from time to time for any of Teck’s Obligations.
- (ffffff) **“Teck’s Entitlement Capacity”** means the Entitlement Capacity under the CPA attributable to Teck’s Participation Percentage of the Waneta Plant.
- (ggggggg) **“Teck’s Entitlement Energy”** means the Entitlement Energy under the CPA attributable to Teck’s Participation Percentage of the Waneta Plant.

- (hhhhhhh) **“Teck Impacts”** means the net financial benefits and burdens accruing to Teck in connection with its interest in the 2/3 Interest (including the quantity of Teck’s Entitlement Capacity and Teck’s Entitlement Energy, and Teck’s rights and obligations under the Waneta Agreements) resulting from a decision or determination considered by BC Hydro under Section 4.7, other than any financial benefits and burdens that Teck is likely to experience in any event.
- (iiiiiii) **“Teck’s Share of Actual Generation”** has the meaning set forth in Section 13.1(b).
- (jjjjjjj) **“Teck’s Share of Extraordinary Refurbishment Costs”** means in respect of any period an amount equal to Extraordinary Refurbishment Costs less BC Hydro’s Share of Extraordinary Refurbishment Costs for that period.
- (kkkkkkk) **“Teck’s WHS Equipment”** means, for the purposes of this Agreement including Section 31.4, all electrical and ancillary equipment and assets located on, under or in the Waneta Hydro Station and / or the Waneta Hydro Station yard providing for the transfer of electricity from the Waneta Plant to any transmission assets interconnected with the Waneta Hydro Station, as such equipment may be upgraded or replaced from time to time, excluding (i) any such electrical and ancillary equipment and assets, or portion thereof, that are included in the Waneta Assets; and (ii) the equipment and assets comprising the Interconnection Facilities as such term is defined in the Waneta 18 Line Agreement (May 1, 2007) between Teck Metals Ltd. and FortisBC.
- (lllllll) **“Terminated Transactions”** has the meaning set forth in Section 24.3(b).
- (mmmmmmm) **“Termination Payment”** has the meaning set forth in Section 24.3(b).
- (nnnnnnn) **“Third Party Referee”** means an independent third party to which a disagreement between the Co-Possessors is referred pursuant to Section 4.8(c) or Section 6.7(b), or by mutual agreement pursuant to Section 6.8(b).
- (oooooooo) **“Transfer”** means any sale, exchange, transfer, assignment, gift, alienation, transmission or a transaction, whether voluntary, involuntary or by operation of law by which any or all of the legal or beneficial right, title and interest in the Participation Interest of a Co-Possessor passes from one Person to another, whether or not for value, and **“Transfer”**, **“Transferred”**, **“Transferor”** and **“Transferee”** and similar expressions have corresponding meanings, and for certainty **“Transfer”** specifically excludes any Lien constituting a Permitted Encumbrance contemplated by Section 1.1(uuuuu)(iv) or Section 1.1(uuuuu)(v), but shall include any transfer, assignment, alienation or other disposition of any right, title or interest arising pursuant to the enforcement of such Lien (including, for greater certainty, any such transfer arising from order absolute of foreclosure or any other legal process).

- (ppppppp) **“Transmission Agreement”** means the transmission agreement dated <@> between BC Hydro and Teck Metals Ltd.
- (qqqqqqq) **“Unit”** means machinery and equipment making up a complete and independent hydro-electric generator including water passages, turbine, exciter, generator and generator output transformer and replacements thereof.
- (rrrrrrr) **“Upgrade”** means that portion of any action and/or capital expenditure undertaken with the intent to increase the Entitlement Capacity and/or Entitlement Energy (in each case attributable to 100% of the Waneta Plant as determined by the Entitlement Calculation Program) by at least 3 MW and/or 10 GWh/year.
- (sssssss) **“Waneta Agreements”** means this Agreement, the Waneta Lease and the Contract Bare Trust Agreement.
- (ttttttt) **“Waneta Assets”** means collectively, the Waneta Plant and those properties, assets, equipment, parts, permits, licences, authorizations or agreements of every nature and kind, real, personal or mixed, and whether tangible or intangible that are owned or leased by the Co-Possessors or in which the Co-Possessors have an interest and that are used from time to time in connection with the operation and maintenance of the Waneta Plant including as of the Effective Date the “Waneta Assets” (as that term is defined in the Waneta Purchase Agreement (2017)), and any successor or substitute assets therefor, in each case other than to the extent that any of them comprise part of the Excluded Assets.
- (uuuuuuuu) **“Waneta Expansion”** or **“WAX”** means the hydro-electric facilities constructed near the Waneta Plant using the hydraulic head created by the Waneta dam, including upgrades thereto from time to time, as contemplated by PASDA.
- (vvvvvvvv) **“Waneta Hydro Station”** means the substation located on the Real Property (as that term is defined in the Waneta Purchase Agreement (2017)) connecting the Waneta Plant’s generators to, among other things, Line 71 and transmission lines running to Emerald Switching Station.
- (wwwwwww) **“Waneta Insurance Costs”** means the Costs that are properly allocated to the Co-Possessors under this Agreement in relation to maintaining the insurance policies as contemplated in this Agreement.
- (xxxxxxx) **“Waneta Lease”** has the meaning set forth in the recitals to this Agreement.
- (yyyyyyy) **“Waneta Plant”** means the Waneta dam located on the Pend d’Oreille River and its generating station, and any Upgrades thereto, the Waneta Hydro Station, transmission infrastructure and equipment between the Waneta dam and the Waneta Hydro Station, all related tangible assets and equipment owned or leased by the Co-Possessors or in which the Co-Possessors have an interest and that are used by the Co-Possessors in connection with the operation and

maintenance of those assets from time to time, and any successor or substitute assets therefor, excluding the Excluded Assets.

- (zzzzzzz) **“Waneta Purchase Agreement (2017)”** means the Waneta purchase agreement dated <@>, 2017 among BC Hydro, Waneta Holdings (US) Inc., Teck Resources Limited and TCAI Incorporated.
- (aaaaaaaa) **“Waneta Release Coordination Agreement”** means the Waneta Release Coordination Agreement made the 30th day of June, 2004 between Teck Cominco Metals Ltd. and Waneta Expansion Power Corporation, as may be amended, modified or restated from time to time.
- (bbbbbbbb) **“Waneta Reserve”** means the water reserve on the unrecorded waters of the Pend d’Oreille River at Waneta, granted by Order in Council 608 approved May 2, 1991, as amended by Order in Council 0772 approved July 24, 2003, and as may be further amended, supplemented or replaced from time to time.
- (ccccccc) **“Water Comptroller”** means the Comptroller of Water Rights appointed under the *Water Sustainability Act*.
- (ddddddd) **“Water Rental Fees”** means the fees payable from time to time under the *Water Sustainability Act* and regulations thereunder, including in respect of generating capacity, generation and permits to use crown lands.
- (eeeeeee) **“WAX In-Service Date”** means the date on which a re-determination of Teck’s Entitlement Energy and Teck’s Entitlement Capacity under the CPA becomes effective as a result of WAX entering into service.
- (ffffff) **“Worker Safety Plan”** means a plan, program or system (by whatever name it is identified and in whatever format it is prepared) that is designed to remove or reduce the risk of injury or death to workers at, or associated with, the Waneta Assets and Operations and which identifies and mitigates known dangers and hazards associated with the Waneta Assets and prescribes control measures that are employed to protect workers, and includes the allocation of “owner” and other safety responsibilities as between the Operator and the Manager.
- (ggggggg) **“1996 Exemption Order”** means the exemption order dated March 29, 1996 and made pursuant to then section 27 (now section 22) of the *Utilities Commission Act*, which exempts Teck from most of the provisions of Part 3 of the *Utilities Commission Act*.

## 1.2. Interpretation

- (a) In this Agreement, unless the context otherwise requires, words importing the singular include the plural and vice versa, words importing gender include all genders, “or” is not exclusive, “including” is not limiting, whether or not non-limiting language (such as “without limitation”) is used with reference thereto, a grammatical variation of a defined term shall have a corresponding meaning, and

reference to any Person includes such Person's successors and assigns but, if applicable, only if the succession by such successor or assignment to such assignee is not prohibited hereby.

- (b) In this Agreement, in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".
- (c) The inclusion of headings in this Agreement is for convenience only and shall not affect the construction or interpretation of this Agreement.
- (d) Any reference in this Agreement to a designated Section, subsection, paragraph, Table or other subdivision or to a Schedule or Exhibit is to the designated Section, subsection, paragraph, Table or other subdivision of, or Schedule or Exhibit to, this Agreement, unless the context otherwise requires.
- (e) Except where otherwise expressly provided, the words "herein", "hereof", "hereby" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section, subsection, paragraph or other subdivision, Schedule or Exhibit.
- (f) Except where otherwise expressly provided, any reference in this Agreement to a statute includes and is a reference to such statute and to the regulations made pursuant to it, with all amendments to them and in force from time to time, and to any statute or regulations that may be passed which supplement or supersede such statute and such regulations.
- (g) Except where otherwise expressly provided, all monetary amounts referred to in this Agreement are stated and shall be paid in Canadian currency.
- (h) Except where otherwise expressly provided, any accounting term not otherwise defined in this Agreement has the meaning assigned to it in accordance with IFRS applied on a basis consistent with that of prior periods.
- (i) The language used in this Agreement is the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against either Party.
- (j) Attached hereto and forming part of this Agreement are the following Schedules and Exhibit:
  - Schedule A – Intentionally deleted.
  - Schedule B – Powers of Attorney
  - Schedule C - Major Component Refurbishment Schedule
  - Exhibit 1 - Extraordinary Refurbishment Costs Sample Calculation

## 2. REPRESENTATIONS AND WARRANTIES; TITLE TO ASSETS

### 2.1. Representations and Warranties

Each of the initial Co-Possessors represents and warrants to the other as of the Effective Date as follows:

- (a) that it has the capacity to enter into and perform this Agreement and all transactions contemplated herein and that all other actions required to authorize it to enter into and perform this Agreement have been properly taken;
- (b) that the execution, delivery and performance by it of this Agreement does not (and would not with the giving of notice, the lapse of time or the happening of any other event or condition) result in a breach or a violation of, or conflict with, or allow any other Person to exercise any rights existing as at the Effective Date under, any of the terms or provisions of its constating documents or by-laws or any contracts or instruments to which it is a party or pursuant to which any of its assets or property may be affected (subject to obtaining any requisite consents or approvals) or any judgment, order, writ, injunction or, to the best of its knowledge, any decree of any Governmental Authority having jurisdiction over it (subject to obtaining any requisite consents or approvals), that would have a material adverse effect on the Waneta Assets;
- (c) that this Agreement has been duly executed and delivered by it and is valid and binding upon it in accordance with its terms;
- (d) that no consent or approval of any third party or Governmental Authority is required for the execution, delivery or performance by it of this Agreement, other than as contemplated in the Waneta Purchase Agreement (2017);
- (e) if the Co-Possessor is BC Hydro, that it is the legal and beneficial owner of the 1/3 Interest and that it is the legal and beneficial owner of the 2/3 Interest (subject to the terms of the Waneta Lease and the Contract Bare Trust Agreement) free and clear of all Liens and adverse claims, except Permitted Encumbrances; and
- (f) if the Co-Possessor is Teck, that that it is the legal and beneficial owner of Leasehold Estate and holds its beneficial interest in the Bare Trust Assumed Contracts pursuant to the Contract Bare Trust Agreement free and clear of all Liens and adverse claims, except Permitted Encumbrances.

### 2.2. Covenants

Each of the Co-Possessors shall:

- (a) from time to time give prompt notice to the other of any notice of default, lawsuit, proceeding, action or damages of which it becomes aware and which might affect the Waneta Assets, whether directly or indirectly;

- (b) not, without the prior written consent of the other Co-Possessor, create, assume or permit to exist any Lien or other encumbrance on any part of its Participation Interest, other than Permitted Encumbrances and those other encumbrances identified or contemplated by Schedule 1.1(ccc) of the Waneta Purchase Agreement (2017);
- (c) perform all of its obligations under and in accordance with the Security Documents granted by it; and
- (d) in the case of Teck:
  - (i) not amend or agree to amend any of the operating procedures under the CPA or any Replacement CPA if such amendment would have, directly or indirectly, an adverse effect on BC Hydro's Participation Interest;
  - (ii) not amend or agree to amend the CPA Subagreement or the Line 71 Agreement, if such amendment would have, directly or indirectly, an adverse effect on BC Hydro's Participation Interest; and
  - (iii) not create, assume or permit to exist any Lien on any part of any property charged or intended to be charged by any of the Teck Security Documents, other than Permitted Encumbrances;

in each case, without the prior written consent of BC Hydro.

### 2.3. FERC Licence

BC Hydro hereby represents and warrants that as of the Effective Date, Waneta Holdings (US) Inc. (“**WHUSI**”) is a wholly owned subsidiary of BC Hydro and holds the FERC Licence free and clear of all Liens except Permitted Encumbrances. BC Hydro will cause WHUSI to (i) maintain the FERC Licence in good standing, free and clear of all Liens except Permitted Encumbrances, (ii) perform, or advise the Operator of, any steps or measures that are required to be undertaken to comply with its obligations under the FERC Licence, (iii) not transfer the FERC Licence in whole or in part except in conjunction with and at the same time as any corresponding Transfer by BC Hydro of all of its Participation Interest and provided the Transferee of BC Hydro's Participation Interest has entered into a written agreement with Teck, in form and substance to the satisfaction of Teck, acting reasonably, whereby the Transferee agrees to be bound by this Section 2.3 in respect of any transferee of the FERC Licence, and (iv) provide reports to the Operator, BC Hydro and Teck in respect of the status of the FERC Licence and compliance with all obligations under the FERC Licence, which reports shall be provided annually or as otherwise agreed by the Parties. For so long as WHUSI holds the FERC Licence, BC Hydro shall continue to Control WHUSI.

### 3. PURPOSES AND TERM

#### 3.1. Purposes

While this Agreement is in force, the Co-Possessors agree that this Agreement shall govern and define, and is being entered into for the purpose of governing and defining, their respective rights, proceeds, benefits, liabilities, interests, powers and obligations as co-possessors of the Waneta Assets and with respect to the management, operation, maintenance and periodic upgrade of the Waneta Assets and the scope of this Agreement shall be so limited, but except as expressly prohibited hereby, nothing herein restricts a Co-Possessor from entering into, or remaining party to, other arrangements in respect of its Participation Interest, including the Surplus Power Rights Agreement and, in respect of Teck, the CPA and CPA Subagreement.

#### 3.2. Effective Date and Term

This Agreement shall come into effect immediately upon BC Hydro becoming the sole owner of the Real Property (as that term is defined in the Waneta Purchase Agreement (2017)) constituting part of the 1/3 Interest and the 2/3 Interest and shall continue in force and effect until the earlier of:

- (a) the date on which the Waneta Lease expires or terminates;
- (b) the date on which both Co-Possessors acting together collectively dispose of all of their respective Participation Interests; or
- (c) the date this Agreement is terminated by written agreement of the Co-Possessors or is otherwise terminated in accordance with this Agreement,

at which time this Agreement shall terminate. On termination of this Agreement, each Co-Possessor shall remain liable for its obligations and liabilities incurred or accrued under this Agreement prior to the termination of this Agreement, whether arising before or after termination, including obligations and liabilities resulting from its breach or default under this Agreement prior to its termination and the other Co-Possessor's rights and remedies under this Agreement in respect of such obligations and liabilities shall continue and survive (all subject to those provisions of this Agreement which expressly survive termination of this Agreement). On termination of this Agreement, the Co-Possessors shall make such payments to each other as to fairly and adequately adjust for any insurance premiums (for insurance maintained for the benefit of both Co-Possessors) that have been paid or that may be payable in or in respect of the Fiscal Year in which the Agreement is terminated or any insurance proceeds (for insurance maintained for the benefit of both Co-Possessors) in respect of an insurable event occurring prior to the date of termination. On termination of this Agreement, Teck shall pay to BC Hydro an amount equal to:

- (d) the Deferred Refurbishment Amount, if this Agreement is terminated at the end of the Initial Term; or



- (e) the sum of (A) the amount remaining in the Deferred Refurbishment Cost Pool (if any) plus (B) the amount remaining in the Renewal Term Refurbishment Adjustment Pool (if any), if this Agreement is terminated during or at the end of the Renewal Term,

as calculated by Teck acting reasonably.

#### 4. **RELATIONSHIP OF THE CO-POSSESSORS**

##### 4.1. No Partnership

Nothing in this Agreement nor any acts of the Co-Possessors pursuant to this Agreement shall constitute or be interpreted to constitute the Co-Possessors as partners, nor except as otherwise herein expressly provided, to constitute any Co-Possessor the agent of the other Co-Possessor. Each Co-Possessor expressly disclaims any intention to create a partnership or to create any fiduciary relationship with each other (except to the extent that (i) this Agreement expressly provides for a Co-Possessor (in its capacity as Co-Possessor or Operator) to act as a trustee of the other Co-Possessor or the Co-Possessors or (ii) the Contract Bare Trust Agreement provides for Teck Metals Ltd. to act as a trustee for the Co-Possessors in respect of the Bare Trust Assumed Contracts) and covenants with the other Co-Possessor that it shall not at any time, allege or claim that such a partnership or fiduciary relationship was created. Except as expressly provided herein, nothing in this Agreement shall give a Co-Possessor any power or authority to act or assume any obligation or responsibility for or on behalf of the other Co-Possessor.

##### 4.2. Limited Recourse and Several Liability

The Co-Possessors acknowledge and agree as between themselves, that:

- (a) the rights, duties, obligations and liabilities of the Co-Possessors shall be several and not joint or collective; and
- (b) each Co-Possessor shall be responsible only for its obligations as herein set out and, except as expressly provided in this Agreement, shall be liable only for its share of the Costs as provided herein to the extent of its Participation Percentage.

The Co-Possessors shall use all reasonable efforts to cause all documents, contracts, agreements, instruments and Governmental Authorizations hereafter entered into creating obligations of the Co-Possessors to third parties in respect of the Waneta Assets to contain provisions, as appropriate, to the effect that each Co-Possessor shall be bound thereby only to the extent of and as applicable to that Co-Possessor's Participation Interest. The Co-Possessors acknowledge and agree that notwithstanding the foregoing, there may be circumstances where the Co-Possessors agree that, or where Applicable Laws require that, the rights, duties, obligations and liabilities of the Co-Possessors are joint and not several, provided however that in each such case, the rights and responsibilities of the Co-Possessors (as between themselves) as set forth in this Agreement including the rights of indemnification between the Co-Possessors, shall

continue unaffected by any such agreement or any such requirement under Applicable Laws.

#### 4.3. Other Business Opportunities

Except as expressly provided in this Agreement, each Co-Possessor shall have the right independently to engage in and receive full benefits from business activities and opportunities, whether or not competitive with Operations, without consulting with, or any obligation to, the other. The doctrines of “corporate opportunity” or “business opportunity” shall not be applied to any other activity, venture, or operation of either Co-Possessor. Notwithstanding the foregoing, each Co-Possessor shall consult with the other Co-Possessor and shall reasonably consider the interests (both short-term and long-term) of the other Co-Possessor under this Agreement before taking any action that will materially and disproportionately affect either the Waneta Assets or the other Co-Possessor’s interest in the generation (either directly or through the CPA or a Replacement CPA) from the Waneta Plant; provided that neither Co-Possessor shall have any fiduciary or similar obligation to the other Co-Possessor in connection therewith. For greater certainty, the obligation to consult with the other Co-Possessor and consider the other Co-Possessor’s interests shall reflect that BC Hydro’s interest in the Waneta Assets is as owner, subject to the Waneta Lease, and that the interest of Teck is as the tenant under the Waneta Lease whose interest will expire at the end of the Lease Term.

#### 4.4. Taxation / Accounting

Except as expressly provided in this Agreement, all Costs incurred hereunder shall be for the account of the Co-Possessors in proportion to their respective Participation Percentages, and each Co-Possessor on whose behalf any Costs have been so incurred shall be entitled to claim all Tax benefits, write-offs and deductions with respect thereto.

Notwithstanding the manner in which Costs are presented in any Budget, each Co-Possessor shall be entitled for its own purposes to account for such Costs as an operating expense or capital expenditure in accordance with its own internal accounting procedures.

#### 4.5. Power of Attorney

- (a) Each Co-Possessor hereby irrevocably makes, constitutes and appoints as its true and lawful attorney and agent the other Co-Possessor with full power and authority to act in the Co-Possessor’s place and stead to execute and deliver on behalf of and in the name of the Co-Possessor all notices, instruments and other documents pursuant to Section 6.7 or 6.8 of Schedule A to the CPA in the circumstances contemplated by Section 10.7(c) or Section 14.7 of this Agreement (or any other provision of this Agreement which requires the Co-Possessors to provide written notice pursuant to Section 6.7 or 6.8 of Schedule A of the CPA where a Co-Possessor has failed to provide such notice on demand from the other Co-Possessor or is otherwise a Defaulting Party), to effectively specify Teck’s Entitlement Capacity and Teck’s Entitlement Energy, as applicable, to change the “Capacity Entitlement Adjustments” factors or “Energy Entitlement Adjustments”

factors set forth in Table 10 of the CPA, as applicable, or to change the procedure for determining the amount of “MW on Outage” to be used in determining from Table 10 of the CPA either the “Capacity Entitlement Adjustments” factors or “Energy Entitlement Adjustments” factors set forth in Table 10 of the CPA, as applicable.

- (b) Teck hereby irrevocably makes, constitutes and appoints as its true and lawful attorney and agent, BC Hydro with full power and authority to act in Teck’s, place and stead to provide schedules pursuant to the Line 71 Agreement and appropriate instructions to FortisBC and any other applicable Person in respect of all applicable interconnection agreements to which Teck is a party and to execute and deliver all notices, instruments and other documents and do all such other acts and things as BC Hydro determines in good faith to be reasonably necessary for the purpose of exercising its rights pursuant to Section 24.2(e).
- (c) Such appointments, being coupled with an interest, are irrevocable by the appointing Co-Possessor, extend to and are binding upon the successors and permitted assigns of the Co-Possessor and shall not be revoked by the insolvency or bankruptcy of the Co-Possessor and the Co-Possessor agrees to ratify and confirm all that the other Co-Possessor may do or cause to be done pursuant to the foregoing. The Co-Possessor hereby agrees to be bound by any act of the other Co-Possessor and any successor thereto, while acting in good faith pursuant to the within powers of attorney, and the Co-Possessor hereby waives any and all defences which may be available to it, to contest, negate or disaffirm the action of the other Co-Possessor and any successor thereto taken in good faith in accordance with the terms of the within powers of attorney.
- (d) To evidence the authority conferred on the other Co-Possessor under this Section 4.5, each Co-Possessor shall execute under seal a form of power of attorney substantially in the form as set out in Schedule B.

#### 4.6. Teck Decisions with respect to the 2/3 Interest

- (a) Except for Legal Rights Decisions and Emergency Decisions which shall be dealt with pursuant to Section 4.6(b), Teck shall be entitled to decide or determine, in its sole and absolute discretion, the following matters in respect of the interest held in trust by the Bare Trustee for Teck and BC Hydro in the Bare Trust Assumed Contracts:
  - (i) whether to waive any contractual obligation or right pursuant to, exercise or make available to third parties any right pursuant to, or amend, renew or replace, any Bare Trust Assumed Contract; and
  - (ii) except where the Waneta Lease or Contract Bare Trust Agreement explicitly provides otherwise, whether or not to:
    - A. initiate, contest, settle or compromise any legal action or proceeding by or against a third party related to the foregoing;

- B. contest, settle or compromise any legal action or proceeding by any Governmental Entity in respect of any alleged breach of Applicable Laws by Teck in connection with the Waneta Assets, other than in respect of any alleged breach by Teck in its capacity as Operator; or
- C. initiate, settle or compromise any legal action or proceeding against any Governmental Entity in respect of an action or decision taken or made by it pursuant to Applicable Laws in respect of Teck and in connection with the Waneta Assets, other than an action or decision affecting Teck's responsibilities as Operator, if any.

except for any such decision or determination that, if made as intended to be made by Teck, could reasonably be expected to result in material and negative BC Hydro Impacts, in which case Section 4.8 would apply.

- (b) Teck shall provide direction to the Bare Trustee to implement Legal Rights Decisions and Emergency Decisions relating to the Bare Trust Assumed Contracts, as applicable, in respect of the interest in those Bare Trust Assumed Contracts held in trust by the Bare Trustee for Teck and BC Hydro.

#### 4.7. BC Hydro Decisions with respect to 2/3 Interest

- (a) BC Hydro shall be entitled to decide or determine, in its sole and absolute discretion, the following matters in respect of the interest held by BC Hydro in the 2/3 Interest:
  - (i) to amend, renew or replace any Governmental Authorizations, or initiate, contest, settle or compromise any legal action or proceeding against a third party related to any breach or violation of, or the validity or authority of, any Governmental Authorization;
  - (ii) to waive any contractual obligation or right pursuant to, exercise or make available to third parties any right pursuant to, or amend, renew or replace, any Assumed Contract that is not a Bare Trust Assumed Contract; and
  - (iii) except where the Waneta Lease or Contract Bare Trust Agreement explicitly provides otherwise, whether or not to:
    - A. initiate, contest, settle or compromise any legal action or proceeding by or against a third party related to any of the foregoing;
    - B. contest, settle or compromise any legal action or proceeding by any Governmental Entity in respect of any alleged breach of Applicable Laws by BC Hydro in connection with the Waneta Assets; or

- C. initiate, settle or compromise any legal action or proceeding against any Governmental Entity in respect of an action or decision taken or made by it pursuant to Applicable Laws in respect of BC Hydro and in connection with the Waneta Assets; and

except for any such decision or determination that, if made as intended to be made by BC Hydro, could reasonably be expected to result in material and negative Teck Impacts, in which case Section 4.8 would apply. For greater certainty, the Parties acknowledge and agree that this Section 4.7 does not apply to any requirement imposed by Governmental Authorities that must be complied with by BC Hydro in order to remain in compliance with Applicable Laws and where BC Hydro does not have any discretion or decision-making ability regarding methods of complying with such requirements and has no reasonable basis to initiate any legal action or proceeding challenging the Governmental Entity's jurisdiction under, or its interpretation of, the relevant Applicable Laws. To the extent that BC Hydro does have discretion or decision making ability regarding methods of complying with such requirements, only the increment between (i) the minimum compliance requirements, and (ii) BC Hydro's decision as to the method of compliance, shall be subject to this Section 4.7 and resolution by Third Party Referee in accordance with Section 4.8, if applicable.

#### 4.8. Resolution of Decisions with respect to 2/3 Interest

Where pursuant to Section 4.6 or 4.7, this Section 4.8 applies in respect of decision or determination:

- (a) the Co-Possessor making the decision or determination shall refer such decision or determination to the Operating Committee for resolution by written notice to the other Co-Possessor. If a mutually agreeable resolution is reached within 10 Business Days, then Teck or both Co-Possessors shall, if applicable, execute and deliver to the Bare Trustee a direction requiring the Bare Trustee to implement the resolution; or
- (b) if the Operating Committee is unable to decide upon such decision or determination within 10 Business Days of the referral, then the matter shall be determined pursuant to Section 4.8(c).
- (c) an unresolved matter referred to in Section 4.8(b) will be referred to a Third Party Referee. The Third Party Referee shall be free of any current or historical relationship with either Co-Possessor that might give rise to a reasonable apprehension of bias and, unless otherwise agreed, be: (1) an engineer or engineering firm experienced in hydro generation matters, if the matter primarily relates to technical issues, or (2) an experienced commercial arbitrator, if the matter does not primarily relate to technical issues. The Third Party Referee shall be appointed as soon as practicable but not later than 20 days after the date on which such notice has been provided and shall make its determination within 30

days of its having been appointed. Where such a disagreement is referred to a Third Party Referee (whether by mutual agreement or pursuant to Section 4.8(d)):

- (i) the Third Party Referee shall act as expert and not as arbitrator and its decision shall be final and binding on the Co-Possessors;
  - (ii) each Co-Possessor shall prepare a written statement setting out its position with respect to the decision or determination and the Third Party Referee shall be instructed to select one of the Co-Possessor's positions based on which proposed position is more commercially reasonable, taking into account the effect of each proposal on each of the Co-Possessors, including with respect to Teck's Entitlement Capacity and Teck's Entitlement Energy, and BC Hydro's rights to output from the 2/3 Interest after the Lease Term;
  - (iii) the Third Party Referee must adjudicate the dispute, and may grant remedies, in both law and equity, including compensatory payments, in order to equitably allocate as between the Parties the BC Hydro Impacts and the Teck Impacts resulting from the selected position, although the Third Party Referee shall have no authority to:
    - A. allocate any Extraordinary Refurbishment Costs between the Co-Possessors in a manner different than that set out in this Agreement; or
    - B. award compensatory payments in a manner that would alter the sharing of Expected Refurbishment Costs as set out in this Agreement.
  - (iv) the Operator shall implement such selected proposal as if it had been unanimously approved by the Operating Committee, and both Co-Possessors shall, if applicable, execute and deliver to the Bare Trustee a direction requiring the Bare Trustee to implement the determination;
  - (v) the Co-Possessor whose proposal is not selected by the Third Party Referee shall bear the costs of the Third Party Referee and the expert determination; and
- (d) In the event that the Co-Possessors are unable to agree on the appointment of a Third Party Referee pursuant to Section 4.8(c), then each of the Co-Possessors shall prepare and deliver to the other Co-Possessor, within 5 days after the expiry of the initial time period required under Section 4.8(b), a list of three proposed independent third party referees, each of which must be free of any current or historical relationship with either Co-Possessor that might give rise to a reasonable apprehension of bias and, unless otherwise agreed, be: (1) an engineer or engineering firm experienced in hydro generation matters if the matter primarily relates to technical issues, or (2) an experienced commercial arbitrator, if the matter does not primarily relate to technical issues. Each Co-Possessor shall,

within 5 days after receipt of the list of the other Co-Possessor's proposed independent third party referees, select one of the other Co-Possessor's proposed independent third party referees to be entered into a lottery, pursuant to which one of the two proposed independent third party referees so entered into the lottery shall be selected by coin flip. If either Co-Possessor does not provide to the other Co-Possessor its list of three proposed independent third party referees within the 5 day period specified herein, then the other Co-Possessor who has so provided its list, shall be entitled to select one Person from its own list to act as the Third Party Referee. If the proposed independent third party is unable or unwilling to act, each Co-Possessor shall select one of the other Co-Possessor's proposed independent third party referees other than the one who is unable or unwilling to act and this provision shall be applied again until an independent third party is engaged.

## 5. INTERESTS OF CO-POSSESSORS

### 5.1. Intentionally Deleted.

### 5.2. Participation Percentages

The Participation Percentages of the Co-Possessors shall be as follows:

BC Hydro	33.333%
Teck	66.667%.

### 5.3. Share of Generation and CPA Adjustments Reflect Participation Percentages

BC Hydro and Teck each acknowledge and agree that:

- (a) the reduction in BC Hydro's obligation to provide Entitlement Energy and Entitlement Capacity under the CPA until January 1, 2036 as provided in Table 4 (as amended from time to time) plus BC Hydro's Share of Actual Generation from January 1, 2036 until the end of the Lease Term, represent its share (in terms of Participation Percentage) by value of the capacity and energy forecast to be made available to the owner of the Waneta Assets during the Lease Term; and
- (b) Teck's Entitlement Capacity and Teck's Entitlement Energy until January 1, 2036 as forecast in Table 3 (as may be amended from time to time) plus entitlement received under the CPA or a Replacement CPA from Teck's Share of Actual Generation from January 1, 2036 until the end of the Lease Term, represent its share (in terms of Participation Percentage) by value of the capacity and energy forecast to be made available to the owner of the Waneta Assets during the Lease Term.

5.4. Intentionally Deleted5.5. Intentionally Deleted5.6. BC Hydro Operating Instructions

For so long as the CPA or a Replacement CPA is in effect, BC Hydro's operating instructions for its Participation Percentage of the Waneta Plant shall be consistent with its operating instructions for Teck's Participation Percentage of the Waneta Plant pursuant to the CPA or the Replacement CPA.

6. OPERATING COMMITTEE6.1. Organization and Composition of Operating Committee

As of the Effective Date, the Co-Possessors have by notice to each other of their respective appointed members, established an Operating Committee to oversee the Operator and to make certain fundamental decisions regarding Operations. The Operating Committee shall consist of four members, two members to be appointed by each Co-Possessor, or such other number as the Parties may mutually agree so long as each Co-Possessor has equal representation. Each Co-Possessor may appoint one or more alternates to act in the absence of a regular member. Any alternate so acting shall be deemed a member. Appointments shall be made or changed by notice to the other Co-Possessor. Each Co-Possessor shall be entitled to invite a member or members of its internal staff to attend any meeting of the Operating Committee where such person's presence is required in the opinion of such Co-Possessor, acting reasonably, to speak to specific matters appearing in the agenda for such meeting, but no such person shall be entitled to vote on any matter before the Operating Committee.

6.2. Decisions

Each Co-Possessor, acting through its appointed members shall have one vote on the Operating Committee which vote shall, except as provided in Sections 7.12, 24.2(c) and 25.5, be equal to its Participation Percentage. Except as set out in Sections 6.7 and 6.8, all decisions of the Operating Committee shall be decided by a majority vote of the Participation Percentages such that, by way of example and for greater clarity, the vote of a Co-Possessor holding a Participation Percentage greater than 50% is a majority vote which would be effective to make the decision of the Operating Committee. If BC Hydro is appointed Operator pursuant to Section 7.1, then for so long as BC Hydro remains the Operator, for purposes of this Section 6.2, BC Hydro's vote on the Operating Committee will be deemed to be equal to 51% and it will thereby decide matters of the Operating Committee eligible for decision by majority vote and Teck's vote will be deemed to be equal to 49%, notwithstanding their respective Participation Percentages.

6.3. Meetings

The Operating Committee shall hold regular meetings at least quarterly, either by telephone conference, or in person at Vancouver and Trail on an alternating basis, or at



other mutually agreed places. The Operator shall give 30 days' notice to the Co-Possessors of such regular meetings. Additionally, any Co-Possessor may call a special meeting upon 5 Business Days' notice to the other Co-Possessor. In case of emergency, reasonable notice of a special meeting shall suffice. There shall be a quorum if notice was given as provided in this Section 6.3 and at least one member representing each Co-Possessor is present (in person or by telephone conference), provided that:

- (a) if, within one-half hour from the time set for the holding of a meeting of the Operating Committee, a quorum is not present, the meeting stands adjourned to the same time and place (or where the meeting was to take place by telephone conference, the same time and conference line details), on the next following Business Day; and
- (b) if, at the meeting to which the meeting referred to in Section 6.3(a) was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the member or members of the Operating Committee present at such meeting shall constitute a quorum.

Each notice of a meeting shall include an itemized agenda (including in reasonable detail, matters for which the approval of the Operating Committee shall be sought at the meeting) prepared by the Operator in the case of a regular meeting, or by the Co-Possessor calling the meeting in the case of a special meeting, but any matters may be considered with the consent of each Co-Possessor. Each Co-Possessor shall be provided, together with any notice of meeting, all such information as is reasonably necessary to allow such Co-Possessor to properly consider any matter set forth in the agenda and to make an informed decision thereon at the meeting. The Operator shall prepare minutes of all meetings and shall distribute copies of such minutes to the Co-Possessors within 14 days after the meeting. The Co-Possessors shall have 14 days from receipt of the draft minutes to approve or comment upon the draft minutes. If a Co-Possessor does not object to or comment upon the draft minutes within such period, the Co-Possessor shall be deemed to have approved the minutes. If a Co-Possessor objects to or comments upon the draft minutes within such period, the Operator shall then have 14 days to revise the draft minutes, taking into account any comments received, and shall distribute copies of such revised minutes to the Co-Possessors. The Co-Possessors shall have 14 days from receipt of the revised minutes to approve or comment upon the revised minutes. If a Co-Possessor objects to or comments upon the revised minutes within such period, either Co-Possessor may submit the finalization of such minutes to be resolved in accordance with Section 29. The minutes shall be the official record of the decisions made by the Operating Committee and shall be binding on the Operator and the Co-Possessors. If the Manager or other personnel employed in Operations are required to attend an Operating Committee meeting, reasonable costs incurred in connection with such attendance shall be borne by the Co-Possessors in proportion to their Participation Percentages. All other costs associated with attendance at meetings shall be paid for by the Co-Possessors individually.

#### 6.4. Written Consent Resolutions

A resolution of the Operating Committee may be passed without a meeting if at least one representative on the Operating Committee of each Co-Possessor consents to it in writing. A written consent resolution under this Section 6.4 may be signed by document, fax, e-mail or any other method of transmitting legibly recorded messages. A written consent resolution may be in two or more counterparts which together are deemed to constitute one written consent resolution. A resolution of the Operating Committee passed in accordance with this Section 6.4 is effective on the date stated in the written consent resolution or otherwise on the latest date stated on any counterpart and is deemed to be a proceeding at a meeting of the Operating Committee and to be as valid and effective as if it had been passed at a meeting of the Operating Committee that satisfies the requirements of this Agreement relating to meetings of the Operating Committee.

#### 6.5. Operating Committee Oversight

The Operating Committee shall have oversight of the Operator in performing its duties and responsibilities under this Agreement.

#### 6.6. Matters Requiring Majority Approval

Subject to Section 9.6(a), the matters that require prior majority approval from the Operating Committee are:

- (a) the proposed purchase, termination, replacement or renewal of, or any material amendment to, the terms of any of the insurance coverage that the Operator is required to obtain and maintain pursuant to the provisions of Section 27 for the benefit of both Co-Possessors, including,
  - (i) annual renewals of such insurance coverage;
  - (ii) any proposed material change to such insurance coverage (including any proposed changes in wording of specific policies, the nature or scope of coverage, premiums, deductibles, limits and sublimits); and
  - (iii) the approval of any change to or variation from the claims management process for insurance claims related to the Waneta Assets, as set out in Section 27.5,

it being understood that approvals will need to provide appropriate flexibility to the Operator to effect renewals on the most favourable terms achievable, but not on terms materially less favourable than those approved;

- (b) Operating Budgets and Sustaining Capital Budgets other than those Budgets or portions thereof that require unanimous approval as set forth in Section 6.7;
- (c) Intentionally deleted;

- (d) the:
- (i) commencement or institution of any legal action or proceeding against a third party relating to Operations, involving payments, commitments or obligations of \$2,000,000 (adjusted for inflation annually as of the last day of each Fiscal Year at the Agreed Inflation Factor) (in aggregate) or less in cash and/or value by either Co-Possessor (in such capacity) or the Operator (in such capacity) or the compromise or settlement of the same;
  - (ii) settlement or compromise of any legal action or proceeding brought by a third party relating to Operations, involving payments, commitments or obligations of \$2,000,000 (adjusted for inflation annually as of the last day of each Fiscal Year at the Agreed Inflation Factor) (in aggregate) or less in cash and/or value against the Operator (in such capacity), except such legal actions or proceedings in respect of which the Operator has assumed sole responsibility for the loss, liability, costs and expenses thereof and has delivered a written acknowledgement to each Co-Possessor confirming its responsibility and that it shall have no claim against the Co-Possessors through recovery of Costs or otherwise in respect of such action or proceeding;
- (e) the appointment of representatives of the Co-Possessors to the “Technical Working Group” under the Waneta Cooperation Agreement, appointment of a representative of the Co-Possessors to the “Operating Committee” under the Waneta Release Coordination Agreement, and appointment of representatives of the Co-Possessors under such other operating or technical committees that may exist from time to time;
- (f) the decision to dispute a single assessment notice as it relates to the classification or assessed values of the Waneta Assets pursuant to Section 12.1(f); and
- (g) any other matter which pursuant to the terms of this Agreement requires the approval or consent of the Operating Committee (other than unanimous approval or consent) and which is not specifically listed in this Section 6.6.

6.7. Matters Requiring Unanimous Approval (Subject to Resolution by Third Party Referee)

- (a) Notwithstanding any other provision of this Agreement, but subject to Section 9.6(a), the following matters shall require the prior unanimous approval of the Operating Committee (for greater certainty, the approval of the Co-Possessors holding in aggregate 100% of the Participation Percentages):
- (i) the approval of each plan forming part of the Operating and Management Plan and any amendments and updates thereto;
  - (ii) any Sustaining Capital Expenditures for a project (to be incurred in a Budgetary Period or over a period greater than a Budgetary Period), in amounts in the aggregate in excess of \$10,000,000 (or \$5,000,000 with

respect to any Extraordinary Refurbishment Costs incurred or payable during the Initial Term, or \$2,500,000 with respect to any Extraordinary Refurbishment Costs incurred or payable during the Renewal Term) (adjusted for inflation annually as of the last day of each Fiscal Year at the Agreed Inflation Factor), or Sustaining Capital Expenditure(s) in any Budgetary Period that would result in the average annual Sustaining Capital Expenditures for that Budgetary Period and the previous 4 calendar years (including spending in calendar years prior to the Effective Date) varying by more than 10% (positive or negative) from the average annual Sustaining Capital Expenditures for the 5 calendar years preceding that Budgetary Period (including spending in calendar years prior to the Effective Date). For the purpose of this Section 6.7(a)(ii), Sustaining Capital Expenditures in the first Fiscal Year of this Agreement shall be pro-rated as though such first Fiscal Year were a full calendar year;

- (iii) an Operating Budget for a Budgetary Period that would result in the average annual Operating and Maintenance Expenditures during such Budgetary Period and the previous 4 calendar years (including spending in calendar years prior to the Effective Date) varying by more than 10% (positive or negative) from the average annual Operating and Maintenance Expenditures for the 5 calendar years preceding such Budgetary Period (without taking into account any revisions to the Operating Budgets pursuant to Section 9.5 for those prior Budgetary Periods). For the purpose of this Section 6.7(a)(iii), Operating and Maintenance Expenditures to be incurred in the first Fiscal Year of this Agreement shall be pro-rated as though such first Fiscal Year were a full calendar year;
- (iv) the appointment of or any change of Independent Accountant;
- (v) the appointment of or change of a non-Co-Possessor third party Operator in accordance with Section 7.12;
- (vi) any matter set forth in the Accounting Procedure which expressly requires the unanimous approval of the Operating Committee;
- (vii) the amendment or replacement of the Accounting Procedure pursuant to Section 6.11;
- (viii) the approval, development, modification, termination or replacement of any operating procedures pursuant to Section 6.10;
- (ix) the value of “A” for purposes of determining BC Hydro’s Share of Extraordinary Refurbishment Costs; and
- (x) the value of the Renewal Term Refurbishment Adjustment Amount and the Deferred Refurbishment Amount.

- (b) If the Co-Possessors' representatives on the Operating Committee are unable to reach agreement on any matter requiring unanimity described in Section 6.7(a), then either Co-Possessor shall have the right, upon written notice to the other, to have the matter referred to a Third Party Referee. Unless otherwise agreed, the Third Party Referee shall be an engineer or engineering firm experienced in hydro generation matters and free of any current or historical relationship with either Co-Possessor that might give rise to a reasonable apprehension of bias. The Third Party Referee shall be appointed as soon as practicable but not later than 20 days after the date on which such notice has been provided and shall make its determination within 30 days of its having been appointed. Where such a disagreement is referred to a Third Party Referee (whether by mutual agreement or pursuant to Section 6.7(c)):
- (i) the Third Party Referee shall act as expert and not as arbitrator and its decision shall be final and binding on the Co-Possessors;
  - (ii) the Third Party Referee shall have no authority to:
    - A. allocate any Extraordinary Refurbishment Costs between the Co-Possessors in a manner different than that set out in this Agreement (provided that, for greater certainty, the foregoing does not preclude the Third Party Referee from resolving any disagreement over the matters described in Section 6.7(a)(ix) or Section 6.7(a)(x)); or
    - B. award compensatory payments in a manner that would alter the sharing of Expected Refurbishment Costs as set out in this Agreement.
  - (iii) each Co-Possessor shall present its proposal for resolution of the matter in dispute and the Third Party Referee shall select whichever proposal is in its view more consistent with that of a prudent owner acting in accordance with Legal Obligations and Good Utility Practice, taking into account the effect of each proposal on each of the Co-Possessors, including with respect to Teck's Entitlement Capacity and Teck's Entitlement Energy and BC Hydro's rights to output from the Waneta Plant under this Agreement;
  - (iv) the Operator shall implement such selected proposal as if it had been unanimously approved by the Operating Committee;
  - (v) the Co-Possessor whose proposal is not selected by the Third Party Referee shall bear the costs of the Third Party Referee and the expert determination; and
  - (vi) if the matter referred to the Third Party Referee relates to:

- A. an Operating Budget, the Operator shall continue to operate the Waneta Assets in accordance with the previous Operating Budget, until the disagreement is resolved; and
- B. a Sustaining Capital Budget, the Operator shall implement those Sustaining Capital Expenditures contemplated by the Sustaining Capital Budget that are not in dispute and shall not implement those Sustaining Capital Expenditures that are in dispute until the disagreement is resolved.

In the event that the Parties are unable to agree on the appointment of a Third Party Referee, the selection of the Third Party Referee shall be determined in accordance with Section 6.7(c).

- (c) In the event that the Co-Possessors are unable to agree on the appointment of a Third Party Referee pursuant to Section 6.7(b), then each of the Co-Possessors shall prepare and deliver to the other Co-Possessor, within 5 days after the expiry of the initial time period required under Section 6.7(b), a list of three proposed independent third party referees, each of which must, unless otherwise agreed, be an engineer or engineering firm experienced in hydro generation matters and free of any current or historical relationship with either Co-Possessor that might give rise to a reasonable apprehension of bias. Each Co-Possessor shall, within 5 days after receipt of the list of the other Co-Possessor's proposed independent third party referees, select one of the other Co-Possessor's proposed independent third party referees to be entered into a lottery, pursuant to which one of the two proposed independent third party referees so entered into the lottery shall be selected by coin flip. If either Co-Possessor does not provide to the other Co-Possessor its list of three proposed independent third party referees within the 5 day period specified herein, then the other Co-Possessor who has so provided its list, shall be entitled to select one Person from its own list to act as the Third Party Referee. If the proposed independent third party is unable or unwilling to act, each Co-Possessor shall select one of the other Co-Possessor's proposed independent third party referees other than the one who is unable or unwilling to act and this provision shall be applied again until an independent third party is engaged.

6.8. Matters Requiring Unanimous Approval (Not Subject to Resolution by Third Party Referee)

- (a) Notwithstanding any other provision of this Agreement, but subject to Section 9.6(a), the following matters shall require the prior unanimous approval of the Operating Committee (for greater certainty, the approval of the Co-Possessors holding in aggregate 100% of the Participation Percentages):
  - (i) the appointment of any sub-committees of the Operating Committee pursuant to Section 6.9;

- (ii) the approval and designation of any action and/or capital expenditures as a Shared Upgrade, the budgeted capital expenditures for such Shared Upgrade, and the allocation of such expenditures between the Co-Possessors;
  - (iii) any action or expenditure that would have the effect of permanently reducing power generation or capacity of any Unit by more than 5% (as compared to the generation or capacity of such Unit prior to such action or expenditure);
  - (iv) Intentionally deleted;
  - (v) Intentionally deleted;
  - (vi) any abandonment of all or a material portion of the Waneta Assets or any permanent cessation of generation from the Waneta Plant;
  - (vii) the commencement or institution of any legal action or proceeding against a third party relating to Operations, involving payments, commitments or obligations of more than \$2,000,000 (adjusted for inflation annually as of the last day of each Fiscal Year at the Agreed Inflation Factor) (in aggregate) in cash and/or value by either Co-Possessor (in such capacity) or the Operator (in such capacity) or the compromise or settlement of the same; and
  - (viii) the settlement or compromise of any legal action or proceeding brought by a third party relating to Operations, involving payments, commitments or obligations of more than \$2,000,000 (adjusted for inflation annually as of the last day of each Fiscal Year at the Agreed Inflation Factor) (in aggregate) in cash and/or value against both Co-Possessors (in such capacity) or the Operator (in such capacity) except such legal actions or proceedings in respect of which the Operator has assumed sole responsibility for the loss, liability, costs and expenses thereof and has delivered a written acknowledgement to each Co-Possessor confirming its responsibility and that it will have no claim against the Co-Possessors through recovery of Costs or otherwise in respect of such action or proceeding.
- (b) If there is not unanimous approval of the Operating Committee in respect of any matter set forth in Section 6.8(a), the resolution of any dispute in respect of the approval of such matter shall not, absent mutual agreement of the Co-Possessors, be referred for expert determination by a Third Party Referee pursuant to Section 6.7(b) nor shall such matter be referred to dispute resolution pursuant to Section 29 (except for determination as to whether such matter is one of the matters set forth in Section 6.8(a)). If any of the foregoing matters does not receive unanimous approval of the Operating Committee, the Operator shall not proceed with such matter, although in the case of a proposed Shared Upgrade that was

proposed by BC Hydro but not approved, BC Hydro may proceed with the matter on its own account as a BC Hydro Upgrade pursuant to Section 6.12.

#### 6.9. Appointment and Powers of Sub-Committees

- (a) The Operating Committee may, by unanimous approval, appoint one or more sub-committees consisting of such representatives of each Co-Possessor as the Operating Committee considers appropriate to consider such issues and matters as determined from time to time by the Operating Committee and to make recommendations to the Operating Committee in respect thereof.
- (b) The Operating Committee shall not be entitled to delegate to any sub-committee appointed under Section 6.9(a) any of the Operating Committee's powers, it being acknowledged and agreed that the role of any sub-committee shall only be advisory in nature.
- (c) Any sub-committee appointed under Section 6.9(a), must:
  - (i) conform to any rules that may from time to time be imposed on it by the Operating Committee;
  - (ii) report to the Operating Committee as and when required by the Operating Committee; and
  - (iii) unless the Co-Possessors otherwise agree, have equal representation from each Co-Possessor.
- (d) The Operating Committee may, at any time, with respect to a sub-committee appointed under Section 6.9(a):
  - (i) terminate the appointment of, or change the membership of, the sub-committee; and
  - (ii) fill vacancies on the sub-committee.

#### 6.10. Operating Procedures

The Operating Committee shall in a timely manner develop and approve operating procedures setting forth additional details on accounting, notice periods, scheduling practices and other operational issues as may be reasonably required to implement this Agreement. The Operating Committee may from time to time, terminate or replace operating procedures. The Operating Committee shall modify, terminate or replace operating procedures as may reasonably be required to implement this Agreement. Each operating procedure developed by the Operating Committee in accordance with this Agreement, shall be binding on the Operator and Co-Possessors, each of which shall take all reasonable steps to implement the operating procedures.



### 6.11. Accounting Procedure

It is the intention that the Operator (if it is also a Co-Possessor) not make a profit or suffer a loss in connection with acting as Operator, subject to Section 31.1. The Parties agree that as at the Effective Date, the Accounting Procedure reflects the foregoing principles. The Operating Committee shall in a timely manner review and amend the Accounting Procedure as may be necessary to continue to provide that the Operator (if it is also a Co-Possessor) shall, subject to Section 31.1, not make a profit or suffer a loss from acting as such. Any dispute as to whether the Accounting Procedure continues to reflect the foregoing principles may be referred to dispute resolution in accordance with Section 29. The arbitrator is authorized and directed to amend the Accounting Procedure in accordance with the foregoing criteria.

### 6.12. BC Hydro Upgrades

BC Hydro may, at any time, undertake one or more BC Hydro Upgrades. Should it choose to do so:

- (a) all decisions relating to such BC Hydro Upgrade shall be that of BC Hydro in its sole discretion, including decisions as to contracting, planning, development, design, permitting, engineering, procurement and construction of such BC Hydro Upgrade;
- (b) all costs and risks associated with such BC Hydro Upgrade shall be to BC Hydro's account;
- (c) Teck shall take all commercially reasonable steps to cooperate with and assist BC Hydro in good faith and in a timely manner with the intent of BC Hydro completing such BC Hydro Upgrade in the most timely and cost-effective manner that is reasonably feasible, provided that BC Hydro shall reimburse Teck for all reasonable out-of-pocket expenses that are incurred by Teck in relation to the provision of such assistance;
- (d) Teck will negotiate and enter into access arrangements with BC Hydro and its contractors in accordance with section 6.2(a) of the Waneta Lease;
- (e) capacity and energy loss during construction and installation of BC Hydro Upgrades shall be allocated to BC Hydro as more specifically set out in Section 14.6(c);
- (f) BC Hydro will cooperate with Teck to identify measures to mitigate where feasible the impact of the construction, installation and operation of any BC Hydro Upgrade on Teck's Entitlement Capacity, Teck's Entitlement Energy and the Industrial Operations, and BC Hydro will take all reasonable steps during the planning and construction of the BC Hydro Upgrade to reduce such impacts to the extent BC Hydro, acting reasonably, considers technically and economically feasible;

- (g) to the extent that BC Hydro and its contractors do not mitigate the impact of the construction, installation and operation of any BC Hydro Upgrade on Teck's Entitlement Capacity, Teck's Entitlement Energy or the Industrial Operations, BC Hydro shall be responsible to compensate Teck for all costs and liabilities incurred by Teck directly or indirectly as a result of the impact of the construction, installation and operation of such BC Hydro Upgrade on the Teck's Entitlement Capacity, Teck's Entitlement Energy and the Industrial Operations, including:
- (i) any replacement costs for any portion of Teck's Entitlement Capacity and Teck's Entitlement Energy that is rendered unavailable as a result directly or indirectly of the construction, installation and operation of such BC Hydro Upgrade, including after construction is complete, and
  - (ii) the cost of any transmission rights which Teck must secure to utilize capacity and energy to replace Teck's Entitlement Capacity and Teck's Entitlement Energy that is rendered unavailable as a result directly or indirectly of the construction, installation and operation of such BC Hydro Upgrade, including after construction is complete; and
- (h) incremental capacity and energy resulting from the construction and installation of BC Hydro Upgrades shall be allocated solely to BC Hydro, and following the completion of a BC Hydro Upgrade, Teck shall, for no other consideration, cooperate as reasonably required to provide and make available to BC Hydro the benefit, monetary and otherwise, arising from the incremental Entitlement Energy and Entitlement Capacity resulting from such BC Hydro Upgrade, provided that if BC Hydro requests the Teck's assistance in this regard, then BC Hydro shall reimburse Teck for all reasonable out-of-pocket expenses that are incurred by Teck in relation to the provision of such assistance.

## 7. **OPERATOR**

### 7.1. Appointment of Operator/Operating Standard

Teck is hereby appointed as the Operator of the Waneta Assets. In carrying out its obligations and duties in accordance with this Agreement, the Operator shall:

- (a) operate, manage and maintain the Waneta Assets as would a prudent owner with the objective of ensuring that the Waneta Assets shall continue to provide safe and reliable generation; and
- (b) exercise the degree of care and skill that an experienced dam operator would exercise in the conduct of its own affairs acting in accordance with Good Utility Practice,

(the standards set forth in Sections 7.1(a) and 7.1(b) are collectively referred to as the "**Operating Standard**").

## 7.2. Duties of Operator

The Operator shall operate, manage and maintain the Waneta Assets in accordance with the terms of this Agreement. The duties of the Operator shall include:

- (a) complying with, and maintaining the Waneta Assets and conducting Operations in compliance with, Legal Obligations, this Agreement, Teck's obligations pursuant to Section 2.10 of the CPA Subagreement (or any extension or replacement of Section 2.10 on substantially similar terms) for so long as they are in force, approved Budgets and each Operating and Management Plan (and all parts thereof);
- (b) for so long as the CPA or a Replacement CPA is in effect, conducting Operations in a manner consistent with Teck's obligations under the CPA (or a Replacement CPA) in respect of Teck's Participation Interest;
- (c) dispatching each Co-Possessor's Participation Percentage of the Waneta Plant in accordance with such Co-Possessor's instructions, provided that:
  - (i) they are consistent with Legal Obligations and this Agreement;
  - (ii) for so long as the CPA or a Replacement CPA is in effect, BC Hydro's operating instructions for its Participation Percentage of the Waneta Plant shall be consistent with its operating instructions for Teck's Participation Percentage of the Waneta Plant pursuant to the CPA or a Replacement CPA; and
  - (iii) the Operator may alter the dispatch of the Waneta Plant from that in the provided operating instructions for reasons of (A) local reliability; (B) local reactive power support; or (C) reliability of the Waneta Plant, as long as the alteration of the dispatch of the Waneta Plant is done in such a manner that the magnitude and duration of the altered dispatch is no more than reasonably required;
- (d) managing and maintaining, or assisting in the management and maintenance of, all Governmental Authorizations required to carry on Operations, and providing reasonable notice to the Operating Committee when any such Governmental Authorization requires renewal, replacement or amendment or when a new Governmental Authorization is required and facilitating the Co-Possessors obtaining such new Governmental Authorizations and the renewal, replacement or amendment of any Governmental Authorization;
- (e) if an order or directive is issued by a Governmental Authority to the Operator or the Co-Possessors (or either of them) to remediate or otherwise clean-up all or any part of the Waneta Assets in order to comply with any Environmental Laws, subject to Section 31.6 and subject to any agreement of the Co-Possessors to appeal or challenge such order or directive, taking such steps and taking such

actions as are required to complete such remediation or clean-up or to otherwise so comply;

- (f) complying with its obligations under this Agreement including the provisions of Sections 7.4 and 27;
- (g) preparing and presenting Budgets as described in Section 9 for approval by the Operating Committee and implementing approved Budgets;
- (h) implementing the decisions of the Operating Committee;
- (i) purchasing or otherwise acquiring materials, supplies, equipment and services required for Operations and in connection therewith obtaining such customary warranties and guarantees as are available in connection with such purchases and acquisitions;
- (j) reporting to the Co-Possessors in accordance with Section 7.6 and reporting to the Operating Committee at such times and in such manner as is required by the Operating Committee;
- (k) conducting such title examinations and curing such title defects as may be advisable in the reasonable judgment of the Operator;
- (l) using its commercially reasonable efforts to keep the Waneta Assets free and clear of (i) all Liens and adverse claims arising from Operations, except Permitted Encumbrances; and (ii) all other encumbrances arising after the Effective Date other than those arising in the ordinary course of Operations and that do not have a material adverse effect on any of the Waneta Assets or which have been consented to by the Co-Possessors;
- (m) keeping and maintaining:
  - (i) those Books and Records which pertain or relate to the condition (physical, environmental or otherwise), design, engineering, construction, maintenance, operations, inspections, specifications, safety of any of the Waneta Assets or any environmental issues associated with any of the Waneta Assets, indefinitely; and
  - (ii) other Books and Records for such period of time as is necessary to comply with the Operating Standard,

including all required accounting and financial records pursuant to the Accounting Procedure and in accordance with IFRS consistently applied;

- (n) defending on its own behalf and if requested by a Co-Possessor, on the Co-Possessor's behalf, legal actions or proceedings brought by third parties relating to Operations, but the Operator shall not initiate legal actions or proceedings against third parties without any required approval of the Operating Committee. If the

Operator fails to seek the required approval of the Operating Committee in respect of the commencement, institution, settlement or compromise of any legal proceeding, it shall bear 100% of all losses, liabilities, costs and expenses incurred in connection with such legal action or proceeding. The Operator shall keep the Operating Committee reasonably informed of the commencement and progress of any such legal actions or proceedings; and

- (o) undertaking all other activities reasonably necessary to fulfil the foregoing.

### 7.3. Activities Absent Approval

If the Operating Committee for any reason fails to approve any Budget or Operating and Management Plan (or any part thereof), then subject to the contrary unanimous direction of the Operating Committee and to the receipt of necessary funds, the Operator shall continue to conduct Operations in accordance with the most recently approved Budgets, if any, and otherwise at levels necessary to maintain and protect the Waneta Assets and to comply with all Legal Obligations, and the most recently approved Operating and Management Plan (or any approved part thereof). The Co-Possessors shall fund such Operations in proportion to their Participation Percentages until the failed Budget (as may be revised) or Operating and Management Plan (as may be revised), as the case may be, has been approved.

### 7.4. Operating and Management Plan

- (a) The Operator shall be responsible for preparing Operating and Management Plans from time to time. The Co-Possessors agree that operating and management plans equivalent to the Dam Safety Plan, Emergency Response Plan, Environmental Management Plan, Public Safety Plan and Worker Safety Plan were prepared by the Operator and approved pursuant to the Co-Ownership and Operating Agreement and that such plans shall be considered to have been approved by the Operating Committee and constitute the first Operating and Management Plan for the purposes of this Agreement. After the Effective Date, the Operator shall review, amend and update the Operating and Management Plan on or about October 1 of each Fiscal Year as appropriate to reflect (i) changes in the Applicable Laws; (ii) changes in circumstances and/or changes in the underlying requirements of the Operating Standard from time to time; and (iii) the directions of the Operating Committee.
- (b) The Operator shall submit the Operating and Management Plan and any amendments and updates thereto for consideration by the Operating Committee each Fiscal Year in accordance with Section 6.7(a); and Section 6.7(b) shall apply to any Operating and Management Plan (or any part thereof) that is not unanimously approved by the Operating Committee.
- (c) The Operating and Management Plan shall be prepared to the Operating Standard.
- (d) The Operator shall ensure that each of the Dam Safety Plan, Emergency Response Plan, Environmental Management Plan, Public Safety Plan and Worker Safety

Plan included in the Operating and Management Plan provides for (i) control or other measures that have as their objective achieving the purposes of the plan, (ii) procedures for review and modification of control measures, (iii) criteria and protocols for worker training, (iv) monitoring to ensure compliance and effectiveness of the plan, (v) regular reporting at least annually and immediate incident reporting, (vi) incident response and corrective action, and (vii) regulatory reporting if and as required.

- (e) The Operator shall cause the Dam Safety Plan to be reviewed and updated periodically by a knowledgeable and independent third party to ensure that it is current and appropriate.
- (f) For so long as FortisBC is the Manager, the Operator may comply with the requirements with respect to the Worker Safety Plan by obtaining an annual third party audit report (prepared by a firm with appropriate expertise in occupational health and safety matters) to the effect that there is a plan, program or system in place with respect to the Waneta Plant that substantially meets the requirements for a Worker Safety Plan under this Agreement and that the Manager is complying with the requirements of the plan, program or system.
- (g) The Operator or Manager may retain an auditor to report whether any plan comprised in the Operating and Management Plan meets applicable requirements, including reporting. To the extent the auditor's report provides the required information under a plan, that report shall be deemed to meet the reporting requirements under the plan.
- (h) Each Co-Possessor's representatives on the Operating Committee shall be entitled to receive all information and reports provided to the Operator pursuant to the Operating and Management Plan (whether provided by the Manager or the Operator's own staff or consultants) concurrently with such information and reports being provided to the Operator and, subject to Section 9.6, shall be invited to participate in any meetings called for purposes of considering or responding to serious incidents identified in any such information or reports.

#### 7.5. Owner for purposes of Workers Compensation legislation

Notwithstanding that either or both of the Co-Possessors may in future be found to be an "owner" of the Waneta Assets under the *Workers Compensation Act*, the Co-Possessors agree that, for the purposes of Part 3 thereof, the Operator (either itself or through the Manager from time to time), and not the other Co-Possessor, shall assume the occupational health and safety obligations of the "owner" of the Waneta Assets.

#### 7.6. Operator's Obligation to Report to the Co-Possessors

The Operator shall keep the Co-Possessors apprised of all Operations by reporting to each of the Co-Possessors in accordance with this Section 7.6. The Operator shall:

- (a) prepare or cause the Manager to prepare and submit to each Co-Possessor:

- (i) a monthly costs summary report for the purposes of invoicing for each month, by the 15<sup>th</sup> Business Day of the following month. The report shall be set out in accordance with agreed cost summary categories, initially in the format provided for in the Management Agreement, including both Costs incurred by the Operator and the Manager. In addition, capital projects shall be shown by project with a total for each period;
- (ii) a cost and variance report for both the current month and for the year-to-date, as well as any expected budget variations for the Fiscal Year, together with an explanation; and
- (iii) a yearly costs summary report, by no later than one month following the end of the Fiscal Year covered by the report. The yearly report shall have the same format as the monthly report with the actual, budget and variance amounts, together with an explanation of variances. The actual labour dollars, material dollars and labour hours for each cost summary category for the Fiscal Year covered by the report shall also be provided.

The Co-Possessors, through their representatives on the Operating Committee, may vary the forms of reporting from time to time;

- (b) provide to the Co-Possessors monthly operating and maintenance reports, including performance and outage reports and other reports, that the Operator obtains or receives from the Manager, pertaining to the Waneta Plant and/or Operations, as soon as they are obtained or received;
- (c) prepare, or cause the Manager to prepare, and submit to each Co-Possessor:
  - (i) reports as contemplated under the then current Operating and Management Plan, including reports on variances, incidences of non-compliance and remedial actions taken or proposed to be taken;
  - (ii) reports in reasonable detail reporting on any instance, event or circumstance whereby any of the Operations or Waneta Assets are not or may not be, in any material respect, in compliance with any Legal Obligations, within 24 hours of such non-compliance or potential non-compliance becoming known to the Operator;
  - (iii) in the case of BC Hydro, reports containing such information as BC Hydro advises the Operator is required in order for BC Hydro to comply with its financial reporting requirements, its operating and capital forecast requirements and other reporting requirements as a Crown corporation and a regulated public utility; and
  - (iv) reports on such other matters, aspects or issues relating to the Waneta Assets or Operations as may be reasonably requested from time to time by a Co-Possessor,

provided that if a Co-Possessor requests reports pursuant to Section 7.6(c)(iii) or 7.6(c)(iv) that it is not otherwise entitled to receive under this Agreement and the costs to be incurred by the Operator in providing such reports are material, the Operator shall upon receipt of such request advise the requesting Co-Possessor of such costs, whereupon the requesting Co-Possessor may elect to receive such reports, provided that it shall reimburse the Operator for the costs incurred in providing such reports; and

- (d) provide to the Co-Possessors any reports and audits in respect of the Waneta Assets or Operations prepared by third party experts, and reports prepared by the Operator for its senior management (other than in the ordinary course of business), board of directors or any committee thereof, on the Waneta Assets or Operations, or other reports prepared by the Operator that may reasonably be expected to be of interest to an owner of the Waneta Assets, provided that nothing in this Section 7.6(d) shall oblige the Operator to provide reports or other information relating to value, potential for sale or similar owner interests.

#### 7.7. Co-Possessor's Right to Access Waneta Assets

The Operator shall maintain and preserve all access rights to permit the Operator and the Co-Possessors to access the Waneta Assets on serviceable roads connecting to roads generally available to the public. The Operator shall allow each Co-Possessor, at such Co-Possessor's sole risk and expense, and subject to safety regulations, to inspect the Waneta Assets and Operations at all reasonable times, so long as such Co-Possessor does not unreasonably interfere with Operations.

#### 7.8. Reimbursement of Operator's Costs

Subject to Section 31.1, the Co-Possessors shall, pursuant to Section 10.1, reimburse the Operator for Costs incurred by the Operator (as Operator but not as Co-Possessor) in performing its obligations under this Agreement. Unless unanimously agreed by the Co-Possessors, the Operator shall not be entitled to any fee or other compensation as consideration for acting as Operator.

#### 7.9. Financial Audits

The Operator shall arrange an annual financial audit of Operations including operating and capital expenditures and all other Costs incurred in respect of Operations, to be conducted by the Independent Accountant in accordance with IFRS and generally accepted auditing standards in Canada. During the completion of the audit, the Co-Possessors shall have reasonable access to, may consult with, and shall provide joint instructions to, the Independent Accountant. Such annual audit shall be completed within 3 months after the end of each Fiscal Year. All written exceptions to and claims for discrepancies disclosed by such audit shall be made not more than 3 months after receipt of the audit report. Claims remaining unresolved after 60 days after the receipt of the last of those claims may be referred to dispute resolution in accordance with Section 29. Claims resolved in favour of one of the Parties shall be paid within 30 days from the date



of resolution of those claims with interest at the Prime Rate on any amounts payable in that regard from the date the discrepancy arose until the date paid in full. Failure to make any such exception or claim within the 3 month period shall mean the audit is correct and binding upon the Parties.

7.10. Access to Books and Records

The Operator shall afford to the Co-Possessors, their designees and representatives reasonable access to the Books and Records in its possession, control or to which the Operator has access, provided that any such access shall be during normal business hours on reasonable notice and shall not otherwise unreasonably interfere with Operations. The Operator shall designate a requesting Co-Possessor as its representative for the purpose of accessing any Books and Records maintained by the Manager under the Management Agreement.

7.11. Compliance Audits

Each Co-Possessor shall be permitted to commission a third party compliance audit at any time and from time to time, but in any event no more often than once every three Fiscal Years, of the Waneta Assets and Operations or any part or parts thereof to confirm that the Operator is complying with its obligations under this Agreement (a “**Routine Compliance Audit**”). If at any time and from time to time a Co-Possessor acting in good faith has reason to believe that the Operator is not complying with its obligations under this Agreement, it may also commission a third party compliance audit (a “**Non-Routine Compliance Audit**”). The following provisions shall apply to any third party compliance audits commissioned by a Co-Possessor (the “**Reviewing Party**”):

- (a) the Reviewing Party shall provide the Operator with at least 90 days prior written notice of its intention to conduct a third party audit;
- (b) the Person selected by the Reviewing Party to conduct a third party audit must be a Person qualified by education, training and experience for the type of audit being conducted;
- (c) the third party audit must be conducted during normal business hours with a minimum of interruption to Operations;
- (d) the Person conducting the third party audit shall be provided with full access to the Books and Records provided that Person agrees to maintain confidentiality in respect of any information provided;
- (e) in the case of a Routine Compliance Audit, each Co-Possessor shall share the costs of such audit in proportion to its Participation Percentage; and
- (f) in the case of a Non-Routine Compliance Audit, the Reviewing Party shall be responsible for all costs of, including the Operator’s reasonable costs in responding to, such audit.

The Reviewing Party shall provide a copy of the audit report to the Operator. The Operator shall have 14 days from receipt of the copy to accept or dispute its conclusions. If the Operator does not dispute the results of the audit within such period, the Operator shall take such remedial actions as are required, and shall provide the Operating Committee with comprehensive reports and access to requested information so the Operating Committee is able to monitor the remedial actions. If the Operator disputes the conclusions set out in the audit report within such period, the dispute shall constitute a Dispute to be resolved in accordance with Section 29.

7.12. Resignation; Deemed Offer to Resign

The Operator, if it is also a Co-Possessor, may resign at any time on no less than 120 days' notice to the other Co-Possessor. The Operator shall be deemed automatically to have offered to resign, which offer may be accepted in writing by the other Co-Possessor at any time within 90 days following such deemed offer, if:

- (a) the Operator commits an Event of Default under Section 24.1;
- (b) with respect to any material covenant or material obligation under this Agreement, the Operator has failed to observe, keep or perform such covenant or obligation and, within 30 days after receipt of a written demand from the other Co-Possessor, describing in reasonable detail the particulars of the alleged failure, the Operator has not corrected such failure, provided that the period of 30 days shall be extended for an additional period of time:
  - (i) if the failure is not capable of being cured within 30 days after demand and the Operator has given a written explanation as to why such failure cannot be cured within such period of 30 days, and has made a proposal for remedying such failure and specifying a reasonable period of time to complete such proposed remedy, which proposal and time period are acceptable to the demanding Co-Possessor, acting reasonably; and
  - (ii) for so long as the Operator is diligently proceeding to remedy such failure and such failure does not:
    - A. impose a material risk of sale, forfeiture or loss of Participation Interest of either Co-Possessor, if any, or any material part thereof, to a third party; or
    - B. interfere in any material respect with the use and operation of the Waneta Plant;
- (c) the Operator commences any Insolvency Proceeding relating to it or to any portion of its assets, or it consents to or acquiesces in any Insolvency Proceeding or the appointment of a Receiver of, or for, the Operator or any substantial portion of its assets including all or any part of its Participation Interest;

- (d) any Person other than the Operator commences any Insolvency Proceeding against the Operator and any such Insolvency Proceeding remains un-dismissed for a period of 45 days or any Receiver of, or for, the Operator or any portion of its assets including all or any part of its Participation Interest, is appointed and is not discharged within a period of 45 days; or
- (e) a writ, execution, attachment or similar process is issued or levied against any substantial part of its assets, including all or any part of its Participation Interest in connection with any judgment against the Operator in any amount which materially affects the assets of the Operator and such writ, execution, attachment or similar process is not released, bonded, satisfied, discharged, vacated or stayed within 30 days after its issue or levy.

If the Operator's deemed offer to resign is accepted, the other Co-Possessor shall become the new Operator. If the Operator voluntarily resigns, the other Co-Possessor may elect to become the new Operator by written notice to the other Co-Possessor delivered within 30 days of the resignation, failing which the Operating Committee shall appoint a non-Co-Possessor third party as Operator. Where a Co-Possessor becomes the new Operator pursuant to this Section 7.12, it shall have the following voting rights on the Operating Committee:

- (i) in the event that its Participation Percentage at the time of it becoming the Operator exceeds 50%, it shall have a right to cast the percentage of the votes on the Operating Committee equal to its Participation Percentage; and
- (ii) in the event that its Participation Percentage at the time of it becoming the Operator is less than 50%, it shall for so long as it is the Operator, have a right to cast 51% of the votes on the Operating Committee and thereby decide matters of the Operating Committee by majority vote and the other Co-Possessor shall have a right to cast 49% of the votes on the Operating Committee notwithstanding that its Participation Percentage may exceed 50%.

### 7.13. Transition on Change of Operator

Upon any resignation or replacement of the Operator under Section 7.12 or any other provision of this Agreement, the resigning or replaced Operator shall use its commercially reasonable efforts to assist in the transition to the new Operator, including by way of:

- (a) assigning the Management Agreement as it relates to the Waneta Assets (to the extent assignable), to the new Operator;
- (b) delivering the Books and Records to the new Operator as reasonably required by the new Operator to discharge its obligations to the Co-Possessors, including details of the Operations Account, provided nothing herein shall prevent the Operator from keeping copies of such Books and Records;

- (c) delivering to the new Operator all funds held by the Operator in trust for the Co-Possessors, including those funds held by the Operator in the Segregated Bank Account and the Segregated Insurance Account;
- (d) delivering to the new Operator possession of any Waneta Assets in the possession of the Operator, and assigning to the new Operator legal title in any of the Waneta Assets held by the Operator in trust for the Co-Possessors; and
- (e) executing and delivering all such instruments or documents and doing all such other acts and things as may be necessary for the new Operator to assume all of the responsibilities and obligations of the Operator under this Agreement or to give effect to the foregoing.

The terms and conditions of any assignment from the Operator to the new Operator in accordance with the foregoing shall include the assignment by the Operator to the new Operator, and the assumption by the new Operator, of all of the Operator's rights, obligations and liabilities from and after the date of the assignment (but for certainty, excluding any Liabilities relating to the period before the Operator's resignation or replacement, regardless of when arising), and the release and indemnification of the Operator in respect of all such assigned obligations and liabilities relating to the period after the Operator's resignation (but for certainty, excluding any Liabilities relating to the period before the Operator's resignation or replacement, regardless of when arising).

All costs incurred by the Operator (as Operator but not as Co-Possessor) in carrying out its obligations under this Section 7.13 and costs incurred by the new Operator in connection with the transition shall be considered Costs for purposes of this Agreement. The Operator shall continue, even after its resignation or replacement, to have the benefit of Sections 7.8, 10.1, 10.3 and 10.6 (but in the case of Section 10.6, only to the extent of Costs incurred by the Operator prior to its resignation or replacement) and may invoice the Co-Possessors for all Costs incurred by the Operator relating to the period before its resignation or replacement, regardless of when arising, and in carrying out its obligations under this Section 7.13. Sections 31.1 and 31.2 shall continue in effect as among the Operator and the Co-Possessors, even after the Operator's resignation or replacement, but Section 31.2 shall only continue in effect in respect of Liabilities relating to the period before the Operator's resignation or replacement, regardless of when arising.

#### 7.14. Limited Agency

- (a) The Operator has authority to act as agent for and on behalf of each of the Co-Possessors for the purpose of entering into contracts and agreements and incurring obligations in its own name or through the Manager, as the Operator's agent, for the purchase or acquisition of materials, supplies, equipment and other assets and services required in the ordinary course of Operations and such other contracts and agreements and such other obligations as the Co-Possessors may unanimously agree in writing.

- (b) The Operator shall negotiate and submit to each Co-Possessor for review and execution, contracts and agreements pertaining to the Waneta Assets other than those contemplated by Section 7.14(a).
- (c) The Co-Possessors agree that they shall jointly develop language when appropriate to include in the agreements or contracts that the Operator as agent for and on behalf of the Co-Possessors, or the Manager as the Operator's agent, may enter into to reflect the agency relationship and to ensure that BC Hydro shall acquire title to any assets acquired thereunder (subject to the terms of the Waneta Lease) and that the Co-Possessors shall be entitled to the rights and benefits of those agreements and contracts (subject to the terms of the Contract Bare Trust Agreement).

## 8. MANAGER

### 8.1. Appointment of Manager

- (a) The Co-Possessors agree that the Operator (if it is also a Co-Possessor) may appoint a Manager from time to time to carry out certain of the duties of the Operator, including certain of those duties set out in Sections 7.2 and 7.4, for and on behalf of the Operator under the general guidance and oversight of the Operator and pursuant to the terms of the Management Agreement, provided that any such appointment and any and all actions and/or omissions of the Manager shall not in any way relieve the Operator of any of its duties, obligations, liabilities and responsibilities under this Agreement. The Operator (if it is also a Co-Possessor) may, subject to the provisions of the Management Agreement, remove the Manager at any time.
- (b) The Co-Possessors acknowledge that FortisBC is the Manager.
- (c) Prior to appointing a Manager, the Operator shall consult with the Co-Possessors as to the potential candidates that may be considered for appointment, including with respect to their experience, past record and suitability.

## 9. OPERATING AND CAPITAL BUDGETS

### 9.1. Co-Possessors' Obligations for Costs

- (a) Teck will pay, in accordance with Section 10, the following amounts without duplication:
  - (i) two-thirds of all Sustaining Capital Expenditures (excluding Extraordinary Refurbishment Costs and any incremental Sustaining Capital Expenditures resulting from any BC Hydro Upgrade);
  - (ii) Teck's Share of Extraordinary Refurbishment Costs;

- (iii) two-thirds of all Operating and Maintenance Expenditures (excluding any incremental Operating and Maintenance Expenditures resulting from any BC Hydro Upgrade);
  - (iv) two-thirds of all Waneta Insurance Costs (excluding any incremental Waneta Insurance Costs resulting from any BC Hydro Upgrade), and 100% of the costs of:
    - A. any insurance coverage obtained and maintained by Teck in connection with its Participation Interest in excess of the coverage contemplated by the insurance requirements set out in this Agreement; and
    - B. any insurance coverage obtained and maintained by Teck pursuant to Section 27.1(d);
  - (v) its share of:
    - A. the costs of developing and constructing any Shared Upgrade as determined in accordance with this Agreement; and
    - B. any incremental Sustaining Capital Expenditures, Operating and Maintenance Expenditures or Waneta Insurance Costs resulting from any Shared Upgrade;
  - (vi) Teck's share of Water Rental Fees determined in accordance with Article 10.7(c);
  - (vii) Teck's share of Property Taxes determined in accordance with Article 12; and
  - (viii) two-thirds of any other Cost not set out in this Section 9.1(a).
- (b) BC Hydro will pay, in accordance with Section 10, the following amounts without duplication:
- (i) Non-Sustaining Capital Expenditures (excluding Teck's share of the costs of developing and constructing any Shared Upgrade as determined in accordance with this Agreement), including the costs of developing and constructing any BC Hydro Upgrade;
  - (ii) one third of all Sustaining Capital Expenditures (excluding Extraordinary Refurbishment Costs and any incremental Sustaining Capital Expenditures resulting from the construction or operation of any BC Hydro Upgrade), plus 100% of any incremental Sustaining Capital Expenditures resulting from the construction or operation of any BC Hydro Upgrade;
  - (iii) BC Hydro's Share of Extraordinary Refurbishment Costs;

- (iv) one third of all Operating and Maintenance Expenditures (excluding any incremental Operating and Maintenance Expenditures resulting from the construction or operation of any BC Hydro Upgrade), plus 100% of any incremental Operating and Maintenance Expenditures resulting from the construction or operation of any BC Hydro Upgrade;
  - (v) in the event of the substantial damage to or destruction of the Waneta Plant, all capital costs of completing the repair, reconstruction or rebuilding of any damaged or destroyed facilities;
  - (vi) one third of all Waneta Insurance Costs, and 100% of the costs of any:
    - A. insurance coverage obtained and maintained by BC Hydro in connection with the Waneta Assets in excess of the coverage contemplated by the insurance requirements set out in this Agreement;
    - B. in respect of any period during the Lease Term, any incremental portion of the Waneta Insurance Costs that exceeds a reasonable estimate of what the Waneta Insurance Costs would have been if all of the following had been true in that period: (i) Teck, in its capacity as Operator, had for such period obtained the applicable insurance coverage from insurance providers and on commercial terms available to it consistent with the insurance requirements set out in this Agreement; (ii) BC Hydro had not opted out of the insurance arrangements provided by the Operator in accordance with this Agreement and (iii) the Waneta Assets excluded all BC Hydro Upgrades constructed after the Effective Date; and
  - (vii) its share of:
    - A. the costs of the development and construction of any Shared Upgrade as determined in accordance with this Agreement; and
    - B. any incremental Sustaining Capital Expenditures, Operating and Maintenance Expenditures or Waneta Insurance Costs resulting from any Shared Upgrade;
  - (viii) BC Hydro's share of Water Rental Fees determined in accordance with Article 10.7(c);
  - (ix) BC Hydro's share of Property Taxes determined in accordance with Article 12; and
  - (x) one-third of any other Cost not set out in this Section 9.1(b).
- (c) For greater certainty, BC Hydro and Teck agree that the allocation of Costs between the Co-Possessors in this Section 9.1 does not preclude either Co-

Possessor from seeking or receiving a compensatory payment awarded pursuant to Section 4.8 in order to equitably allocate the impacts of a determination between the Parties, and in no event shall such compensatory payment constitute a Cost to be allocated under this Section 9.1.

9.2. Operations Pursuant to Budgets and Operating and Management Plans

Except as otherwise provided in this Section 9, Operations shall be conducted and Waneta Assets shall be acquired pursuant to approved Budgets and the approved Operating and Management Plan. The Budgets and the Operating and Management Plan shall be designed to maintain and sustain the Waneta Assets as a whole (but not necessarily any individual component) indefinitely.

9.3. Presentation of Budgets

Proposed Budgets shall be prepared by the Operator annually. The Co-Possessors agree that certain budgets equivalent to the Operating Budget and the Sustaining Capital Budget, and a budget relating to Non-Sustaining Capital Expenditures, were prepared by the Operator and approved pursuant to the Co-Ownership and Operating Agreement and that such budgets shall be considered to have been approved by the Operating Committee and constitute the first Budgets for the purposes of this Agreement. On or before each October 1, a proposed Budget for the next succeeding Fiscal Year shall be prepared by the Operator and submitted to the Operating Committee for approval together with all relevant information reasonably required for the Operating Committee to properly consider such Budget.

9.4. Review and Approval of Proposed Budgets

Within 30 days of the presentation of a proposed Budget by the Operator to the Operating Committee, the Operator shall call a meeting of the Operating Committee to consider the same and the Operating Committee shall at such meeting either approve the Budget with respect to the Budgetary Period covered thereby, with such modifications, if any, as it deems necessary, or reject the same and require a new presentation from the Operator.

9.5. Budget Variances

- (a) If the Operator becomes aware of, or reasonably expects, a material departure from an approved Operating Budget, the Operator shall notify the Operating Committee. A departure from an approved Operating Budget is material if actual and forecast Operating and Maintenance Expenditures during the Budgetary Period are in excess of 105%, or are less than 95% of the total Operating and Maintenance Expenditures budgeted for the Budgetary Period. In such case, the Operator shall prepare a revised Operating Budget for the remainder of the Budgetary Period and submit the same to the Operating Committee for review and approval (including where applicable, the unanimous approval of the Operating Committee if the revised Operating Budget would have required unanimous approval pursuant to Section 6.7 if originally submitted to the Operating Committee). Any such revised Operating Budget so approved by the Operating



Committee shall thereafter constitute the Operating Budget for the remainder of the Budgetary Period.

- (b) If and to the extent that the Operator determines that changes to an approved Sustaining Capital Budget are required, the Operator shall submit a revised Budget to the Operating Committee for review and approval, including where applicable, the unanimous approval of the Operating Committee for any matter contained in such revised Budget which is a matter (or which was a matter in the original Budget that is the subject of the revision) requiring unanimous approval pursuant to Section 6.7 or 6.8. Any such revised Budget so approved by the Operating Committee shall thereafter constitute the Budget until the next succeeding Budget is approved.

#### 9.6. Emergency or Unexpected Expenditures

- (a) In case of emergency, the Operator shall take any reasonable action and incur any reasonable expenditure it deems necessary to protect life, limb or property, to protect the Waneta Assets or to comply with Legal Obligations, this Agreement or the approved Operating and Management Plan.
- (b) The Operator may take any reasonable action and incur any reasonable expenditures for unexpected events which are beyond its reasonable control (without prejudice to the rights of the Co-Possessors under this Agreement in respect of any breach by the Operator of the Operating Standard, Legal Obligations or this Agreement).
- (c) The Operator shall promptly notify the Operating Committee of the emergency expenditure or unexpected expenditure.

### 10. ACCOUNTS, SETTLEMENTS AND MONTHLY BILLINGS

#### 10.1. Costs to be Borne Proportionately

The Co-Possessors shall pay for Costs in proportion to their Participation Percentages except for those Costs which pursuant to the terms of this Agreement are:

- (a) to be borne by the Co-Possessors in some proportion other than in proportion to their respective Participation Percentages, in which case the Co-Possessors shall pay for such Costs in such proportions; and
- (b) to be borne by the Operator only, in which case the Operator shall pay for such Costs.

The Operator shall issue invoices and statements to the Co-Possessors pursuant to this Section 10 in accordance with the foregoing.

### 10.2. Monthly Statements

The Operator shall submit to the Co-Possessors monthly statements of account no later than the 15<sup>th</sup> Business Day after the end of each month, which shall include a monthly costs summary report contemplated by Section 7.6(a)(i) and a statement setting forth in reasonable detail the costs, charges and credits allocated to each Co-Possessor in the Operations Account during the preceding calendar month under this Agreement.

### 10.3. Monthly Invoices in Arrears

The Operator may pay all or any portion of the Costs for activities contemplated in an approved Budget or pursuant to Section 9.6(a) as and when such Costs are due and shall invoice each of the Co-Possessors in an amount equal to any negative balance (the amount by which charges allocated to the Co-Possessor exceed credits allocated to the Co-Possessor in the Operations Account) concurrent with delivery of the monthly costs summary report (a “**Monthly Invoice**”). The Operator shall send to each Co-Possessor its Monthly Invoice and the Monthly Invoice for the other Co-Possessor (for information purposes). Each Co-Possessor shall, within 30 days of receipt of its Monthly Invoice, pay all undisputed invoiced amounts to the Operator and, in respect of any invoiced amounts the Co-Possessor disputes, initiate dispute resolution in connection therewith in accordance with Section 29. In respect of each Monthly Invoice, the Operator shall by the earlier of:

- (a) 5 Business Days after the date that it has received all payments from each Co-Possessor in respect of such invoices; and
- (b) 5 Business Days after the end of the 30 day period by which such payments were due,

provide a written notice to each Co-Possessor of the amount that each Co-Possessor was invoiced and the amount that the Operator has received from each Co-Possessor in respect of such invoice and to the extent that a Monthly Invoice of either Co-Possessor has not been paid in full, setting forth the amount of the deficiency or the amount, if any, which is the subject of dispute resolution in accordance with Section 29. Time is of the essence of payment of such Monthly Invoices.

### 10.4. Cash Calls In Advance

If the Operator determines that the respective charges to be allocated to the Co-Possessors in the Operations Account for an upcoming calendar month (an “**Operating Month**”) will be greater than the respective credits allocated and to be allocated to the Co-Possessors in the Operations Account, then at least 30 days prior to the commencement of the Operating Month, the Operator may submit to each Co-Possessor a billing for their respective projected shortfalls or a portion thereof, provided that each Co-Possessor is billed in proportion to their respective shortfalls (a “**Cash Call**”). Within 30 days after receipt of their respective Cash Calls, each Co-Possessor shall advance to the Operator such estimated amount, and the Operator shall hold such funds in a segregated bank

account (the “**Segregated Bank Account**”). In respect of each Cash Call, the Operator shall by the earlier of:

- (a) 5 Business Days after the date that it has received all advances required from each Co-Possessor in respect of such Cash Call; and
- (b) 5 Business Days after date on which the Cash Call was due,

provide a written notice to each Co-Possessor of the amount of the Cash Call for each Co-Possessor for the Operating Month and the amount that the Operator has received from each Co-Possessor in respect of such Cash Call and to the extent that a Cash Call to either Co-Possessor has not been paid in full, setting forth the amount of the deficiency. Time is of the essence of payment of Cash Calls. If the amount of the Cash Call for the estimated Costs was less than the actual Costs incurred or charged during the Operating Month, the Operator shall pay the difference and invoice the Co-Possessors for the difference at any time, and the Co-Possessor shall pay such difference within 30 days following receipt of the billing.

Payments from a Co-Possessor who is the Operator will only be considered to have been received by the Operator when such funds are deposited into the Segregated Bank Account.

#### 10.5. Funds Held in Trust

Any funds advanced pursuant to Section 10.4, any interest earned on insurance proceeds and transferred into the Segregated Bank Account pursuant to Section 27.9 and any other revenues received by the Operator for the benefit of the Co-Possessors other than insurance proceeds paid into the Segregated Insurance Account pursuant to Section 27, shall be held by the Operator in the Segregated Bank Account, in trust for the benefit of the Co-Possessor (s) on whose behalf such funds have been advanced, transferred or received and shall be utilized by the Operator only to pay Costs on behalf of such Co-Possessor(s), provided that if from time to time, the Operator determines that it is holding funds on behalf of the Co-Possessor (s) in excess of the Costs reasonably expected by the Operator to be required, it shall provide 60 days written notice to the Co-Possessor of its intention to pay such excess amounts and will upon the expiration of such 60 day period, pay such excess amounts to the applicable Co-Possessor(s). In the case of such funds being returned to a Co-Possessor, the amount of such payments shall be allocated as a debit to such Co-Possessor in the Operations Account. The Operator shall provide such information in respect of the Segregated Bank Account to either Co-Possessor as may be reasonably requested by such Co-Possessor from time to time. Any interest earned on such Co-Possessor’s funds shall be applied as a credit for the Co-Possessor in the Operations Account.

#### 10.6. Failure to Pay Billings

If a Co-Possessor becomes a Defaulting Party for having failed to make any payment when due under Section 10.3 or 10.4, it shall continue to be liable to make such payment to the Operator, and in addition to such payment, the greater of:

- (a) any interest or other costs incurred by the Operator directly or indirectly as a result of the Co-Possessor's failure to pay; and
- (b) interest from the date due to the date of payment at an annual rate equal to the Prime Rate plus 5%,

which shall be received by the Operator for its own account, and shall pay all such amounts forthwith on demand by the Operator.

#### 10.7. Failure to Make Payments

- (a) If a Co-Possessor becomes a Defaulting Party for having failed to make any payment when due under Section 10.3, 10.4 or 10.6, the Non-Defaulting Party may at any time, but shall not be obligated to, by prior written notice to the Defaulting Party and by payment to the Operator, elect to pay the shortfall on behalf of the Defaulting Party (a "**Cover Payment**"). A Cover Payment shall remedy the Event of Default by the Defaulting Party in respect of its failure to make the payment contemplated by Section 10.3, 10.4 or 10.6, and extinguish the liability of the Defaulting Party to the Operator pursuant to Section 10.6 from and after the date on which the Cover Payment was made, but shall not relieve the Defaulting Party of any liability or obligations it may have to the Non-Defaulting Party making the Cover Payment in accordance with this Section 10.7(a). If more than one Cover Payment is made, the Cover Payments shall be aggregated and the rights and remedies described herein pertaining to an individual Cover Payment shall apply to the aggregated Cover Payments.
- (b) Each Cover Payment shall constitute indebtedness due from the Defaulting Party to the Non-Defaulting Party, which indebtedness shall be payable upon demand and shall bear interest from the date incurred by the Non-Defaulting Party to the date of payment by the Defaulting Party at an annual rate equal to the Prime Rate plus 5% and which indebtedness shall be secured by the BC Hydro Security Documents in the case where BC Hydro is the Defaulting Party and by the Teck Security Documents in the case where Teck is the Defaulting Party.
- (c) If a Cover Payment or Cover Payments have been made from time to time by BC Hydro and remain outstanding in amounts, together with interest accrued thereon, equal to or exceeding \$2,500,000 in the aggregate, then BC Hydro may, but shall not be obligated to, by written notice to Teck (a "**CPA Reduction Election Notice**") elect to recover any or all of the indebtedness due from Teck as specified in the CPA Reduction Election Notice (the "**Specified Debt**") by way of a

reduction to Teck's Entitlement Capacity and Teck's Entitlement Energy on the following terms:

- (i) BC Hydro will, in a commercially reasonable manner, determine the Forward Price for the Specified Period and will give notice thereof to Teck, together with information so that Teck is able to determine how the determination was made;
- (ii) The Specified Debt, divided by the Forward Price, will be the “**Aggregate CPA Energy Reduction**” (in MWh);
- (iii) The Aggregate CPA Energy Reduction, divided by 8760 (or 8784 if the Specified Period includes February 29th), and rounded up to the next tenth MW, will be the amount in MW by which Teck's Entitlement Capacity will be reduced for each hour during the Specified Period (the “**Hourly CPA Capacity Reduction**”).
- (iv) The Aggregate CPA Energy Reduction, divided by 12, will be the amount in MWh by which Teck's Entitlement Energy will be reduced for each month during the Specified Period (“**Monthly CPA Energy Reduction**”).
- (v) The Specified Debt will be reduced at the end of each month during the Specified Period by an amount determined by multiplying the Monthly CPA Energy Reduction by the Forward Price.
- (vi) If, during the Specified Period, a further Cover Payment or Cover Payments are made by BC Hydro and remain outstanding, or indebtedness from a previous Cover Payment that is not Specified Debt remains outstanding, in amounts (together with interest accrued thereon) which in the aggregate are equal to or exceed \$2,500,000 in excess of the Specified Debt (as reduced by this Section 10.7(c)) then outstanding, BC Hydro may, but shall not be obligated to, provide Teck with one or more further CPA Reduction Election Notices, and the remainder of this Section 10.7(c) shall apply to each such further reduction of Teck's Entitlement Capacity and Teck's Entitlement Energy.
- (vii) BC Hydro and Teck shall provide written notice pursuant to Section 6.7 of Schedule A to the CPA to specify Teck's Entitlement Capacity and Teck's Entitlement Energy for the Specified Period as the amounts resulting from the Hourly CPA Capacity Reduction and the Monthly CPA Energy Reduction, respectively.
- (viii) If at the time of any reduction pursuant to this Section 10.7(c), Teck fails to provide the written notice pursuant to Section 6.7 of Schedule A of the CPA upon demand from BC Hydro, BC Hydro may on behalf of Teck (pursuant to the limited power of attorney granted by Teck to BC Hydro

pursuant to this Agreement) provide such written notice pursuant to the CPA.

- (ix) The foregoing provisions of this Section 10.7(c) shall be in addition to, and not in substitution for, any other rights and remedies of BC Hydro in the event that Teck fails to pay any amount payable under this Agreement and the Lease Agreement when due, except that BC Hydro shall forego any other remedies in respect of the Specified Debt while any applicable adjustments under this 10.7(c) are in effect.

In the event that Teck disputes BC Hydro's determination of the Forward Price, the Hourly CPA Capacity Reduction and the Monthly CPA Energy Reduction will nevertheless proceed in accordance with BC Hydro's determination, subject to dispute resolution pursuant to Section 29.

## 11. WATER RENTAL FEES

### 11.1. Water Rental Fees Payment and Adjustment Provisions

The Co-Possessors acknowledge and agree as follows:

- (a) Water Rental Fees in respect of Waneta Plant capacity are payable to the Water Comptroller in a calendar year for that calendar year, at rates that apply to that calendar year, but based on authorized capacity of the Waneta Plant in the preceding calendar year. The Co-Possessors' respective shares of Water Rental Fees payable to the Water Comptroller in respect of authorized capacity for a calendar year will be based on their respective Participation Percentages and applicable Water Rental Fee rates, as described in more detail in Section 11.2.
- (b) If the amount of Water Rental Fees paid by Teck to the Water Comptroller pursuant to Section 11.2 in respect of the authorized capacity of the Waneta Plant for any calendar year from 2017 to 2035, in each case inclusive, is different than the amount that Teck would have paid if payable on Teck's Share of Capacity for the Preceding Calendar Year, then the Co-Possessors will make an adjustment and corresponding payment as between themselves to settle such difference. For the purposes of this Section 11.1(b), "**Teck's Share of Capacity for the Preceding Calendar Year**" means the maximum monthly value for Teck's Entitlement Capacity shown in Table 3 of Section 14 (as may be amended from time to time) applicable to the preceding calendar year.
- (c) Water Rental Fees in respect of Waneta Plant energy are payable to the Water Comptroller in a calendar year for that calendar year, at rates that apply to that calendar year, but based on energy output of the Waneta Plant as it may be adjusted to reflect WAX generation attributed to the Waneta Plant and vice versa in the preceding calendar year. The Co-Possessors' respective shares of Water Rental Fees payable to the Water Comptroller in respect of energy output for a

calendar year will be based on their respective Participation Percentages and applicable Water Rental Fee rates, as described in more detail in Section 11.3.

- (d) Water Rental Fees in respect of energy output are and will continue to be adjusted pursuant to Section 9 of the CPA. The Co-Possessors agree that the payments made by Teck to the Water Comptroller pursuant to Section 11.3 are the amounts payable by Teck for purposes of Section 9.2(a) of the CPA and that Teck's "Plant" for purposes of Section 9.1 of the CPA is Teck's Participation Percentage of the Waneta Plant.
- (e) Water Rental Fees in respect of the capacity and energy output of the Waneta Plant for the calendar year in which the Expiration Date occurs will be allocated in accordance with Sections 11.2(c) and 11.3(c), and the Operator will allocate amounts payable under invoices received from the Water Comptroller in respect of the Water Rental Fees for that calendar year between the Co-Possessors as required to achieve that allocation.

#### 11.2. Water Rental Fees based on Capacity

- (a) Teck shall pay Water Rental Fees to the Water Comptroller in respect of Teck's Participation Percentage of the authorized capacity of the Waneta Plant for the 2017 calendar year and for each subsequent calendar year in an amount equal to the sum of: (i) the commercial power use rate (or such other applicable rate, including the general power use rate(s), as may be determined by the Water Comptroller from time to time) multiplied by the maximum amount of capacity used by Teck's Industrial Operations at any point in time in the preceding calendar year; and (ii) the general power use rate(s) applicable to Teck multiplied by the balance of Teck's Participation Percentage of the authorized capacity of the Waneta Plant in the preceding calendar year.
- (b) BC Hydro shall pay Water Rental Fees to the Water Comptroller in respect of BC Hydro's Participation Percentage of the authorized capacity of the Waneta Plant for the 2017 calendar year and for each subsequent calendar year in an amount equal to the general power use rate(s) applicable to BC Hydro multiplied by BC Hydro's Participation Percentage of the authorized capacity of the Waneta Plant in the preceding calendar year.
- (c) Notwithstanding Sections 11.2(a) and 11.2(b), for the calendar year in which the Expiration Date occurs, the Co-Possessors shall pay Water Rental Fees in respect of the of the authorized capacity of the Waneta Plant as follows:
  - (i) Teck shall pay to the Water Comptroller an amount on account of the Water Rental Fees payable equal to the result of multiplying the amount calculated in accordance with Section 11.2(a) by a fraction, the numerator of which is the number of days from January 1 in that calendar year until the Expiration Date, and the denominator of which is 365 (or 366 if that calendar year includes February 29th); and

- (ii) BC Hydro shall pay to the Water Comptroller the balance of the Water Rental Fees payable for that calendar year in respect of the total authorized capacity of the Waneta Plant (including, for greater certainty, any adjustments imposed by the Water Comptroller to account for the application, after the Lease Term, of the general power use rate to all of the capacity of the Waneta Plant).

### 11.3. Water Rental Fees based on Energy Output

- (a) Teck shall pay Water Rental Fees to the Water Comptroller in respect of Teck's Share of Actual Generation as it relates to energy for the 2017 calendar year and for each subsequent calendar year in an amount equal to the sum of: (i) the commercial power use rate (or such other applicable rate, including the general power use rate(s), as may be determined by the Water Comptroller from time to time) multiplied by the amount of energy used by Teck's Industrial Operations in the preceding calendar year; and (ii) the general power use rate(s) applicable to Teck multiplied by the balance of Teck's Share of Actual Generation as it relates to energy in the preceding calendar year.
- (b) BC Hydro shall pay Water Rental Fees to the Water Comptroller in respect of BC Hydro's Share of Actual Generation as it relates to energy for the 2017 calendar year and for each subsequent calendar year in an amount equal to the general power use rate(s) applicable to BC Hydro for that energy multiplied by BC Hydro's Share of Actual Generation as it relates to energy in the preceding calendar year.
- (c) Notwithstanding Sections 11.3(a) and 11.3(b), for the calendar year in which the Expiration Date occurs, the Co-Possessors shall pay Water Rental Fees in respect of the energy output of the Waneta Plant as follows:
  - (i) Teck shall pay to the Water Comptroller an amount on account of the Water Rental Fees payable equal to the result of multiplying the amount for that year calculated in accordance with Section 11.3(a) by a fraction, the numerator of which is the number of days from January 1 in that calendar year until the Expiration Date, and the denominator of which is 365 (or 366 if that calendar year includes February 29th); and
  - (ii) BC Hydro shall pay to the Water Comptroller the balance of the Water Rental Fees payable for that calendar year in respect of the total energy output of the Waneta Plant (including, for greater certainty, any adjustments imposed by the Water Comptroller to account for the application, after the Lease Term, of the general power use rate to all of the energy output of the Waneta Plant).



11.4. Additional Teck Generation

If Teck acquires additional generation facilities in British Columbia, the lowest general power use rates shall be applied first to Teck's Share of Actual Generation as it relates to both capacity and energy before being applied to such additional generation facilities.

11.5. Fees based on Occupation of Crown Land

Any Water Rental Fees in respect of a calendar year that are based on the occupation of crown land during the year shall be paid by the Co-Possessors in accordance with their respective Participation Percentages.

11.6. Intentionally Deleted

11.7. Further Allocation/Adjustments

The Co-Possessors have assumed that the Water Comptroller will invoice Teck and BC Hydro for their respective Water Rental Fees as allocated pursuant to Sections 11.2 through 11.5. If the Water Comptroller invoices either or both Co-Possessors on a different basis, then the Operator or the Co-Possessors shall allocate the amounts on such invoice(s) between the Co-Possessors, and the Co-Possessors shall pay the Water Rental Fees in accordance with Sections 11.2 through 11.5. If the Water Comptroller invoices the Co-Possessors an amount that is different than the aggregate amount determined pursuant to Sections 11.2 through 11.5, the Co-Possessors shall adjust the payments between themselves on an equitable basis.

11.8. Intentionally Deleted

11.9. Intentionally Deleted

11.10. Failure to Pay

If a Co-Possessor fails to pay its share of Water Rental Fees to the Water Comptroller on or before the due date, the other Co-Possessor may make such payment on behalf of such Co-Possessor, which payment shall be considered a Cover Payment for the purposes of this Agreement and the provisions of Section 10.7 shall apply in respect thereof, *mutatis mutandis*.

11.11. Change to Determination of Water Rental Fees

If the categorization or applicability of Water Rental Fees changes, or the Water Comptroller proposes or determines a different method of determining or calculating the Water Rental Fees payable by the Co-Possessors in respect of the Waneta Plant, or a different method of determining or calculating the Water Rental Fees payable in respect of the Waneta Plant combined with the Waneta Expansion, the Co-Possessors shall negotiate in good faith to adjust the amounts payable pursuant to this Section 11 in a manner consistent with the intent of this Section 11. Such good faith negotiations shall include the owner of the Waneta Expansion to the extent necessary to address allocation

issues between the Waneta Plant and the Waneta Expansion. If despite good faith negotiations the Co-Possessors are unable to agree, then either Co-Possessor may submit the matter to dispute resolution in accordance with Section 29. Such dispute resolution may include the owner of the Waneta Expansion if such owner and the Co-Possessors agree. The arbitrator is authorized and directed to amend this Section 11 for the limited purpose of making any required consequential amendments. For greater certainty, any change to the Water Rental Fee rate applicable to the amounts of capacity and/or energy used by the Industrial Operations will be to Teck's account only, and will not require any negotiations of or adjustments to amounts payable pursuant to this Section 11.

## 12. **PROPERTY TAXES**

### 12.1. Property Taxes

- (a) During the Lease Term, each of Teck and BC Hydro shall be separately responsible for all property taxes applicable to the 2/3 Interest and the 1/3 Interest, respectively.
- (b) If the BC Assessment Authority determines to issue a single assessment notice with respect to the Waneta Assets, the Co-Possessors shall support a position with the BC Assessment Authority that the single assessment notice and/or associated working papers should reflect the exemption status of land and improvements comprising the Waneta Assets, based on the exemptions available to each Co-Possessor as a result of its statutory status or exemptions, and should identify the exempt land and improvements of each Co-Possessor separately to enable the Co-Possessors to allocate responsibility for property taxes based on their respective status or exemptions.
- (c) If the Operator or a Co-Possessor receives a single assessment notice with respect to the Waneta Assets, it shall provide a copy of the notice to the other Co-Possessor as soon as possible and in any event within 5 days of receipt.
- (d) If the Co-Possessors receive separate statements or invoices for property taxes, then each of them shall be individually responsible for payment thereof. BC Hydro shall be separately responsible for paying any grants in lieu of taxes that it is required to pay.
- (e) If the Co-Possessors receive a single statement or invoice for property taxes, the Operator shall allocate the taxes to the Co-Possessors (as soon as possible and in any event no later than 15 Business Days prior to the tax due date) either: (i) based on the assessment notice (including the working papers) if the notice reflects the exemption status of land and improvements based on the status or exemptions of each Co-Possessor as referred to in Section 12.1(b), or (ii) otherwise reflecting their respective Participation Percentages in the Waneta Assets and their respective Participation Interests. If a Co-Possessor does not agree with the Operator's allocation of property taxes, then the Co-Possessor may submit the matter for dispute resolution in accordance with Section 29. Pending resolution of

the dispute, the Co-Possessors shall pay based on the Operator's allocation. Each Co-Possessor shall directly pay its share of taxes to the applicable taxing authority on or before the tax due date and shall provide notice of such payment to the Operator and other Co-Possessor. BC Hydro shall be separately responsible for paying any grants in lieu of taxes that it is required to pay.

- (f) A decision whether to dispute a single assessment notice as it relates to the classification or assessed values of the Waneta Assets shall be a decision of the Operating Committee. If either Co-Possessor wishes to appeal a single assessment as it relates to the statutory status or exemptions available to the Co-Possessor, such dispute shall be the Co-Possessor's separate responsibility, provided that the Co-Possessor wishing to appeal shall consult with the other Co-Possessor before commencing an appeal.
- (g) Notwithstanding Sections 12.1(a) through 12.1(d), for the calendar year in which the Expiration Date occurs, the Co-Possessors shall pay property taxes in respect of the Waneta Assets as follows:
  - (i) Teck shall pay a portion of the amount allocated by the Operator to the  $\frac{2}{3}$  Interest consistent with Section 12.1(e) determined by multiplying that amount by a fraction the numerator of which is the number of days in the calendar year prior to the Expiration Date and the denominator of which is 365 (or 366 if that calendar year includes February 29th); and
  - (ii) BC Hydro shall pay the balance.
- (h) If a Co-Possessor fails to pay its share of property taxes to the applicable taxing authority on or before the tax due date, the other Co-Possessor may make such payment on behalf of such Co-Possessor, which payment shall be considered a Cover Payment for the purposes of this Agreement and the provisions of Section 10.7 shall apply in respect thereof, *mutatis mutandis*.

### 13. **SHARE OF GENERATION**

#### 13.1. **Parties' Share of Generation**

- (a) BC Hydro shall have the right to its Participation Percentage of all capacity and energy output from the Waneta Plant as adjusted pursuant to Section 13.2 ("**BC Hydro's Share of Actual Generation**"), for its own, exclusive use.
- (b) Teck shall have the right to its Participation Percentage of all capacity and energy output from the Waneta Plant as adjusted pursuant to Section 13.2 ("**Teck's Share of Actual Generation**"), for its own, exclusive use.
- (c) For so long as the CPA or a Replacement CPA is in effect, the Parties acknowledge that Teck's Share of Actual Generation, and its right thereto, is subject to the terms and conditions of the CPA or a Replacement CPA, as applicable. In accordance with the CPA, Teck is entitled to Entitlement Capacity

and Entitlement Energy in amounts as specified under the CPA and BC Hydro is entitled to any capacity and energy output from Teck's Participation Percentage of the Waneta Plant over and above Teck's Entitlement Capacity and Teck's Entitlement Energy, if any.

- (d) It is acknowledged and agreed by the Co-Possessors, to be a principle underlying this Agreement that until January 1, 2036, (i) Teck's Entitlement Energy and/or Teck's Entitlement Capacity shall bear the full risk of reductions as a result of Unit outages, transmission constraints, re-determinations under the CPA or for any reason (including Force Majeure), attributable to 100% of the Waneta Plant even though only Teck's Participation Percentage of the Waneta Plant is subject to the CPA, except as contemplated by Section 14.6, and (ii) with the exception of increases associated with Upgrades, Teck's Entitlement Energy and/or Teck's Entitlement Capacity shall receive the full benefit of increases as a result of re-determinations under the CPA, attributable to 100% of the Waneta Plant, even though only Teck's Participation Percentage of the Waneta Plant is subject to the CPA.

The Co-Possessors further agree that this principle is reflected in the specific terms of this Agreement and that if there is a conflict between this principle and the specific terms of this Agreement, the specific terms prevail.

### 13.2. Share of Generation Adjustments Associated with WAX Coordination

The Parties acknowledge and agree that each Co-Possessor's right under Section 13.1(a) and 13.1(b) respectively, shall exclude its Participation Percentage of:

- (a) any coordination benefits that the owner(s) of WAX are entitled to receive from the owner of the Waneta Plant pursuant to the Waneta Release Coordination Agreement; and
- (b) energy and capacity that result from the use in the Waneta Plant (other than as a result of the hydroelectric facilities at WAX not being available for operation) of water authorized for use by the owners of WAX that equals the energy and capacity that would have resulted from the use of that water in WAX,

but shall include its Participation Percentage of:

- (c) any coordination benefits the owner of the Waneta Plant is entitled to receive from the owners of WAX pursuant to the Waneta Release Coordination Agreement; and
- (d) energy and capacity that result from the use in WAX (other than as a result of the hydroelectric facilities at the Waneta Plant not being available for operation) of water authorized for use by the owner of the Waneta Plant that equals the energy and capacity that would have resulted from the use of that water in the Waneta Plant.

## 14. BI-LATERAL ADJUSTMENTS TO CPA ENTITLEMENT

### 14.1. Bi-Lateral Adjustments to Teck's Entitlement Capacity and Teck's Entitlement Energy

BC Hydro and Teck agree to adjust Teck's Entitlement Capacity and Teck's Entitlement Energy under the CPA in accordance with this Section 14 from time to time.

### 14.2. Intentionally Deleted.

### 14.3. Calculation of Adjustments to Teck's Entitlement Capacity and Teck's Entitlement Energy

Subject to Section 14.5 and 14.6, Teck's Entitlement Capacity and Teck's Entitlement Energy shall be adjusted pursuant to this Section 14 from time to time in accordance with the following formula:

$$E_t = A + (PP \times F) - C - U$$

Where:

$E_t$  = Teck's Entitlement Capacity or Teck's Entitlement Energy, as applicable, that Teck is to receive under the CPA as determined in accordance with this Section 14;

$A$  = The Entitlement Capacity or Entitlement Energy, as applicable, attributable to 100% of the Waneta Plant as determined by the Entitlement Calculation Program (including application of the applicable Adjustment Factor under the CPA) at the time of any re-determination;

$PP$  = The Participation Percentage of Teck;

$F$  = The forecast of the Entitlement Capacity or Entitlement Energy, as applicable, attributable to 100% of the Waneta Plant as determined by the Entitlement Calculation Program (including application of the applicable Adjustment Factor under the CPA) agreed as at the Effective Date. The agreed values for  $F$  are provided in Table 1 below, and are not subject to change;

$C$  = Adjustments to Teck's Entitlement Capacity or Teck's Entitlement Energy, as applicable, that provide the agreed reallocation of Teck's Entitlement Capacity and Teck's Entitlement Energy. The agreed values for  $C$  are provided in Table 2 below, and are not subject to change except pursuant to Section 14.5(b); and

$U$  = The cumulative amount of changes to Teck's Entitlement Capacity and Teck's Entitlement Energy resulting from BC Hydro's Participation Percentage and participation in Upgrades from and after the Effective Date.  $U$  is the sum over all Upgrades of the entitlement change associated

with each individual Upgrade ( $U_i$ ). The entitlement reduction associated with an individual Upgrade is given by the following formula:

$$U_i = (A - A_p) \times (100\% - TS_i)$$

Where:

A is as defined above; and

$A_p$  = The Entitlement Capacity or Entitlement Energy, as applicable, attributable to 100% of the Waneta Plant as determined by the Entitlement Calculation Program (including application of the applicable Adjustment Factor under the CPA) immediately prior to the implementation of each Upgrade.

$TS_i$  = Teck’s share of any entitlement change associated with each Upgrade (expressed as a percentage), which for greater certainty is 0% in respect of any BC Hydro Upgrade and, in respect of any Shared Upgrade, is the allocation to Teck of entitlement associated with the Upgrade agreed by the Co-Possessors at the time the Upgrade is approved.

Table 1 - Agreed Forecast of Entitlement Capacity and Entitlement Energy attributable to 100% of the Waneta Plant (F)

August 1, 2017 to January 1, 2036														
Capacity	MW	478.9	485.9	485.5	485.8	485.4	485.8	485.3	485.4	483.3	475.0	453.4	448.9	
Energy	GW.h	182.400	163.900	234.500	198.200	217.600	201.300	171.700	228.400	249.800	299.400	282.300	249.200	2,678.700

Table 2 - Agreed Adjustments to Teck’s Entitlement Capacity and Teck’s Entitlement Energy (C)

			Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
August 1, 2017 to January 1, 2036															
Capacity	MW	571.5	580.6	577.0	574.7	572.2	572.6	572.6	575.0	573.7	562.2	527.6	521.8		
Energy	GW.h	156.608	133.616	234.500	169.884	217.600	201.300	149.583	228.400	223.676	362.700	298.407	274.926	2,651.200	

14.4. Adjustments to Teck’s Entitlement Capacity and Teck’s Entitlement Energy

Adjustments to Teck’s Entitlement Capacity or Teck’s Entitlement Energy, as applicable, shall be completed by the Co-Possessors from time to time in accordance with this Section 14 at the request of either Co-Possessor if:

- (a) that portion of the Entitlement Capacity or Entitlement Energy, as applicable, attributable to 100% of the Waneta Plant as determined by the Entitlement Calculation Program, has, since the last adjustment made in accordance with this Section 14, been re-determined in accordance with the CPA, including as a result of:
- (i) any change in the as-built characteristics of WAX assumed for the purposes of this Agreement; or
  - (ii) any change to the methodology for calculating the Entitlement Capacity or Entitlement Energy attributable to 100% of the Waneta Plant, including any coordination benefits, after the completion of WAX; or
- (b) the requesting Co-Possessor wants to effect a bilateral adjustment to Teck's Entitlement Capacity or Teck's Entitlement Energy for an upcoming period because the values of F and C as set forth in Tables 1 and 2 for any calendar month within that upcoming period are different than the corresponding values of F and C for a prior period and those prior period values were used in the most recent determination or bilateral adjustment of Teck's Entitlement Capacity or Teck's Entitlement Energy for that month;

After each adjustment to Teck's Entitlement Capacity or Teck's Entitlement Energy, as applicable, in accordance with this Section 14.4, BC Hydro and Teck shall provide written notice pursuant to Section 6.7 of Schedule A to the CPA to specify Teck's Entitlement Capacity and Teck's Entitlement Energy, as applicable, as the amounts resulting from such adjustment(s).

#### 14.5. Potential for Further Adjustments

- (a) Table 3 sets forth the Parties' agreed upon forecast of Teck's Entitlement Capacity and Teck's Entitlement Energy to January 1, 2036, as it would be determined in accordance with Section 14.3 assuming that there are no changes to any of the following items during the periods contemplated by the forecast:
- (i) Intentionally Deleted;
  - (ii) the Entitlement Capacity or Entitlement Energy attributable to 100% of the Waneta Plant as determined by the Entitlement Calculation Program;
  - (iii) the as-built characteristics of WAX assumed for the purposes of this Agreement; and
  - (iv) the methodology for calculating the Entitlement Capacity or Entitlement Energy attributable to 100% of the Waneta Plant, including any coordination benefits, after the completion of WAX,

and the Parties acknowledge a redetermination pursuant to the CPA has yet to be completed in respect of the completion of WAX, and nothing in this Agreement precludes any Party from proceeding with such redetermination.

Table 3 - Forecast of Teck's Entitlement Capacity and Teck's Entitlement Energy as Bi-Laterally Adjusted, assuming no changes to the above items

			Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
August 1, 2017 to January 1, 2036															
	Capacity	MW	226.7	229.2	232.1	235.0	236.8	237.1	236.2	234.0	231.8	229.5	228.0	226.4	
	Energy	GW.h	147.392	139.551	156.333	160.449	145.067	134.200	136.584	152.267	192.657	136.300	172.093	140.407	1,813.300

- (b) If a re-determination of Teck's Entitlement Capacity or Teck's Entitlement Energy results in Teck's Entitlement Capacity or Teck's Entitlement Energy being less than the values specified in Table 3 above in some future month(s) and also results in Teck's Entitlement Capacity or Teck's Entitlement Energy being higher in other future month(s), than the values specified in Table 3 above, then at the request of Teck, BC Hydro and Teck shall in good faith investigate the possibility of adjusting Table 2 so that Teck's Entitlement Capacity and Teck's Entitlement Energy pursuant to the CPA more closely aligns with the values in Table 3, provided however that neither Party need agree to any adjustment that is not neutral in value to it, and in particular any adjustment that would see energy and/or capacity from the Freshet reduced for increases in energy and/or capacity in other periods.
- (c) Subject to Section 14.5(d)(ii), Table 4 sets forth the Parties' agreed upon reductions in BC Hydro's obligation to provide Entitlement Energy and Entitlement Capacity under the CPA until January 1, 2036 (which for greater certainty represents the values obtained by subtracting the values set forth in Table 3 from the corresponding values in Table 1).

Table 4 - Agreed Reduction in BC Hydro's Entitlement Capacity and Entitlement Energy Obligation

			Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Total
August 1, 2017 to January 1, 2036															
	Capacity	MW	252.2	256.7	253.4	250.8	248.6	248.7	249.1	251.4	251.5	245.5	225.4	222.5	
	Energy	GW.h	35.008	24.349	78.167	37.751	72.533	67.100	35.116	76.133	57.143	163.100	110.207	108.793	865.400

- (d) If at any time prior to January 1, 2036:



- (i) Intentionally Deleted
- (ii) the Co-Possessors construct, install and complete a Shared Upgrade,

the reductions in BC Hydro's obligation to provide Entitlement Energy and Entitlement Capacity under the CPA as set forth in Table 4 shall be correspondingly amended concurrently with the adjustment to Teck's Entitlement Capacity and Teck's Entitlement Energy pursuant to Section 14.3. The adjusted reductions in BC Hydro's obligation to provide Entitlement Energy and Entitlement Capacity under the CPA until January 1, 2036, shall be equal to the amount obtained by subtracting "Et" from "A" (in each case for Teck's Entitlement Capacity and Teck's Entitlement Energy) as "Et" may be bilaterally adjusted pursuant to Section 14.3.

#### 14.6. Bi-Lateral Adjustments to Outage Factors

Notwithstanding the Co-Possessors' agreed upon reductions in BC Hydro's obligations to provide Entitlement Energy and Entitlement Capacity under the CPA until January 1, 2036 as set forth in Table 4:

- (a) Prior to January 1, 2036, Teck may schedule planned maintenance outages of Units of the Waneta Plant one Unit at a time, for up to 22 days in the aggregate during any month of September (or, after the WAX In-Service Date, in other month(s) of the year as Teck and BC Hydro may agree) and such planned maintenance outages will not result in any adjustments to Teck's Entitlement Capacity. To accomplish this, prior to any such planned maintenance, BC Hydro and Teck shall provide written notice pursuant to Section 6.8 of Schedule A to the CPA to revise the procedure for determining "MW on Outage" amounts for the Waneta Plant to be used in the determination of "Capacity Entitlement Adjustments" factors for the Waneta Plant from Table 10 of the CPA, such that on the first 22 days (whether or not consecutive) during which any Unit is on planned maintenance in September (or, after the WAX In-Service Date, in other month(s) of the year as Teck and BC Hydro may agree) if Teck has, on any hour of such day, one or more Units at the Waneta Plant out for planned maintenance, one such Unit will be considered in-service on that hour for the purpose of computing the "MW on Outage" at the Waneta Plant which is then used to determine the "Capacity Entitlement Adjustments" factors applicable to such hour from Table 10 of the CPA. If two or more Units are out-of-service on any hour of such days, the Unit that is assumed to be available for the purpose of determining the "MW on Outage" to be used in determination of the "Capacity Entitlement Adjustments" factors will be the first of those Units taken out-of-service for planned maintenance.
- (b) Capacity and energy loss during construction and installation of Shared Upgrades shall be allocated to each Co-Possessor in proportion to its Participation Percentage, except as may otherwise be agreed, provided that for purposes of this Section 14.6(b), the Unit 3 Life Extension Project referred to in Schedule C shall

be deemed to be a Shared Upgrade. To accomplish this, prior to the construction and installation of a Shared Upgrade that will result in the outage of a Unit, BC Hydro and Teck shall provide written notice pursuant to Section 6.8 of Schedule A to the CPA to:

- (i) change the “Capacity Entitlement Adjustments” factors and “Energy Entitlement Adjustments” factors set forth in Table 10 of the CPA for such Unit to the amount, in each case, obtained by multiplying Teck’s then Participation Percentage by the applicable adjustment factors set forth in Table 10 for such Unit, for the duration of the construction and installation of the Shared Upgrade; and
  - (ii) return the “Capacity Entitlement Adjustments” factors and the “Energy Entitlement Adjustments” factors set forth in Table 10 of the CPA to those amounts applicable to 100% of the Waneta Plant following completion of the construction and installation of the Shared Upgrade and the termination of the resulting outage of the Unit.
- (c) Capacity and energy loss during construction and installation of any BC Hydro Upgrade, to the extent attributable solely to the BC Hydro Upgrade and not to any other project or activity, shall be solely allocated to BC Hydro, including by way of reducing BC Hydro's Share of Actual Generation to the extent of such loss. Each BC Hydro Upgrade will not result in any adjustments to Teck's Entitlement Capacity or Entitlement Energy. To accomplish this, prior to any such BC Hydro Upgrade, BC Hydro and Teck shall provide written notice pursuant to Section 6.8 of Schedule A to the CPA such that during all hours or parts thereof during which any one or more Waneta Plant Units are on outage solely in connection with a BC Hydro Upgrade, Teck's Entitlement Capacity and Teck's Entitlement Energy adjustments will be computed as though all Waneta Plant Units on outage solely in connection with the BC Hydro Upgrade had been in-service.
- (d) Capacity and energy loss during and as a result of a KI Delivery Limitation (until the KI Delivery Limitation is overcome by Alternate Means pursuant to the Transmission Agreement) shall be allocated to each Co-Possessor in proportion to its Participation Percentage. To accomplish this, BC Hydro and Teck shall provide written notice pursuant to Section 6.8 of Schedule A to the CPA (retroactively, if necessary) to:
- (i) change the “Capacity Entitlement Adjustments” factors and “Energy Entitlement Adjustments” factors set forth in Table 10 of the CPA to the amount, in each case, obtained by multiplying Teck’s then Participation Percentage by the applicable adjustment factors set forth in Table 10 for the duration of the KI Delivery Limitation until overcome by Alternate Means pursuant to the Transmission Agreement; and
  - (ii) to return the “Capacity Entitlement Adjustments” factors and the “Energy Entitlement Adjustments” factors set forth in Table 10 of the CPA to those

amounts in place immediately prior to the change referred to in Section 14.6(d)(i) upon the KI Delivery Limitation being overcome by Alternate Means pursuant to the Transmission Agreement.

14.7. Notice of Adjustments to Teck's Entitlement Capacity and Teck's Entitlement Energy Under the CPA

If at the time of any adjustment pursuant to Section 14.4, 14.6, 14.8, 24.2(b) or 24.3 (or required revision of procedure pursuant to Section 14.6(a)) either Co-Possessor fails to provide the written notice pursuant to Section 6.7 or 6.8 of Schedule A of the CPA, as applicable upon demand from the other Co-Possessor, or is otherwise a Defaulting Party, the other Co-Possessor may on behalf of the Co-Possessor failing to provide such notice (pursuant to the applicable limited power of attorney granted by each Co-Possessor to the other pursuant to this Agreement) provide such written notice pursuant to the CPA.

14.8. Post December 31, 2035

From and after January 1, 2036, Teck's Entitlement Capacity and Teck's Entitlement Energy, as applicable, from Teck's Participation Percentage of the Waneta Plant shall be equal to the Entitlement Capacity and Entitlement Energy, as applicable, attributable to 100% of the Waneta Plant as determined by the Entitlement Calculation Program (including the applicable Adjustment Factor depending whether the CPA Scheduling Agreement is then in effect) multiplied by Teck's Participation Percentage. BC Hydro and Teck shall provide written notice pursuant to Section 6.7 of Schedule A of the CPA, if such notice is required to give effect thereto.

14.9. Adjustments to Tables 2, 3 or 4

As and when the provisions of this Section 14 require any of Tables 2, 3 or 4 to be amended, to evidence such amendment, the Co-Possessors shall forthwith prepare the applicable amended Table, jointly sign the same and deliver such signed copies to each other, to be effective as and from the date of the amendment.

14.10. Replacement CPA

The Parties acknowledge and agree that any Replacement CPA together with this Agreement shall include provisions to achieve the same result as contemplated by this Section 14.

14.11. Net Coordination Benefits Taken into Account

The Co-Possessors acknowledge and agree (i) that the capacity and energy set forth in Tables 3 and 4 (as they may be amended from time to time) fully take into account the Co-Possessors' estimate of the net coordination benefits accruing to the owner of the Waneta Plant under the Waneta Release Coordination Agreement in effect at the Effective Date and (ii) no amendment of Tables 3 or 4 will be required to account for the receipt of net coordination benefits by the owner of the Waneta Plant after the WAX In-Service Date, provided that the amount of the net coordination benefits reflected in Table

3 may change as part of the bilateral adjustments to Teck's Entitlement Energy contemplated by this Section 14.

15. **ENTITLEMENT ADJUSTMENTS EXCEEDING ENTITLEMENT IN TABLE 9 OF CPA**

15.1. **Entitlement Adjustments Exceeding Entitlement in Table 9 of CPA**

The Parties acknowledge and agree that, prior to January 1, 2036, the adjustments to Teck's Entitlement Energy and Teck's Entitlement Capacity under the CPA for Unit outages will not take into account the fact that a portion of the Waneta Plant equal to BC Hydro's Participation Percentage has been removed from the CPA, but rather except for Unit outages contemplated by Section 14.6, such adjustments will continue to apply as though 100% of the Waneta Plant was subject to the CPA and as a consequence, Teck's Entitlement Capacity and/or Teck's Entitlement Energy under the CPA will bear the full reductions to Entitlement Capacity and Entitlement Energy, as applicable, as a result of such Unit outages. As a result of the foregoing, it will be possible under the CPA for adjustments to Teck's Entitlement Capacity or Teck's Entitlement Energy in certain Unit outage conditions to exceed Teck's Entitlement Capacity or Teck's Entitlement Energy as set forth in Table 9 of the CPA.

- (a) If the outage adjustments to Teck's Entitlement Capacity at any time exceed Teck's Entitlement Capacity as set forth in Table 9 of the CPA for any period of time (under such conditions the difference between the outage adjustments to Teck's Entitlement Capacity less Teck's Entitlement Capacity as set forth in Table 9 of the CPA, with the difference reduced by reserve requirement obligations in a manner consistent with the CPA is referred to herein as the "**Entitlement Capacity Deficit**"), then:
- (i) Teck shall, at BC Hydro's sole option and direction, acquire, schedule and deliver firm energy to BC Hydro at the Kootenay Interconnection in any hour during such period of time as may be directed by BC Hydro at any time upon reasonable advance notice before the commencement of the hour at a delivery rate for each hour up to the Entitlement Capacity Deficit. The total energy requested by BC Hydro during any month pursuant to this Section 15.1(a)(i) (irrespective of whether or not the energy has been returned pursuant to Section 15.1(a)(ii)) shall not exceed the forecast of BC Hydro's reduced obligation to provide the "Energy" amount for that month as provided in Table 4, as amended from time to time. On any day in the month during which there is an Entitlement Capacity Deficit, the total number of hours on which BC Hydro may call on deliveries pursuant to this Section 15.1(a)(i) shall be calculated by dividing the "Energy" amount for that month (converted into MWh) appearing in Table 4, as amended from time to time, by the corresponding "Capacity" amount for that month (in MW) appearing in Table 4, as amended from time to time, and dividing the quotient thereof by the number of days in the month, with the result rounded up to an integer value. For the computation

contemplated by the previous sentence, for the month of September (or, after the WAX In-Service Date, such other month as the Parties may agree to implement planned outages) the “Capacity” amount appearing in Table 4 would first be reduced by the lesser of: (i) the average amount of MW expected to be on planned outage during such month and (ii) the average amount of capacity on planned outage during such month assuming 5.5 days of planned maintenance per Unit.

- (ii) Subject to Section 15.1(a)(iii), BC Hydro shall schedule and deliver energy equal to the energy delivered to BC Hydro under Section 15.1(a)(i) to Teck at the Kootenay Interconnection in Off-Peak blocks, On-Peak blocks or both, as BC Hydro may determine in its sole discretion (and for certainty, nothing herein shall obligate BC Hydro to return any such energy to Teck during On-Peak hours). BC Hydro shall use commercially reasonable efforts to, but shall not be obligated to, return any such energy to Teck within the same calendar month as it received such energy from Teck and shall, subject to the last sentence of this Section 15.1(a)(ii), return any such energy to Teck by the end of the next following calendar month after which such energy was received from Teck or such later date as the Co-Possessors may agree. BC Hydro and Teck shall cooperate with each other to maximize the amount of energy so returned during periods when Line 71 is in service. If the return of such energy would cause energy to be moved from one Season to another, Teck and BC Hydro shall agree to Exchange Account adjustments to accommodate.
  - (iii) If it appears at any time that Teck will have an Entitlement Energy Deficit for a calendar month, Teck shall immediately notify BC Hydro and BC Hydro may, or if requested by Teck, BC Hydro shall, retain any energy delivered by Teck under Section 15.1(a)(i) until the cumulative amount retained offsets such Entitlement Energy Deficit.
  - (iv) Teck shall notify BC Hydro as soon as practicable in the event of any Entitlement Capacity Deficit and the Co-Possessors shall provide information to each other as to the expected duration of any Unit outage(s) causing the Entitlement Capacity Deficit and to establish appropriate energy schedules to deal with the Entitlement Capacity Deficit for the expected duration of the Unit outage(s) to allow for improved planning of the system operation for both Co-Possessors.
- (b) If it appears at any time that the outage adjustments to Teck’s Entitlement Energy for a month exceed Teck’s Entitlement Energy as set forth in Table 9 of the CPA for such month (under such condition the difference between the outage adjustments to Teck’s Entitlement Energy for the month less Teck’s Entitlement Energy as set forth in Table 9 is referred to herein as “**Entitlement Energy Deficit**”) Teck shall, subject to Section 15.1(a)(iii), at BC Hydro’s sole option and direction, acquire, schedule and deliver energy to BC Hydro at the Kootenay Interconnection in any hour during the remainder of such month and the first

seven days of the following month as may be directed by BC Hydro at any time upon reasonable advance notice before the commencement of the hour, such that by the end of the seventh day of the following month, such Entitlement Energy Deficit has been eliminated.

- (c) The Operating Committee has developed, and shall update as necessary, an operating procedure to provide additional details on accounting, notice periods, scheduling practices and other operational issues for these transactions.
- (d) BC Hydro shall waive the requirement of Teck under the CPA Scheduling Agreement to only schedule in full On-Peak or Off-Peak hour blocks if and to the extent such waiver is necessary for the delivery of energy by Teck to BC Hydro pursuant to this Section 15.1.

16. **INTENTIONALLY DELETED**

17. **CPA TO CONTINUE BETWEEN PARTIES**

17.1. **Termination of CPA and Replacement CPA**

- (a) The Co-Possessors agree that if during the Lease Term any party to the CPA provides a notice to terminate the CPA to the other parties to the CPA in accordance with the terms of the CPA or that portion of the Waneta Plant that is then included in the CPA is, or is to be, removed therefrom pursuant to Section 14.3 of the CPA, the Co-Possessors shall:
  - (i) forthwith after the provision of such notice, negotiate in good faith to establish the terms and conditions of a new agreement based on the same concepts as the existing CPA and shall enter into such new agreement, which agreement shall be effective from the termination of the CPA until the end of the Lease Term; or
  - (ii) forthwith negotiate in good faith to establish the terms and conditions of a new agreement based on the same concepts as the existing CPA (with Teck as the only “Entitlement Party” and Teck’s Participation Percentage of the Waneta Plant being the only “Plant”) and shall enter into such new agreement to be effective from the date of such removal from the CPA until the end of the Lease Term,

as applicable.

- (b) The new agreement shall reflect Teck’s entitlement to capacity and energy from its Participation Percentage of the Waneta Assets based on calculations using the same concepts as are used in the CPA, and before any bilateral adjustments contemplated by this Agreement to Teck’s Entitlement Capacity or Teck’s Entitlement Energy in any one or more months, or as between months, and shall reflect changes in flows, plant characteristics and other circumstances not

reflected in the CPA as of its termination or the time of such removal from the CPA, as applicable.

- (c) If despite good faith negotiations the Co-Possessors are unable to reach agreement: (i) within 18 months prior to the effective date of the termination of the CPA; or (ii) prior to the effective date of such removal from the CPA, as the case may be, then either Co-Possessor may submit the matter for dispute resolution in accordance with Section 29. Nothing in this Section 17.1 shall preclude either Co-Possessor from exercising its rights under the CPA to give notice of termination of the CPA in accordance with its terms, but without affecting the Co-Possessors' obligations under this Section 17.1.
- (d) Concurrently with the execution and delivery of a Replacement CPA, the Co-Possessors shall negotiate in good faith to amend such of the terms of this Agreement which make reference to the CPA, to refer to the Replacement CPA and otherwise as appropriate to implement and carry out the intent and purpose of this Agreement during the currency of a Replacement CPA instead of the CPA. Any dispute in respect of such amending agreement may be submitted for dispute resolution in accordance with Section 29.
- (e) Any arbitrator appointed pursuant to Section 29 to resolve any dispute arising under this Section 17.1 shall be appointed as an expert and is hereby authorized and directed to:
  - (i) develop the terms and conditions of a Replacement CPA contemplated by Section 17.1(a) and to prepare a Replacement CPA between the Co-Possessors setting forth such terms and conditions, which Replacement CPA shall become operative from and after the effective date of termination of the CPA or the date of such removal from the CPA, as applicable; and
  - (ii) develop the terms and conditions of the amending agreement contemplated by Section 17.1(d) and to prepare an amending agreement between the Co-Possessors setting forth such terms and conditions, which amending agreement shall become operative as and from the effective date of the Replacement CPA until the end of the Lease Term.

The Co-Possessors shall execute and deliver to each other such Replacement CPA and amending agreement, as applicable, forthwith after the same has been presented to them for execution.

- (f) The Co-Possessors agree that if any party to a Replacement CPA provides a notice to terminate such Replacement CPA to the other parties to such Replacement CPA in accordance with the terms of such Replacement CPA, the Co-Possessors shall forthwith after the provision of such notice, negotiate in good faith to establish the terms and conditions of a new Replacement CPA based on the same

concepts as the existing Replacement CPA and the provisions of Section 17.1 shall apply *mutatis mutandis*.

17.2. Termination of CPA Scheduling Agreement

- (a) Neither Teck nor BC Hydro shall terminate the CPA Scheduling Agreement with an effective termination date prior to January 1, 2036. If the CPA Scheduling Agreement is terminated on or after January 1, 2036, Teck's Entitlement Energy under the CPA shall be revised to reflect the termination, if the applicable Adjustment Factor under the CPA has not already taken into account the termination.
- (b) The Parties agree that if either party to the CPA Scheduling Agreement provides a notice to terminate the CPA Scheduling Agreement to the other in accordance with the terms of the CPA Scheduling Agreement (for greater certainty, to terminate the CPA Scheduling Agreement at any time on or after January 1, 2036), the Parties shall forthwith after the provision of such notice, negotiate in good faith to establish the terms and conditions of a new agreement between the Parties to resolve the rights and obligations of Teck with respect to scheduling if, at such time, the rights and obligations of Teck with respect to scheduling have not been resolved under any amendments to the CPA or a Replacement CPA. Any dispute between the Parties arising out of such negotiations may be referred to dispute resolution pursuant to Section 29 but only with the unanimous agreement of both Parties.

18. **INTENTIONALLY DELETED**

19. **INTENTIONALLY DELETED**

20. **INTENTIONALLY DELETED**

21. **INTENTIONALLY DELETED**

22. **ENVIRONMENTAL ATTRIBUTES**

22.1. Environmental Attributes

- (a) Until January 1, 2036:
  - (i) Teck shall be entitled to claim all Environmental Attributes associated with Teck's Share of Actual Generation and except as expressly contemplated by Section 22.1(a)(ii), BC Hydro shall not do anything to adversely affect Teck's rights to such Environmental Attributes. All costs incurred to obtain recognition of such Environmental Attributes shall be borne by Teck.
  - (ii) BC Hydro shall be entitled to claim all Environmental Attributes associated with BC Hydro's Share of Actual Generation required to claim



that such output is Clean or Renewable Electricity, and Teck shall not do anything to adversely affect BC Hydro's rights to such claim. All costs incurred to obtain recognition of such claim shall be borne by BC Hydro.

- (iii) Teck shall be entitled to claim all other Environmental Attributes associated with BC Hydro's Share of Actual Generation (for certainty, excluding all Environmental Attributes associated with such output required to claim that such output is Clean or Renewable Electricity), and BC Hydro shall not do anything to adversely affect Teck's rights to such Environmental Attributes. All costs incurred to obtain recognition of such Environmental Attributes shall be borne by Teck.
- (b) Notwithstanding the foregoing, until January 1, 2036, if Teck is unable to obtain the benefit of its Environmental Attributes referred to in Section 22.1(a)(iii) (due to an inability to unbundle those Environmental Attributes from the energy or from BC Hydro's right to claim that such energy is Clean or Renewable Electricity), the Parties shall use commercially reasonable efforts to price such Environmental Attributes for purchase by BC Hydro on a basis that shares the benefits, if any, net of additional costs, that BC Hydro obtains from selling the energy with the associated Environmental Attributes (other than those described in Section 22.1(a)(ii)), provided that nothing in this Section 22.1(b) shall obligate BC Hydro to export such energy to the United States of America to obtain such benefit.
- (c) From and after January 1, 2036:
  - (i) BC Hydro shall be entitled to claim all Environmental Attributes associated with BC Hydro's Share of Actual Generation; and
  - (ii) Teck shall be entitled to claim all Environmental Attributes associated with Teck's Share of Actual Generation,and all costs incurred to obtain recognition of such Environmental Attributes shall be borne by BC Hydro and Teck, respectively.
- (d) Until January 1, 2036, to the extent that energy from the Existing Waneta Upgrades is entitled to the benefit of renewable energy credits, such energy, but only to the extent it is equal to or less than the amount of Teck's Entitlement Energy, shall be deemed to be part of Teck's Entitlement Energy (solely for the purpose of allocating renewable energy credits), provided that this provision shall not affect the rights of BC Hydro to receive energy under the CPA and this Agreement.

## 23. REMEDIES FOR EXCESS USE AND/OR FAILURE TO DELIVER

### 23.1. Teck's Right to Purchase Market Power

Nothing in this Agreement shall prevent or prohibit Teck from purchasing capacity and energy in the market for any reason, including:

- (a) so as to avoid being subject to Section 23.2(a)(i) or 23.2(a)(ii);
- (b) to make deliveries to BC Hydro pursuant to Section 15.1(a)(i) or 15.1(b);
- (c) to avoid default or liquidated damages in connection with any sale of capacity or energy to BC Hydro or a third party; and
- (d) to serve the Industrial Load,

provided nothing herein shall relieve Teck of its obligations pursuant to the Surplus Power Rights Agreement and the CPA Scheduling Agreement (except as provided in Section 15.1(d)).

### 23.2. Liquidated Damages from Teck

- (a) If:
  - (i) in any hour during which Teck's Entitlement Capacity is zero or a positive number, the Entitlement Parties use energy under the CPA at a rate that is in excess of the aggregate "Maximum Energy Delivery Rate" as shown on Table 9 of the CPA (being Entitlement Capacity adjusted for reserve requirements in accordance with the CPA), as adjusted for unit outages, and Teck uses energy under the CPA at a rate that is in excess of its "Maximum Energy Delivery Rate" as shown on Table 9 of the CPA (being Teck's Entitlement Capacity adjusted for reserve requirements in accordance with the CPA), as adjusted for unit outages, for that hour; or
  - (ii) in any day during which Teck's Entitlement Energy is zero or a positive number, after maximum use of the CPA flexibility/Exchange Accounts: (A) the Entitlement Parties use energy under the CPA in such day causing the cumulative use of Aggregate Entitlement Energy (as that term is defined in the CPA) to be in excess of the Aggregate Entitlement Energy for that day (being the amount of Aggregate Entitlement Energy for that month divided by the number of days in that month); and (B) Teck uses energy in such day causing the cumulative use of Entitlement Energy by Teck to be in excess of Teck's Entitlement Energy for that day (being the amount of Teck's Entitlement Energy for that month divided by the number of days in that month); or
  - (iii) there is an Entitlement Capacity Deficit for any period of time and Teck fails to acquire, schedule or deliver energy to BC Hydro at the Kootenay

Interconnection in any hour during such period of time in amounts as directed by BC Hydro pursuant to Section 15.1(a)(i); or

- (iv) it appears at any time that there will be an Entitlement Energy Deficit for a month and Teck fails to acquire, schedule or deliver energy to BC Hydro at the Kootenay Interconnection in any hour during the remainder of such month or by the end of the seventh day of the following month, as directed by BC Hydro pursuant to Section 15.1(b); or
- (v) Teck fails to make available any or all of BC Hydro's Share of Actual Generation in any hour as required by the Transmission Agreement,

then in any such event, Teck shall pay to BC Hydro within 30 days of invoice receipt, an amount for such energy so used, not acquired, not scheduled, not delivered, or not made available, in that hour (or in the case of Section 23.2(a)(ii), in that day), without duplication, equal to 110% of the Replacement Price of such energy, provided that in the event of a Force Majeure on transmission that prevents Teck from receiving power purchased in the market to serve the Industrial Load that results in any of the conditions set forth in Sections 23.2(a)(i) or 23.2(a)(ii) or from receiving power purchased in the market to deliver energy to BC Hydro pursuant to Section 23.2(a)(iii) or 23.2(a)(iv), the amount payable by Teck shall be equal to 100% of the Replacement Price of such energy. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount. The invoice amount shall bear interest at an annual rate of interest equal to the Prime Rate plus 5% from the date such invoiced amount is due until paid.

- (b) For the purposes of Section 23.2(a)(i), if requested by Teck, in hours when an event of Force Majeure affecting transmission on Line 71 prevents Teck from delivering energy purchased from the United States of America on Line 71 to serve its Industrial Load, energy purchased by Teck and made available to BC Hydro at the BC/US Boundary shall be deemed to reduce the rate at which Teck uses energy under the CPA in that hour, provided such reduction shall in no circumstances have the effect of reducing the rate at which Teck uses energy under the CPA in that hour below its "Maximum Energy Delivery Rate" as shown on Table 9 of the CPA. Teck and BC Hydro have agreed to amendments to the CPA accounting procedures to reflect the foregoing.
- (c) For the purposes of Section 23.2(a)(ii), if requested by Teck, when there is an event of Force Majeure affecting transmission on Line 71 that prevents Teck from delivering energy purchased from the United States of America on Line 71 to serve its Industrial Load, energy purchased by Teck and made available to BC Hydro at the BC/US Boundary shall be deemed to reduce the amount of energy used by Teck for that day, provided such reduction shall in no circumstances have the effect of reducing the energy used by Teck for that day below Teck's Entitlement Energy for that day. Teck and BC Hydro have agreed to amendments to the CPA accounting procedures to reflect the foregoing.

- (d) For the purpose of Section 23.2(a), “**Replacement Price**” means for the energy:
- (i) used by Teck pursuant to Section 23.2(a)(i) or 23.2(a)(ii) to which BC Hydro was otherwise entitled, or
  - (ii) which Teck failed to deliver or make available to BC Hydro pursuant to Section 23.2(a)(iii) or 23.2(a)(iv) or 23.2(a)(v),

as applicable, the price per MWh (in US\$) equal to the applicable ICE Index plus any additional transmission charges (including losses), that would have been reasonably incurred by BC Hydro had BC Hydro purchased such energy, to deliver such energy to the Kootenay Interconnection. Nothing herein shall require BC Hydro to replace such energy in order for the foregoing amounts to be payable by Teck. For the purposes of Section 23.2(a)(ii), the applicable ICE Index shall be the ICE Index for On-Peak hours (or Off-Peak hours, if there are no On-Peak hours in the particular day) for the entire amount of energy so used by Teck during the day, regardless of whether such energy was used by Teck during On-Peak hours or Off-Peak hours in such day.

- (e) If Teck disputes the amount of any invoice delivered pursuant to Section 23.2(a), Teck shall provide to BC Hydro a detailed written explanation of the basis for such dispute within 5 Business Days of receiving BC Hydro’s invoice. Teck shall nevertheless pay any amount determined by BC Hydro to be payable. Either Party may submit the matter in dispute to dispute resolution in accordance with Section 29 and any adjustment to the amount paid shall be due and payable within 30 days of the arbitrator’s determination.
- (f) BC Hydro and Teck agree that the amounts payable by Teck to BC Hydro pursuant to this Agreement, for energy used by Teck under the CPA in excess of the limits established by the CPA as contemplated by Section 23.2(a)(i) and Section 23.2(a)(ii), is BC Hydro’s remedy for any such energy use, and BC Hydro shall not be entitled to additional remedies under the CPA, as against the Entitlement Parties or otherwise, in respect thereof.
- (g) If in any hour, Teck’s Entitlement Capacity (less applicable reserves) falls below its share of the Minimum Take for that hour as provided for in the CPA Subagreement, and the Entitlement Parties’ Aggregate Entitlement usage under the CPA falls below the Minimum Take for that hour, then BC Hydro agrees, to the extent attributable to Teck’s Entitlement Capacity (less applicable reserves) falling below its share of the Minimum Take for that hour, to waive the Minimum Take requirement under the CPA for that hour with the same effect as though the Entitlement Parties’ obligation to use the Minimum Take under the CPA had been reduced accordingly.
- (h) Teck need not call on reserves to supply all or any part of any Entitlement Capacity Deficit during any Unit outage(s) at the Waneta Plant. Sections

15.1(a)(i) and 23.2(a)(iii) shall continue to apply to any Entitlement Capacity Deficit.

23.3. Liquidated Damages from BC Hydro

- (a) If BC Hydro fails to schedule and deliver energy to Teck at the Kootenay Interconnection pursuant to Section 15.1(a)(ii) by the end of the next following calendar month after which such energy was delivered by Teck to BC Hydro pursuant to Section 15.1(a)(i) or such later date as the Co-Possessors may agree (subject to the provision in Section 15.1(a)(ii) to accommodate by way of Exchange Account adjustments instead of delivery), BC Hydro shall pay to Teck within 30 days of invoice receipt, an amount for such energy not delivered, equal to the 110% of the average of the daily ICE Index for firm “Off-peak” electricity for the month during which energy was delivered to BC Hydro under Section 15.1(a)(i) plus any additional transmission charges (including losses), that would have been reasonably incurred by Teck had Teck purchased such energy, to deliver such energy to the Kootenay Interconnection. The invoice for such amount shall include a written statement explaining in reasonable detail the calculation of such amount. The invoice amount shall bear interest at an annual rate of interest equal to the Prime Rate plus 5% from the date such invoiced amount is due until paid.
- (b) If BC Hydro disputes the amount of any invoice delivered pursuant to Section 23.3(a), BC Hydro shall provide to Teck a detailed written explanation of the basis for such dispute within 5 Business Days of receiving Teck’s invoice. BC Hydro shall nevertheless pay any amount determined by Teck to be payable. Either Party may submit the matter to dispute resolution in accordance with Section 29 and any adjustment to the amount paid shall be due and payable within 30 days of the arbitrator’s determination.

23.4. No Penalty

Any payments made pursuant to this Section 23 constitute liquidated damages. The Parties acknowledge and agree that damages are difficult or impossible to determine and that such payments constitute a reasonable approximation of the amount of such damages, and not a penalty.

23.5. Replacement of Energy/Capacity

- (a) In the event of any outage(s) resulting in Teck delivering, or being expected to deliver, to BC Hydro energy and/or capacity purchased in the market rather than from the Waneta Plant prior to July 1, 2034, and such outage(s) continue or are reasonably expected by BC Hydro to continue for a period of 18 months or longer then unless within 60 days of such outage, Teck replaces such energy and/or capacity with energy and/or capacity that is “Clean or Renewable Electricity” and that BC Hydro, acting reasonably, agrees has equivalent firmness to Waneta Plant energy and/or capacity for planning purposes, BC Hydro shall have the right but

not the obligation to replace such energy and/or capacity with energy and/or capacity that is “Clean or Renewable Electricity”, that has equivalent firmness to Waneta Plant energy and/or capacity for planning purposes and BC Hydro’s cost of replacing such energy and/or capacity shall be payable by Teck to BC Hydro.

- (b) Teck shall upon request from BC Hydro, advise BC Hydro in writing of the expected duration of the outage(s) and the amounts of energy and/or capacity which Teck reasonably expects to deliver from purchasing in the market rather than from the Waneta Plant. If it elects to replace such energy and/or capacity, BC Hydro shall use commercially reasonable efforts to obtain in any purchase agreement entered into by BC Hydro for such replacement energy and/or capacity (a “**Replacement Contract**”) a comparable term and amount of such energy and/or capacity. If it is unable to do so, BC Hydro and Teck shall use good faith efforts to negotiate an allocation of that portion of the amount of energy and/or capacity replaced by BC Hydro under such Replacement Contract for which Teck is responsible to pay pursuant to Section 23.5(a). If any of the generation from the Waneta Plant which BC Hydro has replaced pursuant to a Replacement Contract is delivered by Teck prior to the end of the term of the Replacement Contract, BC Hydro shall credit against any amounts still payable by Teck under Section 23.5(a) as and when such payments are due, or otherwise pay Teck for such energy delivered, the price per MWh (in US\$) equal to the ICE Index applicable to the hours during which such energy was delivered, less transmission charges (including losses), if any, that would have been reasonably incurred to deliver such energy from the Kootenay Interconnection to any of the Mid-Columbia delivery points.
- (c) Any payments made by Teck pursuant to Section 23.5(a) shall be without duplication to any payments that would otherwise be payable by Teck pursuant to Section 23.2 in respect of the same outage.

## 24. EVENTS OF DEFAULT

### 24.1. Events of Default

A Co-Possessor shall be in default under this Agreement and the Surplus Power Rights Agreement (and thereby become a “**Defaulting Party**”) upon the occurrence of any of the following events (each an “**Event of Default**”):

- (a) The Co-Possessor fails to pay in whole or in part when due:
- (i) a Monthly Invoice pursuant to Section 10.3;
  - (ii) a Cash Call pursuant to Section 10.4;
  - (iii) an invoice for the liquidated damages contemplated by Section 23.2 or 23.3;
  - (iv) in the case of Teck, the amounts payable pursuant to Section 23.5;

- (v) any other payment required by a Co-Possessor (as Co-Possessor and not as Operator) pursuant to this Agreement, including any payment owing by the Co-Possessor to the other Co-Possessor pursuant to Section 10.7(b) or Section 6.12,

if such failure is not remedied within 5 Business Days after written notice of such failure is given to the Co-Possessor by the Non-Defaulting Party or by the Operator (provided that the 5 Business Day cure period shall not be applicable in the case of a payment owing by the Co-Possessor to the other Co-Possessor pursuant to Section 10.7(b)).

- (b) The Co-Possessor (as Co-Possessor but not as Operator) is in material default of or material breach of any of its representations, warranties, covenants or agreements to be performed or observed under this Agreement and in the case of a material default or breach that is capable of being corrected, the material default or breach is not corrected within 30 days after receipt by the Co-Possessor of notice of the material default or breach from the Non-Defaulting Party or the Operator.
- (c) In the case of Teck, the occurrence of any of the events described in Section 23.2(a) and Teck has failed to pay liquidated damages in respect of such failure pursuant to Section 23.2.
- (d) If any of the events described in Section 23.2(a) occurs continually notwithstanding that Teck has paid to BC Hydro the liquidated damages contemplated by Section 23.2; provided that for purposes of this Section 24.1(d), “continually” shall mean that the cumulative impact of the occurrence of any of the events described in Section 23.2(a) has: (i) deprived BC Hydro of 10% of its annual Entitlement Energy reduction, or (ii) deprived BC Hydro of any of its expected Entitlement Capacity reduction during On-Peak hours on more than 10% of the days during any rolling 12 month period (in either case excluding such events in respect of which liquidated damages are payable under Section 23.2 at 100% of Replacement Price). The Co-Possessors shall support development of systems and operating procedures to ensure appropriate tracking and notice thereof.
- (e) The Co-Possessor or any Receiver disclaims or otherwise terminates all or any part of the CPA, a Replacement CPA, the CPA Subagreement, the CPA Scheduling Agreement, this Agreement, the Waneta Lease or the Surplus Power Rights Agreement.
- (f) the occurrence of an “Event of Default” (as defined in the Waneta Lease) under the Waneta Lease.
- (g) A Person holding a Permitted Encumbrance set forth in Section 1.1(uuuuu)(iv) takes possession of any material portion of the Co-Possessor’s Participation Interest.

## 24.2. Rights on Events of Default

If an Event of Default occurs, the Non-Defaulting Party may at its option upon written notice to the Defaulting Party, exercise any or all of the following rights and remedies, which shall be cumulative and without prejudice to any other rights that the Non-Defaulting Party may have under this Agreement or Applicable Laws:

- (a) claim damages for the default or breach;
- (b) until January 1, 2036, terminate and liquidate the Surplus Power Rights Agreement and terminate and amend certain provisions of this Agreement in accordance with Section 24.3, in which case the Parties shall provide notice pursuant to sections 6.7 and 6.8 of Schedule A of the CPA;
- (c) in the case of an Event of Default by a Co-Possessor who is the Operator, the Non-Defaulting Party may elect to become the Operator and if it so elects, such Non-Defaulting Party shall as and from the date on which it becomes the Operator have the following voting rights on the Operating Committee:
  - (i) in the event that the Participation Percentage of the Non-Defaulting Party at the time of it becoming the Operator, exceeds 50%, the Non-Defaulting Party shall have a right to cast the percentage of the votes on the Operating Committee equal to its Participation Percentage; and
  - (ii) in the event that the Participation Percentage of the Non-Defaulting Party at the time of it becoming the Operator, is less than or equal to 50%, the Non-Defaulting Party shall for so long as it is the Operator, have a right to cast 51% of the votes on the Operating Committee and thereby decide matters of the Operating Committee by majority vote and the Defaulting Party shall have a right to cast 49% of the votes on the Operating Committee notwithstanding that the Participation Percentage of the Defaulting Party may exceed 50%;
- (d) exercise its rights under the BC Hydro Security Documents, in the case where BC Hydro is the Defaulting Party or the Teck Security Documents, in the case where Teck is the Defaulting Party; and/or
- (e) Intentionally deleted.
- (f) set off any amounts owing by the Defaulting Party to the Non-Defaulting Party under this Agreement or any other Waneta Agreement against any amounts owing by the Non-Defaulting Party to the Defaulting Party under this Agreement or any other Waneta Agreement.



24.3. Liquidation of Certain Transactions under this Agreement and the Surplus Power Rights Agreement

If the Non-Defaulting Party provides written notice to the Defaulting Party pursuant to Section 24.2(b), the Non-Defaulting Party shall in such written notice, designate a day, no earlier than the day such notice is given and no later than 20 days after such notice is given, as an early termination date (“**Early Termination Date**”) to:

- (a) terminate and liquidate the Surplus Power Rights Agreement; and
- (b) terminate the provisions of Sections 13.1(d), 14 (except section 14.8), 15, 22.1(a), 22.1(b), 22.1(d), 23.2(a)(iii), 23.2(a)(iv), 23.2(g) and 23.5 of this Agreement whereupon BC Hydro’s and Teck’s respective rights to capacity and energy output from the Waneta Plant shall be limited to BC Hydro’s Share of Actual Generation and Teck’s Share of Actual Generation and such Sections shall thereupon be terminated without the requirement of any further act or formality,

(the terminated Surplus Power Rights Agreement and the terminated provisions of this Agreement are referred to herein as the “**Terminated Transactions**”).

The Non-Defaulting Party shall thereupon calculate, in a commercially reasonable manner, a Settlement Amount for the Terminated Transactions as of the Early Termination Date. The Non-Defaulting Party shall aggregate the Settlement Amount and all other amounts that are owing but unpaid by the Defaulting Party to the Non-Defaulting Party in respect of any period prior to the Early Termination Date, net of all other amounts that are owing but unpaid by the Non-Defaulting Party to the Defaulting Party in respect of any period prior to the Early Termination Date, into a single net amount (the “**Termination Payment**”) and shall notify the Defaulting Party of that amount and provide a written statement explaining in reasonable detail the calculation of such amount. The Termination Payment as set forth in the Non-Defaulting Party’s notice shall be absolutely payable in full (notwithstanding that the Defaulting Party may dispute the amount), within 15 days of delivery of such notice to the Defaulting Party, which amount shall bear interest at an annual rate of interest equal to the Prime Rate plus 5% from and after the expiry of such 15 day period until paid. As used in this Section 24.3, “**Settlement Amount**” means, with respect to the Terminated Transactions:

- (i) an amount equal to the present value of the net economic loss to BC Hydro, if any (exclusive of costs), resulting from termination of the Terminated Transactions, determined in a commercially reasonable manner including:
  - A. the present value of:
    - I. the amount of energy and capacity represented by the reductions in BC Hydro’s obligation to provide Entitlement Energy and Entitlement Capacity to Teck under the CPA for each month from the Early Termination Date until

January 1, 2036, and recognizing, without limitation, any value to BC Hydro of the attributes and characteristics of such energy and capacity, including being Clean or Renewable Electricity, meeting the Province's self-sufficiency requirements, planning reliability and physical firmness; LESS

- II. the amount of BC Hydro's Share of Actual Generation for each month from the Early Termination Date until January 1, 2036 under this Agreement assuming (i) the then expected generation pattern of the Waneta Plant; (ii) the expected Waneta Plant outage factors, and (iii) adjustment for expected WAX In-Service Date, and recognizing, without limitation, any value to BC Hydro of the attributes and characteristics of such energy and capacity, including being Clean or Renewable Electricity, meeting the Province's self-sufficiency requirements, planning reliability and physical firmness, PLUS

B. the present value of

- I. BC Hydro's rights under the Surplus Power Rights Agreement from the Early Termination Date to January 1, 2036; LESS
- II. Teck's rights under the Surplus Power Rights Agreement from the Early Termination Date to January 1, 2036; LESS

C. the present value of payments made by Teck before the Early Termination Date, if any, pursuant to Section 23.5 in respect of energy or capacity that BC Hydro is to receive after the Early Termination Date under a Replacement Contract; and

- (ii) the costs and expenses of the Non-Defaulting Party incurred in terminating, calculating, collecting and enforcing its security on the payment of the Termination Payment.

It is expressly agreed that neither BC Hydro nor Teck shall be required to enter into replacement transactions in order for the Settlement Amount to be determined.

If the Defaulting Party disputes the amount of the Termination Payment as calculated by the Non-Defaulting Party, the Defaulting Party shall provide to the Non-Defaulting Party a notice of dispute and a detailed written explanation of the basis for such dispute within 40 Business Days of receiving the Non-Defaulting Party's notice. The dispute shall be submitted to dispute resolution pursuant to Section 29, provided that only two proposals shall be presented to the arbitrator: (i) the amount as set forth in notice provided by the Non-Defaulting Party to the Defaulting Party; and (ii) the amount set forth in the Non-Defaulting Party's notice of dispute, in each case together with detailed written

explanation and supporting documentation. The arbitrator shall select whichever calculation is in his view more commercially reasonable. If the arbitrator determines that the Defaulting Party has overpaid, the Non-Defaulting Party shall refund any amounts determined to have been overpaid by the Defaulting Party, together with interest accruing at the Prime Rate plus 2% from the date of the initial payment.

Any payments made pursuant to this Section 24.3 constitute liquidated damages. The Parties acknowledge and agree that damages are difficult or impossible to determine and that such payments constitute a reasonable approximation of the amount of such damages, and not a penalty.

As of the Early Termination Date, the provisions of Section 14.8, 22.1(c) and 27.1(d) shall be amended without the requirement of any further act or formality to, in each case, apply from the Early Termination Date instead of January 1, 2036. The Parties shall provide notice pursuant to Section 6.8 of Schedule A of the CPA to revise the outage factors applicable to the Waneta Plant to an amount equal to Teck's Participation Percentage times the outage factors attributable to 100% of the Waneta Plant from time to time, whenever those outage factors are modified pursuant to the CPA or whenever Teck's Participation Percentage changes.

#### 24.4. Restrictions on Remedies

(a) Notwithstanding anything to the contrary contained in this Agreement or in any of the BC Hydro Security Documents or the Teck Security Documents, but subject to Section 24.5 hereof, following the occurrence of an Event of Default, the Non-Defaulting Party shall not exercise any right to sell, lease or otherwise dispose, or to become the legal and beneficial owner through foreclosure or other remedy, of any property charged by the BC Hydro Security Documents or the Teck Security Documents, as the case may be, for a period of two years after such Event of Default (the "**Standstill Period**") except in the circumstances (the "**Sale Circumstances**") where:

- (i) the Non-Defaulting Party, acting reasonably, determines that the proceeds of operating such property as a going concern, to the extent that such operation is reasonably possible (whether directly or through a Receiver appointed under or in respect of its Security Documents), net of all costs of operation of such property and the amounts required to pay out:
  - A. any prior-ranking claims created by or resulting from any separate act or omission of the Defaulting Party; and
  - B. the Defaulting Party's share of any prior-ranking claims created by or resulting from any act or omission taken by or on behalf of the Co-Possessors pursuant to this Agreement.

(collectively referred to as the "**Projected Net Operating Proceeds**"), will be insufficient to repay to such Non-Defaulting Party, within the Standstill

Period the amount secured by the BC Hydro Security Documents or the Teck Security Documents, as the case may be, which is due and payable or which will become due and payable during the Standstill Period (and the amount of such deficiency (which will be the amount by which the aggregate of: (Y) the amount so due and payable; and (Z) the amount which will become due and payable during the Standstill Period), exceeds the Projected Net Operating Proceeds, as determined by the Non-Defaulting Party, acting reasonably, is hereinafter referred to as the “**Projected Deficiency**”); and

- (ii) the Defaulting Party has not, within 30 days of receipt of notice from the Non-Defaulting Party of the Projected Deficiency, provided the Non-Defaulting Party with an irrevocable letter of credit, in an amount equal to the amount of the Projected Deficiency, that secures payment of the Projected Deficiency on terms that are acceptable to the Non-Defaulting Party, acting reasonably, and issued by a financial institution that is acceptable to the Non-Defaulting Party, acting reasonably.

The Defaulting Party shall not be permitted to dispute pursuant to Section 29, any Projected Deficiency determined by the Defaulting Party pursuant to Section 24.4(a)(i) without first having provided the Non-Defaulting Party with the irrevocable letter of credit pursuant to Section 24.4(a)(ii) in the amount of the Projected Deficiency as determined by the Non-Defaulting Party.

- (b) Nothing contained in this Section 24.4 shall limit or restrict the exercise by a Non-Defaulting Party:
  - (i) of any right or remedy that it may have under and pursuant to Section 10.7(c) of this Agreement; or
  - (ii) of any right, either directly or through a Receiver, to take possession of any property charged by the BC Hydro Security Documents or the Teck Security Documents, as the case may be, (including any payments or distributions (including distributions under Section 28.1) to the Defaulting Party), to operate such property as a going concern, to apply the net proceeds of such operation or any such payments or distributions against any amounts secured by the BC Hydro Security Documents or the Teck Security Documents, as the case may be, or to enforce any of the BC Hydro Security Documents or the Teck Security Documents, as the case may be, in any manner permitted by Applicable Laws which is not a sale, lease or other disposition of such property or is not the obtaining of beneficial and legal ownership of such property through foreclosure or other remedy.

#### 24.5. Exceptions to Restrictions

In determining whether the Sale Circumstances are applicable, the Non-Defaulting Party may include in its analysis any existing or reasonably contemplated circumstances which would be likely to restrict, preclude or delay its ability (either directly or through a Receiver) to take possession of such property or to operate it as a going concern, or any additional liabilities which it would be required to assume or incur as a result of such possession or operation. A determination by the Non-Defaulting Party that the Sale Circumstances are not applicable does not preclude a subsequent determination by the Non-Defaulting Party that the Sale Circumstances are applicable as a result of a change in circumstances. In the event that the Sale Circumstances are applicable and the Non-Defaulting Party commences any of the actions otherwise prohibited by Section 24.4(a), Section 24.4(a) shall not be applicable thereafter, so long as the relevant Event of Default is continuing. Nothing contained in Section 24.4(a) shall require the Non-Defaulting Party (or any Person acting on its behalf, including for greater certainty any Receiver, whether instrument or court-appointed) to:

- (a) act in breach of any Applicable Laws (including, for greater certainty, any court orders);
- (b) refrain from pursuing any action against the Defaulting Party on its covenant to pay amounts owing hereunder;
- (c) refrain from selling or otherwise disposing of any part of the relevant property where such sale or disposal is in the ordinary course of Operations and is otherwise permitted under this Agreement; or
- (d) refrain from applying any insurance, expropriation or other proceeds received by or on behalf of it in respect of the property in accordance with the terms of this Agreement, while it is in effect.

#### 25. TRANSFER OF INTEREST

##### 25.1. General

Each Co-Possessor shall have the right to Transfer to any Person all or any part of its Participation Interest solely as provided in this Section 25. For greater certainty, the Parties acknowledge and agree that the transactions contemplated in the recitals to this Agreement will not constitute one or more Transfers for purposes of this Section 25.

##### 25.2. Limitations on Free Transferability

Any Transfer by a Co-Possessor under Section 25 shall be subject to the following terms and conditions:

- (a) Subject to Section 25.2(b), Teck shall not effect any Transfer to any Person without the prior written consent of BC Hydro, which consent may be withheld for any reason or for no reason.

- (b) Teck may effect a Transfer of all but not less than all of its Participation Interest (excluding its obligations under Section 31.6 of this Agreement) without the prior written consent of BC Hydro in the following circumstances provided that it has first given written notice of the proposed Transfer to BC Hydro:
- (i) a Transfer in the course of a *bona fide* internal reorganization of the Industrial Operations amongst Teck and its Affiliates as long as the Industrial Operations continue to be owned and operated by Teck Metals Ltd. or by its Affiliates following the reorganization; or
  - (ii) a Transfer to a purchaser of Teck Metals Ltd.'s Industrial Operations, in conjunction with and contemporaneously with the sale of the Industrial Operations to the same purchaser;

provided that Teck assigns to the same Transferee, at the same time and as part of the same transaction, its interest in the Surplus Power Rights Agreement (so long as it is in effect), the CPA Scheduling Agreement (so long as it is in effect), the CPA (or Replacement CPA, as applicable) and the Waneta Agreements (provided that the foregoing applies only in respect of Teck Metal Ltd.'s beneficial interest in the Bare Trust Assumed Contracts and not in respect of its interest in the Bare Trust Assumed Contracts as trustee under the Contract Bare Trust Agreement).

- (c) BC Hydro may at any time Transfer the whole, but not part of its Participation Interest upon notice to, but without the consent of, the Teck, provided BC Hydro has Transferred to the same Transferee, at the same time and as part of the same transaction, its interest in the Surplus Power Rights Agreement (so long as it is in effect), the CPA Scheduling Agreement (so long as it is in effect), and the Waneta Agreements.
- (d) BC Hydro may at any time Transfer a part of its Participation Interest upon notice to, and with the prior written consent of Teck, not to be unreasonably withheld, provided BC Hydro has Transferred to the same Transferee, at the same time and as part of the same transaction, a corresponding interest in the Surplus Power Rights Agreement (so long as it is in effect), the CPA Scheduling Agreement (so long as it is in effect), and the Waneta Agreements.
- (e) Neither Co-Possessor shall Transfer all or any part of its Participation Interest, unless the Transferee, as of the effective date of the Transfer, has:
  - (i) entered a written agreement with the Transferor Co-Possessor and the non-transferring Co-Possessor, in form and substance to the satisfaction of the non-transferring Co-Possessor, acting reasonably, whereby the Transferee agrees to be bound by this Agreement, the other Waneta Agreements, CPA Scheduling Agreement (so long as it is in effect) and the Surplus Power Rights Agreement (so long as it is in effect), to the same extent as the Transferor Co-Possessor and without limiting the foregoing, provides in such written agreement, the same or substantially similar representations

and warranties as at the effective date of the Transfer in favour of the non-transferring Co-Possessor as are contained in Section 2.1 and delivers a power of attorney in favour of the other Co-Possessor in substantially the form as set forth in Schedule B;

- (ii) has granted security in favour of the non-transferring Co-Possessor on the same terms and conditions as set out in the BC Hydro Security Documents in the case where BC Hydro is the Transferor Co-Possessor or the Teck Security Documents in the case where Teck is the Transferor Co-Possessor; and
- (iii) in the case where the Transferor Co-Possessor is Teck (and not BC Hydro), the Transferee has become bound by the CPA, including any Replacement CPA in respect of its Participation Interest;

and provided further that for so long as Teck Metals Ltd. continues to own Line 71, it shall continue to be bound by its obligations under the Transmission Agreement.

- (f) If the Transferor Co-Possessor is Teck, and the Transfer is a permitted Transfer of all of Teck's Participation Interest and the Transferee (or a guarantor of the Transferee's Obligations) is, at the time of the Transfer, of equal or better creditworthiness than the higher rated of: 1) any guarantor of Teck's Obligations, or 2) Teck, at that time, then Teck and Teck's guarantor (if any) shall be released from liability, provided the Transferee assumes all such Obligations (and the Transferee's guarantor, if any, guarantees such Obligations). No Transfer permitted by this Section 25 shall relieve the Transferor Co-Possessor of any liability, whether accruing before or after such Transfer, which arises out of Operations conducted prior to such Transfer.
- (g) In the event of a Transfer by a Co-Possessor of all of its Participation Interest to an Affiliate, the Transferor Co-Possessor shall not be relieved or discharged of any of its obligations or liabilities hereunder, and the other Co-Possessor may continue to look to the Transferor Co-Possessor as well as the Transferee Affiliate, jointly and severally, for the performance thereof.

25.3. Intentionally Deleted

25.4. Intentionally Deleted

25.5. Teck Right to Become Operator

BC Hydro covenants and agrees to provide as much advance written notice as is possible to Teck prior to the completion of

- (a) any Transfer of BC Hydro's Participation Interest pursuant to Section 25.2(c); or
- (b) change of control of BC Hydro.

and upon the receipt of such notice from BC Hydro, Teck shall have the right, but not the obligation, provided it is not at that time the Operator, to become the Operator under this Agreement. Such right shall be exercisable by notice in writing from Teck within 60 days after receipt of BC Hydro's notice and shall become effective on the date of the sale of BC Hydro's Participation Interest or change of control, as the case may be, failing which Teck shall be deemed to have elected not to become the Operator pursuant to this Section 25.5 in respect of such sale or change of control. If Teck elects to become the Operator pursuant to this Section 25.5, Teck shall as and from the date on which it becomes the Operator have a right to cast the percentage of the votes on the Operating Committee equal to its Participation Percentage. In the event that Teck does not elect to become the Operator pursuant to this Section 25.5, Teck's right to become the Operator shall again apply to any subsequent Transfer of BC Hydro's Participation Interest or change of control.

#### 25.6. BC Hydro Right to Become Operator

Teck covenants and agrees to provide as much advance written notice as is possible to BC Hydro prior to the completion of any:

- (a) sale of Teck's Participation Interest to a purchaser of Teck's Industrial Operations, in conjunction with and contemporaneously with the sale of the Industrial Operations (in which case, Teck shall give not less than 60 days' notice); or
- (b) change of control of Teck or Teck Resources Limited,

and upon receipt of such notice from Teck, BC Hydro shall have the right, but not the obligation, provided it is not at that time the Operator, to become the Operator under this Agreement. Such right shall be exercisable by notice in writing from BC Hydro within 60 days after receipt of Teck's notice and shall become effective on the date of the sale of Teck's Participation Interest or change of control, as the case may be, failing which BC Hydro shall be deemed to have elected not to become the Operator pursuant to this Section 25.6 in respect of such sale or change of control. If BC Hydro elects to become the Operator pursuant to this Section 25.6, BC Hydro shall as and from the date on which it becomes the Operator have the following voting rights on the Operating Committee:

- (i) in the event that the Participation Percentage of BC Hydro at the time of it becoming the Operator exceeds 50%, BC Hydro shall have a right to cast the percentage of the votes on the Operating Committee equal to its Participation Percentage; and
- (ii) in the event that the Participation Percentage of BC Hydro at the time of it becoming the Operator is less than or equal to 50%, BC Hydro shall for so long as it is the Operator, have a right to cast 51% of the votes on the Operating Committee and thereby decide matters of the Operating Committee by majority vote and:
  - A. in the case of a change of control, Teck; and



- B. in the case of a sale of Teck's Participation Interest to a purchaser of Teck's Industrial Operations, in conjunction with and contemporaneously with the sale of the Industrial Operations, the third party who purchases Teck's Participation Interest and the Industrial Operations,

shall have a right to cast 49% of the votes on the Operating Committee notwithstanding that the Participation Percentage of Teck or the third party purchaser, as the case may be, may exceed 50%.

In the event that BC Hydro does not elect to become the Operator pursuant to this Section 25.5, BC Hydro's right to become the Operator shall again apply to any subsequent sale or change of control as contemplated by Section 25.6(a) or 25.6(b).

For the purposes of Section 25.5, this Section 25.6 and Section 25.7, a change of control means the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or Persons acting jointly or in concert, other than existing control persons, of equity securities representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding equity securities of the relevant entity.

#### 25.7. Clarification

If Teck or BC Hydro Transfers its Participation Interest to any Person pursuant to the terms of this Agreement, thereafter, the reference to a change of control in Sections 25.5 and 25.6 shall be construed as a reference to the change of the control of the permitted transferee.

### 26. **SECURITY**

#### 26.1. Initial Security

Each Co-Possessor acknowledges and agrees that it has, concurrently with the execution of either this Agreement or the Waneta Lease, executed and delivered to the other Co-Possessor its respective Security Documents to secure payment and performance of its Obligations.

#### 26.2. Priority

The respective Security Documents shall at all times constitute first priority security over the property and assets intended to be charged thereby, subject only to Permitted Encumbrances.

#### 26.3. Additional Documents

Save to the extent that the delivery of any of the following consents, agreements, document and certificates has been satisfied or waived as of the Effective Date, each Co-Possessor shall, forthwith upon the written request of the other Co-Possessor, use all reasonable commercial efforts to obtain and deliver to the other Co-Possessor:

- (a) all such consents from third parties as may be required to give effect to the security granted by the Security Documents;
- (b) all such agreements from counterparties to contracts, permits or other intangibles charged or intended to be charged by the Security Documents addressing such issues as may reasonably be required by the other Co-Possessor (such as notice of and opportunities to cure defaults, agreements to enter into replacement contracts in the event of termination as a result of an Insolvency Proceeding, limits on the other Co-Possessor's obligations to perform the obligations of the granting Co-Possessor under such contracts and consent to assignment of such intangibles by the other Co-Possessor pursuant to enforcement of the Security Documents held by it); and
- (c) all documents and certificates (including opinions of legal counsel) reasonably requested by the other Co-Possessor to establish the existence of the granting Co-Possessor, its corporate capacity and power to grant and perform its obligations under the Security Documents, the authorization, execution, delivery and enforceability of the Security Documents and the absence of breach of any applicable agreements and other specified documents arising from the execution and delivery of, and the performance by the granting Co-Possessor of its obligations under, the Security Documents.

#### 26.4. Further Assurances and Future Property

Each Co-Possessor shall, forthwith at the request of the other, execute all such documents and do all such things as may be reasonably required to give effect to, perfect or maintain the security of the Security Documents granted by it or to extend such security to any future property forming part of the property or assets charged or intended to be charged thereby.

#### 26.5. Releases and Consents

Where any part of the Waneta Assets is subdivided, transferred or otherwise dealt with by the Co-Possessors pursuant to and in accordance with this Agreement, each Co-Possessor shall grant such subordinations, consents or releases with respect to the Security Documents held by it as may be reasonably necessary to give effect to such dealing.

### 27. INSURANCE

#### 27.1. Obligation to Maintain Insurance

- (a) Subject to any approval required from the Operating Committee as set out in Section 6.6, the Operator shall obtain and maintain for each Co-Possessor, comprehensive insurance coverage over the Waneta Assets (insured with reputable insurers), insuring against, without limitation, property damage, acts of terrorism, comprehensive general liability, replacement cost and such other insurance coverage (excluding business interruption), with such limits, premiums and deductibles, as a reasonably prudent owner would obtain and maintain in the

circumstances in accordance with Good Utility Practice (which current standard the parties acknowledge is met by the insurance currently maintained by the Operator).

- (b) Without limiting the foregoing, the Operator shall obtain and maintain for each Co-Possessor such insurance coverage as is required to be maintained by the Operator under the terms of the Management Agreement.
- (c) The Operator shall cause each Co-Possessor to be included as an additional insured and first loss payee, as applicable, with respect to its respective Participation Percentage of the Waneta Assets and any interest held pursuant to their respective Security Documents, under all such insurance policies. Without limiting the foregoing, whenever the Operator is included as a named or additional insured on any insurance policy of any contractor or other Person with whom it contracts in respect of the Waneta Assets, the Operator shall cause each Co-Possessor to be added as a named or additional insured on such policy [as applicable to its respective in proportion to its respective Participation Percentage of the Waneta Assets]. Each Co-Possessor shall be included as a first loss payee on property and terrorism coverage maintained by the Operator, [in each case with respect to its respective Participation Percentage] and any interest held pursuant to their respective Security Documents.
- (d) Until January 1, 2036, notwithstanding the foregoing, Teck (as a Co-Possessor) shall obtain and maintain business interruption insurance in respect of 100% of the business interruption exposure for the Waneta Assets, with such limits, premiums and deductibles as are consistent with Teck's current practice and subject to commercial availability. Teck shall pay all costs of such insurance and shall cause, as security for Teck's Obligations, BC Hydro to be included as an additional insured and first loss payee on such insurance to the extent of amounts owing by Teck to BC Hydro as liquidated damages or to enjoy similar rights with respect to the proceeds of such insurance. Neither the performance by Teck of its obligations under this Section 27.1(d), nor any payment received by BC Hydro pursuant to the aforesaid insurance, nor the lack of any payment of such insurance proceeds, shall relieve or release Teck from its obligations under this Agreement nor restrict, release or prejudice any claim or remedy which BC Hydro may have against Teck or any of its property pursuant to this Agreement or any of the Teck Security Documents (save and except to the extent that such insurance proceeds are received by BC Hydro free of any adverse claims).
- (e) Notwithstanding the foregoing, BC Hydro (as a Co-Possessor) at its sole option and discretion may obtain and maintain business interruption insurance in respect of 100% of the business interruption exposure for the Waneta Assets in relation to Section 4.9 of the Waneta Lease. BC Hydro shall pay all costs of such insurance and shall receive any insurance proceeds payment pursuant to the aforesaid insurance.

### 27.2. Allocation of Premiums

Premiums with respect to insurance placed by the Operator pursuant to Section 27.1(a), shall be allocated by the Operator between the Co-Possessors in proportion to their respective Participation Percentages and constitute Costs for the purposes of this Agreement. With respect to any “blanket” policy maintained by an Affiliate of the Operator, the premiums allocated to the Waneta Assets will be determined based on the replacement value of the property insured, subject to applicable limits, in the case of property insurance, and the Operator’s good faith estimate of the relative exposure represented by the Waneta Assets in the context of the aggregate risk covered by such “blanket” insurance policy, in the case of “Comprehensive General Liability” or other coverages. If any Co-Possessor disputes such allocation (including the Operator’s good faith estimate), the matter may be referred to an independent insurance broker or expert for determination and absent a mutually acceptable determination resulting therefrom, the Co-Possessors may submit the matter for dispute resolution in accordance with Section 29.

### 27.3. Delivery of Proposed Schedule and Related Documentation

On an annual basis, the Operator shall provide the Operating Committee with a proposed schedule of insurance coverage applicable to the Waneta Assets for the Operating Committee’s consideration as provided for in Section 6.6(a), setting forth in reasonable detail the nature and amounts of the proposed coverage as well as the premiums, limits, sublimits, deductibles and any material changes in policy language for each such insurance policy. Such schedule together with all other matters that are to be submitted to the Operating Committee for approval pursuant to Section 6.6(a), shall be provided to the Operating Committee for review a reasonable period of time in advance so as to allow for proper consideration and, in the case of the Co-Possessor that is not the Operator, consideration of its option to withdraw from such coverage pursuant to Section 27.6.

The Operator shall also on request from either Co-Possessor, submit to such requesting Co-Possessor evidence to the satisfaction of the requesting Co-Possessor that such Co-Possessor is included as an additional insured and first loss payee, as applicable, on all such insurance policies with respect to its Participation Percentage of the Waneta Assets and such other information and documentation pertaining to the insurance coverage of the Waneta Assets as such Co-Possessor may reasonably request.

### 27.4. Information and Notice of Cancellation

The Operator (and Teck, in the case of the insurance coverage referred to in Section 27.1(d)) shall provide to the Co-Possessors in a timely manner such notices, statements and other information relating to insurance coverage to be maintained under Section 27.1 as would be provided to the Co-Possessors if they were named insureds with respect to their respective Participation Percentages of the Waneta Assets and any interest held pursuant to their respective Security Documents under the relevant policies. Without limitation, the Operator (and Teck in the case of the insurance coverage referred to in Section 27.1(d)) shall provide the Co-Possessors with at least 30 days’ notice of any

cancellation of any insurance policy or portion thereof related to the Waneta Assets or required to be maintained pursuant to Section 27.1(d) and shall notify the Co-Possessors of any negative material change in insurance coverage or amendment restricting coverage, for the Waneta Assets or of the insurance coverage contemplated by Section 27.1(d), as soon as it is made aware of such change or amendment.

#### 27.5. Claims Protocol

Subject to any required approval by the Operating Committee as set out in Section 6.6, the Operator shall provide full and timely disclosure to and consult with each of the Co-Possessors in respect of any material damage to any of the Waneta Assets or any loss or claim in respect of any of the Waneta Assets (whether or not covered by insurance). Without limiting the foregoing, the Operator shall provide such information in this regard as BC Hydro may determine necessary to support an application by BC Hydro to the BCUC for approval to recover BC Hydro's portion of any costs it may be required to incur as result of such damage, loss or claim.

The Operator acknowledges and agrees that the claims management process for insurance must be carried out with regard and deference to the stated view or position of each of the Co-Possessors in respect of each such claim.

#### 27.6. Alternative Insurance

- (a) Notwithstanding the provisions of Sections 27.1 to 27.5, the Co-Possessor that is not the Operator may at any time not less than 30 days prior to the annual insurance renewal date or at any other time mutually agreed between the Co-Possessors, elect by written notice to the Operator, not to participate in whole or in part as an insured in the insurance to be obtained and maintained by the Operator under Section 27.1(a). In such event:
- (i) in the case of BC Hydro, BC Hydro shall be solely responsible for obtaining and maintaining insurance coverage over its Participation Interest in the Waneta Assets of the type and nature and to the same standard set forth in Section 27.1(a); and
  - (ii) in the case of Teck, Teck shall be solely responsible for obtaining and maintaining insurance coverage over its Participation Interest in the Waneta Assets of the type and nature and to the same standard set forth in Section 27.1(a);

and the Operator shall, at such Co-Possessor's expense, provide such assistance and information with respect to the Waneta Assets as may reasonably be requested by such Co-Possessor in connection with such Co-Possessor's efforts to procure such insurance including such underwriting information as may be required by such Co-Possessor.

- (b) To the extent that a Co-Possessor exercises its option to obtain separate insurance (in the case of either Co-Possessor that is not the Operator), such Co-Possessor

shall not be responsible for payment of insurance premiums or deductibles related to the insurance obtained and/or maintained under Section 27.1(a) by the Operator from and after the next annual renewal date, other than in respect of retrospective adjustments to premiums in respect of the policy year in which such option was exercised and deductibles in respect of claims arising during a prior policy year (to the extent that such Co-Possessor participated in such insurance in the prior policy year). The amounts of insurance required to be obtained and maintained by the Operator pursuant to Section 27.1(a) shall be reduced [in proportion to the Participation Percentage of the Co-Possessor electing to opt-out of such insurance coverage].

- (c) To the extent that a Co-Possessor exercises its option to obtain separate insurance (in the case of either Co-Possessor that is not the Operator), such Co-Possessor and the Operator shall provide to each other upon the written request of the other and otherwise at least annually, proof and particulars (including the nature or scope of coverage, premiums, deductibles, limits and sublimits) of the insurance coverage that it is required to obtain and maintain pursuant to this Section 27, and notice and particulars of the proposed purchase, termination, replacement or renewal of, or any material amendment to, the such insurance.

#### 27.7. Erosion of Insurance Coverage

If the Operator (or Teck in the case of the insurance coverage referred to in Section 27.1(d)) or any of their respective Affiliates, suffer or incur any loss or losses arising from, pertaining to, or in respect of, any of their respective assets or business other than the Waneta Assets, which loss or losses, may decrease the available insurance coverage maintained by the Operator pursuant to Section 27.1 over the Waneta Assets or by Teck pursuant to Section 27.1(d), as applicable, as set forth in the most recent renewal (or any subsequent increase in coverage) for each such policy, the Operator or Teck, as applicable, shall forthwith reinstate such insurance coverage to the same levels as set forth in the most recent renewal (or any subsequent increase in coverage) for each such policy, at the Operator's and Teck's, as applicable, sole cost and expense. The Operator (or Teck in the case of the insurance coverage referred to in Section 27.1(d)) shall promptly notify the Co-Possessors or BC Hydro, as applicable, of any such loss or losses.

#### 27.8. Insurance Proceeds

- (a) The insurance proceeds payable under any or all of the policies of insurance referred to in Section 27.1(a) shall, notwithstanding the terms of the policy or policies, be paid into the Segregated Insurance Account, which funds shall be allocated as a credit to the Co-Possessor(s) on whose behalf they have been paid, in the Operations Account, shall be held in trust for and on behalf of such Co-Possessor(s) and shall, unless the Co-Possessors otherwise mutually agree, be utilized by the Operator only to:
  - (i) pay Costs on behalf of such Co-Possessor(s) associated with:

A. the repair, reconstruction, rebuilding or replacement of the Waneta Assets; or

B. third party claims,

for which the insurance proceeds were paid; or

(ii) such payments as are contemplated by Section 28.1 of this Agreement or the applicable Security Documents.

In the case of such funds being used pursuant to Section 27.8(a)(ii), the amount of such payments shall be allocated as a debit to the paying Co-Possessor in the Operations Account.

(b) Any insurance proceeds payable in respect of the insurance referred to in Section 27.1(d) to the extent of amounts owing by Teck to BC Hydro as liquidated damages under this Agreement, shall be paid directly to BC Hydro.

(c) If a Co-Possessor elects to obtain its own insurance coverage pursuant to Section 27.6(a)(i) or 27.6(a)(ii) any insurance proceeds payable thereunder shall be paid into the Segregated Insurance Account for and on behalf of such Co-Possessor, shall be allocated as a credit to such Co-Possessor in the Operations Account and shall be held in trust by the Operator for and on behalf of such Co-Possessor and shall, unless the Co-Possessor otherwise mutually agree, be utilized by the Operator only to:

(i) pay Costs on behalf of such Co-Possessor(s) associated with:

A. the repair, reconstruction, rebuilding or replacement of the Waneta Asset; or

B. third party claims,

for which the insurance proceeds were paid; or

(ii) such payments as are expressly contemplated by Section 28.1 of this Agreement or the applicable Security Documents.

In the case of such funds being used pursuant to Section 27.8(c)(ii), the amount of such payments shall be allocated as a debit to the paying Co-Possessor in the Operations Account.

#### 27.9. Segregated Insurance Account

The Operator shall establish a segregated bank account into which all insurance proceeds from the insurance maintained pursuant to Sections 27.1(a), 27.6(a)(i) and 27.6(a)(ii) shall be paid (the “**Segregated Insurance Account**”). All funds while held in the Segregated Insurance Account shall continue to be secured by the Teck Security

Documents or the BC Hydro Security Documents, as the case may be, but shall be deemed to be released from such security when properly paid out from such account as permitted pursuant to Sections 27.8(a) or 27.8(c). The Operator shall provide such information in respect of the Segregated Insurance Account to either Co-Possessor as may be reasonably requested by such Co-Possessor from time to time. Any interest earned on such Co-Possessor's funds may be transferred by the Operator to the Segregated Bank Account with the prior written agreement of the Co-Possessor.

## 28. **OBLIGATIONS ON SUBSTANTIAL DAMAGE OR DESTRUCTION**

### 28.1. **Decision to Repair/Rebuild**

In the event of substantial damage to or destruction of the Waneta Assets during the Lease Term that is expected to prevent it from generating for more than 18 months, BC Hydro shall determine within 18 months of the damage or destruction whether to repair, reconstruct or rebuild the damaged or destroyed facilities. If within the 18 month period, BC Hydro approves the repair, reconstruction or rebuilding of the damaged or destroyed facilities, BC Hydro shall proceed to complete such repair, reconstruction or rebuilding and all insurance proceeds held or subsequently received by the Operator in respect of such loss shall be applied towards the repair, reconstruction or rebuilding of the facilities. The decision to approve the repair, reconstruction or rebuilding of the damaged or destroyed facilities, shall not relieve or release Teck from its continuing obligation to pay liquidated damages or other amounts payable under this Agreement (except to the extent Teck's obligation to pay such amounts is relieved pursuant to Section 4.11 of the Waneta Lease) to BC Hydro and Teck shall provide security to BC Hydro that secures payment of such amounts, in such form and on such terms as are required by BC Hydro acting reasonably (which security may be in addition to the security granted by Teck to BC Hydro under the Teck Security Documents), and in the event that Teck fails to provide such security, BC Hydro may in its sole discretion exercise its rights under Section 24.3 (as modified by this Section 28.1) as if an Event of Default by Teck occurred and was continuing.

If within the 18 month period, BC Hydro does not approve the repair, reconstruction or rebuilding of the damaged or destroyed facilities, the Operator shall give 90 days' written notice of its intention to pay to BC Hydro any and all insurance proceeds received by the Operator.

Where this Section 28.1 allows for BC Hydro to exercise its rights under Section 24.3 pursuant to this Section 28.1, Teck shall be considered to be the Defaulting Party and BC Hydro shall be considered the Non-Defaulting Party under Section 24.3 and in calculating the Settlement Amount thereunder, only the amounts set forth in Section 24.3(b)(i)A.I and 24.3(b)(i)C shall be included in the calculation. For greater certainty the amounts set forth in Sections 24.3(b)(i)A.II, 24.3(b)(i)B and 24.3(b)(ii) shall be excluded from the calculation. For greater certainty, nothing contained in this Section 28.1 shall prevent or limit BC Hydro from exercising any of its rights or remedies under this Agreement, including Section 24.3, or the Teck Security Documents where an actual Event of Default by Teck has occurred and is continuing.



## 29. DISPUTE RESOLUTION

### 29.1. Arbitration

- (a) Except for disputes or other matters specifically required to be resolved or determined pursuant to Sections 4.8 and 6.7(b) of this Agreement, either Party may deliver a written notice (a “**Dispute Notice**”) to the other Party at any time setting out any dispute or disagreement of any kind which has arisen with respect to this Agreement or any other Waneta Agreement (or a document or instrument to be executed and delivered pursuant to this Agreement or any other Waneta Agreement), the Surplus Power Rights Agreement or the Security Documents, their interpretation or application, their performance by the Parties, or in respect of any defined legal relationship associated therewith or derived therefrom (each, a “**Dispute**”). The Parties agree that within 10 Business Days of the delivery of a Dispute Notice, good faith negotiations shall take place between the Parties with the objective of resolving such Dispute. If such good faith negotiations have not resolved the Dispute within a period of 10 Business Days after the commencement of such negotiations (the “**Initial Negotiation Period**”), the Dispute shall be referred automatically to the Parties’ respective Presidents or their designates who shall attempt in good faith to resolve such Dispute within 10 Business Days of the end of the Initial Negotiation Period (the “**Referral Period**”).
- (b) If the Dispute is not resolved to the satisfaction of the Parties within the Referral Period, the Parties shall refer the Dispute to final and binding arbitration. Disputes referred to final and binding arbitration pursuant to this Agreement or any other Waneta Agreement (or a document or instrument to be executed and delivered pursuant to this Agreement or any other Waneta Agreement), the Surplus Power Rights Agreement, the CPA Scheduling Agreement or the Security Documents shall be arbitrated in accordance with the Arbitration Act of British Columbia (or any successor legislation enacted in British Columbia applicable to the arbitration of commercial disputes) in accordance with the following procedures:
- (i) the arbitration shall be conducted by an arbitral tribunal consisting of a single arbitrator appointed by mutual agreement of the Parties or in the event of failure to reach agreement within 15 days, any Party may apply to a judge of the British Columbia Supreme Court to appoint an arbitrator;
  - (ii) the arbitrator shall be qualified by education, training and experience to pass upon the matter to be decided;
  - (iii) the arbitrator shall be instructed that time shall be of the essence in proceeding with the determination of the dispute;
  - (iv) the arbitration shall be conducted in Vancouver, British Columbia;

- (v) an arbitral tribunal appointed hereunder or under any other Waneta Agreement may exercise jurisdiction with respect to both this Agreement and that other Waneta Agreement;
  - (vi) the Parties consent to the consolidation of arbitrations commenced hereunder and under any other Waneta Agreement, the Surplus Power Rights Agreement, the CPA Scheduling Agreement and the Security Documents as follows: if two or more arbitrations are commenced hereunder and/or any other Waneta Agreement, the Surplus Power Rights Agreement, the CPA Scheduling Agreement and/or the Security Documents, any Party named as claimant or respondent in any of these arbitrations may petition any arbitral tribunal appointed in these arbitrations for an order that the several arbitrations be consolidated in a single arbitration before that arbitral tribunal (a “**Consolidation Order**”). In deciding whether to make such a Consolidation Order, that arbitral tribunal shall consider whether the several arbitrations raise common issues of law or facts and whether to consolidate the several arbitrations would serve the interests of justice and efficiency;
  - (vii) if before a Consolidation Order is made by an arbitral tribunal with respect to one or more other arbitrations, arbitrators have already been appointed in the other arbitration(s), their appointment shall terminate upon the making of such Consolidation Order and they shall be deemed to be functus officio. Such termination is without prejudice to: (i) the validity of any acts done or orders made by them prior to the termination, (ii) their entitlement to be paid their proper fees and disbursements, (iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any like rule or provision, (iv) evidence adduced and admissible before termination, which evidence shall be admissible in arbitral proceedings after the Consolidation Order; and
  - (viii) the arbitration decision shall be in writing and shall be final and binding upon the Parties and shall deal with the question of costs of arbitration.
- (c) The Parties agree that good faith negotiations and arbitration shall all be without recourse to the courts and that the award of the arbitrator shall be final and binding, except that: any Party may apply to a court of competent jurisdiction:
- (i) for an interim measure of protection; or
  - (ii) for any order for equitable relief which the arbitrator does not have the jurisdiction to provide.
- (d) Notwithstanding that arbitration proceedings may have been commenced or that resolution of a Dispute is being negotiated, the Co-Possessors shall continue to pay all their respective share of the Costs, including all amounts which are the subject of Dispute, until the Dispute is finally determined.

### 30. CONFIDENTIALITY

#### 30.1. General

Subject to Section 30.2, all information obtained in connection with the performance of this Agreement shall be the exclusive property of the Co-Possessors and shall not be disclosed to any third party or the public without the prior written consent of the other Co-Possessor, which consent shall not be unreasonably withheld. Whenever practical, any announcements, press releases, or public statements shall be issued jointly by the Co-Possessors. Each Co-Possessor agrees to promptly review any proposed request for disclosure or press release made by another Co-Possessor.

#### 30.2. Exceptions

The consent required by Section 30.1 shall not apply to a disclosure:

- (a) to the Manager, or an Affiliate, consultant, contractor or subcontractor, banker, insurance broker, surety or other representative that has a bona fide need to be informed;
- (b) to any third party to whom the disclosing Party contemplates a Transfer of all of its Participation Interest pursuant to this Agreement; or
- (c) to a Governmental Authority or to the public which the disclosing Party believes in good faith is required by Applicable Laws; or
- (d) to a Governmental Authority in the case of BC Hydro, where BC Hydro determines it is advisable in respect of its operations as a regulated public utility.

The text of any public announcements or statements including news releases which a Party intends to make pursuant to this Section 30 shall be made available to the other Party prior to publication and such other Party shall have the right to make suggestions for changes therein. Unless required by Applicable Laws, a Governmental Authority or the rules of any applicable stock exchange, if a Party is identified in such public announcement or statement, it shall not be released without the consent of such Party (such consent not to be unreasonably withheld where required by a Governmental Authority or the rules of any applicable stock exchange). As to any disclosure pursuant to Section 30.2(a) or 30.2(b), only such confidential information as such third party shall have a legitimate business need to know shall be disclosed and in the case of any disclosure pursuant to Section 30.2(b) such third party shall first agree in writing in favour of the disclosing Party to protect the confidential information from further disclosure to the same extent as the Parties are obligated under this Section 30.

#### 30.3. Duration of Confidentiality

The provisions of this Section 30 shall apply during the term of this Agreement and shall continue to apply to any Party who Transfers all or any part of its Participation Interest, for two years following the date of such occurrence.

### 30.4. Exclusions from Confidentiality Restriction

Confidential information shall not include the following:

- (a) information that, at the time of disclosure, is in the public domain;
- (b) information that, after disclosure, is published or otherwise becomes part of the public domain through no fault of the recipient;
- (c) information that the recipient can show already was in the possession of the recipient at the time of disclosure; or
- (d) information that the recipient can show was received by it after the time of disclosure, from a third party who was under no obligation of confidence to the disclosing Party at the time of disclosure.

## 31. LIABILITY AND INDEMNITIES

### 31.1. Indemnification by Operator

- (a) The Operator shall indemnify and save the Co-Possessors harmless from and against all Liabilities which may be brought, made against, suffered or incurred by the Co-Possessors or either of them as a result of or arising, directly or indirectly, from, out of, with respect to or in connection with:
  - (i) the negligence or wilful misconduct of the Operator in connection with the performance or non-performance of its duties; and/or
  - (ii) the negligence or wilful misconduct of the Manager (to the extent that the Manager is liable to the Operator).
- (b) The Parties agree that the taking of any action by the Operator in accordance with the express instructions issued by unanimous resolution of the Operating Committee or in accordance with a decision of the Third Party Referee, shall not in and of itself, constitute negligence or wilful misconduct on the part of the Operator, provided that the foregoing shall not excuse the Operator from its obligation to indemnify the Co-Possessors pursuant to Section 31.1(a), if in taking any such action, the Operator was in fact negligent or acted negligently or acted with wilful misconduct.

### 31.2. Indemnification of Operator

Where the Operator is a Co-Possessor, each Co-Possessor shall indemnify, on a several basis in proportion to its Participation Percentage, the Operator harmless from and against all Liabilities which may be brought, made against, suffered or incurred by the Operator (solely in its capacity as, and as a consequence of being, the Operator and not in its capacity as, or as a consequence of being, a Co-Possessor) as a result of or arising, directly or indirectly, from, out of, with respect to or in connection with the Waneta

Assets or the performance of its duties or both, except to the extent to which the Operator is responsible therefor as contemplated in Section 31.1.

### 31.3. Mutual Indemnification

Each Co-Possessor agrees with the other Co-Possessor that except as expressly provided for elsewhere in this Agreement and except as the Co-Possessor have otherwise agreed under the terms of the Waneta Purchase Agreement (2017):

- (a) each Co-Possessor shall be responsible for all Liabilities arising from or incurred in connection with the Waneta Assets whether present or future in proportion to its Participation Percentage except for those Liabilities which pursuant to the terms of this Agreement are to be borne by each Co-Possessor in some proportion other than in proportion to its Participation Percentage, in which case each Co-Possessor agrees to be responsible for those Liabilities in such proportion;
- (b) each Co-Possessor shall at all times indemnify and save harmless the other Co-Possessor from any and all Liabilities to the extent that the portion of such Liabilities paid or incurred by the other Co-Possessor exceeds the proportion of such Liabilities for which the other Co-Possessor is responsible for pursuant to Section 31.3(a) and shall, forthwith on demand, reimburse the other Co-Possessor with respect to such excess;
- (c) each Co-Possessor shall at all times indemnify and save harmless the other Co-Possessor from any and all Liabilities suffered or incurred by the other Co-Possessor arising from or incurred in connection with the failure by the indemnifying Co-Possessor to pay any amount owing by it whether to the Operator, the other Co-Possessor or otherwise, from time to time under this Agreement; and
- (d) each Co-Possessor shall at all times be responsible for and indemnify and save harmless the other Co-Possessor from any and all Liabilities arising out of the indemnifying Co-Possessor's separate debts, liabilities, obligations, duties and agreements, whether present or future, including any and all Taxes that may be payable by such Co-Possessor or required to be collected by the other Co-Possessor from such Co-Possessor and remitted by the other Co-Possessor (including income taxes, goods and service taxes, social service taxes, property taxes), and Water Rental Fees.

### 31.4. Teck's WHS Equipment

Teck agrees to be responsible for Teck's WHS Equipment and for all Liabilities arising from or incurred in connection with Teck's WHS Equipment whether present or future and shall at all times indemnify and save harmless BC Hydro from any and all Liabilities which may be brought, made against, suffered or incurred by BC Hydro as a result of or arising, directly or indirectly, from, out of, with respect to or in connection with Teck's WHS Equipment including the release, discharge, emission or escape of any Environmental Contaminants from any of Teck's WHS Equipment at, on, in, or under any

of the Waneta Assets, except to the extent arising from or in connection with: (i) the operation of Teck's WHS Equipment by or at the direction of BC Hydro or any Receiver appointed pursuant to the Teck Security Documents; and (ii) the operation of any of Teck's WHS Equipment owned by Teck from and after the date on which Teck sells its interest therein to a third party purchaser who (A) concurrently purchases Teck's Participation Interest in accordance with the terms of this Agreement, and (B) is, at the time of the purchase, of equal or better creditworthiness than the higher rated of: (1) the guarantor of any of Teck's Obligations, or (2) Teck, at that time, and who has agreed with BC Hydro to assume Teck's responsibilities and Liabilities under this Section 31.4 and provides an indemnity in favour of BC Hydro on the same terms as set forth in this Section 31.4. The provisions of this Section 31.4 and the Parties' rights and obligations thereunder shall survive the termination of this Agreement.

### 31.5. Water Use Planning

BC Hydro shall compensate Teck for any losses to Teck's Entitlement Capacity and/or Teck's Entitlement Energy if the capacity or energy from the Waneta Plant is reduced by changes to the Waneta Plant water licences or by changes to the water flow regime at the Waneta Plant that result from a water use planning process, or analogous regulatory constraint, with respect to the Waneta Plant, where such changes are agreed to by BC Hydro, but not Teck (prior to the termination of this Agreement), or are imposed on Teck or the Waneta Plant because BC Hydro (as opposed to any other Person that is not a Crown corporation or a regulated utility) is the owner of the Waneta Plant. For greater certainty, if reductions to Teck's Entitlement Capacity and/or Teck's Entitlement Energy result from:

- (a) a water use planning process or regulatory constraint with respect to BC Hydro's Seven Mile Dam or upstream facilities in the United States of America;
- (b) a water use planning process or regulatory constraint that would have applied to Teck or the Waneta Plant, if owned 100% by Teck, or jointly by Teck and a non-crown entity;
- (c) an Environmental Management Plan or a plan resulting from a water use planning process approved by the Operating Committee or imposed on the Parties pursuant to this Agreement; or
- (d) a CPA redetermination initiated by BC Hydro resulting from any of the circumstances referred to in (a), (b) or (c) above,

then in each such case compensation under this Section 31.5 shall not apply. If a subsequent water use planning process or regulatory constraint occurs (including one referred to in (a), (b) or (c) above) that, if it had occurred immediately prior to March 5, 2010, would have resulted in losses to Teck's Entitlement Capacity or Teck's Entitlement Energy without compensation under this Section 31.5, then the compensation obligation shall terminate, to the extent of the losses that would have resulted from the subsequent water use planning process or regulatory constraint.

### 31.6. Remediation Covenant

Teck shall, at its own expense, undertake or perform in respect of the Real Property (as that term is defined in the Waneta Purchase Agreement (2017)) such investigations, studies, remediation activities and any other obligations or actions as it shall be required to undertake in connection with its current wide area site process, including any wide area remediation plan (as that term is defined in the Contaminated Sites Regulation) or any other similar settlement, remediation plan or like arrangement in substitution thereof with respect to Environmental Contaminants, or where no such remediation plan or similar settlement, plan or arrangement applies to any or all of the Real Property but such remediation plan or similar settlement, plan or arrangement applies to Teck in respect of other real property in the Trail, British Columbia area, then Teck shall, at its own expense, undertake or perform, in respect of the Real Property, or parts thereof (as applicable), to which such remediation plan or similar settlement, plan or arrangement does not apply, such investigations, studies, remediation activities and any other obligations or actions as it shall be required to undertake for comparably contaminated real properties to which the remediation plan or similar settlement, plan or arrangement does apply. In either case, BC Hydro shall not be responsible for remediation of any Environmental Contaminants on the Real Property to the extent that such Environmental Contaminants are being managed or are proposed to be managed in accordance with such wide area remediation plan or such similar settlement, plan or arrangement applicable to the Real Property pursuant to this Section 31.6.

In the event of a Transfer by Teck of all or any part of its Participation Interest, such obligations shall not be assumed by the Transferee, and Teck shall continue to be responsible for and shall not be relieved or discharged from any of its obligations or liabilities under this Section 31.6, and BC Hydro and the Transferee may continue to look to Teck for the performance thereof. The provisions of this Section 31.6 and the Parties' rights and obligations thereunder shall survive the termination of this Agreement.

### 31.7. No Consequential Damages

Notwithstanding anything to the contrary in this Agreement, no Co-Possessor (including a Co-Possessor acting as Operator) shall be liable to another for indirect or consequential damages, except to the extent that the payments specifically required to be made pursuant to this Agreement are, or could be, deemed to be such damages.

## 32. GENERAL PROVISIONS

### 32.1. Third Party Claims

Notwithstanding any other provision of this Agreement:

- (a) Subject to receipt of approval of the Operating Committee if required by Section 6.6(d)(ii) or 6.8(a)(viii), if any legal action or proceeding is commenced by a third party against the Operator (in such capacity), the Operator may negotiate, compromise or settle such legal action or proceeding, provided that the Operator (in such capacity) shall not affect any such compromise or settlement and shall not

consent to the entry of any judgment with respect to any such legal action or proceeding, if such compromise, settlement or judgment includes an express statement as to, or an admission of, fault, culpability or failure to act of or by either Co-Possessor, unless the Operator has obtained the prior written consent of such referenced Co-Possessor(s).

- (b) Subject to receipt of unanimous approval of the Operating Committee if required by Section 6.8(a)(viii), if any legal action or proceeding is commenced by a third party against one or both Co-Possessors (in such capacity), relating to Operations or the Waneta Assets, either Co-Possessor may negotiate, compromise or settle such legal action or proceeding, provided that neither Co-Possessor shall effect such compromise or settlement and shall not consent to the entry of any judgment with respect to any such legal action or proceeding, if such settlement, compromise or judgment includes an express statement as to, or an admission of, fault, culpability or failure to act of or by either Co-Possessor, unless such Co-Possessor has obtained the prior written consent of the other Co-Possessor.
- (c) Nothing in this Agreement shall be interpreted to limit the rights of either Co-Possessor in its capacity as a party to any agreement with any Person (including the other Co-Possessor or Operator) to bring, prosecute, enforce, negotiate, defend, compromise or settle any claim or litigation, or to otherwise exercise any of its rights under or in connection with any such agreement, including this Agreement (subject to Section 29); provided however, that to the extent that a Co-Possessor (in such capacity) seeks to take any such action against a third party relating to Operations, such action shall be subject to the approval of the Operating Committee if and to the extent provided in Sections 6.6(c) or 6.8(a)(vii) or 6.8(a)(viii), as applicable.

### 32.2. Notices

Any notice required or permitted to be given under this Agreement shall unless otherwise specified in an Operating Procedure, be in writing and delivered (by courier or by hand) or sent by postage prepaid mail or facsimile and addressed to the Parties as follows:

#### If to BC Hydro:

British Columbia Hydro and Power Authority  
18<sup>th</sup> Floor, 333 Dunsmuir Street  
Vancouver, BC V6B 5R3

Attention: General Counsel  
Fax: 604-623-4155



with a copy to:

Lawson Lundell LLP  
1600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2

Attention: Gordon Craig  
Fax: 604-669-1620

If to Teck:

Teck Metals Ltd.  
3300 - 550 Burrard Street  
Vancouver, B.C. V6C 0B3

Attention: Corporate Secretary  
Facsimile No.: (604) 699-4729

with a copy to:

Teck Metals Ltd.  
25 Aldridge Avenue  
PO Box 1000  
Trail, B.C. V1R 4L8

Attention: Manager, Energy  
Facsimile No.: (250) 364-4144

Attention: Counsel at Trail  
Facsimile No.: (250) 364-4144

with a copy to:

Fasken Martineau DuMoulin LLP  
2900 - 550 Burrard Street  
Vancouver, B.C. V6C 0A3

Attention: Ron Ezekiel  
Facsimile No.: (604) 631-3232

or at such other address, or facsimile number as either Party may specify in writing to the other. Any such notice, request, demand or communication shall be deemed to be given and received on the day of delivery or transmittal if delivered or sent by facsimile (so long as such delivery or transmittal was carried out prior to 5:00 p.m. local time in the place of receipt on a Business Day, failing which such notice shall be deemed to have been given and received on the next Business Day), or on the third Business Day after the day of

mailing thereof if sent by mail. In the event of any disruption of mail services, all notices, requests, demands and communications shall be delivered or sent by facsimile rather than mailed.

32.3. Reliance on Specified Index or Indices

In the event that any provision of this Agreement relies on a specified index to determine or calculate the applicable price or rate pursuant to such provision, and such index ceases to exist or otherwise is no longer published or available to a Party (provided the Party subscribes to receive such index, where subscription is required) or in the case of the ICE Index or any replacement thereof, a Party provides notice in writing to the other Party of its view that such index is no longer the most generally accepted and used by market participants for daily pre-scheduled transactions in the Mid-Columbia region of the United States of America or is no longer appropriate for the kind of product represented by Waneta generation, then the applicable index shall be such index that most closely applies to the provision and approximates the specified index (considering applicable factors and the intent of the Parties, including in the case of the ICE Index, such factors as delivery point, firmness of electricity, time of day and general acceptance and use of such index by market participants), or such other index as the Parties may agree. If the Parties are unable to so agree within 30 days after the specified index ceases to exist or is no longer published or available to a Party or the foregoing notice is given, either Party may refer the matter to dispute resolution pursuant to Section 29. An arbitrator appointed under Section 29 is authorized and directed to select a substitute index based on the foregoing criteria. In the case of the ICE Index or a replacement index, pending agreement on or determination of the substitute index, the Party entitled to be paid based on the index shall specify an interim index or pricing method, acting reasonably, and amounts so paid based on such interim index or pricing method shall be adjusted retroactively to the date the index ceased to exist or be published or available or, in the case of the ICE Index or replacement, the date the Party provided the notice in writing referred to above.

32.4. Intentionally Deleted

32.5. Modification

No modification of this Agreement shall be valid unless made in writing and duly executed by the Parties.

32.6. Waiver

The failure of a Co-Possessor to insist on the strict performance of any provision of this Agreement or to exercise any right, power or remedy upon a breach hereof shall not constitute a waiver of any provision of this Agreement or limit that Co-Possessor's right thereafter to enforce any provision or exercise any right.

32.7. Interpretation and Severability

In the event that any condition, covenant or other provision of this Agreement is held to be invalid or void by any court of competent jurisdiction, the same shall be deemed severable from the remainder of this Agreement and shall in no way affect any other condition, covenant or other provision of this Agreement. If such condition, covenant or other provision shall be deemed invalid due to its scope or breadth, such condition, covenant or other provision shall be deemed valid to the extent of the scope or breadth permitted by Applicable Laws.

32.8. Governing Law

This Agreement shall be governed by and interpreted in accordance with the laws of British Columbia and the laws of Canada applicable therein.

32.9. Asset Purchase Agreement

Nothing in this Agreement, express or implied, shall be construed or relied upon by any Party in such a manner as to adversely affect, impair or prejudice, in any manner, any of the rights, powers, remedies and obligations of the Parties pursuant to the Asset Purchase Agreement (2009) or the Waneta Purchase Agreement (2017).

32.10. Further Assurances

Each of the Parties agrees that it shall take from time to time such actions and execute such additional instruments as may be reasonably necessary or convenient to implement and carry out the intent and purpose of this Agreement.

32.11. Survival of Terms and Conditions

On the termination of this Agreement:

- (a) the rights, obligations and liabilities of each Party under this Agreement incurred or accrued prior to the termination of this Agreement or related to the period prior to the termination of this Agreement, whether arising before or after termination, including rights, obligations and liabilities resulting from its breach or default under this Agreement prior to its termination and any obligation under this Agreement to pay interest on amounts owing prior to, and remaining unpaid following, termination;
- (b) the rights, obligations and liabilities of each Party resulting from the termination of this Agreement; and
- (c) the terms and provisions of this Agreement which are stated herein to survive the termination of the Agreement or which by necessary implication, survive the termination of this Agreement,

shall continue and survive the termination of this Agreement and those other terms and provisions of this Agreement that are necessary for the interpretation and enforcement of any of the foregoing shall also continue and survive the termination.

32.12. Enurement

This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns.

32.13. No Third Party Beneficiaries

Nothing in this Agreement, express or implied, is intended or shall be construed to confer upon or to give any Person, other than the Parties and their respective successors and assigns, any rights or remedies under or by reason of this Agreement.

32.14. No Obligation to Serve

Teck acknowledges and agrees that none of this Agreement, the CPA or any Replacement CPA or the Surplus Power Rights Agreement creates any obligation on the part of BC Hydro to serve Teck Metals Ltd.'s Industrial Load.

32.15. Waneta Reserve

Teck shall support any application by BC Hydro to seek amendment to, or replacement of, the Waneta Reserve to include BC Hydro as a person to whom water licences on the Pend D'Oreille River may be issued in respect of its Participation Percentage of the Waneta Plant, including any upgrades.

32.16. Intentionally Deleted

32.17. Indivisible Agreements

The Co-Possessors acknowledge and agree that this Agreement and the other Waneta Agreements have been negotiated and agreed concurrently, that one of them cannot exist without the others, and that all of them cumulatively constitute one indivisible agreement governing the relationship among the Co-Possessors and the other parties to the Waneta Agreements as it relates to the Waneta Assets, Operations, transmission and the Bare Trust Assumed Contracts.

32.18. Relationship to COA

The Co-Possessors acknowledge and agree that the Co-Ownership and Operating Agreement shall be deemed to be terminated as of the Effective Date and that notwithstanding that any rights, obligations and liabilities of a Party under the Co-Ownership and Operating Agreement are expressed in that agreement to survive its termination, provided that substantially the same rights, obligations and liabilities are contained in this Agreement, such rights, obligations and liabilities shall not survive the Effective Date. For greater certainty, all such rights, obligations and liabilities of each

Party under the Co-Ownership and Operating Agreement incurred or accrued prior to the Effective Date or related to the period prior to the Effective Date, whether arising before or after the Effective Date, including rights, obligations and liabilities resulting from a breach or default under the Co-Ownership and Operating Agreement prior to its termination and any obligation under the Co-Ownership and Operating Agreement to pay interest on amounts owing prior to, and remaining unpaid following, the Effective Date shall continue and survive the termination of the Co-Ownership and Operating Agreement and those other terms and provisions of the Co-Ownership and Operating Agreement that are necessary for the interpretation and enforcement of any of the foregoing shall also continue and survive the termination.

32.19. Counterparts

This Agreement may be executed in any number of original counterparts, with the same effect as if all the Parties had signed the same document, and shall become effective when one or more counterparts have been signed by all of the Parties and delivered to each of the other Parties. All counterparts shall be construed together and evidence only one agreement, which, notwithstanding the dates of execution of any counterparts, shall be deemed to be dated the reference date set out above.

**IN WITNESS WHEREOF** the Parties have executed this Agreement as of the day and year first above written.

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**

By \_\_\_\_\_  
Its \_\_\_\_\_

**TECK [SUBSIDIARY] LTD.**

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

SCHEDULE A

Intentionally deleted

SCHEDULE B  
POWERS OF ATTORNEY  
(See Attached)

**[Form of Power of Attorney for BC Hydro or its Transferee  
in Favour of Teck or its Transferee]**

**LIMITED POWER OF ATTORNEY**

**WHEREAS** the undersigned and Teck Metals Ltd. (“**Teck**”) are parties to a Co-Possessors and Operating Agreement dated as of <@>, 2017 (the “**Co-Possessors and Operating Agreement**”) pursuant to which the undersigned has agreed to grant this Limited Power of Attorney to Teck;

**NOW THEREFORE**, for good and valuable consideration, the undersigned does hereby irrevocably make, constitute and appoint Teck as the true and lawful attorney and agent of the undersigned with full power and authority to act in the undersigned’s place and stead to execute and deliver on behalf and in the name of the undersigned all notices, instruments and other documents pursuant to Section 6.7 or 6.8 of Schedule A to the Second Amended and Restated 2005 Canal Plant Agreement dated for reference November 15, 2011 between the undersigned, FortisBC Inc., Teck, Brilliant Power Corporation, Brilliant Expansion Power Corporation and Waneta Expansion Power Corporation, as may be amended, modified or restated from time to time (the “**CPA**”) to:

- (a) specify Teck’s Entitlement Capacity and/or Teck’s Entitlement Energy, as applicable;
- (b) change the Capacity Entitlement Adjustments factors and/or Energy Entitlement Adjustments factors set forth in Table 10 of the CPA, as applicable;
- (c) change the procedure for determining the amount of MW on Outage to be used in determining from Table 10 of the CPA either the Capacity Entitlement Adjustments factors or Energy Entitlement Adjustments factors set forth in Table 10, as applicable.

in the manner contemplated by the Co-Possessors and Operating Agreement, if:

- (d) at the time of any adjustment pursuant to Section 10.7(c), 14.4, 14.6, 14.8, 24.2(b) or 24.3 of the Co-Possessors and Operating Agreement (or required revision of procedure pursuant to Section 14.6(a) of the Co-Possessors and Operating Agreement) the undersigned fails to provide written notice pursuant to Section 6.7 or 6.8 of Schedule A of the CPA, as applicable, upon demand from Teck, or is otherwise a Defaulting Party; or
- (e) pursuant to any other provision of the Co-Possessors and Operating Agreement which requires the undersigned and Teck to provide written notice pursuant to Section 6.7 or 6.8 of Schedule A of the CPA, the undersigned has failed to provide such notice on demand from Teck or is otherwise a Defaulting Party.

Such appointment, being coupled with an interest, shall be irrevocable by the undersigned, extend to and be binding upon the successors of the undersigned and the permitted assigns of the undersigned’s Participation Interest and shall not be revoked by the insolvency or bankruptcy of



the undersigned and the undersigned agrees to ratify and confirm all that Teck may do or cause to be done pursuant to the foregoing.

The undersigned hereby agrees to be bound by any act of Teck and any successor thereto, while acting in good faith pursuant to this Limited Power of Attorney, and the undersigned hereby waives any and all defences that may be available to the undersigned, to contest, negate or disaffirm the action of Teck and any successor thereto taken in good faith in accordance with the terms of this Limited Power of Attorney.

Capitalized terms used herein and which are not otherwise defined herein shall have the meaning ascribed thereto in the Co-Possessors and Operating Agreement.

This Limited Power of Attorney will be governed by and construed in accordance with the laws of the Province of British Columbia and those of Canada applicable therein.

**IN WITNESS WHEREOF**, the undersigned has executed and delivered this Limited Power of Attorney under seal as of the \_\_\_\_ day of \_\_\_\_\_, 2017.

THE COMMON SEAL of BRITISH )  
COLUMBIA HYDRO AND POWER )  
AUTHORITY was hereunto affixed in the )  
presence of: )  
)  
)  
\_\_\_\_\_)  
Authorized Signatory )

c/s

**[Form of Power of Attorney for Teck or its Transferee  
in Favour of BC Hydro or its Transferee]**

**LIMITED POWER OF ATTORNEY**

**WHEREAS** the undersigned and British Columbia Hydro and Power Authority (“**BC Hydro**”) are parties to a Co-Possessors and Operating Agreement dated as of <@>, 2017 (the “**Co-Possessors and Operating Agreement**”) pursuant to which the undersigned has agreed to grant this Limited Power of Attorney to BC Hydro;

**NOW THEREFORE**, for good and valuable consideration, the undersigned does hereby irrevocably make, constitute and appoint BC Hydro as the true and lawful attorney and agent of the undersigned with full power and authority to act in the undersigned’s place and stead to:

1. Execute and deliver on behalf and in the name of the undersigned all notices, instruments and other documents pursuant to Section 6.7 or 6.8 of Schedule A to the Second Amended and Restated 2005 Canal Plant Agreement dated November 15, 2011 between the undersigned, FortisBC Inc., BC Hydro, Brilliant Power Corporation, Brilliant Expansion Power Corporation and Waneta Expansion Power Corporation, as may be amended, modified or restated from time to time (the “**CPA**”) to:
  - (a) specify Teck’s Entitlement Capacity and/or Teck’s Entitlement Energy, as applicable;
  - (b) change the Capacity Entitlement Adjustments factors and/or Energy Entitlement Adjustments factors set forth in Table 10 of the CPA, as applicable;
  - (c) change the procedure for determining the amount of MW on Outage to be used in determining from Table 10 of the CPA either the Capacity Entitlement Adjustments factors or Energy Entitlement Adjustments factors set forth in Table 10 of the CPA, as applicable.

in the manner contemplated by the Co-Possessors and Operating Agreement, if:

- (d) at the time of any adjustment pursuant to Section 10.7(c), 14.4, 14.6, 14.8, 24.2(b) or 24.3 of the Co-Possessors and Operating Agreement (or required revision of procedure pursuant to Section 14.6(a) of the Co-Possessors and Operating Agreement) the undersigned fails to provide written notice pursuant to Section 6.7 or 6.8 of Schedule A of the CPA, as applicable, upon demand from BC Hydro, or is otherwise a Defaulting Party; or
- (e) pursuant to any other provision of the Co-Possessors and Operating Agreement which requires the undersigned and BC Hydro to provide written notice pursuant to Section 6.7 or 6.8 of Schedule A of the CPA, the undersigned has failed to provide such notice on demand from BC Hydro or is otherwise a Defaulting Party; and

- 2. Provide schedules to BC Hydro pursuant to the Line 71 Agreement and appropriate instructions to Fortis and BC Hydro and any other applicable Person in respect of all applicable interconnection agreements to which the undersigned is a party and to execute and deliver on behalf and in the name of the undersigned all notices, instruments and other documents and do all such other acts and things as BC Hydro determines in good faith to be reasonably necessary for the purpose of exercising its rights pursuant to Section <@> of the Transmission Agreement.

Such appointment, being coupled with an interest, shall be irrevocable by the undersigned, extend to and be binding upon the successors of the undersigned and the permitted assigns of the undersigned's Participation Interest and shall not be revoked by the insolvency or bankruptcy of the undersigned and the undersigned agrees to ratify and confirm all that BC Hydro may do or cause to be done pursuant to the foregoing.

The undersigned hereby agrees to be bound by any act of BC Hydro and any successor thereto, while acting in good faith pursuant to this Limited Power of Attorney, and the undersigned hereby waives any and all defences that may be available to the undersigned, to contest, negate or disaffirm the action of BC Hydro and any successor thereto taken in good faith in accordance with the terms of this Limited Power of Attorney.

Capitalized terms used herein and which are not otherwise defined herein shall have the meaning ascribed thereto in the Co-Possessors and Operating Agreement.

This Limited Power of Attorney will be governed by and construed in accordance with the laws of the Province of British Columbia and those of Canada applicable therein.

**IN WITNESS WHEREOF**, the undersigned has executed and delivered this Limited Power of Attorney under seal as of the \_\_\_\_ day of \_\_\_\_\_, 2017.

THE COMMON SEAL of TECK METALS )  
 LTD. was hereunto affixed in the presence of: )

)  
 )  
 )  
 \_\_\_\_\_ )  
 Authorized Signatory )

c/s

)  
 )  
 )  
 \_\_\_\_\_ )  
 Authorized Signatory )

SCHEDULE C  
Major Component Refurbishment Schedule

Lease Term Refurbishment Projects

**Components**

Foundation Piezometers

Dam Drainage Investigations / Enhancements

Concrete Rehabilitation

Superstructure Corrosion Control

Unit 3 Lifetime Extension Project

Control Room Completion

Security System Upgrade

Spillway Gate Upgrade for Flood Conditions

Post-Lease Refurbishment Projects

**Components**

Generator Refurbishments (Windings, Runner, Protection, Controls, Transformer, Core, Rotor)

- Unit 1
- Unit 2
- Unit 4

**NOTE:** The Waneta Dam Condition Assessment prepared by Hatch dated March 15, 2017 sets out the objectives of the project components referred to in this Schedule C, the precise scope and costs of which are to be determined.

## Exhibit 1 Extraordinary Refurbishment Costs Sample Calculation

### Assumptions:

- Expected Lease Term Refurbishment Projects includes "Spillway Gate Upgrade for Flood Conditions"
- Expected Post-Lease Refurbishment Projects includes "Unit 4 Generator Refurbishment"
- Expected Post-Lease Refurbishment Projects includes "Unit 1 Generator Refurbishment"
- In Year 10 of the Initial Term the Unit 4 Generator Refurbishment project becomes required at a total cost of \$24M  
As at termination of the Lease, the Spillway Gate Upgrade for Flood Conditions project is still not required  
and has not been undertaken.
- Timing as to when the Spillway Gate project will be required is uncertain; net present total cost of completing the project as soon as reasonably practicable is \$1.8M
- Teck elects to renew the Lease
- During Year 5 of the Renewal Term, the Spillway Gate project becomes required at a total cost of \$3M
- Expected life of Spillway Gate project is 30 years (360 months)
- During Year 7 of the Renewal Term, Unit 1 Generator Refurbishment Project becomes required at a total cost of \$30M
- Expected life of Generator Refurbishment projects is 35 years (420 months)
- All cost assumptions above reflect Teck's Leasehold Interest in the Leased Property pursuant to the Waneta Lease (i.e. 66.667%)
- For purposes of this example only, project costs are allocated once after all costs are incurred, but pursuant to the Waneta Lease project costs may be invoiced monthly. The following calculations do not affect any amounts payable by BC Hydro in respect of its 1/3 Interest.

### Calculations

BC Hydro's Share of Extraordinary Refurbishment Costs for Unit 4 Generator Refurbishment Project  
(excluding the amount payable in respect of BC Hydro's 1/3 Interest)

$$\$16,000,000 \quad \times \quad \frac{(420 - 120)}{420} \quad = \quad \mathbf{\$11,428,571}$$

Accordingly, BC Hydro would pay one third of the total costs incurred plus \$11,428,571 towards this project in Year 10 of the Initial Term

Deferred Refurbishment Cost Pool as at the end of the Initial Term

**\$1,200,000**

Renewal Term Refurbishment Adjustment Pool calculated as of the last day of the Initial Term

$$\begin{array}{rcl} & \$11,428,571 & - \quad (\$16,000,000 \quad \times \quad \frac{(420 - 240)}{420} \quad ) \\ = & \$11,428,571 & - \quad \$6,857,143 \\ = & \mathbf{\$4,571,429} & \end{array}$$

BC Hydro's Share of Extraordinary Refurbishment Costs of Spillway Gate project during Renewal Term (excluding the amount payable in respect of BC Hydro's 1/3 Interest)

$$(\$2,000,000 \quad - \quad \$1,200,000) \quad \times \quad \frac{(360 - 60)}{360} \quad - \quad \$666,666.67 \quad = \quad \mathbf{\$0}$$

The full \$1,200,000 Deferred Refurbishment Cost Pool is applied towards the costs of the Spillway Gate Project attributable to the 2/3 Interest, reducing the aggregate net project costs to \$800,000  
Of the \$800,000, BC Hydro's share is calculated based on the 5 years remaining in the Term, relative to the 30 year expected life, resulting in \$666,666.67

*\$666,666.67 from the Renewal Term Refurbishment Adjustment Pool is applied against that portion of BC Hydro's share that is added to the amount payable in respect of BC Hydro's 1/3 Interest, resulting in a net additional cost to BC Hydro of \$0*

*The amount remaining in the Renewal Term Refurbishment Adjustment Pool is reduced to \$3,904,762.33*

*BC Hydro's Share of Extraordinary Refurbishment Costs of Unit 1 Generator Refurbishment project (excluding the amount payable in respect of BC Hydro's 1/3 Interest)*

	(\$20,000,000	-	0)	x	<u>(420-36)</u> 420	-	\$3,904,762.33
=					\$18,285,714	-	\$3,904,762.33
=	<b>\$14,380,951.67</b>						

The amount remaining in the Deferred Refurbishment Cost Pool is zero.

*The remaining balance of the Renewal Term Refurbishment Adjustment Pool is applied against BC Hydro's share, resulting in a net additional cost to BC Hydro of \$14,380,951.67 which is added to the amount payable in respect of BC Hydro's 1/3 Interest*

## **Waneta 2017 Transaction**

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### **Appendix I**

### **Contract Bare Trust Agreement**

**(Exhibit 1 to the Waneta Purchase Agreement)**

**CONTRACT BARE TRUST AGREEMENT**

**THIS CONTRACT BARE TRUST AGREEMENT** is made effective as of the \_\_\_\_ day of \_\_\_\_\_ [2017].

AMONG:

**TECK METALS LTD.**

(“TML”)

AND:

**TECK RESOURCES LIMITED**

(“TRL”)

AND:

**TECK [SUBSIDIARY] LTD.**

(“TML Subco”)

AND:

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**

(“BC Hydro”)

**WHEREAS:**

- A. As at the date and time of the execution of this Agreement, BC Hydro owns a one third undivided ownership interest in the Waneta Plant and the balance of the Waneta Assets which it acquired pursuant to an asset purchase transaction on March 5, 2010 (the “**1/3 Interest**”) and TML owns the remaining two-thirds undivided ownership interest in the Waneta Plant and the balance of the Waneta Assets (the “**2/3 Interest**”). TML and BC Hydro together currently operate the Waneta Plant and related Waneta Assets pursuant to the Co-Ownership and Operating Agreement.
- B. Immediately prior to the execution of this Agreement, TML granted to TML Subco a leasehold interest over the real property, fixtures and tangible personal property



comprising the 2/3 Interest for a term of 20 years with an option to extend the term for an additional 10 years (the “**Waneta Lease**”).

- B. Pursuant to the terms of the 2017 Waneta Purchase Agreement, TRL has agreed to cause TML to enter into this Agreement, pursuant to which TML will hold in trust all of the rights and responsibilities under the Bare Trust Assumed Contracts for the benefit of (i) TRL, until the transaction contemplated in the 2017 Waneta Purchase Agreement is completed, (ii) the Tenant under the Waneta Lease, from time to time, and the owner of the real property, fixtures and tangible personal property comprising the 2/3 Interest, during the term of the Waneta Lease, and (iii) the owner of the real property, fixtures and tangible personal property comprising the 2/3 Interest, from and after the expiry or earlier termination of the Waneta Lease.
- C. The parties to this Agreement acknowledge their expectation that, immediately following the execution of this Agreement, (i) TML will transfer its beneficial interest in the 2/3 Interest and the Waneta Lease to TRL Subco; (ii) TRL Subco will be amalgamated or wound up into TRL, and thereafter TRL will hold all of the beneficial interest to the 2/3 Interest and the Waneta Lease; (iii) TRL, as vendor, will transfer to BC Hydro all of its beneficial interest in the 2/3 Interest and the Waneta Lease and will cause TML to transfer to BC Hydro all of the remaining interest in real property, fixtures and tangible personal property comprising the 2/3 Interest (all subject to the Leasehold Estate) and the Waneta Lease, and thereafter BC Hydro will constitute the landlord for all purposes under the Waneta Lease, (iv) the Co-Ownership and Operating Agreement will terminate and the Co-Possessors and Operating Agreement will enter into effect immediately upon BC Hydro becoming the owner of both the 1/3 Interest and the 2/3 Interest, and (v) TML Subco will be amalgamated or wound up into TML, and thereafter TML will constitute the Tenant for all purposes under the Waneta Lease and the Co-Possessor for all purposes under the Co-Possessors and Operating Agreement in respect of the 2/3 Interest during the term of the Waneta Lease.
- D. TML wishes to confirm in writing that it holds legal title to the Bare Trust Assumed Contracts, as nominee, agent and bare trustee for the sole benefit and account of the Beneficiaries, as principals and beneficiaries of the Bare Trust Assumed Contracts, respectively, until the Trust Termination Date (as defined below) in accordance with the terms and conditions set forth in this Agreement.

**THEREFORE** in consideration of the premises and the amount of \$1.00 now paid by TML Subco to TML, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **Definitions.** When used in this Agreement, including the Recitals, all capitalized words and phrases defined in Schedule A will have the meanings ascribed to them therein, unless the context requires otherwise.
2. **Interpretation.** The parties to this Agreement acknowledge and agree that this Agreement is not intended to apply to the Excluded Rights and that for all purposes under this Agreement, a reference to rights and responsibilities under the Bare Trust Assumed

Contracts is a reference to all of the rights and responsibilities except the Excluded Rights.

3. **Appointment.** TRL, TML Subco, and BC Hydro hereby confirm the appointment of TML as its nominee, agent and bare trustee to hold legal title to the Bare Trust Assumed Contracts for and on behalf of the Beneficiaries in accordance with this Agreement, and TML hereby confirms its acceptance of such appointment.
4. **Nominee, Agent and Bare Trustee.** TML hereby acknowledges and agrees that it holds and will hold the legal title to and act in its capacity as legal counterparty to the Bare Trust Assumed Contracts as nominee, agent and bare trustee for the sole benefit and account of the Beneficiaries as principals and beneficiaries and TML will have no equitable or beneficial interest in the Bare Trust Assumed Contracts, and the equitable and beneficial interest in the Bare Trust Assumed Contracts will be vested solely and exclusively in the Beneficiaries.
5. **Benefits Accrue to Beneficiaries.** TML acknowledges and agrees that any benefit, interest, profit or advantage arising out of or accruing from the Bare Trust Assumed Contracts is and will continue to be a benefit, interest, profit or advantage of the Beneficiaries and if at any time such benefit, interest, profit or advantage is received by TML then it will be received and held by TML for the sole use, benefit and advantage of the Beneficiaries and TML will account to the Beneficiaries at that time for any money or other consideration paid to or to the order of TML in connection with the Bare Trust Assumed Contracts, as directed by the Beneficiaries.
6. **Nominee to Act on Direction of Principals.** TML agrees that it will, upon the direction of the Beneficiaries, deal with the Bare Trust Assumed Contracts and do all acts and things in respect of the Bare Trust Assumed Contracts at the expense of and as directed by the Beneficiaries and will assign, transfer, convey, pledge, charge, vote or otherwise deal with the Bare Trust Assumed Contracts at any time and from time to time in such manner the Beneficiaries may determine.
7. **Decisions under the COPOA.** While the COPOA is in effect, TML (in its capacity as a Co-possessor) will provide direction to TML (in its capacity as bare trustee under this Agreement) regarding decisions that TML (in its capacity as a Co-Possessor) is entitled to make pursuant to section 4.6 of the COPOA. TML (in its capacity as a Co-Possessor) will provide BC Hydro with:
  - (a) timely written notice describing in general terms the directions provided hereunder and the decisions that TML (in its capacity as a Co-Possessor) has made pursuant to section 4.6 of the COPOA, except where such directions or decisions are made in the ordinary course and could not reasonably be expected to have a material and negative impact for BC Hydro; and
  - (b) notice, from time to time, including at the next scheduled Operating Committee, in respect of other material directions or decisions,

except, in each case, to the extent that BC Hydro has already received notice or should reasonably have been on notice of such directions or decisions either in its capacity as Operator (if BC Hydro is the Operator under the COPOA) or through the participation of its representatives on the Operating Committee.

8. **Authority of Nominee.** TML acknowledges and agrees that:
- (a) it will, upon and in accordance with the direction of the Beneficiaries, act as the agent of such Beneficiaries, as undisclosed principals, in respect of any matter relating to the Bare Trust Assumed Contracts or the performance or observance thereof;
  - (b) acting under this Agreement at the direction of the Beneficiaries, TML will have the full right and power to execute and deliver, under seal and otherwise, any transfer, release or other instrument or document pertaining to the Bare Trust Assumed Contracts without delivering proof to any person of its authority to do so and any person may act in reliance on any such instrument or document and for all purposes any such instrument or document will be binding on the Beneficiaries; and
  - (c) TML will not deal with the Bare Trust Assumed Contracts in any way or execute any instrument or document in respect of the Bare Trust Assumed Contracts without the prior consent or direction from time to time of the Beneficiaries.
9. **Reimbursement of Expenses.** Any payments or disbursements made by TML in respect of the Bare Trust Assumed Contracts in accordance with this Agreement will be made as the agent of and for the account of the Beneficiaries, as principals, and the Beneficiaries will reimburse TML for any amount reasonably and properly expended by TML in connection with the Bare Trust Assumed Contracts with the consent or direction of the Beneficiaries. TML will not be entitled to any remuneration or any revenue or profit in respect of the Bare Trust Assumed Contracts for acting as nominee, agent and bare trustee under this Agreement.
10. **Trust Termination Date.** TML, TRL and BC Hydro acknowledge and agree that this Agreement is intended to continue for the term of the Waneta Lease, and if the Waneta Lease terminates, then no later than 3 business days after the expiration date thereof, the remaining Beneficiaries shall deliver a written notice to TML (the "**Trust Termination Notice**") directing TML to transfer legal title in all of the Bare Trust Assumed Contracts either to the remaining Beneficiaries or to a Person nominated in the Trust Termination Notice to act as trustee of the Bare Trust Assumed Contracts (the "**Designated Person**"). Upon receipt of the Trust Termination Notice, TML will perform all such other acts and things and execute all such other documents as are necessary or desirable to complete the legal assignment of each Bare Trust Assumed Contract to the appropriate Designated Person or a novation of each Bare Trust Assumed Contract such that in each case an agreement is entered into on substantially the same terms as the original Bare Trust Assumed Contract by the Designated Person and by BC Hydro if required (but only in respect of the rights and responsibilities that comprise part of the 1/3

Interest and BC Hydro's legal title, if any, in the Bare Trust Assumed Contracts) and the counterparties to that Bare Trust Assumed Contract (other than TML). This Agreement shall be deemed to no longer apply to each such Bare Trust Assumed Contract on the date such assignment or novation enters into effect and the parties will have no further liability or obligation to each other under this Agreement in respect of such Bare Trust Assumed Contracts as of that date (excluding any liabilities or obligations that arose prior to such date). This Agreement in its entirety shall be deemed to be terminated upon the assignment or novation of the last such Bare Trust Assumed Contract (the "**Trust Termination Date**").

11. **Reliance.** The Beneficiaries will notify TML of the date on which the COPOA will enter into effect, and the date of its termination or expiry. At any time when the COPOA is in effect, any decision, consent, direction or determination of or by the Beneficiaries shall be deemed to have been made in accordance with the COPOA, and TML is entitled to rely on any notice of decision, consent, direction or determination delivered by TML or BC Hydro delivered under the COPOA as a decision of all of the Beneficiaries without requiring further inquiry or proof of that Person's authority under the COPOA to deliver such notice in the circumstances.
12. **Prior Agreements.** This Agreement supersedes all prior trust agreements to which TML, TRL, TML Subco and BC Hydro are parties relating to the manner in which and for whom the TML holds title to the Bare Trust Assumed Contracts.
13. **Notices.** Any notice that is required to be given in writing pursuant to this Agreement will be delivered personally to the party for whom it is intended at the address of such party last known to the delivering party, or by email to the email address of such party last known to the delivering party.
14. **Further Assurances.** TML, in its capacity as trustee, will perform all such other acts and things and execute all such other documents as are necessary or desirable in the reasonable opinion of the Beneficiaries to evidence or carry out the terms or intent of this Agreement.
15. **Gender and Number.** Words importing the masculine gender include the feminine and neuter genders and words in the singular include the plural, and vice versa.
16. **Governing Law.** This Agreement and all matters arising hereunder will be governed by and construed in accordance with the laws of British Columbia, which will be deemed to be the proper law hereof. If any dispute, question or difference of opinion between the Parties arises out of or under this Agreement, then such dispute shall be resolved in accordance with the provisions of section 29 of the Waneta Operating Agreement, which provisions shall apply to the dispute *mutatis mutandis*.
17. **Amendment.** This Agreement may be altered or amended only by an agreement in writing signed by the parties hereto.

- 18. **Indivisible Agreements.** The parties to this Agreement acknowledge and agree that this Agreement and the other Waneta Agreements have been negotiated and agreed concurrently, that one of them cannot exist without the others, and that all of them cumulatively constitute one indivisible agreement governing the relationship among the parties to the Waneta Agreements as it relates to the Waneta Assets, operations and the Bare Trust Assumed Contracts.
- 19. **Enurement.** This Agreement will enure to the benefit of and be binding upon the respective successors, legal representatives and assigns of the parties.

**IN WITNESS WHEREOF** the parties have executed this Agreement as of the date first above written.

**TECK METALS LTD.**

Per: \_\_\_\_\_  
Authorized Signatory

Per: \_\_\_\_\_  
Authorized Signatory

**TECK RESOURCES LIMITED**

Per: \_\_\_\_\_  
Authorized Signatory

Per: \_\_\_\_\_  
Authorized Signatory

**TECK METALS (SUBSIDIARY) LTD.**

Per: \_\_\_\_\_  
Authorized Signatory

Per: \_\_\_\_\_  
Authorized Signatory

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**

Per: \_\_\_\_\_  
Authorized Signatory

Per: \_\_\_\_\_  
Authorized Signatory

**SCHEDULE A  
DEFINITIONS**

- (a) **"2017 Waneta Purchase Agreement"** means the Waneta purchase agreement dated ● among BC Hydro, TRL, TCAI Incorporated and Waneta Holdings (US) Inc.
- (b) **"Agreement"** means this Contract Bare Trust Agreement in respect of the Bare Trust Assumed Contracts and all Schedules hereto and instruments in amendment or confirmation of it.
- (c) **"Bare Trust Assumed Contracts"** means the contracts identified under the heading "Material Contracts that are Waneta Assumed Contracts" in Schedule "B" and which are specified as being subject to this Contract Bare Trust Agreement.
- (d) **"Beneficiaries"** means the beneficiaries of the rights and responsibilities under the Bare Trust Assumed Contracts as follows:
- (i) TRL, from the date of this Agreement until the date and time that BC Hydro becomes the legal owner of the 1/3 Interest and the 2/3 Interest;
  - (ii) from the date and time that BC Hydro becomes the legal owner of the 1/3 Interest and the 2/3 Interest until the expiry or early termination of the Waneta Lease,
    - A. the Tenant pursuant to the Waneta Lease, and any successor or assignee of Tenant's rights under the Waneta Lease from time to time, including sub-tenants; and
    - B. to the extent of its residual beneficial interest described in (iii), BC Hydro, BC Hydro's successors and any Person to whom BC Hydro has assigned its residual beneficial interest described in (iii); and
  - (iii) from and after the expiry or early termination of the Waneta Lease, BC Hydro, BC Hydro's successors and any Person to whom the beneficial interest in the rights and responsibilities under the Bare Trust Assumed Contracts has been assigned.
- (e) **"Co-Ownership and Operating Agreement"** or **"COA"** means the co-ownership and operating agreement dated March 5, 2010 between BC Hydro and TML, which is in effect between TML and BC Hydro as of the date of this Agreement until BC Hydro becomes the owner of both the 1/3 Interest and the 2/3 Interest.
- (f) **"Co-Possessor"** has the meaning set out in the COPOA.
- (g) **"Co-Possessors and Operating Agreement"** or **"COPOA"** means the co-possessors and operating agreement which will enter into effect between TML Subco and BC Hydro upon BC Hydro becoming the owner of both the 1/3 Interest and 2/3 Interest.

- (h) "**Designated Person**" has the meaning set out in Section 10.
- (i) "**Excluded Rights**" means (i) all of the rights and responsibilities contained in the Bare Trust Assumed Contracts which comprise a part of the 1/3 Interest, (ii) all of the rights and responsibilities contained in the Bare Trust Assumed Contracts that relate primarily to the ownership and operation of TML's transmission assets other than, in each case, the rights and responsibilities described as being included in the assigned interest in the column marked "Comment" in Schedule "B" and (iii) all rights and responsibilities contained in the Bare Trust Assumed Contracts described as being excluded from the assigned interest as described in the column marked "Comment" in Schedule "B".
- (j) "**Leasehold Estate**" has the meaning set out in the Waneta Lease.
- (k) "**Operating Committee**" has the meaning set out in the COPOA.
- (l) "**Operator**" has the meaning set out in the COPOA.
- (m) "**Person**" means an individual, legal personal representative, corporation, body corporate, firm, partnership, trust, trustee, syndicate, joint venture, unincorporated organization, association or Governmental Entity.
- (n) "**Tenant**" means from time to time the Person who is the current tenant or sub-tenant to the Leasehold Estate..
- (o) "**TRL Subco**" means a wholly-owned subsidiary of TRL.
- (p) "**Trust Termination Notice**" has the meaning set out in Section 10.
- (q) "**Waneta Agreements**" means this Agreement, the Waneta Lease and the COPOA.
- (r) "**Waneta Assets**" has the meaning set out in the 2017 Waneta Purchase Agreement.
- (s) "**Waneta Operating Agreement**" means the Co-Ownership and Operating Agreement until BC Hydro becomes the owner of both the 1/3 Interest and the 2/3 Interest, and thereafter means the Co-Possessors and Operating Agreement.
- (t) "**Waneta Plant**" has the meaning set out in the 2017 Waneta Purchase Agreement.



**SCHEDULE “B”**  
**Material Contracts and Assumed Contracts**

**Legend**

Brilliant Power Corporation.....	“BPC”
British Columbia Hydro and Power Authority .....	“BCH”
British Columbia Transmission Corporation (now BCH).....	“BCTC”
Columbia Power Corporation.....	“CPC”
FortisBC Inc. (formerly West Kootenay Power and Light Company, Aquila Networks Canada (British Columbia) Ltd.).....	“FortisBC”
Province of British Columbia .....	“Province”
Teck Metals Ltd. (formerly Teck Cominco Metals Ltd., Cominco Ltd., The Consolidated Mining and Smelting Company of Canada Limited).....	“Teck” or “TML”
Waneta Expansion Power Corporation .....	“WEPC”

**Material Contracts**

1. The Waneta Management Agreement (May 1, 1996), as subsequently amended January 1, 1998 and July 18, 2003 and January 21, 2010
2. The Mandatory Reliability Services Agreement between TML and Fortis Pacific Holdings Inc.
3. A service order under a Master Agreement with Amec Foster Wheeler Environment and Infrastructure to advise on aquatic issues at Waneta Dam and on matters related to outstanding compensation commitments under Project Approval Certificate E97-01, as amended, and Department of Fisheries and Oceans Authorization No. 94-HPAC-PA1-000-000008 (see Waneta Governmental Authorizations)
4. Tone Equipment Replacement Agreement (December 16, 2014) between Teck and BC Hydro
5. If entered into prior to Closing, a services contract with Hatch and additional contracts in connection with investigation of the buried channel
6. CPA
7. CPA Subagreement
8. Letter Agreement (September 26, 2007) between WEPC and Teck re. compensation for water discharge restriction in Waneta Expansion Environmental Assessment Certificate
9. Letter Agreement (October 1, 2005) between Teck and FortisBC re. Extension of Section 3.2 of Residual Power Supply Agreement and Use of Capacity
10. Notice to Teck re. Assignment of Agreements (April 2, 2004) (assignment of CPC/CBT interests to BPC)
11. Amended and Restated Post-Canal Plant Agreement (February 15, 2010) between Teck and BPC
12. Post Canal Plant Agreement dated May 22, 1996 and entered into among Cominco Ltd., Columbia Power Corporation and CBT Power Corp.

13. 1971 Agreement with Province
14. Letter Agreement (November 15, 2011) between TML and BC Hydro regarding Speed No Load Operation, Redeterminations relating to WAX and Replacement CPA
15. SPRA
16. Indemnity Agreement (April 5, 2004) pursuant to Interconnection Agreement between BCTC and Teck

Material Contracts that are Waneta Assumed Contracts

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
<p>17. Power Asset Sale and Development Agreement (“PASDA”) (May 18, 1994), as subsequently amended by the Power Asset Amendment Agreement (Brilliant) (May 22, 1996) and assigned by:</p> <ul style="list-style-type: none"> <li>(i) the Assignment and Assumption of Power Asset Agreement (May 18, 1994) (between the Province and CPC),</li> <li>(ii) the Assignment of Expansion Rights (May 25, 1994) (between Teck and CPC),</li> <li>(iii) the Assignment of Power Asset Agreement (April 1, 2000) (between CPC and CBT), and</li> <li>(iv) the Assignment of Power Asset Agreement (November 26, 2003) (among CPC, CBT and WEPC)</li> </ul> <p>other than in respect of s. 5.9</p>	<p>Assignment excludes:</p> <ul style="list-style-type: none"> <li>(a) the rights contained in the following provisions: 3.4.11(a)(i), (ii) and (iv), 4.8, 4.10, 4.19, and Article 9 (<i>in toto</i>);</li> <li>(b) the obligations contained in the following provisions: 3.5, 5.9, and Article 9 (<i>in toto</i>)</li> <li>(c) all rights contained in the following provision except to the extent relating to Waneta Dam: 3.4.11(a)(iii);</li> <li>(d) all the obligations contained in the following provision except to the extent relating to Waneta Dam: 5.7;</li> <li>(e) all the rights contained in the following provision except to the extent relating to the Real Property: 3.4.8; and</li> <li>(f) all of the obligations contained in the following provisions except to the extent relating to the Real Property: 3.4.11(b), 5.1,</li> </ul>	Yes

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
	5.1.1, 5.1.2, 5.1.3, 5.1.4, 5.3, 5.14, 5.14.1, 5.14.1(a), 5.14.1(b), 5.14.1(c), 5.14.2, 5.14.3, and 12.5.2.	
18. Waneta Substation Letter Agreement (March 3, 2006), as augmented and amended by the Substation Letter Agreement (November 28, 2008), both between Teck and WEPC		Yes
19. Letter Agreement (September 11, 2008) between Teck and WEPC regarding exclusion of land on which Waneta Substation is located from exercise of PASDA option		Yes
20. Amended and Restated Waneta Release Coordination Agreement (November 15, 2011), and, if executed prior to closing, a further amendment or amendment and restatement to address certain matters raised by the BC Comptroller of Water Rights, as generally outlined in the Comptroller’s email of February 15, 2017	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
21. Letter to Ministry of Environment, Water Stewardship Division (November 8, 2006) regarding intention to coordinate the operation of Waneta Plant and Waneta Expansion pursuant to the Water Release Coordination Agreement		Yes
22. 1996 Interconnection Agreement (April 4, 1996) among Teck, West Kootenay Power Ltd. and CPC in respect of obligations relating to the Waneta Assets and load determination	Assignment limited to obligations relating to the Waneta Assets and load determination	Yes
23. Interconnection Agreement between BCTC and Teck (April 5, 2004) in respect of obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Assignment limited to obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Yes

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
24. Interconnection Agreement between Fortis and Teck (July 18, 2003) in respect of obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Assignment limited to obligations relating to the Waneta Assets, including the Remedial Action Scheme and Reliability Management System Requirements	Yes
25. Waneta Line 18 Agreement (May 1, 2007) between Teck and FortisBC in respect of obligations relating to the Waneta Assets	Assignment limited to obligations relating to the Waneta Assets	Yes
26. Letter Agreement (October 14, 2008) between WEPC and Teck, Waneta Interface Protocol (October 2008) and Billing Arrangements (April 8, 2009) between Teck and CPC, all relating to the Waneta Interface Protocol		Yes
27. Waneta Cooperation Agreement (June 30, 2004) as subsequently amended, up to and including the 9 <sup>th</sup> Amendment (November 15, 2011) and the 2016 email exchange eliminating the requirement to appoint an arbitrator.	<p>Assignment excludes:</p> <p>(a) the rights contained in the following provisions: 2.5, 2.9(a), Schedule A (in toto), and Schedule C (in toto, including Appendices);</p> <p>(b) the obligations contained in the following provisions: 2.1(e), 2.3, 2.5, Schedule A (<i>in toto</i>), and Schedule C (<i>in toto</i>, including Appendices); and</p> <p>(c) the obligations contained in the following provisions except to the extent relating to Waneta Assets: 2.6, 2.8 (further excluding the obligation to meet with BCH).</p>	Yes

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
28. PAC - Agreement for Payment of Monitoring the Effects of Water Discharges on White Sturgeon Reproduction and Egg Incubation (February 23, 1999), as subsequently amended by Letter Agreement (August 21, 2008) and Ministry Acceptance of PAC and associated White Sturgeon Monitoring Fund (October 1, 2008)		Yes
29. Boundary Reservoir Emergency Drawdown Procedure (April 2, 2003)		Yes
30. Letter to Environmental Assessment Office agreeing to modify water discharge restrictions when Waneta Expansion starts producing power (September 27, 2007)		Yes
31. Letter Agreement (October 24, 2006) among Teck, WEPC and the Ministry of Transportation regarding closure of internal wagon road and dedication of Waneta Nelway Road as public road		Yes
32. Waneta Expansion Sizing Agreement (October 22, 2009) between Teck and WEPC, as subsequently amended February 15, 2010, and if executed prior to Closing, an amendment to the Waneta Expansion Sizing Agreement to address certain matters raised by the BC Comptroller of Water Rights as generally outlined in the Comptroller’s letter of August 25, 2015 and email of February 15, 2017	Assignment excludes the rights and obligations in Sections 2.2 and 3.1	Yes
33. Contract WPP-8 Turbine Upgrade (July 16, 2001), Contract WPP-11 Generator Rewind (April 29, 2002), between the Teck and General Electric Canada		Yes
34. Interconnection Agreement (March 5, 2010) between Teck and BC Hydro regarding Waneta Substation in respect of the Waneta Assets only	Assignment limited to obligations relating to Waneta Assets only	Yes
35. Fibre Optic Agreement (October 1, 2014) between Teck and Columbia Basin Broadband Corporation		Yes
36. Fibre Optic Letter Agreement (March 4, 2014) between Teck and WELP		Yes
37. Statutory Right of Way (Access) CA1765891 from Waneta Expansion General Partner Ltd.		No
38. Statutory Right of Way CA1765892, as extended and modified by LB494466- LB494467		No

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.	Comments	Subject to Contract Bare Trust Agreement
39. If entered into prior to Closing, an easement over PID 012-799-998 for a fish habitat enhancement project on the Salmo River		No
40. Such other agreements, and arrangements entered into by, or granted to, Teck in relation to the Waneta Assets in the Ordinary Course prior to Closing.		Yes
41. Consent Agreement in respect of PASDA (February 26, 2010) among Teck, BCH, CPC, CBT Power, WEPC and the Province	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
42. Conditions to Consent Letter to CPC, CBT Power Corp. and WEPC in connection with item #41	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
43. Consent Agreement in respect of Waneta Release Coordination Agreement (February 26, 2010) between Teck, BCH and WEPC	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
44. Consent Agreement in respect of Substation Lands Letter Agreement (September 11, 2008) between Teck, BCH and WEPC	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
45. Consent Agreement in respect of Waneta Expansion Sizing Agreement (February 26, 2010) among Teck, BCH and WEPC	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	Yes
46. Consent Agreement in respect of Waneta Cooperation Agreement (February 26, 2010) among Teck, BCH, WEPC, CPC and CBT Energy Inc.	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately	Yes

Subject to matters identified in the “Comments” column to the right, a 2/3 interest in the following Waneta Assumed Contracts are to be assigned to the Purchaser.

	Comments	Subject to Contract Bare Trust Agreement
	reflected in this agreement	
47.	Consent Agreement in respect of 2003 Interconnection Agreement (February 26, 2010) among FortisBC, Teck and BCH	Yes
	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	
48.	Consent Agreement in respect of the Waneta Line 18 Agreement (February 26, 2010) between Teck, BCH and WEPC	Yes
	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	
49.	Consent Agreement in respect of assignment of continuing rights and obligations under WPP-8, WPP-11 and related agreements (February 26, 2010) between Teck, BCH and Andritz Hydro Canada Inc.	Yes
	Assignment includes all of TML’s interest; BC Hydro’s interest related to its existing 1/3 interest is already separately reflected in this agreement	
50.	Waneta Lease Agreement (as Landlord)	No
	To be entered into as part of the Pre-Closing Transaction	

## **Waneta 2017 Transaction**

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### **Appendix J**

#### **Guarantee Agreement Between Teck Resources Limited and BC Hydro**



(Exhibit 4 to Waneta Purchase Agreement)

**GUARANTEE AGREEMENT**

**THIS GUARANTEE AGREEMENT** dated as of [•], 2017 (this “**Guarantee Agreement**”)

**BETWEEN:**

**TECK RESOURCES LIMITED,**

(“**Guarantor**”)

**AND:**

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**

(“**BC Hydro**”)

**WHEREAS:**

- A. Teck Metals Ltd. (together with its successors and permitted assignees, “**Teck**”) and the BC Hydro (together with its successors and permitted assignees, “**BC Hydro**”) are parties to the Waneta Lease Agreement dated as of [•] between Teck and BC Hydro (as the same may be amended or supplemented from time to time, the “**Lease Agreement**”) and the Co-Possessors and Operating Agreement dated as of [•] between Teck and BC Hydro (as the same may be amended or supplemented from time to time, the “**COPOA**” and together with the Lease Agreement, the “**Specified Agreements**”);
- B. As of the date hereof, Teck is a wholly owned subsidiary of the Guarantor;
- C. The Guarantor will obtain benefits from the execution and performance of the Specified Agreements by Teck and, as an inducement for BC Hydro to enter into the Specified Agreements, the Guarantor agreed to enter into this Guarantee Agreement;

**NOW THEREFORE** in consideration of the premises and the mutual covenants and agreements contained in this Guarantee Agreement, the sufficiency of which is acknowledged by the parties, Guarantor and BC Hydro covenant and agree as follows:

1. **Guarantees**

- (a) Subject only to Section 1(c), the Guarantor hereby guarantees to BC Hydro (i) the payment when due of all amounts due and payable by Teck to BC Hydro under, and (ii) the due and punctual performance of each and every covenant and obligation on the part of Teck contained in the Specified Agreements (collectively, “**Guaranteed Obligations**”).

- (b) The guarantee given by the Guarantor hereunder shall be a continuing guarantee.
- (c) The Guaranteed Obligations shall not include the covenants and obligations of Teck in its capacity as the Operator (during any time it is appointed as the Operator) under the COPOA, but for certainty shall include Teck's covenants and obligations as a Co-Possessor under the COPOA.

## 2. Waiver of Rights

The Guarantor irrevocably waives the right to require BC Hydro to proceed against or exhaust its recourse against Teck or any other person liable on or in respect of the Guaranteed Obligations or to pursue any other remedy in BC Hydro's power whatsoever. BC Hydro may, at its election, exercise or decline to exercise any right or remedy it may have against Teck without affecting or impairing in any way the liability of the Guarantor hereunder, and the Guarantor hereby irrevocably waives any defense arising out of the absence, impairment or loss of any such right or reimbursement, contribution or subrogation, whether or not resulting from such election by BC Hydro.

## 3. Survival of Obligations

- (a) The Guarantor hereby covenants and agrees with BC Hydro that the Guarantor's obligations hereunder shall be unconditional, absolute and irrevocable so long as the Guaranteed Obligations remain unfulfilled or uncompleted, and shall continue in full force and effect, irrespective of:
  - (i) any counterclaim or right of set off available to the Guarantor except for any counterclaim available to Teck under any of the Specified Agreements;
  - (ii) any reorganization or change in the ownership, control, name, objects, businesses, assets, capital structure or constitution of Teck (subject to Section 5(a)(v));
  - (iii) the modification or amendment (whether material or otherwise) of any of the Specified Agreements, including in respect of any of the Guaranteed Obligations, provided that the obligations of the Guarantor hereunder are not thereby increased or expanded without its prior written consent except to the extent otherwise specifically contemplated in this Guarantee Agreement;
  - (iv) any limitation of status or power, disability, incapacity or other circumstance relating to the Guarantor or Teck, including any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation, winding-up or other like proceeding involving or affecting the Guarantor or Teck or any action taken with respect to the Guaranteed Obligations by any trustee or receiver, or by any court, in any such proceeding, whether or not the Guarantor shall have notice or knowledge of any of the foregoing;

- (v) the assignment by BC Hydro of all or any part of the obligations or benefits of any of the Specified Agreements;
- (vi) the assignment by Teck of all or any part of the benefits of this Guarantee Agreement in connection with the assignment of the benefits of the Specified Agreements; and
- (vii) any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge, release or defence of a guarantor or which might otherwise limit recourse against the Guarantor (except the infeasible payment and satisfaction in full, and due performance of, the Guaranteed Obligations).

#### 4. **Notice of Enforcement**

A notice (“**Notice of Demand**”) sent by BC Hydro to the Guarantor, in accordance with Section 6 of this Guarantee Agreement, certifying that:

- (a) Teck has not paid when due any amounts payable under, or duly and punctually performed any one or more of its covenants or obligations under, any of the Specified Agreements, as the case may be (setting forth with reasonable particularity such covenants or obligation, the alleged non-payment or other failure of performance), and
- (b) the Guarantor is being required to fulfill the obligations listed or set out in the Notice of Demand, as guarantor of Teck under this Guarantee Agreement,

shall be the only requirement on the part of BC Hydro to invoke and enforce its rights hereunder. The liability of the Guarantor under this Guarantee Agreement shall arise immediately upon the Guarantor’s receipt of a Notice of Demand and the Guarantor shall make the payment(s) or perform the other covenant(s) or obligation(s) listed or set out in the Notice of Demand as soon as reasonably practicable, but in any event not later than 30 days after the Guarantor’s receipt of the Notice of Demand. The Guarantor shall not be obligated to make payments in any currency other than the lawful currency of Canada.

#### 5. **Termination**

- (a) This Guarantee Agreement shall terminate on the earliest of:
  - (i) the date on which the last of the Specified Agreements has been terminated in accordance with its terms and all Guaranteed Obligations have been satisfied;
  - (ii) the date on which the Guarantor is irrevocably released from its obligations hereunder by BC Hydro;
  - (iii) the date this Guarantee Agreement is terminated by written agreement of the parties hereto;

- (iv) the date on which an Acceptable Third Party agrees to guarantee the obligations of Teck under the Specified Agreements, such guarantee similar to this Guarantee Agreement in all material respects; and
- (v) the date on which all of the following are true: (i) the Guarantor no longer owns, directly or indirectly, a majority of the outstanding voting power of Teck, (ii) Teck's applicable credit ratings from each of two nationally recognized statistical rating organizations designated by the US Securities and Exchange Commission ("NRSRO") (at least one of which must either be Moody's or S&P (or in either such case, a successor thereto)) is equal to or higher than the corresponding credit rating of the Guarantor as at the time from that same agency; and (iii) a class of Teck's securities are quoted on a stock exchange,

provided that this Guarantee Agreement shall not terminate to the extent the Guarantor has not paid or performed any Guaranteed Obligations for which a Notice of Demand has been sent to the Guarantor.

- (b) **"Acceptable Third Party"** means a third-party
  - (i) whose applicable credit ratings from each of two NRSROs (at least one of which must either be Moody's or S&P (or in either such case, a successor thereto)) is equal to or higher than the corresponding credit rating of the Guarantor at the time of the third-party's agreement to guarantee, or
  - (ii) that, if it does not satisfy Section 5(b)(i) or does not have a credit rating from two NRSROs (at least one of which must either be Moody's or S&P (or in either such case, a successor thereto)), otherwise demonstrates to the satisfaction of BC Hydro, acting reasonably, that it has credit capacity and quality at least equivalent to the Guarantor's as at the time of the third-party's agreement to guarantee.
- (c) Upon the termination of this Guarantee Agreement all of the obligations of the Guarantor under this Guarantee Agreement shall terminate, and the Guarantor shall not have any further liability to BC Hydro under this Guarantee Agreement. Upon the request and at the expense of the Guarantor following the Guarantor's full release and discharge from all of its obligations under this Guarantee Agreement in accordance herewith, BC Hydro shall promptly execute and deliver to the Guarantor such instruments of satisfaction, release and discharge of its obligations hereunder as the Guarantor may reasonably request.

## 6. Notice

Any notice, direction or other communication given under this Guarantee Agreement shall be in writing and given by delivering it or sending it by facsimile or other similar form, unless otherwise provided, of recorded communication addressed:

- (a) To the Guarantor at:

Teck Resources Limited  
Suite 3300, 550 Burrard Street  
Vancouver, BC V6C 0B3

Attention: Corporate Secretary  
Fax: 604 699-4729

(b) To BC Hydro at:

British Columbia Hydro and Power Authority  
18<sup>th</sup> Floor 333 Dunsmuir Street  
Vancouver, BC V6B 5R3  
Attention: General Counsel  
Fax: 604-623-4155

Any such communication shall be deemed to have been validly and effectively given (i) if personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next Business Day, or (ii) if transmitted by facsimile or similar means of recorded communication on the date of such transmission if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next Business Day. Either party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to such Party at its changed address.

7. **Counterparts**

This Guarantee Agreement may be executed in one or more counterparts, and delivered electronically or otherwise, each of which shall be deemed an original, but all of which, taken together, shall constitute one and the same agreement.

8. **Governing Law**

This Guarantee Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein. Each Party hereby irrevocably attorns to the non-exclusive jurisdiction of the courts of the Province of British Columbia with respect to any matter arising under or related to this Guarantee Agreement.

9. **No Waiver**

No failure or delay on the part of either party in exercising any right, power or privilege under this Guarantee Agreement will operate as a waiver thereof, nor will any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Except as may be limited in this Guarantee Agreement, any party hereto may, in its sole discretion, exercise any and all rights, power, remedies and recourses available to it under this Guarantee Agreement

or any other remedy available to it and such rights, powers, remedies and recourses may be exercised concurrently or individually without the necessity of making any election.

10. **Entire Agreement**

This Guarantee Agreement embodies the entire agreement of the parties, and supersedes all prior agreements and understandings of the parties, with respect to the subject matter hereof.

11. **Return of Payment**

BC Hydro shall not accept from, and shall return to, the Guarantor any funds sent by the Guarantor to BC Hydro in response to a Notice of Demand, if, at the time of delivery thereof, the amount claimed in the Notice of Demand has been paid or is no longer due.

12. **Limitation of Obligations**

The Guarantor shall have no obligations under this Guarantee Agreement to any person other than BC Hydro.

13. **Amendment**

This Guarantee Agreement may be altered or amended only by an agreement in writing signed by the parties hereto.

14. **Assignment**

This Guarantee Agreement may not be assigned by the Guarantor without the prior written consent of BC Hydro, which consent shall not be unreasonably withheld. BC Hydro may only assign this Guarantee Agreement or any of its rights hereunder to a permitted assignee of BC Hydro's interest in the Specified Agreements.

15. **Enurement**

This Guarantee Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.

16. **Capitalized Terms**

Capitalized terms used in this Guarantee Agreement and not otherwise defined shall have the meanings ascribed thereto in the Lease Agreement.

**IN WITNESS WHEREOF** the parties have executed this Guarantee Agreement as of the date first above written.

**TECK RESOURCES LIMITED**

**BRITISH COLUMBIA HYDRO AND  
POWER AUTHORITY.**

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

## **Waneta 2017 Transaction**

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### **Appendix K**

#### **WAS Access Easement/Statutory Right of Way**



(Exhibit 3 to Waneta Purchase Agreement)

TERMS OF INSTRUMENT – PART 2

STATUTORY RIGHT OF WAY

WHEREAS:

- A. The Transferor described in Item 5 of Part 1 of this General Instrument (the "Grantor") is the registered owner of the lands and premises situate in British Columbia, more particularly described in Item 2 of Part 1 of this General Instrument (the "Grantor's Lands");
- B. The Transferee described in Item 6 of Part 1 of this General Instrument (the "Grantee") intends to include the Grantor's Lands in its Wide Area Remediation Plan (hereafter defined) at such time as the Grantee proceeds with such Plan;
- C. The Grantor has agreed to grant to the Grantee a statutory right of way on the terms contained herein; and
- D. The statutory right of way granted herein is necessary for the operation and maintenance of the Grantee's undertaking;

NOW THEREFORE in consideration of the premises, the sale of the Grantor's Lands by the Grantee to the Grantor and other good and valuable consideration now paid by the Grantee to the Grantor, the receipt and sufficiency of which are hereby acknowledged by the Grantor, the parties hereto covenant and agree as follows:

- 1. **Definitions** – In this Agreement except as expressly provided or as the context otherwise requires:
  - (a) "**AIP**" means an approval in principle under section 53 of the *Environmental Management Act* of British Columbia, as amended or replaced from time to time;
  - (b) "**Certificate of Compliance**" means a certificate of compliance under section 53 of the *Environmental Management Act* of British Columbia, as amended or replaced from time to time;
  - (c) "**Contaminants**" means any contaminant, pollutant, underground or aboveground tank, deleterious substance, dangerous substance or good, hazardous, corrosive or toxic substance, hazardous waste, waste or any other substance the storage, manufacture, disposal, treatment, generation, use, transport, remediation or release into the environment of which is now or hereafter regulated under any Environmental Laws;
  - (d) "**Environmental Laws**" means any laws, regulations, bylaws, orders or other lawful requirements of any governmental authority having jurisdiction over the Grantor's Lands, including any guidelines, standards or protocols applicable

thereto and principles of common law and equity, which relate to the environment, health, occupational health and safety or transportation of dangerous goods;

- (e) **"MOE"** means the British Columbia Ministry of Environment (or any successor agency thereof); and
- (f) **"Wide Area Remediation Plan"** means a remediation plan for a wide area site that may be designated by MOE under Environmental Laws in respect of Contaminants originating from the Grantee's historical smelter emissions in Trail and Warfield, British Columbia.

2. **Right of Way** – The Grantor hereby grants unto the Grantee a statutory right of way pursuant to section 218 of the *Land Title Act* of British Columbia (as amended or replaced from time to time), for the Grantee and its employees, contractors, agents, invitees, assignees, licensees, successors and assigns (and any of their respective employees, contractors, agents, invitees, assignees, licensees, successors and assigns) at all times and from time to time hereafter, by day and by night, in common with the Grantor, its successors and assigns and others authorized by the Grantor, to:

- (a) enter upon, over, under and through the Grantor's Lands for the purposes of performing such investigations and remedial activities as are reasonably required to develop and implement the Wide Area Remediation Plan pursuant to Environmental Laws; and
- (b) enter upon, over, under and through the Grantor's Lands and:
  - (i) conduct surface and/or subsurface investigations;
  - (ii) remove, amend and cap soil;
  - (iii) remove, add and maintain vegetation; and
  - (iv) construct, install, operate, maintain, alter, relocate, inspect and replace, as the case may be, boreholes, monitoring wells and other environmental monitoring apparatus including, without limitation, air monitors, lichen monitors and moss bags together with all ancillary or related attachments and fittings, including the posting of such signage as may be required pursuant to Environmental Laws, (all of which are collectively called the "Works"),for the purpose of performing the investigations and remedial activities referred to in section 2(a);
- (c) bring onto the Grantor's Lands all materials and equipment (including vehicles) it requires or desires for any of the foregoing purposes; and
- (d) do all acts on the Grantor's Lands incidental to the foregoing,

TO HAVE AND TO HOLD unto and for the benefit of the Grantee from and after the date hereof subject only to the terms and conditions herein contained.

3. **Wide Area Remediation Plan** – The Grantor acknowledges and agrees that the Grantee makes no representations, covenants or agreements that there will be a Wide Area Remediation Plan or as to the timing of the Wide Area Remediation Plan and that there is no obligation on the Grantee to obtain any AIP, Certificate of Compliance or

other regulatory instrument in respect of the Grantor's Lands. If, prior to MOE approving the Wide Area Remediation Plan, the Grantor or any person for whom it is at law responsible performs any act, including making any application or submitting a site profile to any governmental authority, or performing any work, alterations or improvements, or seeking to rezone or subdivide, in respect of or to all or any portion of the Grantor's Lands and such activity or work imposes an obligation to remediate all or such portion of the Grantor's Lands, the Grantor shall, at its own cost, be responsible to perform such remediation. The Grantor acknowledges and agrees that the Grantee shall, in its sole discretion, determine the terms and conditions of the Wide Area Remediation Plan in conjunction with MOE and in accordance with Environmental Laws and that the Wide Area Remediation Plan shall be based on risk-based standards of remediation. The Grantor shall, at the request of the Grantee, cooperate with the Grantee in the preparation, approval and implementation of the Wide Area Remediation Plan.

4. **Grantor's Covenants** – The Grantor hereby covenants and agrees:

- (a) not to do or knowingly permit to be done any act or thing which will obstruct access by the Grantee to or over the Grantor's Lands or any part thereof in accordance with the terms hereof;
- (b) not to do or knowingly permit to be done any act or thing which will interfere with the Grantee's ability to exercise its rights hereunder on the Grantor's Lands;
- (c) not to do or knowingly permit to be done any act or thing which may interfere with, impair the operating efficiency of, or injure or damage any Works which the Grantee may install in or at the Grantor's Lands in the exercise of its rights hereunder;
- (d) not to bring onto, use at or release from the Grantor's Lands any Contaminants after the date of this Agreement and not to do any act which exacerbates the Contaminants pre-existing at the Grantor's Lands as of the date of this Agreement; and
- (e) at the reasonable request of the Grantee, to do and execute all further lawful acts and documents as may be necessary to give full effect to the intent and meaning of this Agreement for the better assuring unto the Grantee of the rights hereby granted.

5. **Grantee's Covenants** – The Grantee hereby covenants and agrees:

- (a) to construct and maintain the Works, if any, in a good and workmanlike manner in order to cause no unnecessary damage or disturbance to the Grantor, the Grantor's Lands or any improvement on the Grantor's Lands;
- (b) to exercise reasonable care not to damage the Grantor's Lands or any improvement thereon and if the Grantee should cause any such damage, restore such damage to the Grantor's Lands or improvements thereon to as close to their pre-damaged condition as is reasonably practical;

- (c) not to permit any builders' liens to be filed against the Grantor's Lands by reason of any work, labour, services or materials supplied in connection with the Works; and
  - (d) at the reasonable request of the Grantor, to do and execute all further lawful acts and documents as may be necessary to give full effect to the intent and meaning of this Agreement.
6. **Runs With Land** – The statutory right of way granted herein shall run with and charge the Grantor's Lands and every part thereof.
  7. **No Waiver** – No failure to or delay in the exercise of any right under this Agreement on the part of the Grantee shall operate as a waiver of such right, nor shall any single or partial exercise by the Grantee of any right under this Agreement preclude any other or further exercise thereof or the exercise of any other right. A waiver by the Grantee of any breach of this Agreement is binding upon the Grantee only if the waiver is in writing and signed by the Grantee.
  8. **Governing Law** – This Agreement shall be governed by and construed in accordance with the laws of the Province of British Columbia.
  9. **Gender and Number** – Wherever the singular or masculine is used in this Agreement, the same shall be construed to include the plural or the feminine or the body politic or corporate where the context or the parties hereto so require.
  10. **Severability** – The provisions hereof are severable and if any of them or any portions thereof should be found to be invalid or unenforceable at law, the remaining provisions or portions thereof shall not be affected thereby.
  11. **Joint and Several** – If at any time the Grantor is comprised of more than one person, all of the grants and covenants in this Agreement of the Grantor shall be construed as being several as well as joint.
  12. **Separate Ownership** – Neither the Grantor nor any successor in title to any separate legal lot comprising the Grantor's Lands shall be liable for any breach or non-observance or non-performance of the Grantor's obligations hereunder occurring with respect to such separate legal lot after it has ceased to be the owner of such separate legal lot, but shall remain liable after ceasing to be the owner of any separate legal lot comprising the Grantor's Lands for any breach or non-observance or non-performance of such obligations that occurred while the Grantor or such successor in title, as the case may be, was the owner of such separate legal lot.
  13. **Enurement** – This Agreement shall enure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors, successors in title and assigns and every reference to a party herein shall be deemed to include the heirs, executors, administrators, successors, successors in title and assigns of such party wherever the context so requires or permits.

14. **Reference Date** – This Agreement shall be dated for reference <@>, notwithstanding the date of execution or registration thereof.

IN WITNESS WHEREOF the parties have executed this Agreement in Item 8 of the Form C General Instrument - Part 1.

**END OF DOCUMENT**

## **Waneta 2017 Transaction**

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### **Appendix L**

### **Transaction Closing Matters Agreement**

**(Exhibit B To Reply Notice)**

**TRANSACTION CLOSING MATTERS AGREEMENT**

**THIS TRANSACTION CLOSING MATTERS AGREEMENT** made as of August 1, 2017 (the "**Agreement**"),

AMONG:

**TECK RESOURCES LIMITED**  
("TRL")

AND:

**TCAI INCORPORATED**  
("TCAI")

AND:

**TECK METALS LTD.**  
("TML")

AND:

**BRITISH COLUMBIA HYDRO AND POWER AUTHORITY**  
("BCH")

AND:

**WANETA HOLDINGS (US) INC.**  
("WHUSI", and together with TRL, TCAI, TML and BCH, the "**Parties**")

**WHEREAS:**

- A. TML delivered the Sale Notice to BCH, BCH delivered a reply notice to TML dated August 1, 2017 (the "**Reply Notice**") in response thereto, TML accepted the Reply Notice on the same date, and the Parties entered into the Waneta Purchase Agreement dated August 1, 2017 ("**WPA**").
- B. Pursuant to the WPA:
  - (a) BCH intends to acquire from TRL and TRL intends to sell to BC Hydro, the Purchased Interest (except for TCAI's interests in the FERC License and the FERC Bare Trust Agreement); and

- (b) WHUSI intends to acquire from TCAI and TCAI intends to transfer, assign and otherwise dispose of its interest in the FERC License to WHUSI, and to terminate the FERC Bare Trust Agreement,

subject to the Lease Arrangements, all as more particular described and subject to the terms and conditions contained in the WPA (the “**Waneta Transaction**”).

- C. Certain pre-Closing and post-Closing matters are contemplated in connection with the Waneta Transaction, and additional matters must be addressed during the Interim Period, in each case in order to facilitate and complete the Waneta Transaction, and the Parties wish to set out their agreement in respect of those matters as more particularly described herein.

**NOW THEREFORE** in consideration of the premises and the mutual covenants and agreements herein contained, each of the Parties covenants and agrees as follows:

## **ARTICLE 1 INTERPRETATION**

- 1.1 Defined Terms.** In addition to those terms used and defined elsewhere in this Agreement (including, without limitation, in the recitals) and as used in this Agreement, terms defined in the WPA and not defined herein will have the meanings ascribed to them in the WPA.
- 1.2 Gender and Number.** Any reference in this Agreement to gender includes all genders, and words importing the singular number only shall include the plural and vice versa.
- 1.3 Headings, etc..** The provision of a table of contents, the division of this Agreement into Articles and Sections and the insertion of headings are for convenient reference only and are not to affect its interpretation.
- 1.4 Certain Phrases, etc..** In this Agreement (i) the words “including” and “includes” mean “including (or includes) without limitation”, and (ii) the phrase “the aggregate of”, “the total of”, “the sum of”, or a phrase of similar meaning means “the aggregate (or total or sum), without duplication, of”, and (iii) in the computation of periods of time from a specified date to a later specified date, unless otherwise expressly stated, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

## **ARTICLE 2 WANETA TRANSACTION CONSENTS AND WAIVERS**

- 2.1 Pre-Closing Transaction.** The Parties hereby acknowledge that elements of the Pre-Closing Transaction require the consent of BCH pursuant to one or more of the COA, CPA and other agreements in place between BCH and one or more of the other Parties. BCH hereby irrevocably agrees to provide its consent to the Pre-Closing Transaction under each of those agreements as part of the Pre-Closing. TML agrees with BCH and WHUSI that it will complete those elements of the Pre-Closing Transaction for which it is responsible as part of the Pre-Closing.



- 2.2 Post-Closing Transaction.** Promptly following the Closing, TML will promptly amalgamate or wind up TML Subco with or into TML, and thereafter TML will constitute the tenant for all purposes under the Lease, and that this may require the consent of BCH pursuant to one or more of the COPOA, CPA and other agreements in place between BCH and one or more of the other Parties. BCH hereby irrevocably grants its consent to the foregoing.
- 2.3 Waiver of Line 71 Option.** BCH hereby irrevocably agrees to waive its option pursuant to Section 21.3(f) of the COA to purchase the Line 71 Assets (as defined in the COA) as part of the Pre-Closing.
- 2.4 Consents Conditional on Closing.** Notwithstanding their irrevocable nature, the consents and waivers provided for pursuant to this Article 2 are conditional on the Waneta Transaction closing. For clarity, if the Waneta Transaction does not close, or the WPA is terminated in accordance with its terms, then such consents and waivers are withdrawn and BCH will be entitled to withhold its consent to any actions, exercise any such option or claim non-compliance in accordance with the COA and such other agreements.

### **ARTICLE 3 INTERIM MATTERS**

#### **3.1 Definitive Agreements.**

- (a) As soon as reasonably possible during the Interim Period, TML and BCH will negotiate in good faith and use their reasonable commercial efforts to agree upon a definitive form of Transmission Agreement, and such Parties shall also negotiate the Transmission Agreement in accordance with the principles of the Transmission Term Sheet attached as Exhibit 6 to the WPA as they relate to such negotiations.
- (b) As soon as reasonably possible during the Interim Period, TML and BCH will negotiate in good faith and use their reasonable commercial efforts to agree upon a definitive form of WHS IA Amending Agreement.
- (c) As soon as reasonably possible during the Interim Period, TML and BCH will negotiate in good faith and use their reasonable commercial efforts to agree upon any amendments required, in their respective reasonable opinions, to other agreements solely between them, or among them and other parties to the WPA.
- (d) TML and BCH recognize that the Consents schedule (Schedule 1.1(r) to the Waneta Purchase Agreement) may not be complete or may not fully characterize the nature of the Consents and Required Consents (including Required Consents in the form of amendments to Material Contracts) that may be required for closing the Waneta Transaction. As soon as reasonably possible during the Interim Period, TML and BCH will negotiate in good faith and use their reasonable commercial efforts to agree upon any amendments required to such schedule, in their respective reasonable opinions, to effectively transfer the Purchased Interest to BCH (or in the case of the FERC License, to WHUSI) and to otherwise carry

out the intent of the Waneta Purchase Agreement and any documents, instruments or agreements required to be delivered pursuant to this Agreement or the Waneta Purchase Agreement, and will thereafter negotiate in good faith with such third parties and use their reasonable commercial efforts to finalize such amendments as agreed.

- (e) TML and BCH agree to review the Material Contracts and Assumed Contracts schedule (Schedule 1.1(xx) to the Waneta Purchase Agreement) as soon as reasonably possible during the Interim Period, and to negotiate in good faith and use their reasonable commercial efforts to agree upon any amendments required to such schedule, in their respective reasonable opinions, to effectively transfer the Purchased Interest to BCH (or in the case of the FERC License, to WHUSI) and to otherwise carry out the intent of the Waneta Purchase Agreement and any documents, instruments or agreements required to be delivered pursuant to this Agreement or the Waneta Purchase Agreement.

### 3.2 Operatorship.

- (a) TML and BCH agree that BCH must advise TML within forty five (45) days from the date of the Reply Notice to either (i) become the Operator for purposes of the COPOA (the “**Operator**”); or (ii) not to become the Operator. If no election is given within that period, BCH will be deemed to have elected not to become the Operator.
- (b) If BC Hydro elects to become the Operator, BC Hydro may, at its option, carry out its obligations and duties as Operator pursuant to the COPOA that are related to dam safety to a standard at least as stringent as the Operating Standard, but that results in incremental costs as compared to the Operating Standard (as defined in the COPOA) (an “**Alternative Standard**”), and in that case:
  - (i) BC Hydro will be solely responsible for all incremental Costs (as defined in the COPOA) incurred or payable in respect of meeting an Alternative Standard as opposed to the Operating Standard;
  - (ii) BCH will work in good faith with TML to mitigate any impacts from an Alternative Standard on Teck’s Entitlement Energy and Teck’s Entitlement Capacity (as those terms are defined in the COPOA);
  - (iii) To the extent the impacts cannot be fully mitigated, BCH would keep TML whole in respect of impacts on Teck’s Entitlement Energy and Teck’s Entitlement Capacity resulting therefrom; and
  - (iv) for certainty, nothing in this Section 3.2(b) amends BCH’s and TML’s responsibility for Costs incurred or payable in respect of meeting the Operating Standard in accordance with the COPOA, and nothing in this Section 3.2(b) makes BCH responsible for mitigating or keeping TML whole in respect of impacts to Teck’s Entitlement Energy and Teck’s Entitlement Capacity resulting from meeting the Operating Standard.

- (c) If BCH elects not to become Operator, BC Hydro may (within the 45 day period referred to in Section 3.2(a)) propose, and if it does BCH and TML shall negotiate in good faith to conclude, a governance framework that requires TML to carry out its obligations and duties as Operator pursuant to the COPOA that are related to dam safety to an Alternative Standard, provided Sections 3.2(b)(i) to 3.2(b)(iv) continue to apply.
- (d) If BCH proposes dam safety works and associated expenditures, whether as Operator or not, TML shall not refuse to approve any Operating and Management Plan, Sustaining Capital Expenditure or Budget pursuant to Sections 6.7 or 6.8 of the COPOA because it contains requirements or expenditures relating to the an Alternative Standard, provided the requirements of 3.2(b)(i) to 3.2(b)(iv) apply, whether pursuant to Section 3.2(b) or 3.2(c).
- (e) The dispute resolution process in the COPOA will be used to determine (i) the specific requirements of the Operating Standard as it relates to dam safety at the Waneta Plant, including the timing of requirements (recognizing that the Operating Standard could include a range of standards or practices, and in that event the applicable standard or practice shall be the one most consistent with current practice at the Waneta Plant), in order to determine any incremental Costs attributable to an Alternative Standard; (ii) any incremental Costs attributable to an Alternative Standard, and (iii) other disputes that may arise between BCH and TML in connection with the matters described above, if they are unable to agree.
- (f) In addition to the election to become Operator in Section 3.2(a) above, BC Hydro may elect to become Operator five (5) years, and twenty-three (23) months, before expiry of the initial Lease term and five (5) years before expiry of the renewal Lease term (if renewed and BC Hydro is not already Operator), in each case on at least six (6) months' advance notice, and also upon TML default under the Lease or the COPOA, and in the same circumstances set out in the COPOA (e.g. change of control of TML or TRL, or a transfer of TML's leasehold interest in connection with sale of the Industrial Operations).
- (g) Immediately upon the election by BC Hydro as described in Section 3.2(a), BCH and TML will negotiate in good faith to amend the COPOA to reflect the foregoing. If TML and BCH are unable to reach agreement on any issue in relation thereto, the matter may be referred for resolution pursuant to Section 3.3.

### 3.3 Disputes.

- (a) If TML and BCH are unable to reach agreement on any issue in relation to the matters described in Section 3.1 or 3.2(g), and so often as that may occur, then either shall have the right, upon written notice to the other, to have the matter referred to a mutually agreeable independent third party to resolve the disagreement (the "**Third Party Referee**"). Unless otherwise agreed, the Third Party Referee shall, with respect to a dispute in relation to a matter described in Section 3.1(a) or 3.1(b), be experienced in electrical transmission matters, and in relation to other matters shall be an experienced commercial arbitrator, and in each case free of any current or historical relationship with either of them that

might give rise to a reasonable apprehension of bias. The Third Party Referee shall be appointed as soon as practicable but not later than 20 days after the date on which such notice has been provided and shall make its determination within 30 days of it having been appointed. Where such a disagreement is referred to a Third Party Referee:

- (i) the Third Party Referee shall act as expert and not as arbitrator, and is hereby authorized and directed to determine commercially reasonable terms and conditions to be included in the applicable agreement in respect of the issue in dispute, consistent with the WPA, the Lease, the COPOA and this Agreement, as applicable;
  - (ii) the Third Party Referee's decision shall be final and binding on TML and BCH; and
  - (iii) the costs of the Third Party Referee and the expert determination shall be borne equally by TML and BCH.
- (b) In the event that TML and BCH are unable to agree on the appointment of a Third Party Referee, then each of TML and BCH shall prepare and deliver to the other, within 5 days after the expiry of the initial time period required under Section 3.3(a), a list of three proposed independent third party referees, each of which must, unless otherwise agreed, be experienced in electrical transmission matters if the dispute is in relation to a matter described in Section 3.1(a) or 3.1(b), and in relation to other matters shall be an experienced commercial arbitrator, and in each free of any current or historical relationship with either of them that might give rise to a reasonable apprehension of bias. Each of TML and BCH shall, within 5 days after receipt of the list of the other's proposed independent third party referees, select one of the other's proposed independent third party referees to be entered into a lottery, pursuant to which one of the two proposed independent third party referees so entered into the lottery shall be selected by coin flip. If either TML or BCH does not provide to the other its list of three proposed independent third party referees within the 5 day period specified herein, then the Party who has so provided its list, shall be entitled to select one Person from its own list to act as the Third Party Referee. If the proposed independent third party is unable or unwilling to act, each of TML and BCH shall select one of the other's proposed independent third party referees other than the one who is unable or unwilling to act and this provision shall be applied again until an independent third party is engaged.

**3.4 WMA and MRS Agreement.** At BCH's option, if BCH determines to become the Operator (as defined in the COPOA), TML shall use its reasonable commercial efforts during the Interim Period to assist BCH in negotiating agreements similar to the Waneta Management Agreement and the Mandatory Reliability Services Agreement referred to in Schedule 1.1(xx) of the WPA with FortisBC and Fortis Pacific Holdings Inc., respectively, in respect of the Waneta Assets.

**ARTICLE 4  
MISCELLANEOUS**

**4.1 Notices.** Any notice, direction or other communication given under this Agreement shall be in writing and given by delivering it by courier or sending it by facsimile, unless otherwise provided, addressed:

(a) To BCH or WHUSI at:

British Columbia Hydro and Power Authority  
18th Floor, 333 Dunsmuir Street  
Vancouver, BC V6B 5R3

Attention: General Counsel  
Fax: 604-623-4155

With a copy to:

Lawson Lundell LLP  
1600 Cathedral Place  
925 West Georgia Street  
Vancouver, BC V6C 3L2

Attention: Gordon Craig  
Fax: 604-669-1620

(b) To TRL, TML or TCAI at:

Teck Resources Limited  
Suite 3300, 550 Burrard Street  
Vancouver, BC V6C 0B3

Attention: Corporate Secretary  
Fax: 604 699-4729

With a copy to:

Fasken Martineau  
Suite 2900, 550 Burrard Street  
Vancouver, BC V6C 0A3

Attention: Ron Ezekiel  
Fax: 604 632-4708

Any such communication shall be deemed to have been validly and effectively given (i) if personally delivered, on the date of such delivery if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next Business Day, or (ii) if transmitted by facsimile or similar means of recorded communication on the date of such transmission if such date is a Business Day and such delivery was made prior to 4:00 p.m. (Vancouver time) and otherwise on the next

Business Day. Any Party may change its address for service from time to time by notice given in accordance with the foregoing and any subsequent notice shall be sent to such Party at its changed address.

- 4.2 Time of the Essence.** Time shall be of the essence of this Agreement and every provision hereof, including without limitation those relating to Closing hereunder.
- 4.3 Amendments.** This Agreement may only be amended, supplemented or otherwise modified by written agreement signed by the Parties.
- 4.4 Waiver.** No waiver of any of the provisions of this Agreement shall be deemed to constitute a waiver of any other provision (whether or not similar); nor shall such waiver be binding unless executed in writing by the Party to be bound by the waiver. No failure on the part of any Party to exercise, and no delay in exercising, any right under this Agreement shall operate as a waiver of such right; nor shall any single or partial exercise of any such right preclude any other or further exercise of such right or the exercise of any other right.
- 4.5 Entire Agreement.** This Agreement constitutes the entire agreement among the Parties with respect to the subject matter of this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties in connection with the subject matter of this Agreement.
- 4.6 Successors and Assigns.**
- (a) This Agreement shall become effective when executed by the Parties and after that time shall be binding upon and enure to the benefit of the Parties and their respective successors and permitted assigns.
  - (b) Neither this Agreement nor any of the rights or obligations under this Agreement shall be assignable or transferable by any Party without the prior written consent of the other Parties, such consent not to be unreasonably withheld or delayed.
- 4.7 Severability.** If any provision of this Agreement shall be determined by any court of competent jurisdiction to be illegal, invalid or unenforceable, that provision shall be severed from this Agreement and the remaining provisions shall continue in full force and effect.
- 4.8 Governing Law.** This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Province of British Columbia and the federal laws of Canada applicable therein. Each Party hereby irrevocably attorns to the non-exclusive jurisdiction of the courts of the Province of British Columbia with respect to any matter arising under or related to this Agreement.
- 4.9 Further Assurances.** From time to time after the Closing Date, each Party shall, at the request and cost of any other Party, execute and deliver such additional conveyances, transfers and other assurances as may be reasonably required to effectively transfer the

Purchased Interest to the Purchaser (or in the case of the FERC License, to WHUSI) and to otherwise carry out the intent of this Agreement or any documents, instruments and agreements required to be delivered by it pursuant to this Agreement.

4.10 Counterparts. This Agreement may be executed in counterparts and be returned by fax or email with a PDF attachment, each of which when executed and delivered shall constitute an original, and all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF each of the Parties has executed and delivered this Agreement.

**TECK RESOURCES LIMITED**

By: Peter Rozee  
Name: **PETER ROZEE**  
Title: **SENIOR VICE PRESIDENT,  
COMMERCIAL & LEGAL AFFAIRS**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TECK METALS LTD.**

By: Peter Rozee  
Name: **PETER ROZEE**  
Title: **SENIOR VICE PRESIDENT,  
COMMERCIAL & LEGAL AFFAIRS**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**TCAI INCORPORATED**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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Purchased Interest to the Purchaser (or in the case of the FERC License, to WHUSI) and to otherwise carry out the intent of this Agreement or any documents, instruments and agreements required to be delivered by it pursuant to this Agreement.

4.10 Counterparts. This Agreement may be executed in counterparts and be returned by fax or email with a PDF attachment, each of which when executed and delivered shall constitute an original, and all of which together shall constitute one and the same Agreement.

IN WITNESS WHEREOF each of the Parties has executed and delivered this Agreement.

TECK RESOURCES LIMITED

By: \_\_\_\_\_  
Name:  
Title:

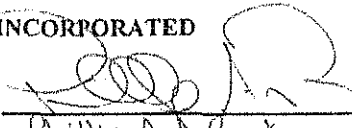
By: \_\_\_\_\_  
Name:  
Title:

TECK METALS LTD.

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:


TCAT INCORPORATED

By:   
Name: Phillip A. Resek  
Title: Vice President

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**BRITISH COLUMBIA HYDRO AND  
POWER AUTHORITY**

By:   
Name: \_\_\_\_\_  
Title: **CHRIS O'RILEY  
PRESIDENT**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**WANETA HOLDINGS (US) INC.**

By:   
Name: \_\_\_\_\_  
Title: **CHRIS O'RILEY  
DIRECTOR**

*Signature Page to Transaction Closing Matters Agreement*

## **Waneta 2017 Transaction**

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### **Appendix M**

### **Transmission Agreement Term Sheet**

## (Exhibit 6 to Waneta Purchase Agreement)

**Transmission Agreement Term Sheet  
August 1, 2017**Teck Metals (“**Teck**”)/BC Hydro (“**BCH**”) Waneta Transmission Agreement

1. Recitals: Teck owns certain transmission assets and rights which will be defined to include the L71 Assets, the rights available under the Line 71 Agreement to schedule the import of power from the United States of America to British Columbia (the “**Line 71 Scheduling Rights**”), Lines 14-17, that portion of Waneta Hydro Station that is not part of the Waneta Assets, Teck’s option(s) to purchase L 62, 77 and 79 capacity and/or asset rights, certain facilities sharing agreements, etc, and the assets comprising Teck’s Emerald Switching Station, except only the harmonic filter banks and the disconnects, breakers and associated feeder lines from Emerald Switching Station to Teck’s Industrial Operations (drawings to be attached), and associated contractual rights, but to exclude any transmission rights on third party-owned transmission that Teck may hold pursuant to the Canal Plant Agreement, Canal Plant Subagreement or in its capacity as an Entitlement Party (together the “**Teck Transmission Assets**”) (full description to be taken from Sale Notice exhibits). Teck Transmission Assets would include any replacements, upgrades etc during term of the Waneta Lease Agreement (“**Lease**”), but excluding any Alternate Means (to be defined in the Waneta Transmission Agreement consistent with the COA) to the extent paid for by Teck, unless BCH agrees to acquire such Alternate Means (or the rights thereto) at the time of purchasing the Teck Transmission Assets and then reimburses Teck for the cost of Teck obtaining such Alternate Means (discounted to reflect prior use as compared to expected future use).
2. Teck will continue to own, operate and maintain the Teck Transmission Assets, until purchased by BCH pursuant to Section 6. Teck will:
  - (a) maintain and operate the Teck Transmission Assets as would a prudent owner acting in accordance with Applicable Laws, the Governmental Authorizations and Good Utility Practice, and in material compliance with applicable contracts to which Teck is bound, on the basis that, collectively, the Transmission Assets are required to supply a large industrial customer and for which no system redundancies or alternate supply options exist; and
  - (b) use commercially reasonable efforts to extend the time for exercising Teck’s option(s) to purchase capacity and/or asset rights on Lines 62, 77 and 79 until 90 days after expiry or termination of the Lease, failing which:
    - (i) Teck will, at BCH’s request, exercise any or all such option(s) as directed by BCH; if there is a cost to extend the option(s) and BCH requests Teck do so, or BCH requests Teck to exercise the option(s), BCH will pay any costs associated with extending the option(s) or purchasing the capacity and/or rights, and BCH may use that capacity and those rights, except to

the extent that Teck requires that capacity and/or those rights during the Lease term in order to avoid a plant derate under the CPA or when Teck would otherwise have inadequate transmission to meet its CPA or CPA Subagreement obligations,

- (ii) Teck may at its cost exercise its option(s) to purchase capacity and/or asset rights on Lines 62, 77 and/or 79 at any time during the Lease term to the extent Teck requires those rights in order to avoid a plant derate under the CPA or when Teck would otherwise have inadequate transmission to meet its CPA or CPA Subagreement obligations, provided it will consult with BCH to coordinate the exercise of the options(s) so that all capacity and/or asset rights required by either BCH or Teck are secured or can be secured at a future time,
  - (iii) if Teck exercises the option(s), either on its own or at BCH's request, such capacity and/or asset rights will form part of the Teck Transmission Assets on expiry or earlier termination of the Lease, and the purchase price for the Teck Transmission Assets will be increased by the amount paid by Teck in exercising the option(s), (discounted to reflect prior use as compared to expected future use),
  - (iv) if Teck exercises the option(s), either on its own or at BCH's request, Teck will maintain, the rights acquired and BCH may use that capacity and those rights except to the extent that Teck requires that capacity and/or those rights during the Lease term in order to avoid a plant derate under the CPA or when Teck would otherwise have inadequate transmission to meet its CPA or CPA Subagreement obligations,
  - (v) each party will pay a reasonable allocation of costs associated with maintaining and using the capacity and asset rights acquired, commensurate with the party's use, provided if capacity and/or asset rights are acquired at BCH's request, but Teck makes no use thereof, 100% of the costs associated with maintaining and using the capacity and asset rights will be allocated to BCH.
3. The Teck Transmission Assets will continue to be subject to existing security granted by Teck to BCH in 2010. The parties will agree to a modification so that the 'Obligations' secured would only be the transmission-related obligations going forward.
  4. Teck and BCH will cooperate in good faith to eliminate, or minimize to the greatest extent reasonably possible, any period of time between the expiry or earlier termination of the Lease and the acquisition of the Teck Transmission Assets by BCH.
  5. Until BCH purchases the Teck Transmission Assets:
    - (a) Teck will provide transmission/access to BCH as per ss. 19 and 20 of COA (except for s. 20.4(b)), which provisions are to be incorporated into the Waneta Transmission Agreement on the basis that after 2035 but during the Lease term,

Teck's Participation Percentage is 66.667% and BCH's is 33.333%, and that BCH's Participation Percentage is 100% after the expiry or earlier termination of the Lease.

- (b) Teck will not dispose of Teck Transmission Assets except pursuant to requirements equivalent to s. 20.4(b) of the COA, and never in respect of any period beyond the term of the Lease.
  - (c) Teck and BCH will comply with obligations equivalent to those set out in s. 21 of the COA, which provisions are to be incorporated into the Waneta Transmission Agreement on the basis that after 2035 but during the Lease term, Teck's Participation Percentage is 66.667% and BCH's is 33.333%, and that BCH's Participation Percentage is 100% after the expiry or earlier termination of the Lease, provided:
    - (i) during the period, if any, after expiry or earlier termination of the Lease and prior to purchase by BCH of the Teck Transmission Assets:
      - A. Teck will hold the Teck Transmission Assets in trust (to the extent permitted by applicable laws) for the benefit and exclusive use of BCH, and BCH will be responsible for all losses, capital expenditures, O&M, export fees, charges and taxes associated with the Teck Transmission Assets, subject to (x) BCH making available to Teck wheeling services in accordance with the Wheeling Agreement from the BC/US border to the points where Teck's Industrial Operations connect with ESS in order for Teck to import power to supply its Industrial Operations, and (y) BCH's right to recover costs, losses and O&M from Teck in respect thereof, each on an equivalent basis to the Wheeling Agreement contemplated by Section 8; and
      - B. BCH and Teck will cooperate in good faith and use commercially reasonable efforts to ensure their other respective transmission needs are satisfied, and the interests of BCH and the other Entitlement Parties to the CPA are met in respect of coordination transfers between ESS and Nelway until such time as the Kootenay Interconnection is changed per Section 7(e).
    - (ii) BCH will support Teck's efforts to maintain the interconnection between L71 and the Bonneville Power Administration system (BPA) (for example, by way of discussions with BPA or letters of support), provided that nothing will require BCH to intervene in BPA regulatory processes.
    - (iii) ss. 21.3(f) and 21.5 of the COA will no longer apply.
6. Upon the first to occur of:
- (a) the expiry or early termination of the Lease, or

- (b) the election of BCH following a material breach of Teck's obligation to deliver BCH's share of generation at Nelway/border per COA s 19, 20, 21,

Teck will sell to BCH and BCH will purchase from Teck the Teck Transmission Assets for \$20 million (in dollars at the time of purchase), plus (i) any costs paid by Teck to exercise the option(s) with respect to Lines 62, 77 and 79, and (ii) if elected by BCH, the costs incurred by Teck to acquire Alternate Means. The costs referred to in ss. (i) and (ii) above will be escalated at CPI from the time incurred, and discounted to reflect their use by Teck and their expected useful life after the purchase by BCH, as compared to the period of use before such purchase.. The future purchase right and obligation with respect to the Teck Transmission Assets would be registered where required to preserve the priority of BCH's purchase right. Teck would indemnify BCH for pre-existing environmental liabilities associated with ESS.

7. In connection with BCH's purchase of the Teck Transmission Assets:

- (a) Teck will deliver the agreements and documents required to transfer the Teck Transmission Assets to BCH, including Statutory Rights of Way with respect to the assets forming part of ESS, subject to having received required consents (material consents required from third parties, other than approval from the NEB for assignment of the NEB permit, will be a condition of closing the Teck/BCH Transaction).
- (b) Teck will provide representations and warranties to BCH in respect of the Teck Transmission Assets equivalent to the representations and warranties given in respect of those assets in the purchase agreement entered into between Teck and Fortis under the Teck/Fortis transaction, and subject to equivalent limitations, except the amount of the 'basket' will be \$500,000 with respect to the Teck Transmission Assets on their own.
- (c) For so long as Teck's zinc refinery, lead smelter or other industrial and commercial operations at or near Trail and Warfield, British Columbia, including the oxygen plant and other third party-owned facilities integrated into those operations ("**Teck's Industrial Operations**") continue to operate, BCH and Teck will negotiate, enter into and maintain in place an Interconnection Agreement between ESS and Teck's Industrial Operations (to be attached based on Exhibit 8 to the Waneta Purchase Agreement attached to the Sale Notice) and providing for access rights for both BCH and Teck for their respective purposes.
- (d) In the case of purchase pursuant to Section 6(b) (breach by Teck), the price payable would be net of any losses that BCH has suffered as a result of Teck's breach of Section 5.
- (e) The Kootenay Interconnection under the CPA would be changed so that it would no longer include Nelway, but would instead include (i) the point where Line 62 connects with ESS and (ii) the points where Teck's Industrial Operations connect with ESS. Amendments to the CPA to allow for the foregoing change in the

Kootenay Interconnection will be a condition of closing under the Teck/BCH transaction.

8. Upon purchase by BCH of the Teck Transmission Assets pursuant to Section 6(a) (termination or expiry of the Lease), then provided Teck's Industrial Operations have not then ceased in perpetuity to require a source of power, including for certainty any period following closure of Teck's Industrial Operations but during which period salvage, remediation or other decommissioning work is undertaken, BCH will provide 300MW of import wheeling from the BC/US border to the POI between ESS and Teck's Industrial Operations solely to serve Teck's Industrial Operations and for no other purpose (including, without limitation, the trading or marketing of electricity), on terms set out in a Wheeling Agreement (to be attached, based on Exhibit 6 to the WPA attached to the Sale Notice, with changes to be consistent with this Term Sheet). Terms will include:
- (a) The schedule and curtailment priority for Teck's imports under the Wheeling Agreement will be equivalent to the Line 71 Scheduling Rights, and BCH's obligation to make available transmission capacity for Teck's imports will be limited in accordance with the Line 71 Scheduling Rights, in both cases as applicable immediately prior to termination of the Lease, notwithstanding that the Line 71 Agreement, as amended, may no longer apply upon termination of the Lease.
  - (b) The scheduling practices for Teck's imports under the Wheeling Agreement will be equivalent to those applicable under the Line 71 Scheduling Rights immediately prior to termination of the Lease, notwithstanding that the Line 71 Agreement, as amended, may no longer apply upon termination of the Lease;
  - (c) The Interconnection Agreement (referred to in Section 7(c)) would specify requirements, including adequate notice to BCH for planning purposes re increases in load, required studies, and costs of upgrades, etc, if any, in order for Teck to increase the smelter load from the current load (approximately 226MW) up to the maximum of 300MW. At Teck's request, the parties would negotiate in good faith if Teck is then willing to accept a lesser degree of wheeling reliability in exchange for less costly upgrades than might otherwise be required.
  - (d) It will be a condition of closing the Teck/BCH Transaction that the parties have obtained Regulatory Support (to be defined as per the Teck/Fortis WPA i.e. a UCA s 22 exemption order, BCUC approval of the transaction and Wheeling Agreement, or other agreed regulatory support).
  - (e) In connection with the Wheeling Agreement, Teck will obtain any necessary Ancillary Services then required in connection with supplying its Industrial Operations by imports using the Wheeling Agreement. If requested by Teck, BCH would provide to Teck the same Ancillary Services as it would then provide to OATT customers serving a load, at tariff rates, other than (i) Reactive Supply and Voltage Control, and (ii) Regulation and Frequency Response which are provided through the Interconnection Agreement.

- (f) In connection with the Wheeling Agreement, if requested by Teck, BCH will supply Teck with an imbalance service at tariff rates that would:
- (i) provide for variations (within a reasonable band consistent with normal operations) between load at Teck's Industrial Operations and Teck's import schedules;
  - (ii) provide continued service to Teck's Industrial Operations to cover failed import schedules; if BCH does not then have an imbalance tariff applicable to large industrial loads served by retail access, BCH will develop a tariff, in consultation with Teck, reflective of the reasonable cost to BCH of holding system resources available to cover the failed import schedule, but intended to (i) discourage Teck and/or Teck's suppliers from gaming/arbitrage between market prices and the tariff imbalance price, and (ii) discourage the import of unreliable, non-firm or variable energy or the use of non-firm transmission, in each case recognizing the cost to BCH of holding system resources in the case of an imbalance; the parties would negotiate in good faith to determine if shedding a portion of load at Teck's Industrial Operations would reduce the need for, and cost of, this imbalance service.
- (g) Teck would be responsible for losses and contribution towards O&M as provided for in the Wheeling Agreement; BCH would be responsible for all other losses and costs. The Wheeling Facilities would include the portion of ESS purchased by BCH.
- (h) Except where the wheeling service pursuant to the Wheeling Agreement is being provided as a tariff service by a public utility, BCH would grant security to Teck over the facilities used to provide the wheeling service to secure the obligations in the Wheeling Agreement based on Exhibit 6 to the WPA attached to the Sale Notice, with forms of the definitive security agreements to be finalized together with the Waneta Transmission Agreement.
9. If BCH purchases the Teck Transmission Assets under Section 6(b) (breach by Teck), then BCH would nevertheless provide wheeling to Teck pursuant to Section 8, provided:
- (a) Teck's material default giving rise to BCH's purchase of the Teck Transmission Assets was not with the intention, in whole or in part, of securing a cheaper source of power;
  - (b) if BCH has an unsatisfied claim for damages against Teck as a result of such material default (including the gross amount of any claim compromised through insolvency proceedings), Teck will pay OATT tariff charges for wheeling until such claim is satisfied (the difference between BCH's tariff rate and the rate provided for in the Wheeling Agreement being applied to such claim for damages; and



- (c) if payments under Section 9(b) would be insufficient (as determined by BCH acting reasonably) to pay any unsatisfied claim for damages within 2 years of the purchase by BCH, BCH may at its option terminate the Wheeling Agreement, subject to a 60 day notice and cure period.
10. The parties recognize that they are unable to anticipate all circumstances that could arise that may require transmission arrangements between the parties, and with other parties, that are different than those described in this Term Sheet in order to meet the needs of the parties with respect to transmission. The parties will identify as many of these as practical in the course of negotiating a definitive Waneta Transmission Agreement and agree on mutually acceptable solutions. The definitive Waneta Transmission Agreement will contain provisions requiring the parties to negotiate in good faith and use commercially reasonable efforts to agree on solutions for circumstances that are not addressed in the agreement.
11. In the future, if BCH determines in its sole discretion that providing wheeling to Teck in accordance with the Waneta Transmission Agreement and Wheeling Agreement after expiry or early termination of the Lease is not in BCH's interests, BCH may propose an alternative way of supplying Teck's Industrial Operations. Provided the alternative way of supplying Teck's Industrial Operations (i) is as reliable as imports from the United States, wheeled from the BC/US border to ESS in accordance with the Wheeling Agreement, and (ii) is no more expensive to Teck than purchasing power in the United States (having the level of reliability and attributes (including environmental attributes) required to supply Teck's Industrial Operations) and wheeling same to ESS, taking into account expected transmission losses and costs of transmission commensurate with the reliability of supply, BCH may procure supply for Teck's Industrial Operations in the proposed alternative way, instead of providing wheeling to Teck in accordance with the Waneta Transmission Agreement and Wheeling Agreement. The parties will negotiate in good faith to agree on terms and conditions of the supply, and to obtain any required regulatory approvals. Failing agreement on terms, either party may submit the matter for dispute resolution pursuant to a referee process under, or similar to, Section 6.7 of the COPOA. The Referee must establish terms and conditions for the alternate supply that meet applicable regulatory requirements. BCH is responsible for securing all regulatory approvals required to support the alternate supply option on a basis that provides Teck with no less surety of supply, as determined by Teck acting reasonably, failing which BCH will not supply and Teck will have no right to be supplied based on the alternative way proposed by BCH, and the Wheeling Agreement will remain in full effect.
12. Teck may not transfer its interest in the Lease to a third party without also transferring its rights and obligations under the Waneta Transmission Agreement to the same third party and may not transfer its interest in the Waneta Transmission Agreement except to the transferee of its interest in the Lease, and always provided that BCH consents to transfer by Teck of its interest in the Lease, where such consent is required. Any transfer will be subject to the transferee continuing to provide security for its obligations to BCH under the Waneta Transmission Agreement. If transferred with consent of BCH, then Teck (and its guarantor, if any) will be relieved of its obligations under the Waneta Transmission Agreement, provided that the creditworthiness of the transferee, or the guarantor (if any)

of the transferee's obligations under the Waneta Transmission Agreement, whichever is better, is equal to or better than the creditworthiness of Teck or Teck's guarantor (unless the guarantee has then terminated in accordance with its terms) at the time, whichever is better.

13. In the case where Teck is in material breach or material default of any of its obligations set forth in the Waneta Transmission Agreement, BCH will have the right, as agent of Teck, to operate the Line 71 Assets to the extent necessary to ensure that it obtains all of the benefits of its rights under the Waneta Transmission Agreement and will have access to the Waneta Hydro Station and any other Waneta Assets as well as any other assets of Teck that are necessary for the purpose of operating the Line 71 Assets and will have the right for and on behalf of Teck (pursuant to the limited power of attorney granted by Teck to BCH concurrently with the execution of this Agreement) to provide schedules to BC Hydro Grid Operations pursuant to the Line 71 Scheduling Rights and appropriate instructions to FortisBC and BCH and any other applicable Person in respect of all applicable interconnection agreements to which Teck is a party.

## **Waneta 2017 Transaction**

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### **Appendix N**

### **Redacted Waneta 2017 Business Case**

# Business Case for Participation in Transaction for Teck Waneta Assets

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**EXECUTIVE SUMMARY**

This Business Case is developed to inform the decision as to whether to act on BC Hydro's right of first offer ("ROFO") in the proposed sale and leaseback by Teck Resources Ltd ("Teck") of its two-thirds interest in the Waneta Dam through consideration of whether the transaction is cost-effective.

The Waneta Dam ("Waneta") is a 76 m high concrete gravity-type hydroelectric dam on the Pend d'Oreille River 9 km downstream from Seven Mile Dam. Waneta has a generating capacity of ~490MW and currently produces approximately 2,800 GWh per year. It supplies electric power to Teck's metallurgical operations in Trail, BC and to BC Hydro which since 2010 has a one-third ownership of the facility. Waneta is located near the mouth of the Pend d'Oreille River just before it empties into the Columbia River, slightly north of the Canada – US border.

BC Hydro has a previously negotiated right to match any third party offer to purchase the 2/3 Interest with an equivalent offer. Teck has reached an agreement with Fortis Inc. to purchase its 2/3 Interest in Waneta, and on June 2, 2017 issued a ROFO Sale Notice to BC Hydro. The terms of the ROFO Sale Notice were as follows:

- Sale of the 2/3 Interest for a purchase price of approximately \$1.2 billion
- Leaseback of the 2/3 Interest to Teck for 20 years at a price of \$40/MWh, escalating at 2% per year (the "Lease").
- During the term of this lease:
  - Teck will receive the full entitlement energy and capacity from the facility
  - Teck will be responsible for all operating costs (including water rentals) and most capital costs (some major capital costs may be the responsibility of BC Hydro or shared)
- Teck has an option to extended the lease for an additional 10 years at a price of \$53/MWh.
- Following the 20-30 year period the Lease is in effect (the "Lease Term"), BC Hydro will have unencumbered ownership of the 2/3 Interest
- While transmission has been excluded from the ROFO, BC Hydro has assumed it will purchase Line 71 and other local transmission assets at the end of the Lease Term for \$20 million (in 2018 dollars, escalated to the dollars of the day)

BC Hydro has assessed the costs and benefits of the ROFO Sale Notice compared to the scenario where BC Hydro does not purchase Waneta, and considers scenarios where the smelter is served by BC Hydro following the Lease even if Waneta is purchased by Fortis. In order to assess the cost-effectiveness of the Transaction BC Hydro utilized a discounted cashflow methodology consistent with that used by BC Hydro for other capital projects at a discount rate of 6% (nominal).

When the value of the Lease is removed, the unit energy cost of the energy and capacity provided following the Lease is \$48/MWh (2018 dollars). In order to look at the post-Lease value of the transaction under a range of potential load growth and market price scenarios, BC Hydro utilized five valuation indices for energy and capacity. These valuation indices were:

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- **LRMC – Clean:** post-Lease energy and capacity is used by domestic customers and avoids the cost of new clean energy and capacity resources.
- **LRMC – Clean+Gas:** post-Lease energy and capacity is used by domestic customers and avoids the cost of new clean energy resources and new natural gas –fired capacity resources.
- **Industrial Tariff:** post-Lease energy and capacity will be used to serve the Teck smelter under BC Hydro’s industrial tariff.
- **Market – ABB:** post-Lease energy and capacity exported to external markets at BC Hydro’s forecast market prices.
- **Market – Extrapolated:** post-Lease energy and capacity exported to external markets at prices lower than BC Hydro’s forecast market prices.

Note that BC Hydro’s base planning criteria use the LRMC – Clean scenario. The additional scenarios listed provide for progressively less tolerance of risk in load growth and market prices.

As shown in the following table, proceeding with the Transaction is expected to have positive net value under all considered valuation indices with the exception of the most risk-adverse assumption (the extrapolated curves) under which value is approximately neutral. If BC Hydro does not purchase Waneta but the smelter does request service from BC Hydro, there is a net cost to BC Hydro under all but the most risk-adverse assumption.

(Present value to F2018 in \$ millions)

Valuation Index	LRB Position	Transaction Value Net of ROFO Offer Price	BCH does not purchase, Smelter not served by BCH	BCH does not purchase, Smelter served by BCH
LRMC (Clean)	Deficit	887	0	(879)
LRMC (Clean + Gas)	Deficit	662	0	(682)
Industrial Tariff (RS 1832)	Immaterial	82	n/a	n/a
Market Prices (ABB)	Surplus	114	0	(43)
Market Prices (Extrapolated)	Surplus	(31)	0	95

This valuation is based on a conservative set of assumptions. BC Hydro may be able to realize additional value from the Transaction through one or more of the following:

- Investment in the asset sufficient to extend the economic life, which has the potential to add approximately \$280 million to the present value of the Transaction under the ABB market price scenario with more value under LRMC scenarios.
- Marketing of Waneta energy and capacity to external markets at premium prices, which has the potential to add approximately \$30 million above the value of the extrapolated price scenario.
- Additional value to ratepayers through the expected financing at the cost of debt rather than the weighted average cost of capital, which would be expected to add approximately \$410 million of value to ratepayers under the ABB market price scenario

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BC Hydro also reviewed the risks associated with the Transaction. Key risks of the Transaction include:

- **Counterparty risk:** A substantial portion of the value in the agreement is associated with the 20-year Lease Term. Teck default within this 20 year term would result in the elimination of the lease payments and operating and capital costs being borne by BC Hydro, which could reduce the value of the Transaction. In general, default reduces value in low-price scenarios, but increases value in high-price scenarios as BC Hydro can achieve higher returns than under the Lease. A probabilistic quantification of counterparty default risk is included in the transaction value table above.
- **Facility risk:** BC Hydro would take ownership of Waneta with corresponding incremental risks. Teck takes the risk of operating costs and some capital costs for the Lease Term, however BC Hydro would take these risks following the Lease and in the event of major damage or destruction of the project.
- **Risk of Amendments to Other Agreements:** BC Hydro would need to modify several existing agreements which involve counterparties other than Teck, including the Canal Plant Agreement. [REDACTED]
- **Valuation Risk:** BC Hydro conducted sensitivity analysis to determine the impact of changes in assumptions on the value of the transaction and what combinations of these assumptions would result in regret of proceeding with the Transaction. BC Hydro determined that the Transaction retained value in a wide range of input assumptions. In order for the Transaction to result in substantial lost value more than one of the following would need to occur:
  - o Delay in load growth for greater than 10 years relative to current forecasts
  - o Reductions in market prices below current forecasts
  - o Large (>\$100 million) additional capital investments required at Waneta beyond current forecasts
  - o Failure to realize any incremental value from the opportunities identified above.

Based on the substantial value of the Transaction, the low-to-moderate level of risk, and the low likelihood of the combination of scenarios in which BC Hydro not realize net value from the Transaction, BC Hydro recommends proceeding with the purchase of Teck's 2/3 Interest in Waneta.

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## 1. BACKGROUND AND CONTEXT

### 1.1. Document Context

This document is developed to inform the decision as to whether to act on BC Hydro's right of first offer ("ROFO") in the proposed sale by Teck Resources Ltd ("Teck") of its two-thirds interest in the Waneta Dam through consideration of whether the transaction is cost-effective – that is, would exercising the ROFO and acquiring Teck's interest in Waneta, on the terms and conditions available under the ROFO, provide value to BC Hydro's ratepayers. This business case is based on the transaction information provided by Teck as part of the executed ROFO Sale Notice on June 2<sup>nd</sup>, 2017 and through subsequent discussions and negotiations between Teck and BC Hydro.

### 1.2. Facility Overview

Waneta Dam ("Waneta") is a 76 m high concrete gravity-type hydroelectric dam on the Pend d'Oreille River 9 km downstream from Seven Mile Dam. It was built and initially owned by Cominco Ltd. and was commissioned in 1956. Cominco was subsequently acquired by Teck. Waneta supplies electric power to Teck's metallurgical operations in Trail, BC and to BC Hydro which since 2010 has a one-third ownership of the facility. Although Teck uses most of its entitlement to serve its smelter load, it sells a small amount of surplus electricity to market under a pre-existing contract with BC Hydro (the "Surplus Power Rights Agreement" or "SPRA").

Waneta is located near the mouth of the Pend d'Oreille River just before the river empties into the Columbia River, slightly north of the Canada – US border. There is also a nearby (but commercially and physically separate) facility known as the Waneta Expansion Project which shares water inflows with Waneta. The Waneta Expansion Project is not a part of the transaction under consideration.

Waneta originally had four units with a total installed generating capacity of 375 MW; however since 2007 this has been upgraded to ~480 MW. The power plant currently produces approximately 2,680 GWh of energy annually, which provides Teck with an energy entitlement of about 1,880 GWh. See Section 2.1 for more information on generation capability.

Waneta is currently owned two-thirds by Teck Resources, one-third by BC Hydro. It is operated by FortisBC Inc. (FortisBC) under contract to Teck. Operation of the project is governed by the Canal Plant Agreement – a multi-party coordination agreement amongst BC Hydro, FortisBC joint ventures, Fortis Inc., Columbia Power Corp / Columbia Basin Trust and Teck Resources.

### 1.3. Prior Transaction for BC Hydro One-Third Ownership in Waneta

The transaction for the one-third ownership of Waneta by BC Hydro (the "1/3 Transaction") was developed through a bilateral negotiation initiated by Teck in December 2008. The 1/3 Transaction permitted BC Hydro to acquire an undivided one-third interest in Waneta, and did not affect the manner in which they were operated. Although owned 100 per cent by Teck, the

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generation from Waneta was and continues to be dispatched at the direction of BC Hydro pursuant to the Canal Plant Agreement and operated by FortisBC under Teck's direction.

The opportunities offered by the 1/3 Transaction, particularly in regard to the acquisition of the assets, were sufficiently distinctive that a competitive tendering process would not have been useful. BC Hydro agreed to engage with Teck in bilateral negotiations focused upon its commercial needs in connection with meeting future loads.

The 1/3 Transaction was based on a group of bilateral contracts between BC Hydro and Teck providing for the transfer of an undivided one-third interest in the Waneta from Teck to BC Hydro in return for \$825 million. As part of the 1/3 Transaction a ROFO was established, under which if any party was selling its interest in Waneta the non-selling party would have a first right to acquire the seller's interest.

On February 23, 2010, the British Columbia Utilities Commission (BCUC) approved the 1/3 Transaction pursuant to BCUC Order Number G-12-10.

#### **1.4. Previous Engagement on the Sale of Teck's Two-Thirds Interest**

Teck approached BC Hydro in January 2016 stating that it was interested in divesting of its remaining 2/3 interest in Waneta (referred to here as the "2/3 Interest"). Following this approach, BC Hydro entered into discussions with Teck on this potential transaction. Teck provided BC Hydro with a ROFO Sale Notice (a submission under the ROFO provisions in the Co-Ownership Agreement or "COA") in June 2016. BC Hydro did not elect to enter into a transaction based on this ROFO.

Following these initial discussions with BC Hydro Teck engaged a broader set of potential buyers, and has also modified the original offer structure provided under the ROFO. BC Hydro did not directly participate in this sales process, but Teck requested that BC Hydro enter discussions with a third party regarding participation in an alternative transaction structure. Teck enabled the discussions between BC Hydro and this third party, which is Teck's right pursuant to legal agreements. Other potential buyers were interested in discussing a possible transaction with BC Hydro, but Teck did not enable discussions with these parties. BC Hydro worked with the third party on a transaction, but elected not to participate in a bid.

Both the initial discussions with Teck and discussions with the third party were covered by a non-disclosure agreement ("NDA") between Teck and BC Hydro. Under this NDA BC Hydro was prevented from discussing the transaction with any entities other than those approved by Teck, and from publicly disclosing the existence of the discussions regarding the Waneta 2/3 Interest.

On May 12, 2017 Teck and Fortis Inc. ("Fortis") – the unregulated parent of FortisBC – jointly announced an agreement under which Fortis would purchase Teck's 2/3 Interest in Waneta and related transmission assets for \$1.2 billion in cash (the "Fortis Transaction"). Press releases issued by Teck and Fortis noted that the transaction was subject to a number of precedent conditions, including receipt of a certain approvals and consents (including certain consents required from BC Hydro), as well as BC Hydro not exercising its rights under the ROFO.

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### 1.5. Overview of Transaction

Teck submitted an executed ROFO Sale Notice to BC Hydro on June 2<sup>nd</sup>, 2017 which describes the transaction. BC Hydro has the option to participate in (the “Transaction”) on terms and conditions largely similar to those of the announced transaction with Fortis. The Transaction is described below:

- BC Hydro purchases the 2/3 Interest (without third party participation)
- The 2/3 Interest shall be encumbered by a lease back to Teck for 20 years. During the term of this lease:
  - Teck will receive the full entitlement of energy and capacity from the 2/3 Interest to serve its smelter load and will continue to sell any surplus to external markets under the SPRA
  - Teck will be responsible for all operating costs (including water rentals) and most capital costs (some major capital costs may be the responsibility of BC Hydro depending on whether they are considered “sustaining”, “non-sustaining” or “exceptional”)
- Teck has an option to extend the lease for an additional 10 years at a higher rate
- Following the 20-30 year period the Lease is in effect (the “Lease Term”), BC Hydro will have unencumbered ownership of the 2/3 Interest

This business case compares the costs and benefits of BC Hydro completing the Transaction to the costs and benefits of declining participation in the Transaction (the “No-Go Scenario”).

As part of the analysis process BC Hydro also considered the potential for alternative transaction structures including direct discussions with two counterparties. As these structures have not been practically available options for BC Hydro during the consideration timeframe of the ROFO they have not been included as part of the base analysis in this business case. The analysis of these alternative structures is included in Appendix E.

Except as specifically noted, this business case assumes that BC Hydro’s rights, obligations, costs, and other matters related to its existing 1/3<sup>rd</sup> interest in Waneta are unchanged.

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## 2. ASSET CHARACTERISTICS

### 2.1. Generating Capability

Waneta has four Francis hydraulic turbines. The maximum output of the four turbines and generating units following recent unit upgrades is 493 MW at 63.2 m (207.5 feet) gross head or about 123 MW per unit. The hydraulic capacity of Waneta is about 932 meters cubed per second (32,900 cubic feet per second). Following the unit upgrades, which increased plant capacity from 375 MW to the current ~480 MW, the average annual generating capability of Waneta is estimated at 2,680 GWh (as noted in the COA).

Under the Canal Plant Agreement, BC Hydro coordinates the operation of all the generation on the Kootenay and Pend d'Oreille River systems in B.C. (except for the City of Nelson hydroelectric plant) and the owners of the non-BC Hydro projects receive specific monthly entitlements to energy and capacity that are derived from the estimated average annual generation capability of their projects. The difference between actual generation and contractual entitlements is received by or delivered by BC Hydro.

The monthly firm capacity and energy entitlement volumes for Waneta are prescribed by the COA. These volumes change in 2036 when the energy-capacity swap included in the COA ends and the entitlements return to the proportionate two-thirds share of the generation from the 2/3 Interest with all risks and benefits of actual performance from the 2/3 Interest being shared pro rata unless agreed otherwise by the parties. The specific Teck entitlement volumes before and after 2036 are as set out in the Table 1 below:

**Table 1 Teck Energy Entitlement Allocations (GWh)**

	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Pre-2036	201	138	174	147	152	144	164	167	153	140	141	160	1,880
2036 and after	172	201	189	170	125	112	162	137	150	138	117	157	1,831

Although the entitlement volumes are firm (subject to generation outages and de-rates) and based on a prescribed flow period of record from 1938 to 1988, the energy and capacity volumes are subject to change from time to time with changes to plant characteristics, upstream flow regulation, permitting and other possible changes to upstream system operation which impact how the entitlement party system is operated by BC Hydro. Outside of the current sales process, as a result of updates required due to the Waneta Expansion Project, BC Hydro has been in discussion with Teck to update the current Waneta entitlement volumes. If more recent information is used as desired by BC Hydro the entitlement volumes will be reduced. These discussions were halted with the potential sale of Waneta and no formal agreement on updated entitlement amounts have been reached by the parties.

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## 2.2. Transmission Characteristics

As part of the rights included in the 1/3 Transaction and the COA, if BC Hydro chooses to exercise the ROFO with respect to the 2/3 Interest, BC Hydro will also have the right to purchase Line 71 for “fair market value”<sup>1</sup>. Based on the announced transaction between Teck and Fortis, a value of \$20 million has been allocated to the transmission assets, which includes Line 71. This transmission sale is also encumbered with a 20-year lease agreement and ongoing rights/wheeling arrangements for Teck to continue to be able to import power to serve the smelter load post the lease period.

The transmission assets not included in the ROFO but contemplated under the Fortis Transaction consist of:

- Line 71, a 25km 230kV line composed of two segments
  - o Segment 1 from Waneta Hydro Station to Nelway substation
  - o Segment 2 from Nelway to the BC-US border into the Bonneville Power Administration system
- Lines 14, 15, 16, and 17 from Waneta Hydro Station to the Emerald substation
- Terminals within Emerald substation for connecting lines 14-17
- Related contractual rights and other arrangements

As noted, the above transmission assets are not included in the ROFO offer. However, in the event the smelter is no longer operating BC Hydro will require transmission capacity from the Waneta Hydro Station to the BC Hydro grid. As a result, this business case assumes that if BC Hydro purchases Waneta, BC Hydro would also purchase the transmission assets on terms similar to the Fortis Transaction, but at the end of the Lease Term. BC Hydro has reviewed several transmission arrangement options in reaching this assumption – analysis is provided in Appendix C and not considered in this core business case document.

## 2.3. Operating Costs

The costs of operating Waneta include the following:

- **Water rental** payments to the Provincial Government, as established by the Comptroller of Water Rights. Under the terms contemplated in both the Transaction and the Fortis Transaction, Teck would continue to be part-owner of the water licenses, and would be responsible for their share of water rental payments for the term of the Lease Agreement (with the purchaser being responsible for the water rentals thereafter). Teck believes this will allow them to continue paying preferential (commercial use) water rental rates for the duration of the Lease Agreement. Upon termination of the Lease Agreement, it is assumed that the water rental rates would revert to the higher general power rates paid by BC Hydro for its facilities.
- **Operating and Maintenance Costs** for both generation and transmission assets. Under

<sup>1</sup> Fair Market Value is traditionally defined as the highest available price in an open and unrestricted market, negotiated between prudent and informed parties, acting at arm’s length and under no compulsion to act, expressed in terms of money or money’s worth

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the contemplated transaction Teck would be responsible for operating costs for the term of the Lease Agreement, with the purchaser being responsible for operating costs thereafter. The generating station operating costs have been based on historical operating costs for Waneta (which BC Hydro has access to as a result of its 1/3 Interest in the facility) and confirmed through forecasts provided by Teck's Independent Engineer (Hatch). Transmission operating costs have been based on forecasts provided by Teck's Transmission Consultant (DBS) and confirmed by review by BC Hydro subject matter experts.

- **Administration Costs** represent the costs of BC Hydro oversight of the project and related contractual arrangements. These are estimated based on the costs associated with other BC Hydro facilities.
- **Property taxes** represent payments that BC Hydro would make for property taxes. It is anticipated that Teck will pay its share of property taxes for the Lease term (with BC Hydro responsible for 1/3 of the total share). Following the Lease it is anticipated that BC Hydro will pay **grants-in-lieu** rather than property taxes. Any other purchaser would continue to pay property taxes instead, which may vary from the grants-in-lieu amounts.

Under the terms of both the Transaction and the Fortis Transaction, Teck would take responsibility for all of the above costs for the term of the Lease Agreement (20-30 years), with the exception of administration costs. The purchaser would remain responsible for administration costs for the term of the Lease Agreement, and would take on responsibility for their proportionate share of operating costs (based on ownership interest) following the Lease Agreement.

## 2.4. Capital Costs and Project Life

Under the terms of the ROFO, capital cost accountability is as follows for the term of the Lease:

- Teck is responsible for small (<\$5 million) sustaining capital projects, as well as a set of projects identified in Schedule 4 of the Lease Agreement
- Teck and BC Hydro will share the cost of "extraordinary" capital projects, referring to large (>\$5 million) sustaining capital projects that are not identified in Schedule 4 of the Lease Agreement
- BC Hydro is responsible for the costs of non-sustaining or growth capital projects.
- BC Hydro may be responsible for the 100% of the costs of any capital projects undertaken to bring the facility to a standard higher than specified under the COA.
- BC Hydro takes full accountability for capital costs following the Lease Term.

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BC Hydro has reviewed the Teck capital forecast and carried out a technical due diligence process on the asset condition and expected capital requirements. Based on this due diligence BC Hydro has arrived at a base set of assumptions for the capital costs and project life. These are as follows:

- Within the Lease Term:
  - o Teck's capital forecast as estimated by Hatch (although BCH is not responsible for these costs as they relate to the 2/3 Interest and they are thus irrelevant to the modelling except in case of default).
  - o Additional capital within the Lease Term of ~\$300 million for the full facility to reflect investments that are anticipated to be required based on BC Hydro's assessment of asset condition against current BC Hydro standards. Note that a portion of these costs would be considered extraordinary capital with costs and shared by Teck, while BCH would be responsible for those projects considered upgrades. Sharing of extraordinary capital costs is done via pro-rating Teck's share based on the portion of the economic life of the investment that occurs during the Lease Term.
- Following the Lease Term:
  - o Ongoing generation sustaining capital of approximately \$0.5 million per year,
  - o Transmission capital of approximately \$2.5 million per year reflecting an expected pole replacement program in this period.
  - o Runner refurbishments on Units 1, 2 and 4 at approximately \$12 million each.

**(Note:** all values above are in 2018 real dollars and are for the full facility)

Further details on BC Hydro's capital forecast are provided in Appendix B.

Based on BC Hydro's review of Teck's capital forecasts, during the Lease Agreement period Teck is planning to invest the amounts required to keep the asset operating for the term of the Lease, which means the purchaser will likely have a substantial rehabilitation project to undertake following the end of the Lease Agreement. Due to this expected approach BC Hydro limits the economic life to 40 years and applies no terminal value following this life as the required investment to keep the asset operating may be comparable to the asset value.

Given the higher level of investment and operating standard assumed by BC Hydro, a longer economic life may be obtainable and may provide additional value to the base assumptions. The potential for extension of the project life through additional capital investment is discussed in the sensitivity analysis provided in Section 4.2.3.

Note that with respect to its ownership of the 1/3 Interest and under the COA, BC Hydro will retain the ability to have a vote on the Operating Committee and the ability to influence decisions on capital expenditures. Decisions on the Operating Committee require either majority or unanimous decisions. See Table 2 for an overview of these decisions.

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**Table 2 Operating Committee Decisions**

Majority Decisions	Unanimous Decisions
<ul style="list-style-type: none"> <li>• Decisions regarding the insurance coverage the Operator is required to maintain</li> <li>• All budgets not identified as requiring unanimous approval</li> <li>• Non-sustaining capital in amounts &lt;=\$10M</li> <li>• Activities related to legal actions</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of the Operations and Management Plan</li> <li>• Sustaining capital projects with value &gt;\$10M</li> <li>• Operating budgets varying by more than +/- 10% from the average for the previous 5 years</li> <li>• Appointment or change of certain roles, including Independent Accountant or third-party Operator</li> <li>• Determination of whether a capital project represents an Upgrade</li> <li>• Any action that permanently reduces power generation capacity of a Unit by more than 5%</li> <li>• Non-sustaining capital in amounts &gt;\$10M</li> <li>• Reconstruction, replacement, or abandonment of any Waneta component</li> </ul>

The Operating Committee also oversees the plant Operator, which has the responsibility to maintain the “Operating Standard”, which is defined in Section 7.1 of the COA as the following:

- Operate, manage and maintain the Waneta Assets as would a prudent owner with the objective of ensuring that the Waneta Assets shall continue to provide safe and reliable generation; and
- Exercise the degree of care and skill that an experienced dam operator would exercise in the conduct of its own affairs acting in accordance with Good Utility Practice

**2.5. Cost of Service**

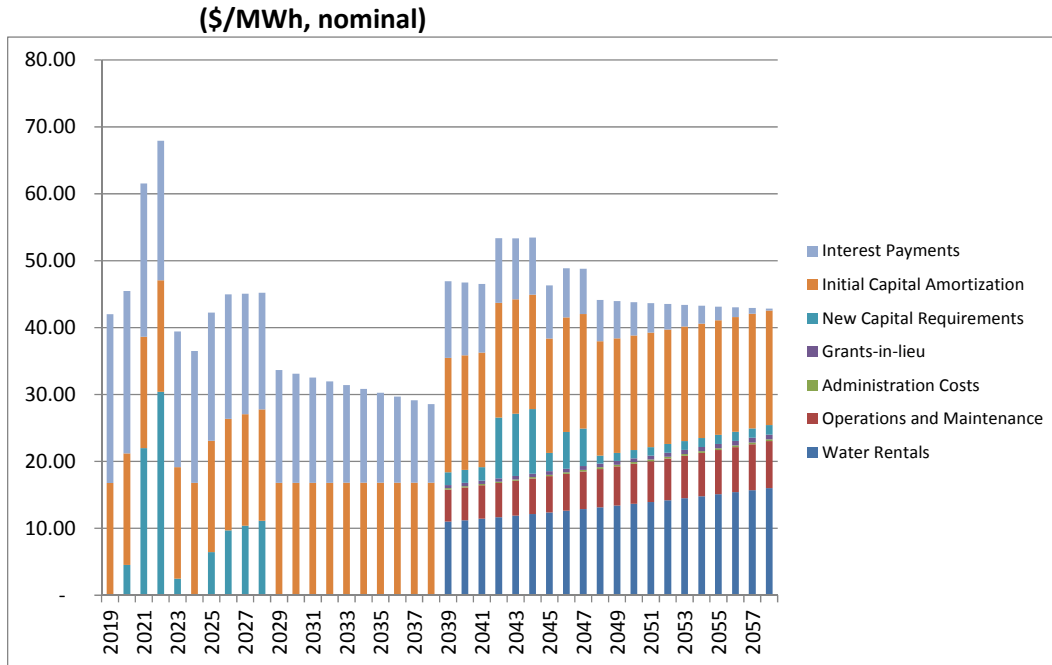
BC Hydro has developed an estimated operational cost of service for the 2/3 Interest. Figure 1 shows the composition of the cost of service over time. This cost of service includes

- Project operating costs (see Section 2.3)
- Required capital reinvestment costs (see Section 2.4). The ongoing capital cost requirements have been recognized as incurred – in practice these costs would be amortization over periods specific to the nature of the capital expenditure.
- An estimated amount for the amortization of the initial purchase price, based on the simplifying assumption that the purchase price will be depreciated over the 40-year economic planning life of the 2/3 Interest. Note that, in reality, individual components of the 2/3 Interest will be depreciated over varying amortization periods.
- An estimated amount for the incremental interest payments that would be incurred on the financing of the initial purchase price. These amounts are based on BC Hydro’s current interest rate forecast. Note that, in reality, BC Hydro finances on a portfolio basis and thus there would be no debt directly attributable to the purchase of the 2/3 Interest.

**Figure 1 Operational Cost of Service for 2/3 Interest**

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As shown, the cost of service is high in the early years due to the substantial capital requirements to bring the asset up to Leading Utility Practice, and then low as Teck pays operating expenses, water rentals, and sustaining capital. Post-lease the cost of service increases as BC Hydro becomes responsible for operating expenses, water rentals, and sustaining capital.

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### 3. PLANNING ASSUMPTIONS

This section describes the planning assumptions BC Hydro uses in evaluation of resource options such as the 2/3 Interest. These assumptions are developed by BC Hydro's Energy Planning group, and form a major component of regulatory filings such as the Revenue Requirement Application (RRA), the Rate Design Application (RDA), or the Integrated Resource Plan (IRP).

The assumptions described in this section are assumptions for BC Hydro's core analysis. There is uncertainty with respect to all of the below assumptions, which is reflected in the sensitivity analysis done for each transaction option (See Sections 4.2.3 and 4.3.2).

#### 3.1. Load-Resource Balance Requirements

##### 3.1.1. Base Case Load-Resource Balance

BC Hydro has not included the 2/3 Interest in its resource planning stack. During the 20-30 year Lease Term, the full entitlement associated with the 2/3 Interest will flow to Teck and there will be no change in the LRB gap (except in cases of Teck default). Following the Lease Term, if the smelter no longer takes service from BC Hydro the Transaction will result in increased resources in the planning stack.

The approved 2013 IRP and BC Hydro's Load Resource Balance (LRB) illustrate the need for future resource acquisitions which could be met by the 2/3 Interest after the end of the Lease. As stated in BC Hydro's Fiscal 2017 to Fiscal 2019 RRA (which reflects BC Hydro's most recent LRBs), BC Hydro's plan continues to include pursuing Demand Side Management savings, the Standing Offer Program and the renewal of IPP electricity purchase agreements consistent with the Recommended Actions the approved 2013 IRP.

The updated LRBs based on existing and committed resources were released in BC Hydro's response to BCUC IR 1.11.1 of the Fiscal 2017 to Fiscal 2019 RRA and are included in Appendix A to this Business Case (see Tables 3-6 and 3-7). The updated LRBs with future or planned resources per the IRP Recommended Actions (described above), in addition to existing and committed resources, are shown in Table 3-8 and Table 3-9 of Appendix A. Once these resources are included there is a planning need for new energy resources in F2034 and capacity resources in F2029.

Since the RRA was submitted there have been no changes that have modified the timing of the need for new energy and capacity resources from F2034 and F2029, respectively. Note that the Teck smelter load is not included in BC Hydro's current load forecast.

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**3.1.2. LRB Impacts Associated with the Transaction**

There are several ways in which the Transaction could affect BC Hydro's LRB:

- **2/3 Interest:** As stated above, the Transaction provides additional energy and capacity resources in years following the Lease Term.
- **Trail smelter load:** Under the Transaction the smelter load is served by the 2/3 Interest for the initial 20 to 30 years following the transaction. The smelter load is not tied to any supplier for the period following the initial 20-year Lease Term and Teck has expressed a willingness to serve the smelter from market purchases.

BC Hydro believes there is a material probability of Teck seeking service from BC Hydro for the smelter following 20-30 years if economic conditions make it favorable to Teck (e.g. BC Hydro's industrial tariff is less than market prices and/or new-build economics). BC Hydro believes the smelter is more likely to keep operating than shut down due to the potential that it remains an economically healthy asset (Teck is projected to have internal zinc concentrate for many decades, and the smelter handles a number of other particular concentrates very well), as well as clean-up of environmental liabilities that would be associated with a closure of the smelter, and the resulting high cost of decommissioning. Further, [REDACTED]

- **Fortis 3808 Agreement:** BC Hydro has an existing agreement to supply FortisBC with electricity under a 2 tier rate – \$46.32/MWh for Tier 1 (the first 1,041 GWh annually) and LRMC (currently \$127/MWh as defined in the PPA<sup>2</sup>) for Tier 2. This agreement currently expires September 30, 2033. FortisBC has recently indicated in regulatory filings that they intend to extend the agreement past this point, although BC Hydro does not believe this is a unilateral right and would require BCUC approval. [REDACTED]

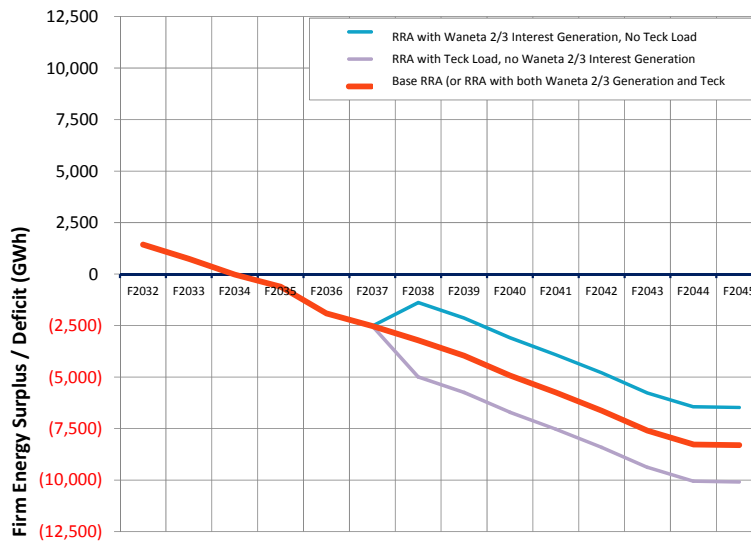
Should Fortis Inc. agree [REDACTED]

The above LRB considerations are reflected in the Net Present Value analysis provided in Sections 0 and 4.3. The overall effect on BC Hydro's LRB depends on who purchases the 2/3

<sup>2</sup> Note that BC Hydro is currently using an energy LRMC of ~\$100/MWh for planning purposes. The LRMC of a \$127/MWh in the 3808 PPA is higher because at the time of signing the 3808 PPA that was BC Hydro's LRMC.

Interest (or the output from the 2/3 Interest) and whether the Teck smelter load is actually served by BC Hydro in F2038 and beyond. If the Teck load is served by BC Hydro, there will be no impact to the timing of need for new resources because the increase in load will be met with the output of the 2/3 Interest (which BC Hydro will own under the Transaction). In addition, if the Teck load is not served by BC Hydro, the output of the 2/3 Interest is forecast to be fully utilized by BC Hydro to serve domestic customers under the existing forecast demand in the first year that the output is made available to BC Hydro (i.e., F2038). Figure 2 shows the impacts of the 2/3 Interest’s generation and Teck smelter load on BC Hydro’s Load Resource Balance.

**Figure 2 BC Hydro Planning LRB with and without 2/3 Interest Generation**



### 3.2. Pricing Forecasts

There are several relevant valuation indices for the analysis of the value of the transaction options, as described below.

#### 3.2.1. Market Prices

BC Hydro uses a third party vendor, ABB<sup>3</sup>, to prepare a long-term Mid-C electricity spot market price forecast. BC Hydro then makes adjustments for the cost of wheeling or losses depending on whether BC Hydro is exporting energy from the BC Border to Mid-C (BC Border sell price) or importing energy from Mid-C to the BC Border (BC Border buy price).

In periods where the output from the 2/3 Interest is not required for domestic load, BC Hydro values additional energy at the BC Border sell price, as a proxy for the value of the additional surplus sales. For the Lease Term this is not an issue with the output of the 2/3 Interest being

<sup>3</sup> BC Hydro’s electricity price forecasts are sometimes referred to as the Ventyx forecasts. ABB purchased Ventyx in 2010 and references to the Ventyx forecasts refer to the same information as the ABB forecasts.

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provided to Teck under the Lease Agreement. The 20-year levelized market price from F2039 to F2058 is approximately \$65/MWh (\$2018) for a blend of energy and capacity.

### 3.2.2. Industrial Tariff

BC Hydro's industrial tariff is described under Rate Schedule 1823. There are two components to the tariff, a demand charge and a tiered energy charge. Using the expected load from the Teck smelter and escalating BC Hydro's industrial tariff rates pursuant to the target rate increases under the 2013 10 Year Rates Plan and inflation thereafter, the 20-year blended levelized unit price of energy and capacity from F2039 to F2058 is approximately \$69/MWh (\$2018).

### 3.2.3. Long-Run Marginal Cost (LRMC)

BC Hydro's LRMC is a proxy for the avoided cost of purchasing new greenfield clean or renewable resources. The determination and usage of BC Hydro's LRMC is outlined in Chapter 3 of BC Hydro's Fiscal 2017 to Fiscal 2019 RRA.

Since the submission of the RRA the Government introduced the Climate Leadership Plan, which among other things requires 100% of new resources to be clean or renewable, except where concerns about reliability or costs must be addressed. This will prevent the use of gas turbines in most cases for capacity or energy resources. As a result, BC Hydro has reviewed scenarios where additional capacity is provided by natural gas through simple-cycle gas turbines (SCGTs), and scenarios where natural gas is excluded and capacity is provided by pumped storage.

The two LRMC scenarios are summarized in Table 3 below.

**Table 3 Marginal New Resources and Related Costs**

Marginal Resources	Period of Applicability	LRMC (2018 real dollars)	
		Clean + Gas	Clean Only
Energy: Greenfield IPPs	F2034 and beyond	\$106/MWh	\$106/MWh
Capacity Resources	F2029 and beyond	\$88/kW-yr (SCGT)	\$221/kW-yr (pumped storage)
Combined Cost of Energy & Capacity	Effective for F2034 and beyond	\$122/MWh	\$145/MWh

The 20-year blended levelized Long Run Marginal Cost from F2038 to F2057 is approximately \$122/MWh (\$2018) for a Clean + Gas portfolio. This number is only applicable for the output of the 2/3 Interest that is not used to serve Teck smelter load in years in which BC Hydro is forecast to be in deficit.

BC Hydro has also reviewed the potential for expanded use of gas for more than just capacity, such as through the construction of a simple-cycle gas turbine. This would require modification to the clean and renewable generation requirements under the *Clean Energy Act* and the

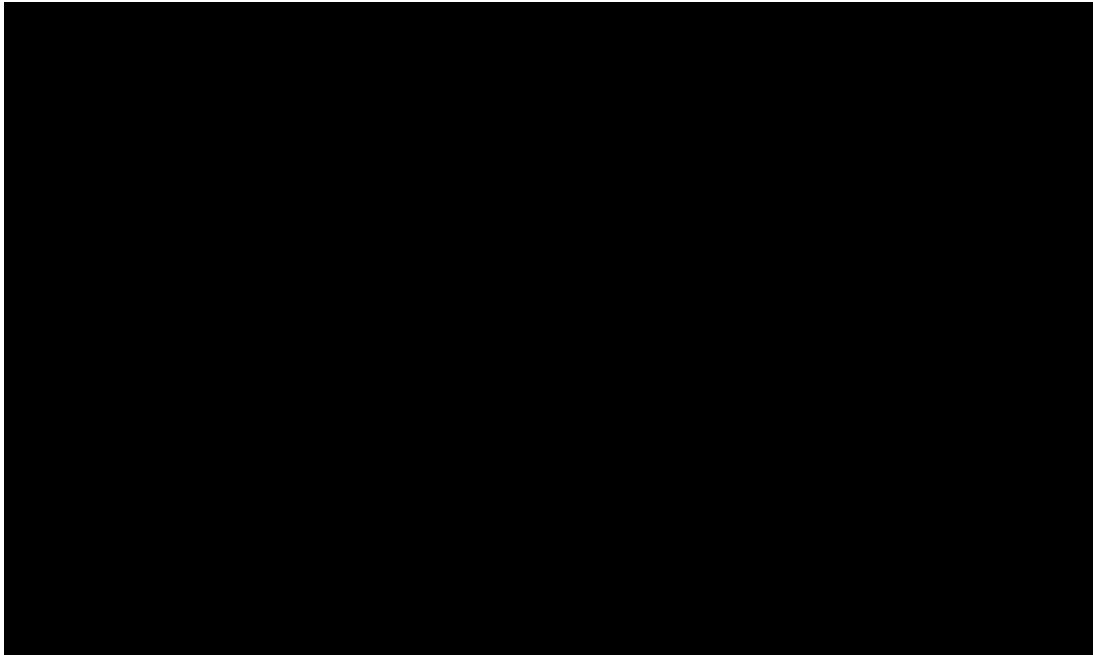
Climate Leadership Plan. The combined energy and capacity cost of a combined cycle gas turbine would be (in 2018 dollars):

- \$92/MWh if constructed by an IPP
- \$88/MWh if constructed by BC Hydro

**3.2.4. Price Forecast Comparison**

Figure 3 shows the valuation indices described above. The graph shows that the highest value for the energy is at the Long Run Marginal Cost. BC Hydro’s forecast Industrial Tariff and the ABB Market Price are roughly equivalent over the long-term. These pricing graphs have been adjusted to reflect the value of the capacity provided by the entitlement for the relevant periods – as an example, the ABB export market price for energy only in 2019 is ~\$25/MWh. Including capacity the effective price is ~\$32/MWh.

**Figure 3 Capacity-Adjusted Energy Price Forecast Comparison**



**3.3. Financial Assumptions**

**3.3.1. Discount Rate**

Discount rates reflect the market demand for, or opportunity cost of, the capital associated with projects of similar risk. The BCUC Utility System Test Guidelines provide that a utility’s discount rate should be based on the utility’s cost of capital. As a result, the discount rate used in this business case is based on the weighted average cost of capital provided under BC Hydro Business Planning Common Rates of 6.0% nominal to calculate the present value of alternatives.

**3.3.2. Inflation**

For conversion between nominal and real dollars, a 2 per cent inflation rate was assumed based on forecasts for the B.C. Consumer Price Index as per BC Hydro Business Planning Common Rates and consistent with the recommendation of the Principal Engineer for Estimating and Scheduling for inflation on capital projects.

**3.3.3. Transaction Costs**

BC Hydro will incur costs associated with the transaction. There are two categories of costs BC Hydro expects:

- BC Hydro costs associated with closing the transaction. BC Hydro expects these to include internal and consultant costs associated with regulatory proceedings, consultation, legal fees, and other associated costs.
- Property transfer taxes.

BC Hydro has estimated the total transaction costs associated with the transaction to be \$50 million.



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#### 4. ASSESSMENT OF TRANSACTION OPTION COST-EFFECTIVENESS

This section describes the methodology and results from BC Hydro's analysis of whether the Transaction is cost-effective – i.e. whether the Transaction provides benefits to ratepayers. This section is from a BC Hydro investment perspective – for analysis of the Transaction from the perspective of Teck or other potential bidders please refer to Appendix F.

##### 4.1. Identification of Options

BC Hydro has identified two main options with respect to the Transaction:

- 1) Proceed with the Transaction, where BC Hydro purchases the 2/3 Interest and leases the 2/3 Interest back to Teck for 20-30 years.
- 2) Do not proceed with the Transaction (the No-Go Scenario).

In addition to these two options, BC Hydro considered the potential for alternative transaction structures that could provide more value and/or less risk than the base two scenarios. However, these alternative transaction scenarios cannot be considered under the timeframe of the ROFO Sale Notice, and would require Teck consent. If BC Hydro purchases the 2/3 Interest there may be additional opportunities to optimize the Transaction through inclusion of a partner following the purchase – in order to maintain this option BC Hydro is seeking to add a right to assign the Transaction to another party. The assessment of potential value provided under alternative transaction structures is provided in Appendix E.

The Transaction reflects BC Hydro exercising its rights under the ROFO provisions in the COA and matching Fortis' offer for the 2/3 Interest. The details of the Transaction are based on the executed ROFO Sale Notice provided to BC Hydro by Teck on June 2<sup>nd</sup>, 2017, as well as information through clarifications by Teck during the ROFO evaluation period. Based on the ROFO Sale Notice, BC Hydro is required to provide notice of its intent to exercise its rights under the ROFO Sale Notice by August 1<sup>st</sup>, 2017.

##### 4.2. Assessment of Transaction

###### 4.2.1. Unit Energy Cost Assessment

In order to provide an indicative measure of the cost of energy from the 2/3 Interest, BC Hydro calculated the effective Unit Energy Cost (UEC) for the Transaction. These UECs are for energy provided by the 2/3 Interest – the capacity is effectively provided without additional cost under this treatment.

The UEC blends together two substantially different periods of cost. As discussed in Section 2.5, the cost of service (excluding financial charges) for the 2/3 Interest is negligible for the Lease Period as Teck is responsible for all operating and capital costs. The cost of service for BC Hydro is approximately \$13/MWh (levelized in F2018 dollars) excluding financing and amortization costs for the period following the Lease Agreement where BC Hydro is responsible for operating

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and capital costs. Further, the output of the 2/3 Interest is effectively pledged to serve the smelter load under the Lease Agreement for the initial 20-30 years. The value of this initial Lease Term is substantial, as can be seen by calculating the net present value of the lease revenues less the administration costs of the Lease Term:

- The net present value of a 20-year lease is \$792 million
- The net present value of a 20-year lease with a 10-year extension is \$1,118 million

It is therefore also instructive to look at the effective UEC for the period following the initial 20-year term of the Lease Agreement, as this represents a measure of the “at risk” component of the purchase. This is calculated by subtracting the Lease Agreement PV (~\$792 million as above) from the purchase price and calculating a UEC for the final 20 years based on the remaining purchase price. This provides an effective UEC for the value of the 2/3 Interest following the Lease Agreement.

Table 4 shows the effective UEC for both the full 40-year evaluation period and the 20-year period following the Lease Term. Note that this analysis assumes the full life of the asset is only an additional 40 years, which BC Hydro believes is conservative given the level of capital investment made in the assets.

**Table 4 Unit Energy Costs for Transaction  
(\$/MWh, 2018 dollars)**

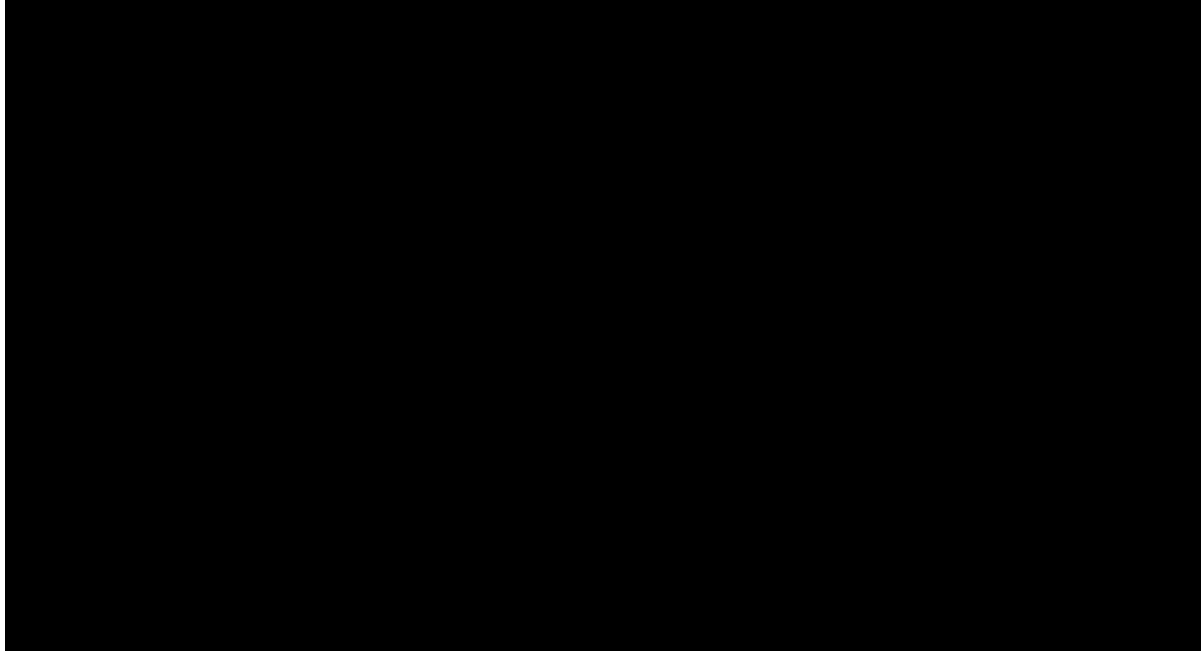
<b>Period</b>	<b>20-year Lease</b>
Full term (years 1-40)	41.25
Post-Lease Term (years 21-40)	48.25

(Above numbers rounded to the nearest 0.25)

For reference, the post-lease UEC of \$48.25 in 2018 dollars is equivalent to ~\$71.50 in 2038 dollars – the first year of the post-Lease Term.

Figure 4 shows a comparison of the post-lease UEC to the capacity-adjusted valuation indices discussed in Section 3.2.

**Figure 4 Post-Lease UEC Comparison to Valuation Indices  
(Nominal \$)**



As shown, the post-Lease Term UEC is below all capacity-adjusted valuation indices.

**4.2.2. Core NPV Analysis**

BC Hydro constructed a discounted cashflow model to assess the net present value (NPV) costs and benefits of the proposed Transaction. This model considered the present value of the free cash flows resulting from the Transaction. For consideration of the revenue requirements resulting from the transaction refer to Section 5.2.

This section reviews the NPV results for the core scenarios (the primary tools BC Hydro has used for valuation). Sensitivity scenarios, which test the valuation when assumptions are varied significantly, are provided in the following section.

Un-risked Assessment

Table 5 shows the assessed value to BC Hydro of the 2/3 Interest and Lease Agreement with different pricing scenarios for the valuation of the electricity following the 20 year Lease Agreement. These scenarios are:

- **Long-Run Marginal Cost** where the 2/3 Interest generation offsets the requirement to build/acquire new resources in 2038 and beyond. This represents a scenario where load grows as BC Hydro anticipates and the smelter load is not served by BC Hydro following the Lease Agreement. Scenarios are provided assuming that marginal resources are either entirely clean, or a mix of clean and gas-fired generation.
- **BCH Industrial Tariff** where the 2/3 Interest generation continues to serve the smelter load at industrial tariff rates following the end of the lease. In this case there is minimal

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- net effect on the long-term LRB as BC Hydro is both purchasing a generation asset and gaining new load roughly equivalent to the output of the purchased generation asset.
- **Market Prices** where the 2/3 Interest's generation is sold directly into the nearby electricity markets following the Lease Agreement. BC Hydro has used a Mid-C market price forecast as it is the closest electricity market with a liquid market for energy. This represents a scenario where load does not grow appreciably over the 40-year evaluation term, market prices unfold as expected in the ABB market forecast, and the smelter load is not served by BC Hydro following the Lease Agreement. In addition, a scenario where market prices increase more slowly than in the ABB market forecast – the “Extrapolated Prices” – is also considered.

**Table 5 Un-risked Value of Transaction**  
(Present value to 2018, \$ millions)

Basis for Post-Lease Value	Value of 20-year Lease Period	Value of Post-Lease Period	Transaction Value	Net Benefit to Ratepayers @ Price of \$1.2B
LRMC – Clean only	792	1,482	2,274	1,071
LRMC – Clean + Gas	792	1,206	1,997	794
BCH Industrial Tariff	792	586	1,378	175
Market Prices (ABB)	792	570	1,362	159
Extrapolated Prices	792	440	1,232	29

In most scenarios, the majority of the value of the Transaction stems from the Lease Agreement period. For example, under the BCH Industrial Tariff scenario above the \$1,378 million present value of the Transaction is made up of:

- \$792 million of PV benefit from years 1 to 20
- \$586 million of PV benefit from years 21 to 40

It should further be noted that the valuation of years 1 to 20 is subject to less risk than the following years as the sale price is contractually established under the lease agreement and operating and capital costs are the responsibility of Teck. The value of years 21+ is subject to a higher level of risk due to uncertainty in the condition of the asset following Teck handover (partially mitigated in part through BC Hydro's voting rights via its One-Third Interest), BC Hydro's load resource balance, market prices and the long-run marginal cost of new resources.

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Consideration of Counterparty Default Risk

The un-risked assessment in Table 5 assumes that there is no early termination of the Lease Agreement due to Teck default. This does not reflect the potential risk of Teck default or material amendment during the Lease, which can be a major risk to the value of the transaction.

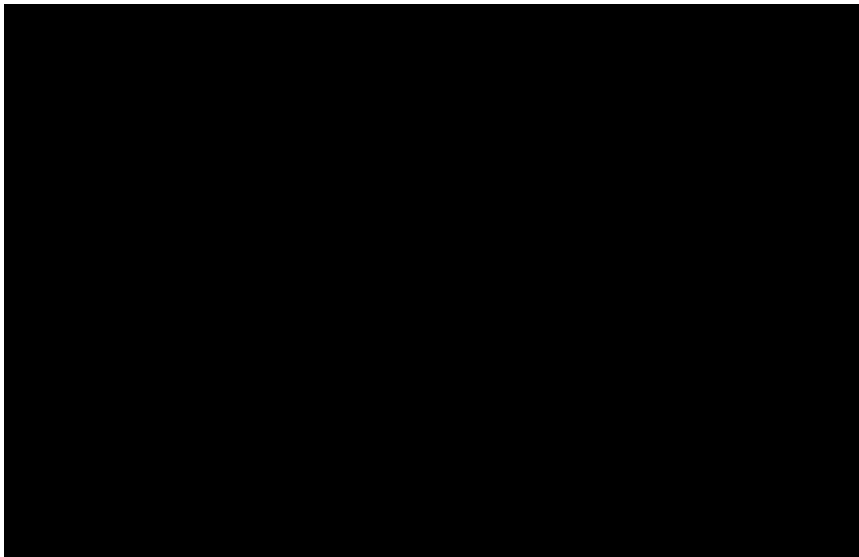
In order to include counterparty risk in the core assessment of transaction value BC Hydro reviewed the consequences if the Lease were terminated at any point within the initial 20 years. Termination of the Lease is expected to have the following consequences:

- Lease payments by Teck to BC Hydro will cease
- BC Hydro will begin making payments of:
  - o Water Rentals
  - o Operating Costs
  - o Sustaining Capital
- BC Hydro will have control of the energy and capacity previously held by Teck under the Lease, and will need to find a market for it (e.g. domestic customer use or exports)

The costs and benefits of these consequences vary depending on when default on the Lease occurs. One of the key areas of variance is the value of the energy and capacity BC Hydro markets upon default – while current market prices are low, under the ABB market forecast they are expected to increase at a rate greater than inflation for the next several years. As a result, while default may have net negative consequences in early years, default may have net positive consequences in later years.

Figure 5 shows the value of the transaction under the LRMC (Clean + Gas) as well as the ABB and Extrapolated pricing curves depending on when a default occurs.

**Figure 5      Transaction Value vs. Lease Duration**



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In order to determine the overall impact of counterparty risk, BC Hydro obtained Moody's assessment of the yearly probability of Teck Resources Limited defaulting over the next 10 years and extrapolated the default probabilities for the following period. BC Hydro evaluated the cost or benefit of Teck default in each year of the 20 year term. The sum of the probability-weighted value over this 20-year term represents the risk-adjusted value of the transaction.

**Table 6 Impact of Counterparty Risk on Value of Transaction, 20-year lease (Present value to 2018, \$ millions)**

Basis for Post-Lease Value <sup>4</sup>	Value of Assets / Lease to BC Hydro		
	Un-risked	w/ Default Risk	Default Risk Impact
LRMC (Clean)	792	898	107
LRMC (Clean + Gas)	792	856	64
Market Prices (ABB)	792	792	1
Extrapolated Prices	792	738	(54)

As shown, the impact of counterparty risk varies depending on the valuation index used. For lower valuation indices (e.g. the extrapolated pricing scenario) counterparty risk is expected to have a net negative impact as the value of energy in a default scenario is less than the price paid under the Lease. For higher valuation indices (e.g. LRMC) counterparty risk is expected to have a net positive impact as the value of energy in a default scenario is greater than the price paid under the Lease.

#### Consideration of 10-year Extension

The Lease Agreement may be extended 10 years beyond the initial 20-year term at Teck's sole option. This extension is done at an effective price of \$53/MWh (2018 dollars) rather than the \$40/MWh (2018 dollars) for the initial Lease Term.

BC Hydro asked Powerex to value the extension option to determine the potential adjustment to overall transaction value. Powerex valued the option as a 10-year European call option, with a one-time expiry on March 31, 2038. At the time of expiry the volume is equivalent to 1,831 GWh/year at a strike price of \$60.50/MWh (2018 dollars, equivalent to the \$53/MWh extension price plus Teck's operating costs of \$7.50/MWh). This call option was valued at the forecast price curves that Teck could be exposed to for the extension term, specifically:

- ABB Market Prices, with a Mid-C market price of approximately \$74.70 (2018 real dollars, energy only, reflecting mid-market price rather than exports as used elsewhere in this business case)
- Extrapolated Market Prices with a Mid-C market price of approximately [REDACTED] (2018 real dollars, energy only, reflecting mid-market price rather than exports as used elsewhere in this business case).

<sup>4</sup> No counterparty risk adjustment is done for the tariff scenario [REDACTED]

- BC Hydro industrial tariff, with a price of approximately \$69/MWh (2018 real dollars, energy and capacity)

The implied option volatility was set to [REDACTED], derived from market estimates of long-term Mid-C volatility. The value of the option was adjusted based on the probability of Teck default within the 20-year Lease Term [REDACTED] based on information from Moody’s) – if Teck defaults on the Lease they cannot exercise their extension option.

The Powerex calculation determined the option value using the above forecasts of expected market prices as Teck will be exposed to these prices. Valuation of the option under LRMC scenarios required additional analysis, as Teck is not expected to be exposed or make decisions on exercise of the option based on LRMC. In order to address this, BC Hydro used the probability of option exercise from the scenario with ABB market prices (58%) and applied this to the expected reduction in value if the extension option is exercised under the LRMC scenarios.

Table 7 shows the cost of the option granted to Teck under the various pricing scenarios.

**Table 7 Cost of Teck Lease Extension Option  
(\$ millions)**

<b>Basis for Post-Lease Value</b>	<b>Option Cost to BC Hydro</b>
LRMC – Clean only	291
LRMC – Clean + Gas	196
BCH Industrial Tariff	93
Market Prices (ABB)	45
Extrapolated Prices	6

As shown, the cost of the option increases with expectations of the future value of the Waneta electricity. The Transaction value shown in Table 5 will be reduced by the amounts shown in Table 7 to account for the value of the extension option.

Consolidated Valuation

Table 8 below shows the overall value of the Transaction in the core valuation scenarios, combining the Lease and post-Lease periods along with the adjustment to reflect the risk of counterparty default and the value of the extension option.

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**Table 8 Consolidated Value of Transaction**  
**(Risky present value to 2018, \$ millions)**

Basis for Post-Lease Value	Value of Assets / Lease to BC Hydro					
	Un-risked Lease Period	Default Risk Adj.	Post-Lease Value	Extension Option	Total Value	Value net of purchase
LRMC (Clean)	792	107	1,482	(291)	2,090	887
LRMC (Clean + Gas)	792	64	1,206	(196)	1,865	662
Industrial Tariff	792	n/a	586	(93)	1,285	82
Market Prices (ABB)	792	1	570	(45)	1,317	114
Extrapolated Prices	792	(54)	440	(6)	1,172	(31)

As shown, under core assumptions the Transaction has net positive present value compared to the purchase price of \$1.2 billion under all post-lease market valuation scenarios except for the extrapolated curves, indicating a net benefit accruing to BC Hydro ratepayers.

#### 4.2.3. Sensitivity Analysis

This section provides analysis of changes to core assumptions that may impact the overall transaction value.

##### Discount Rate Sensitivities

BC Hydro's discount rate represents the assumption around the time value of money. Lower or higher discount rates will impact the overall value of the Transaction.

Consistent with BC Hydro practice for business cases, BC Hydro utilized a base case discount rate equivalent to the weighted average cost of capital – currently 6.0% nominal (3.9% real). BC Hydro considered sensitivity scenarios at 8.0% and 4.0% nominal (5.9% and 2.0% real, respectively). Table 9 shows the impact of these scenarios.

**Table 9 Sensitivity to Discount Rate – LRMC w/ Clean**  
**(Present value net of purchase price, \$ millions)**

Valuation Index	Nominal Discount Rate		
	4%	6%	8%
LRMC – Clean only	2,263	887	86
LRMC – Clean + Gas	1,814	662	(12)
BCH Industrial Tariff	732	82	(312)
Market Prices (ABB)	750	114	(273)
Extrapolated Market Prices	504	(31)	(356)

As shown, the valuation of the Transaction is highly sensitive to discount rates. This is because the Transaction includes an up-front payment followed by generation benefits over an extended term – a change to how BC Hydro values these long-term benefits (which is the effect of the discount rate) will materially affect the overall valuation.

##### LRB Gap Sensitivity

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BC Hydro currently expects to be in a capacity and energy surplus position for the majority of the next 20 years. BC Hydro expects to revert to a deficit position in F2034 for energy and F2029 for capacity. Changes to the timing of LRB gap growth will change the valuation of the Transaction.

BC Hydro reviewed scenarios where the LRB gap grew quicker and slower than expected. Table 10 shows the impact of these scenarios on the case where the LRMC is based on portfolios including both clean and gas-fired resources. Note that this sensitivity is only applicable to valuation scenarios that allow the use of LRMC for periods where BC Hydro is in deficit – it does not affect the two market scenarios or the Tariff scenario.

**Table 10 Sensitivity to Energy LRB Gap Growth – LRMC w/ Clean  
(Present value net of purchase price)**

LRB Gap Scenario	Year of change to Energy Deficit Position	Net Value of Transaction (\$ millions)
5-year Accelerated Growth	2029	973
Base Case	2034	887
5-year Delayed Growth	2039	776
10-year Delayed Growth	2044	570

As shown, the effect of a 5-year delay in LRB growth is relatively small compared to the overall value. This is due to both the effect of discounting reducing the impact of events 20 years in the future and the relatively short period of delay compared to the valuation period. A delay of 10-years to LRB growth begins to show a more substantial effect as the period of delay is a larger portion of the valuation period.

A 5-year acceleration to LRB growth does not modify the un-risked value of the Transaction as BC Hydro already expects to be in a deficit position by the time the 2/3 Interest's generation is available (2038). However, the acceleration of the need for new demand changes the impact of counterparty default risk, increasing the value created by counterparty default under the LRMC – Clean scenario.

#### Long-Run Marginal Cost Sensitivities

The long-run marginal cost is used as the valuation index for periods where BC Hydro expects to be in an LRB deficit position. This is the case for years F2034 and beyond on an energy basis in BC Hydro's base case LRB.

BC Hydro reviewed scenarios with +/- 15% variability in the LRMC of new build energy and capacity resources. Table 11 shows the impact of these scenarios.

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**Table 11 Sensitivity to LRMC (Clean and Clean + Gas scenarios)  
(Present value net of purchase price)**

LRMC Scenario	Energy + Capacity LRMC (\$/MWh, \$2018)	Net Value of Transaction (\$ millions)
LRMC – Clean +15% premium	167	1,155
LRMC – Clean	145	887
LRMC – Clean + Gas	122	662
LRMC – Clean + Gas -15% decrease	104	442

As shown, increases in LRMC increase the value of the Transaction while decreases in LRMC decrease the value of the Transaction.

#### Market Price Sensitivities

Market prices are used as the valuation index for periods where BC Hydro expects to be in an LRB surplus position. This is the case for the years prior to F2034 on an energy basis in BC Hydro's base case LRB. However, as shown in Section 4.2.2 BC Hydro has also looked at scenarios where the full generation output (net of any obligations to Teck under the Lease Agreement) is exported to external markets.

In the core analysis, BC Hydro reviewed market cases both based on ABB's market price forecast and an extrapolated curve which takes Powerex's forward market curves and extrapolates them based on the rate of change at the end of available market information. BC Hydro looked at two additional scenarios:

- BC Hydro has considered a market price scenario where current low market prices never rise on a real dollar basis.
- BC Hydro considered the potential for energy prices to decrease to the level of the extrapolated market prices, but with an increase in the value of capacity. This represents a scenario where the build-out of intermittent renewable puts a premium on capacity resources. To test this sensitivity BC Hydro applied a 30% premium to BC Hydro's currently forecast capacity price.

Table 12 shows the value under these additional price scenarios.

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Table 12 Value of Transaction – Lower Market Prices

Basis for Post 20-yr Lease Value	Average market price 2039 – 2058 Energy + Capacity (\$/MWh, 2018)	Net Value of Transaction (\$ millions)
Market Prices (ABB)	\$64.75	114
Extrapolated Market Prices	██████	(31)
Flat/Real Market Prices	\$28.00	(328)
Extrapolated Market Prices with 30% capacity premium	██████	0

(Above energy pricing rounded to the nearest \$0.25/MWh)

As shown:

- The flat real market price scenario results in more than a \$300 million decrease to the value of the transaction below the extrapolated curves, as market prices are insufficient to recover value in excess of the purchase price for the post-Lease period.
- A 30% capacity premium results in a \$30 million increase in value above the extrapolated curves as the additional value of capacity offsets the lower energy prices.

Economic Life & Capital Cost Sensitivities

BC Hydro will have responsibility for the 2/3 Interest's capital requirements under the Transaction, although this responsibility will be partially passed back to Teck for the duration of the Lease Agreement. There is uncertainty in the long-term capital requirements of the 2/3 Interest, as well as the appropriate economic planning life to be applied to the project.

BC Hydro's base capital assumptions are provided in Section 2.4. BC Hydro also reviewed the potential for the capital requirements of the project to be higher or lower than expected, and for the economic life of the asset to be extended. BC Hydro looked at the following scenarios:

- The base assumption of a 40-year asset life and capital forecast corresponding to Leading Utility Practice
- A scenario where the cost of major (>\$5M) capital works are increased by 50%
- A scenario where there is an unanticipated major capital project in year 21 (e.g. a \$200 million project to upgrade the spillway capacity)
- A scenario where the additional capital works expected to be required to meet BC Hydro standards are not required (i.e. the Good Utility Practice approach as specified under the COA is sufficient to meet BC Hydro requirements), and continues to use a 40-year asset life.
- A scenario where BC Hydro adopts a Leading Utility Practice approach to capital spending and extends the asset life to 70 years.

Table 13 shows the present value impact of these scenarios.

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Table 13 Sensitivity to Capital Cost Assumptions

Capital Cost Scenario	BCH Portion of Capital (Levelized, \$ millions/year)	Net Value @ ABB Prices (\$ millions)	Delta to Base ABB Valuation (\$ millions)
Base Case (Leading Utility Practice) @ ABB Prices	7.7	114	n/a
Cost increase of 50% for major capital works	10.8	48	(66)
Addition of \$200M spillway upgrade in year 21	12.1	29	(85)
Change to Good Utility Practice	5.4	159	45
Leading Utility Practice w/ life extension to 70-years	8.9	394 <sup>5</sup>	280

Note that while these sensitivities are shown for the ABB market scenario, the deltas shown in Table 13 are consistent across all valuation scenarios at a 6% discount rate. That is, the above deltas can be applied to other scenarios (e.g. LRMC – Clean) to arrive at the sensitivity valuation.

The impact of the capital increase sensitivities is relatively small, largely due to the timing of the impacts (spread out over a long period and/or ~20 years in the future). The effect of discounting substantially reduces the impact of these additional costs on the current value of the assets. In addition, the ongoing capital costs associated with the project are relatively small compared to the overall asset value.

As shown in the scenario with life extension to 70 years, there is substantial additional value that BC Hydro may be able to realize by investing in the facility to ensure a long-term operating life. While there are additional costs to maintain the asset for this period, the benefits of the additional energy generation outweigh the costs. BC Hydro has conducted a facility assessment as part of its technical due diligence process – however a more detailed facility inspection and asset condition assessment would be required in order to confirm these potential benefits.

#### 4.2.4. Risk Assessment

BC Hydro has performed a qualitative risk assessment of the Transaction. The following provides the key risks associated with the Transaction:

- **Counterparty Risk:** Teck will be the counterparty for the Lease Agreement and BC Hydro will have risks associated with the actions of this counterparty. Specific risk events associated with counterparty risk include:

<sup>5</sup> This scenario provides the present value for a 70-year term rather than the 40-year term used for other scenarios. This is done to reflect the expectation of positive value past the 40-year term due to the substantial capital investment in the facility.

- There is the risk Teck defaults on the Lease Agreement. This would leave BC Hydro with the Waneta generation but no customer for the balance of the Lease Agreement term. This period coincides with the period that BC Hydro expects to be in surplus, and during this period the cost of service of the 2/3 Interest may be higher than market sales prices. This means that Teck default could result in additional costs to ratepayers.
- There is the risk Teck [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

Teck’s credit is currently rated BB. This is not investment grade, although Teck’s financial position has improved significantly over the past 12 months and upgrades to this rating are expected. As a result, the potential for counterparty default [REDACTED] is material for the term of the Lease Agreement and beyond. If the Transaction is pursued, this risk is partially mitigated through the guarantee provided by parent Teck Resources Limited, as well as underlying security in the asset itself. This security is not anticipated to fully cover BC Hydro’s exposure and there will be residual counterparty default risk – although as noted in Section 4.2.2 there is the potential for counterparty default to increase value to BC Hydro.

- **Facility Risk:** BC Hydro would own the 2/3 Interest under the Transaction. The Lease Agreement transfers capital cost risk for small capital expenditures and identified major capital works for the Lease Term. BC Hydro retains some risk of unexpected capital works for the Lease Term, and would retain all capital risk following the Lease Agreement term or under a scenario where Teck defaulted on the Lease Agreement.

At the point BC Hydro takes control of the 2/3 Interest they would be approximately 80 years old, with corresponding heightened risk of substantial capital cost requirements. In addition, given the structure Teck will be incented to defer major capital investments until after the Lease Agreement period. As a result, BC Hydro has included expenditures to address dam safety issues both during and immediately following the Lease Term. However, there is uncertainty in both the size and timing of this cost.

BC Hydro has considered this risk by including additional capital spending within the 20-year Lease period (of which BC Hydro would pay a portion) and applying a risk premium of 20% to major capital projects. BC Hydro has also set a 40-year economic planning life for the 2/3 Interest as outlined in Section 2.4. While BC Hydro expects the asset to continue operating past this point, based on the then-100-year life of the asset BC Hydro cannot provide certainty on whether the 2/3 Interest will have a positive or negative present value past this point.

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BC Hydro has conducted due diligence on the asset condition, including a site visit, to further explore this risk and the findings of this due diligence is reflected in this report. It is noted that the due diligence process was by necessity constrained to be conducted within the ROFO period. In the case where BC Hydro proceeds with the transaction, we expect to continue to conduct due diligence following the ROFO period in order to be fully informed regarding the asset condition.

**Environmental Risk:** There is the risk of a major environmental incident or issue associated with the facility in the future. A specific area of potential environmental risk is associated with contamination of soil and sediment in the Waneta area. This contamination was attributed to historic activities that occurred within the Waneta area, including construction of the dam or unrelated railway loading/unloading of industrial materials. BC Hydro commissioned an assessment (carried out by Golder Associates Ltd.) of this issue as part of its due diligence on the purchase of the 1/3 Interest and concluded that there is potential liability associated with any structural change to Waneta Dam, including de-commissioning.

- **Entitlement Volume Risk:** There is the potential for the entitlement volumes to be adjusted in the short-term based on facility operations (e.g. outages and/or de-rates) and in the long-term based on the potential for a re-determination under the Canal Plant Agreement (this would usually be due to a change in plant characteristics or upstream regulation). Under the Transaction, this risk is held by Teck for the Lease Term and BC Hydro following the Lease Term. It should be noted that this risk is partially mitigated by the fact that reduced entitlement volumes also correspond to reduced “obligations” on BC Hydro under the Canal Plant Agreement.
- **Operating Cost Risk:** This risk is substantially transferred to Teck for the initial 20-30 years, although the risk could revert to BC Hydro under counterparty default. The residual risk of operating cost increases beyond the initial 20-30 years is partially mitigated by BC Hydro’s experience in operating facilities like the 2/3 Interest, and by BC Hydro’s existing presence in the area offering potential cost avoidance.
- **Regulatory Risk:** BC Hydro expects to make a filing with the BCUC for the Transaction, with a possible public hearing process (written or oral). There is the potential for part or all of the transaction to be deemed to not be in the ratepayers’ interests.

This risk is partially mitigated by making the purchase of the 2/3 Interest contingent on regulatory approvals. As a result, should the BCUC reject the Transaction then the Transaction will not occur. It is expected that BC Hydro would be required to write-off transaction costs if the Transaction was rejected by the BCUC.

Following the Transaction, there is the possibility [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

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[Redacted text block]

- **First Nations Risk:** BC Hydro has undertaken a preliminary assessment of the level of consultation with First Nations groups that would be required under the Transaction. The Transaction does not give rise to any physical impacts as Waneta will continue to be operated as it currently is and BC Hydro will continue to dispatch its share under the CPA. [Redacted text]

[Redacted text block]

[Redacted text block]

[Redacted text block]

- **Transaction Cost Risk:** Transaction costs include both BC Hydro internal costs and property transfer tax expected to be incurred. There is risk associated with each of these components:

- o BC Hydro has estimated the amount of internal costs based on comparable transactions and the experience of its consultants. The largest uncertainty for internal costs is associated with the regulatory process. Should the regulatory process be more extensive than expected, the overall cost of the transaction could increase.
- o BC Hydro Finance has prepared an estimate of the property transfer tax required for the Transaction based on the approach used for the One-Third Transaction. [Redacted text]

[Redacted text block]

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- **Risk to Existing Agreements:** The change in ownership of the 2/3 Interest has the potential to affect a number of agreements that are not solely related to the assets themselves. The most critical of these agreements is the Canal Plant Agreement (CPA). The CPA is an agreement between BC Hydro, Teck, as well as several other parties including Fortis BC (the Entitlement Parties). [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]
- **Financial Risk:** The Transaction represents a substantial capital investment which will be financed through debt. Such an increase in debt has the potential to have an impact on the financial performance and/or credit health of BC Hydro and/or the Province. In order to determine the magnitude of this risk, BC Hydro and Government consulted with Moody's regarding the Transaction. As a result of this discussion [REDACTED]  
[REDACTED]  
[REDACTED]
- **Valuation Risk:** The analysis of the Transaction value provided in Section 4.2.2 is based on assumptions that have uncertainty associated with them. The key assumptions that affect the analysis include:
  - o The growth in BC Hydro's LRB gap. This is, in turn, driven by factors such as load growth in BC and the actions taken by BC Hydro to add new resources or manage existing ones. A substantially lower LRB gap would reduce the potential for the 2/3 Interest generation to be assessed against BC Hydro's LRMC.
  - o Long-term market prices for electricity and capacity. For periods where the 2/3 Interest generation is in surplus it will be valued against market prices. As a result, variability in market prices will affect the valuation of the transaction in LRB surplus scenarios.
  - o The long-run marginal cost of new resources. For periods where the 2/3 Interest generation is offsetting new resources it will be valued against the LRMC. As a result, changes to the LRMC will affect the valuation of the transaction in LRB deficit scenarios.
  - o BC Hydro's long-term forecast of its industrial tariff. For scenarios where the 2/3 Interest generation and the smelter load are linked the generation will be valued against the revenue from selling at the industrial tariff. As a result, variability in tariff pricing will affect the valuation of the Transaction in such linked scenarios.
  - o BC Hydro's discount rate. The discount rate sets BC Hydro's time value of money, which is a key driver of valuation for transactions such as this where

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there is an up-front capital outlay followed by long-term benefits. In general, a higher discount rate will reduce the value of the Transaction by reducing the value of the long-term benefits.

The risk associated with valuation assumptions is addressed through the sensitivity analysis provided in Section 4.2.3.

### 4.3. Assessment of No-Go Scenario

A scenario where BC Hydro does not participate in the Transaction may still have costs and/or benefits associated with it. Even if BC Hydro does not participate in the Transaction, BC Hydro is a party to multiple agreements that will have to be amended if the 2/3 Interest is purchased by another entity. These amendments will have associated transaction costs associated with them, as well as the potential for commercial costs or benefits. In addition, as the 2/3 Interest's generation and Teck load are both large, the long-term disposition of this generation and load can have impacts on BC Hydro's long-term Load Resource Balance. This section conducts analysis on the potential costs and benefits associate with the impact on BC Hydro's LRB.

#### 4.3.1. Core NPV Analysis

The expected No-Go scenario is one in which BC Hydro does not participate in the Transaction and there are no incremental BC Hydro LRB impacts due to the 2/3 Interest being bought by a third party. This represents BC Hydro's base case assumptions, and thus there are no costs or benefits of this scenario.

In addition to this main scenario, there are scenarios in which the third party purchase of the 2/3 Interest has an impact on BC Hydro's LRB as outlined in Section 3.1.2. The key additional No-Go scenarios reviewed were ones with one or more of the following:

- Teck requests that the smelter load be served by BC Hydro after the Lease Term despite BC Hydro not owning the 2/3 Interest.
- Fortis BC decides to extend the 3808 PPA past 2033.

BC Hydro utilized the discounted cashflow model developed to value the Transaction to determine the impact of the combinations of the above scenarios.

Table 14 provides a summary of the present value costs or benefits of these scenarios. Note that, in the No-Go Scenario, the smelter load (and resulting LRB impact) is less than the full entitlement that is assumed in the Transaction. As a result there is ~150 GWh/year additional surplus energy that will be held by the owner of the 2/3 Interest and is not reflected in the below analysis.

**Table 14 No-Go Scenario Valuation  
(LRB Deficit Impact and PV impact, valuation @ LRMC – Clean)**

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	<b>3808 PPA</b>	
<b>Smelter Load</b>	<b>Renewed</b>	<b>Not Renewed</b>
Served by BC Hydro	[REDACTED]	[REDACTED]
Not Served by BC Hydro	[REDACTED]	[REDACTED]

As shown, scenarios with an increased LRB deficit are expected to have a net cost to ratepayers as BC Hydro is currently forecast to be in a net LRB deficit once the 20-year Lease Agreement expires. The above values will change should BC Hydro be in surplus in 2038 and beyond.

The role of Fortis Inc. as the purchaser of the 2/3 Interest in the case where BC Hydro does not execute its ROFO rights may affect the probabilities of the scenarios above. While Fortis Inc. is a non-regulated entity, it is the sole shareholder of FortisBC which is a regulated utility in British Columbia. As a result, ownership of the 2/3 Interest may have the following effects:

- [REDACTED]
- [REDACTED]

### 4.3.2. Sensitivity Analysis

#### Discount Rate Sensitivities

BC Hydro’s discount rate represents the assumption around the time value of money. Lower or higher discount rates will impact the overall value of the No-Go Scenario.

Consistent with BC Hydro practice for business cases, BC Hydro utilized a base case discount rate of 6.0% nominal (3.9% real) and considered sensitivity scenarios at 8.0% and 4.0% nominal (5.9% and 2.0% real). Table 15 shows the impact of these scenarios.

**Table 15 Sensitivity to Discount Rate – No-Go Scenario**

Scenario	Nominal Discount Rate		
	4%	6%	8%
Smelter Load served by BCH Renewal of 3808	REDACTED		
Smelter Load Served by BCH No renewal of 3808			
Smelter not served by BCH Renewal of 3808			
Smelter not served by BCH No renewal of 3808			

As shown, the valuation of the No-Go is sensitive to discount rates, but this sensitivity is proportional to the underlying cost of the scenario. For scenarios with a substantial net present value the discount rate has a substantial effect on the value.

Long-Run Marginal Cost Sensitivities

The long-run marginal cost is used as the valuation index for periods where BC Hydro expects to be in an LRB deficit position. This is case for years F2034 and beyond on an energy basis in BC Hydro’s base case LRB.

BC Hydro reviewed scenarios with +/- 15% variability in the LRMIC of new build energy and capacity resources. Table 16 shows the impact of these scenarios on the scenario where the smelter load comes to BC Hydro following the Lease Agreement and the 3808 agreement is renewed.

**Table 16 Sensitivity to LRMIC – No-Go Scenario w/ Smelter Load and 3808 Renewal**

LRMIC Scenario	Energy + Capacity LRMIC (\$/MWh, \$2018)	Cost Impact to BC Hydro (\$ millions)
15% increase in LRMIC (Clean)	167	REDACTED
LRMIC (Clean)	145	
LRMIC (Clean + Gas)	122	
15% decrease in LRMIC (Clean + Gas)	104	

Load Resource Balance Sensitivities

The cost or benefit of the No-Go Scenario is highly dependent on BC Hydro’s net LRB position at the end of the Lease. The analysis in Section 4.3.1 uses BC Hydro’s expected LRB, which reflects a net deficit LRB position at the end of the Lease.

BC Hydro reviewed the consequences to the valuation of the No-Go scenario of BC Hydro being in a net surplus LRB position at the end of the Lease. Table 17 shows the impact of both the LRB scenario and the associated valuation index on the cost or benefits of the No-Go Scenarios.

**Table 17 Sensitivity to Load Resource Balance – No-Go Scenario  
(Present value to 2018, \$ millions)**

LRB Scenario	BCH in deficit	BCH in deficit	BCH in surplus	BCH in surplus
<b>Valuation Index</b>	LRMC – Clean	LRMC – Clean+Gas	ABB Market Forecast	Extrapolated Forecast
Smelter Load served by BCH Renewal of 3808				
Smelter Load Served by BCH No renewal of 3808				
Smelter not served by BCH Renewal of 3808				
Smelter not served by BCH No renewal of 3808				
Smelter not served by BCH No renewal of 3808				

As shown, the costs/benefits of the No-Go scenario are substantially reduced when BC Hydro is in surplus rather than deficit, and could be reversed under low market price scenarios.

**4.3.3. Risk Assessment**

BC Hydro has performed a qualitative risk assessment of the No-Go Scenario. The following provides the key risks associated with the No-Go Scenario:

- **Counterparty Risk:** BC Hydro does not have a transactional counterparty under the No-Go scenario. However, the purchaser (Fortis Inc.) would become BC Hydro’s counterparty for the Co-Ownership Agreement (COA) and other contracts (for example CPA). As a result, BC Hydro would be impacted by the actions of Fortis Inc. Specific risk events that could occur are:

- o [Redacted]
- o [Redacted]

- **Operating Cost Risk:** This risk is transferred to Teck or the purchaser for the entire valuation term. BC Hydro does not expect to retain any direct residual risk for this option. There may be some risk to operations costs for the 1/3 Interest associated with the capability of Fortis. This is covered in the counterparty risk above.

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- **Facility Risk:** Fortis would own the 2/3 Interest under the No-Go scenario and as a result BC Hydro has no direct facility risk. BC Hydro does retain some risk associated with the manner in which the purchaser maintains the facility due to BC Hydro's ownership of the 1/3 Interest. This is covered in the counterparty risk above.
- **Regulatory Risk:** BC Hydro does not anticipate making any regulatory filings as a result of the No-Go scenario. Teck has stated that they do not expect the generation component of the Fortis transaction to require a regulatory filing, although a filing is expected for the wheeling services related to transmission. BC Hydro would expect to take part in any regulatory proceeding for the Transaction as we are 1/3 owner of Waneta, with corresponding resource requirements and costs.
- **First Nations Risk:** As BC Hydro is not party to the transaction, it is not expected that there would be First Nations consultation requirements on BC Hydro, and thus this risk is minimal.
- **Transaction Cost Risk:** BC Hydro expects to incur transaction costs even under the No-Go Scenario due to the requirement to renegotiate existing agreements such as the COA, CPA and SPRA.
- **Risk to Existing Agreements:** The change in ownership of the 2/3 Interest may affect a number of agreements that are not solely related to the assets themselves. The most critical of these agreements is the Canal Plant Agreement (CPA). The CPA is an agreement between BC Hydro, Teck, as well as several other parties (the Entitlement Parties). [REDACTED]  
[REDACTED]  
[REDACTED]
- **Valuation Risk:** The analysis of the No-Go scenario is based on assumptions that have uncertainty associated with them. The key assumptions that affect the analysis include:
  - o The growth in BC Hydro's LRB gap. This is, in turn, driven by factors such as load growth in BC and the actions taken by BC Hydro to add new resources or manage existing ones. A substantially lower LRB gap would reduce the potential for the 2/3 Interest generation to be assessed against BC Hydro's LRMC.
  - o Long-term market prices for electricity and capacity. For periods where the 2/3 Interest generation is in surplus it will be valued against market prices. As a result, variability in market prices will affect the valuation of the transaction in LRB surplus scenarios.
  - o The long-run marginal cost of new resources. For periods where the 2/3 Interest generation is offsetting new resources it will be valued against the LRMC. As a result, changes to the LRMC will affect the valuation of the transaction in LRB deficit scenarios.

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- BC Hydro's discount rate. The discount rate sets BC Hydro's time value of money, which is a key driver of valuation for transactions such as this where there is an up-front capital outlay followed by long-term benefits. In general, a higher discount rate will reduce the value of the transaction by reducing the value of the long-term benefits.

The risk associated with valuation assumptions is addressed through the sensitivity analysis provided in Section 4.3.2.

**5. RATEPAYER IMPACT ANALYSIS**

**5.1. Annual Rate Impact Analysis**

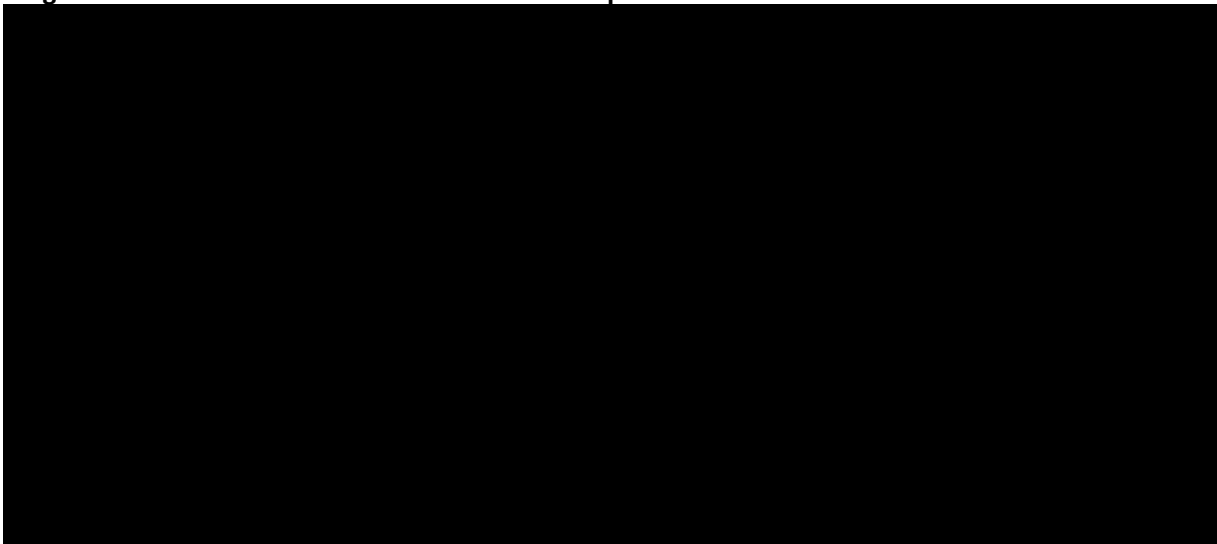
BC Hydro Corporate Finance has completed an initial analysis of the rate impact of the Transaction.

First, the following core scenarios were reviewed:

- The Transaction at a purchase price of \$1.2 billion<sup>6</sup>, with no Teck default or Lease Extension, and post-lease valuation at the following indices:
  - o LRMC – Clean
  - o LRMC – Clean + Gas
  - o BC Hydro Industrial Tariff
  - o ABB market prices
  - o Extrapolated market prices

Figure 6 shows the cumulative incremental rate impact for the above scenarios.

**Figure 6 Cumulative Incremental Rate Impact – Core Scenarios**



As shown, for the Transaction scenarios without default there is a beneficial impact on rates for the full evaluation period. In the initial 20-year period the Lease revenues from Teck more than offset the costs of purchasing the 2/3 Interest (which are primarily amortization and finance charges). For the period beyond the first 20 years the beneficial rate impact depends on the value of the energy.

<sup>6</sup> All rate impact scenarios also include \$50 million of closing costs.

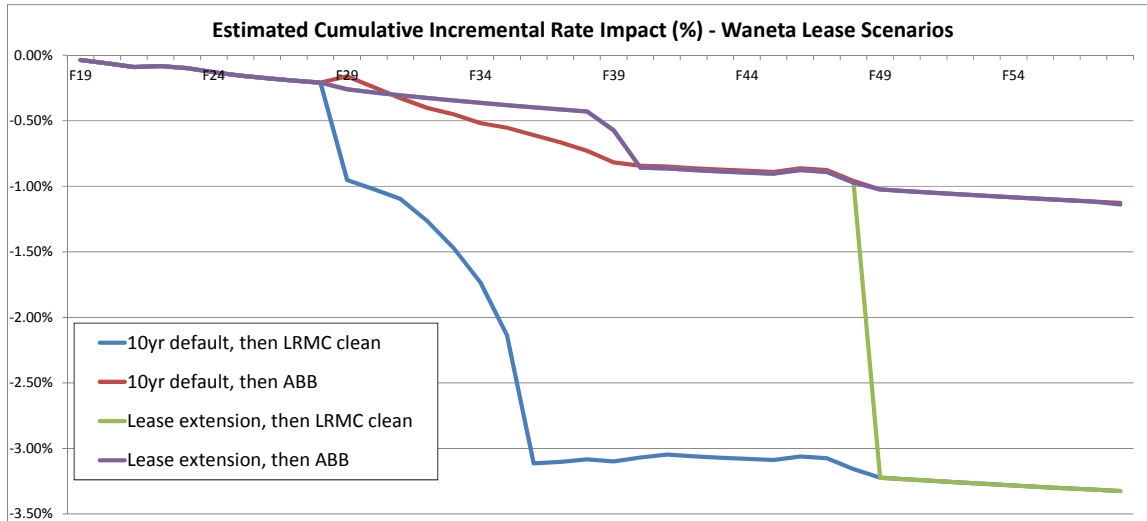
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BC Hydro further considered the following additional scenarios:

- The Transaction at a purchase price of \$1.2 billion, with no Teck default and the 10-year Lease Extension, under both LRMC-Clean and ABB market price scenarios
- The Transaction at a purchase price of \$1.2 billion, with Teck default in year 10 of the Lease, under both LRMC-Clean and ABB market price scenarios

Figure 7 shows the cumulative incremental rate impact for the additional scenarios.

**Figure 7 Cumulative Incremental Rate Impact – Additional Scenarios**



As shown, under both default and Lease extension scenarios the transaction provides lower rates.

- Under the default scenarios, there is a rate change upon default due to a shift from lease revenues to either market prices or LRMC (depending on BC Hydro’s LRB position at the time).
- Under the Lease extension scenarios there is a step-change decrease in rates due to the change from a \$40/MWh lease payment to a \$53/MWh lease payment. The extension also defers the benefits of the LRMC-clean scenario by 10 years.



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## 5.2. Net Present Value of Revenue Requirements

The analysis presented in Section 5.1 reviews the present value of free cash flows before financing charges, which provides an investment view of the transaction. The benefits to ratepayers are different to the benefits identified under the investment view, as ratepayers will see the costs of the transaction through revenue requirements rather than free cash flow. Table 18 illustrates the difference in how these costs are treated.

**Table 18** Difference between Free Cash Flows and Revenue Requirements

	Free Cash Flows	Revenue Requirements
Up-front purchase cost	<ul style="list-style-type: none"> <li>Cash outflow at time of purchase</li> </ul>	<ul style="list-style-type: none"> <li>Amortization and interest expense over economic life of asset</li> </ul>
Operating expenditures	<ul style="list-style-type: none"> <li>Cash outflow at time of expense</li> </ul>	<ul style="list-style-type: none"> <li>Outflow at time of expense</li> </ul>
Sustaining capital	<ul style="list-style-type: none"> <li>Cash outflow at time of capital investment</li> </ul>	<ul style="list-style-type: none"> <li>Amortization and interest expense over economic life of capital investment</li> </ul>
Lease revenue	<ul style="list-style-type: none"> <li>Cash inflow when payment made by Teck</li> </ul>	<ul style="list-style-type: none"> <li>Inflow when payments made by Teck</li> </ul>

In cases where BC Hydro's financing rate is equivalent to the discount rate applied to the analysis, these two cost/benefit streams will result in approximately the same present value result. However, recent changes made to the calculation of BC Hydro's net income result in these two methods providing divergent results. The main change was as a de-coupling of the link between BC Hydro's return on equity and its asset base:

- Previously when BC Hydro invested capital and added to its asset base, a portion of this asset base would be "deemed" to be equity and earn a regulated rate of return. This is despite the true financing of the investment being fully debt-based through Government borrowings.
- Under the 10-year Rates Plan, BC Hydro's return on equity is fixed and no additional return is earned upon capital investment.
- The effect of this change is that the financing of new investments is effectively done at the cost of debt from a ratepayer perspective and does not include a return on equity component.

In order to determine the present value of ratepayer benefits, BC Hydro applied its discounted cashflow methodology to the ratepayer costs and benefits (i.e. revenue requirements) developed as part of the rates analysis in Section 5.1. Note that while the cost/benefits were changed to reflect the change in the cost of financing, in all cases a discount rate of 6% nominal continues to be used. Table 19 shows the result of this analysis.

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**Table 19 Ratepayer Benefit Present Value  
(Present value net of purchase price, \$ millions)**

<b>Basis for Post-Lease Value</b>	<b>Free Cash Flow Un-risked (6% financing)</b>	<b>Ratepayer Benefits (3.4% financing)</b>
LRMC – Clean only	1,071	1,502
LRMC – Clean + Gas	794	1,224
BCH Industrial Tariff	175	589
Market Prices (ABB)	159	570
Extrapolated Prices	29	436

(Note: in both cases costs/benefits are discounted at 6% nominal)

As shown, the benefits to ratepayers are substantially larger than the benefits determined under the free cash flow methodology. This is because the revenue requirements are based on a 3.4% financing rate, while the implicit financing rate in the free cash flow methodology is equivalent to the discount rate (6% nominal). Ratepayers benefit from this lower cost of financing.

6. ANALYSIS & RECOMMENDATION

6.1. Comparative Analysis

BC Hydro’s primary method for comparing transaction alternatives is on the basis of the net present value of the alternatives. Table 20 shows the net present value for the Transaction under a range of valuation indices.

**Table 20 Comparative Value of Transaction Options  
(Present Value to 2018, \$ millions)**

Valuation Index	LRB Position	Transaction Value @ ROFO Offer Price	No-Go, Smelter not served by BCH	No-Go, Smelter served by BCH
LRMC (Clean)	Deficit	887		
LRMC (Clean + Gas)	Deficit	662		
Industrial Tariff (RS 1832)	Immaterial	82		
Market Prices (ABB)	Surplus	114		
Market Prices (Extrapolated)	Surplus	(31)		

Note: All scenarios assume

The market price scenarios represent lower tolerance for both risk in BC Hydro’s load growth and lower tolerance for risk in market prices in the case of the extrapolated pricing. As shown by the comparative values between the No-Go Scenario and the Transaction Scenario, proceeding with a transaction mitigates BC Hydro’s risk of having to serve the smelter load without the 2/3 Interest to provide the electricity.

The sensitivity analyses in Section 4.2.3 demonstrates that the valuation of the Transaction vary substantially based on key assumptions including BC Hydro’s expected load growth and the valuation index used. As a result, BC Hydro’s assessment of a commercially reasonable price will be dependent on BC Hydro’s level of risk tolerance. As shown in the sensitivity analysis, BC Hydro expects the transaction to provide net value to ratepayers in almost all contemplated scenarios.

- Under BC Hydro base planning assumptions (LRMC – Clean), the Transaction provides nearly \$900 million of present value to ratepayers over the purchase price.
- Even under assumptions where load fails to grow and power is exported (Market – ABB), BC Hydro expects the Transaction to provide net value to ratepayers.
- In a scenario where market prices are substantially lower than expected (Market – Extrapolated), the transaction is approximately neutral.
- BC Hydro’s downside scenario is represented by sensitivity scenarios, where load does not grow materially over 40 years and where market prices remain well below new-build prices.

- If BC Hydro does not proceed with the Transaction, we retain risk of having to serve the smelter load without the 2/3 Interest generation to supply it. This can result in potential additional costs to ratepayers.

This assessment indicates that the Transaction is cost-effective under all but the most risk-averse assumptions.

Further, the assessment provided in this Business Case is conservative, with explicitly recognition of many of the largest risks to Transaction value, but not of the potential incremental value that may be realized as part of the Transaction. Potential ways in which BC Hydro could extract additional value from the Transaction include:

- Investment in the asset sufficient to extend the economic life. As discussed in the capital sensitivities in Section 4.2.3, this has the potential to add ~\$280 million to the present value of the transaction under the ABB market price scenario with more value under LRMC scenarios.
- Extraction of additional value from the transmission lines. As discussed in Appendix C, the ability to charge OATT on Line 71 following the Lease Term has the potential to add approximately [REDACTED] to the present value of the transaction.
- Marketing of Waneta energy and capacity to external markets at premium prices. As discussed in the market price sensitivities in Section 4.2.3, a 30% capacity premium would add approximately \$30 million above the value of the extrapolated price scenario.

There is a difference in risk exposure between the Transaction and the No-Go Scenario. Table 21 shows a comparison of the qualitative risk profile of the three main options.

**Table 21 Comparative Risk Profile**

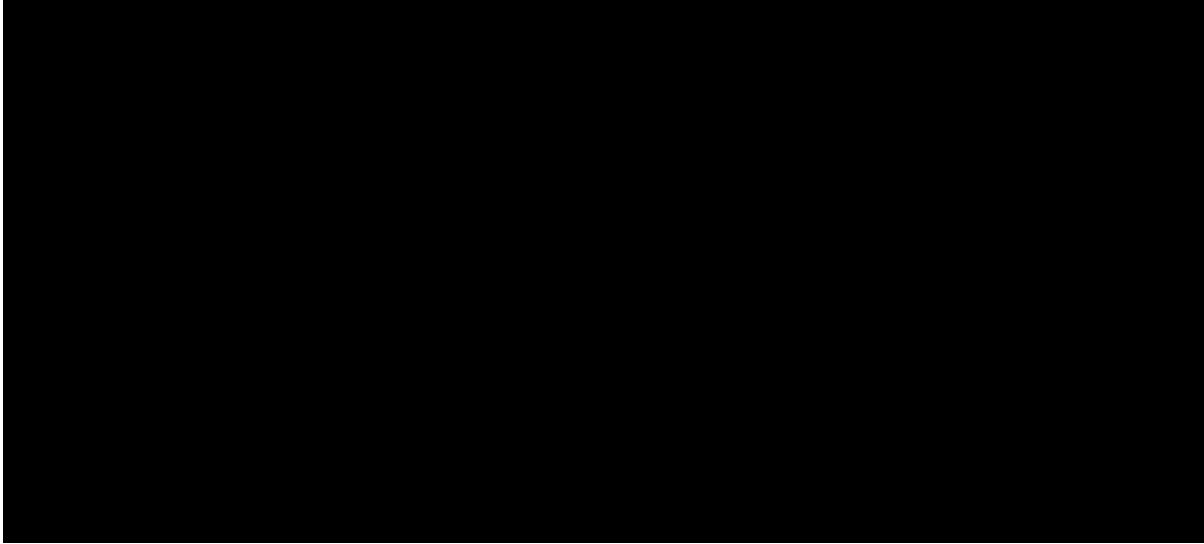
<b>Risk Category</b>	<b>Transaction</b>	<b>No-Go Scenario</b>
Counterparty Risk	Moderate	Low
Operating Cost Risk	Low	None
Facility Risk	Moderate	Low
Regulatory Risk	Low	None
Water Use Planning Risk	Low to Moderate	Low
First Nations Risk	Low	Low
Transaction Cost Risk	Low	Low
Risk to existing agreements	Moderate	Moderate
Valuation Risk	Refer to sensitivity analysis	

As shown, the Transaction will result in some incremental risks to BC Hydro as a result of adding a physical asset with commensurate risks. It should be noted, however, that the risks associated with Waneta are similar to the risks associated with BC Hydro’s overall generation fleet – the Transaction does not result in substantially new or different types of risk.

The impact and costs of the Transaction on ratepayers is expected to be positive and provide additional value beyond that shown in the investment present value analysis. As shown in Section 5, under all valuation scenarios the Transaction is expected to result in lower ratepayer

costs in every year of the Transaction. As reproduced below, rates are lower in all core scenarios.

**Figure 8 Cumulative Incremental Rate Impact**



**6.2. Recommendation**

BC Hydro’s assessment is that the Transaction is cost-effective on both an investment basis and on the basis of ratepayer costs under a range of conservative assumptions. In order to find a scenario in which the Transaction results in regret (i.e. is not cost-effective) one or more of the following would have to occur:

- Delay in load growth for substantially all of the 40-year evaluation period
- Reductions in market prices below the current ABB forecast
- Substantial additional capital requirements at Waneta
- Failure to realize any incremental value from the transaction, such as through extension of the asset life.

BC Hydro considers the combination of the above factors that would result in transaction regret to be unlikely. As a result, BC Hydro concludes that the Transaction is cost-effective and subject to a tolerable level of commercial risk.

Based on this assessment, BC Hydro recommends proceeding with the Transaction.

**7. LIST OF APPENDICES**

- A Load Resource Balances
- B Capital Expenditure Forecasts
- C Analysis of Waneta Transmission Options
- D Sensitivity Analysis using Long-Term Planning Scenarios
- E Review of Alternative Transaction Structures
- F Counterparty Opportunity Cost

<b>Waneta 2/3 Interest Business Case Appendix A – Load Resource Balances</b>
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**APPENDIX A**  
**Load Resource Balances**

Waneta 2/3 Interest Business Case  
Appendix A – Load Resource Balances

Energy Load Resource Balance with Existing and Committed Resources  
(Table 3-6 from F17-F19 RRA)

		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036	
<b>(GWh)</b>																						
<b>Existing and Committed Heritage Resources</b>																						
1	Heritage Resources (including Site C)	(a)	48,445	46,895	46,014	48,491	48,491	48,491	48,491	48,857	52,383	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	
<b>Existing and Committed IPP Resources</b>																						
2		(b)	13,198	14,592	14,337	14,364	14,097	13,782	13,547	13,210	12,814	12,414	12,307	11,983	11,467	10,720	10,259	10,203	10,163	10,015	9,476	8,110
3	<b>Total Supply (Operating View)**</b>	(c) = a + b	61,643	61,487	60,351	62,856	62,588	62,274	62,038	62,067	65,197	66,191	66,084	65,761	65,244	64,497	64,037	63,981	63,941	63,792	63,253	61,887
<b>Demand - Integrated System Total Gross Requirements</b>																						
4	2016 May Mid Load Forecast Before DSM*		-58,334	-59,013	-60,413	-61,371	-62,309	-63,675	-64,836	-66,008	-67,109	-68,310	-69,267	-70,256	-71,222	-72,296	-73,374	-74,535	-75,462	-76,393	-77,215	-78,089
5	Expected LNG Load		-61	-148	-148	-252	-1,265	-2,299	-2,721	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848
6	Sub-total	(d)	-58,395	-59,162	-60,561	-61,624	-63,574	-65,974	-67,557	-68,856	-69,957	-71,158	-72,115	-73,104	-74,070	-75,144	-76,222	-77,383	-78,310	-79,241	-80,063	-80,937
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																						
7	SM Theft Reduction		83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
8	Voltage and VAR Optimization		67	152	171	188	219	240	254	259	263	268	285	290	295	300	305	310	315	320	325	331
9	2016 DSM Plan F16 savings		982	970	939	940	935	926	923	917	912	885	863	855	848	844	807	770	760	758	757	736
10	Sub-total	(e)	1,131	1,204	1,193	1,211	1,237	1,249	1,260	1,258	1,258	1,235	1,231	1,228	1,226	1,227	1,195	1,163	1,157	1,161	1,165	1,150
11	<b>Surplus/(Deficit) (Operational View)**</b>	(f) = c + d + e	4,379	3,529	983	2,443	251	(2,451)	(4,259)	(5,531)	(3,920)	(3,732)	(4,800)	(6,115)	(7,600)	(9,420)	(10,990)	(12,239)	(13,212)	(14,289)	(15,644)	(17,900)
12	<b>Surplus / Deficit as % of Net Load (Planning View)**</b>		112%	113%	110%	108%	104%	99%	94%	92%	95%	94%	93%	91%	89%	87%	85%	84%	83%	81%	80%	78%
13	<b>Low Load Forecast Surplus/(Deficit) (Operational View)**</b>		6,700	6,089	3,995	5,833	4,118	1,935	506	(492)	1,839	1,904	1,045	(24)	(1,248)	(2,802)	(4,146)	(5,057)	(5,772)	(6,670)	(7,073)	(10,099)
14	<b>High Load Forecast Surplus/(Deficit) (Operational View)**</b>		1,992	638	(2,612)	(1,962)	(4,761)	(8,203)	(10,899)	(12,534)	(10,879)	(11,495)	(12,726)	(14,368)	(16,235)	(18,524)	(20,367)	(21,811)	(23,150)	(24,509)	(26,282)	(28,887)
* 2016 Integrated System Load Forecast with losses																						
** See section 3.4.2 for description of Operational versus Planning View																						

Peak Capacity Load Resource Balance with Existing and Committed Resources  
(Table 3-7 from F17-F19 RRA)

		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036	
<b>(MW)</b>																						
<b>Existing and Committed Heritage Resources</b>																						
1	Heritage Resources (including Site C)	(a)	11,372	11,410	11,416	11,416	11,416	11,480	11,480	11,480	12,020	12,211	12,211	12,211	12,211	12,211	12,625	12,625	12,625	12,625	12,625	12,625
<b>Existing and Committed IPP Resources</b>																						
2		(b)	1,593	1,673	1,621	1,572	1,490	1,461	1,167	1,132	1,069	1,025	1,025	975	938	806	806	802	796	771	747	683
3	14% of Supply Requiring Reserves***	(c)	-1,787	-1,803	-1,797	-1,790	-1,778	-1,783	-1,742	-1,737	-1,811	-1,832	-1,832	-1,825	-1,819	-1,801	-1,859	-1,858	-1,857	-1,854	-1,851	-1,842
4	<b>Effective Load Carrying Capability</b>	(d) = a + b + c	11,178	11,280	11,240	11,198	11,128	11,157	10,905	10,874	11,279	11,404	11,404	11,362	11,330	11,216	11,572	11,568	11,563	11,542	11,521	11,466
<b>Demand - Integrated System Peak</b>																						
5	2016 May Mid Load Forecast Before DSM*		-10,776	-11,021	-11,209	-11,374	-11,541	-11,737	-11,930	-12,119	-12,313	-12,515	-12,708	-12,943	-13,155	-13,386	-13,614	-13,840	-14,074	-14,303	-14,542	-14,774
6	Expected LNG Load		-19	-19	-19	-72	-222	-329	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361
7	Sub-total	(e)	-10,795	-11,039	-11,228	-11,447	-11,763	-12,066	-12,291	-12,480	-12,674	-12,876	-13,069	-13,304	-13,516	-13,747	-13,975	-14,201	-14,435	-14,664	-14,903	-15,139
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																						
8	SM Theft Reduction		11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
9	Voltage and VAR Optimization		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	2016 DSM Plan F16 savings		216	214	210	211	210	207	204	201	198	193	189	185	183	180	174	168	165	165	165	162
11	Sub-total	(f)	227	226	222	222	221	218	215	212	209	204	200	197	194	192	186	179	176	176	176	173
12	<b>Surplus / (Deficit)**</b>	(g) = d + e + f	610	466	234	(27)	(414)	(691)	(1,170)	(1,303)	(1,189)	(1,268)	(1,465)	(1,745)	(1,993)	(2,340)	(2,216)	(2,454)	(2,695)	(2,946)	(3,206)	(3,495)
13	<b>Low Load Forecast Surplus / (Deficit)**</b>		1,030	934	782	590	287	100	(310)	(482)	(218)	(245)	(400)	(627)	(821)	(1,113)	(943)	(1,113)	(1,297)	(1,508)	(1,750)	(1,997)
14	<b>High Load Forecast Surplus / (Deficit)**</b>		160	(84)	(444)	(855)	(1,358)	(1,769)	(2,408)	(2,693)	(2,552)	(2,700)	(2,926)	(3,270)	(3,589)	(4,024)	(3,953)	(4,242)	(4,538)	(4,848)	(5,196)	(5,552)
* 2016 Integrated System Load Forecast with losses																						
** Planning View is shown in this table. Capacity load resource balances are only shown in Planning View. See section 3.4.2.																						
*** This is also referred to as the Planning Reserve - the system generating capacity beyond that required to meet peak demand that is necessary to meet reliability criteria. See section 1.2.2 of the IRP for more details on the criteria.																						



**Waneta 2/3 Interest Business Case  
Appendix A – Load Resource Balances**

**Energy Load Resource Balance after Planned Resources  
(Table 3-8 from F17-F19 RRA)**

[(GWh)]		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036	
1	<b>Existing and Committed Heritage Resources</b>	(a)	48,445	46,895	46,014	48,491	48,491	48,491	48,857	52,383	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777
2	<b>Existing and Committed IPP Resources</b>	(b)	13,198	14,592	14,337	14,384	14,097	13,782	13,547	13,210	12,814	12,414	12,307	11,983	11,467	10,720	10,259	10,203	10,163	10,015	9,476	8,110
3	<b>Future Supply-Side Resources</b>																					
4	IPP Renewals		106	280	571	647	779	936	1,114	1,349	1,628	1,951	2,032	2,223	2,617	3,328	3,788	3,828	3,863	4,011	4,549	5,515
5	Standing Offer Program		71	130	291	419	546	674	801	929	1,056	1,184	1,311	1,439	1,566	1,694	1,821	1,949	2,076	2,204	2,320	2,448
6	Revelstoke 6																					
7	Sub-total (c)	(c)	177	410	862	1,066	1,325	1,609	1,916	2,278	2,684	3,135	3,370	3,688	4,209	5,048	5,635	5,803	5,966	6,241	6,995	7,989
7	<b>Total Supply (Operational View) **</b>	(d) = a + b + c	61,820	61,897	61,213	63,922	63,913	63,883	63,954	64,345	67,881	69,327	69,454	69,449	69,453	69,545	69,672	69,783	69,906	70,033	70,149	69,875
8	<b>Demand - Integrated System Total Gross Requirements</b>																					
9	2016 May Mid Load Forecast Before DSM*		-58,334	-59,013	-60,413	-61,371	-62,309	-63,675	-64,836	-66,008	-67,109	-68,310	-69,267	-70,256	-71,222	-72,296	-73,374	-74,535	-75,662	-76,303	-77,215	-78,089
10	Expected LNG Load		-61	-148	-148	-252	-1,265	-2,299	-2,721	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848
11	Sub-total (e)	(e)	-58,395	-59,162	-60,561	-61,624	-63,574	-66,974	-67,557	-68,856	-69,957	-71,158	-72,115	-73,104	-74,070	-75,144	-76,222	-77,383	-78,310	-79,241	-80,063	-80,937
11	<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																					
12	SM Theft Reduction		83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
13	Voltage and VAR Optimization		67	152	171	188	219	240	254	259	263	268	285	290	295	300	305	310	315	320	325	331
14	2016 DSM Plan F16 savings		982	970	939	940	935	926	923	917	912	885	863	855	848	844	807	770	760	758	757	736
14	<b>Planned Demand Side Management Measures</b>																					
15	2016 DSM Plan F17 to F19 savings		389	988	1,679	1,896	1,931	1,969	1,956	1,935	1,917	1,908	1,896	1,883	1,787	1,694	1,613	1,547	1,462	1,300	1,224	1,100
16	2016 DSM Plan F20+ savings		0	0	0	292	904	1,454	1,897	2,310	2,637	2,946	3,229	3,500	3,758	4,006	4,248	4,473	4,690	4,908	5,116	4,976
17	Sub-total (f)	(f)	1,521	2,192	2,873	3,399	4,072	4,672	5,112	5,502	5,811	6,089	6,356	6,581	6,770	6,927	7,055	7,183	7,310	7,368	7,505	7,317
17	<b>Surplus / (Deficit) (Operational View) **</b>	(g) = d + e + f	4,345	4,928	3,524	5,897	4,411	2,382	1,508	991	3,735	4,257	3,695	2,926	2,154	1,328	506	(417)	(1,083)	(1,840)	(2,410)	(3,745)
18	<b>Surplus / Deficit as % of Net Load (Planning View) **</b>		113%	115%	115%	114%	111%	108%	106%	105%	109%	110%	109%	107%	106%	105%	103%	102%	101%	99.97%	99%	97%
19	<b>Small Gap Surplus / (Deficit) (Operational View) **</b>		7,266	7,487	6,536	9,087	8,279	6,967	6,275	6,030	9,076	9,893	9,540	9,017	8,506	7,946	7,350	6,766	6,346	5,779	5,262	4,056
20	<b>Large Gap Surplus / (Deficit) (Operational View) **</b>		2,559	2,036	(70)	1,293	(901)	(3,171)	(5,130)	(6,012)	(3,641)	(3,508)	(4,231)	(5,328)	(6,482)	(7,776)	(8,872)	(10,089)	(11,032)	(12,060)	(13,047)	(14,730)

\* 2016 Integrated System Load Forecast with losses  
\*\* See section 3.4.2 for description of Operational versus Planning view

**Table 3-9 Peak Capacity Load Resource Balance after Planned Resources  
(Table 3-9 from F17-F19 RRA)**

[(MW)]		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036	
1	<b>Existing and Committed Heritage Resources</b>	(a)	11,372	11,410	11,416	11,416	11,416	11,480	11,480	11,480	12,020	12,211	12,211	12,211	12,211	12,625	12,625	12,625	12,625	12,625	12,625	12,625
2	<b>Existing and Committed IPP Resources</b>	(b)	1,593	1,673	1,621	1,572	1,490	1,461	1,167	1,132	1,069	1,025	1,025	975	938	906	806	802	796	771	747	683
3	<b>Future Supply-Side Resources</b>																					
4	IPP Renewals		9	23	55	79	120	135	419	441	450	486	486	514	538	671	671	674	680	705	862	901
5	Standing Offer Program		4	18	24	31	39	46	53	61	68	76	83	91	98	106	113	120	128	135	142	150
6	Revelstoke 6																					
7	Sub-total (c)	(c)	13	41	79	110	159	181	472	502	519	562	1,057	1,082	1,124	1,294	1,272	1,283	1,296	1,328	1,482	1,539
7	<b>Total Supply</b>	(d) = a + b + c	12,978	13,124	13,115	13,098	13,065	13,122	13,120	13,113	13,608	13,797	14,293	14,279	14,273	14,281	14,702	14,709	14,717	14,724	14,864	14,847
8	14% of Supply Requiring Reserves***	(e)	-1,788	-1,809	-1,808	-1,805	-1,801	-1,809	-1,808	-1,807	-1,884	-1,910	-1,980	-1,978	-1,977	-1,978	-2,037	-2,038	-2,039	-2,040	-2,060	-2,057
9	<b>Effective Load Carrying Capability</b>	(f) = d + e	11,189	11,315	11,307	11,293	11,264	11,313	11,311	11,306	11,725	11,887	12,313	12,301	12,296	12,303	12,665	12,671	12,678	12,684	12,804	12,790
10	<b>Demand - Integrated System Peak</b>																					
11	2016 May Mid Load Forecast Before DSM*		-10,776	-11,021	-11,209	-11,374	-11,541	-11,737	-11,930	-12,119	-12,313	-12,515	-12,708	-12,843	-13,155	-13,386	-13,614	-13,840	-14,074	-14,303	-14,542	-14,774
12	Expected LNG Load		-19	-19	-19	-72	-222	-329	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361
13	Sub-total (g)	(g)	-10,795	-11,039	-11,228	-11,447	-11,763	-12,066	-12,291	-12,480	-12,674	-12,876	-13,069	-13,304	-13,516	-13,747	-13,975	-14,201	-14,435	-14,664	-14,903	-15,135
13	<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																					
14	SM Theft Reduction		11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
15	Voltage and VAR Optimization		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
16	2016 DSM Plan F16 savings		216	214	210	211	210	207	204	201	198	193	189	185	183	180	174	168	165	165	165	162
16	<b>Planned Demand Side Management Measures</b>																					
17	2016 DSM Plan F17 to F19 savings		66	167	272	310	314	316	311	305	299	295	290	282	272	259	247	237	225	207	198	195
18	2016 DSM Plan F20+ savings		0	0	0	47	170	285	358	421	468	514	554	593	629	663	696	725	753	788	822	808
19	Sub-total (h)	(h)	293	392	494	578	706	818	884	938	977	1,013	1,045	1,072	1,095	1,114	1,128	1,142	1,154	1,171	1,196	1,176
19	<b>Surplus / (Deficit) **</b>	(i) = f + g + h	687	668	573	424	206	65	(96)	(236)	27	23	289	70	(124)	(330)	(182)	(389)	(603)	(808)	(903)	(1,168)
20	<b>Small Gap Surplus / (Deficit) **</b>		1,107	1,136	1,121	1,041	908	856	765	675	995	1,046	1,354	1,188	1,048	897	1,093	953	796	629	554	328
21	<b>Large Gap Surplus / (Deficit) **</b>		237	118	(105)	(403)	(737)	(1,013)	(1,334)	(1,536)	(1,339)	(1,409)	(1,172)	(1,455)	(1,721)	(2,014)	(1,917)	(2,177)	(2,445)	(2,711)	(2,894)	(3,226)

\* 2016 Integrated System Load Forecast with losses  
\*\* Planning View is shown in this table. Capacity load resource balances are only shown in Planning View. See section 3.4.2.  
\*\*\* This is also referred to as the Planning Reserve - the system generating capacity beyond that required to meet peak demand that is necessary to meet reliability criteria. See section 1.2.2 of the IRP for more details on the criteria.

<p>Waneta 2/3 Interest Business Case Appendix B – Review of Waneta Capital Expenditure Forecasts</p>
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**APPENDIX B**  
**Review of Waneta Capital Expenditure Forecasts**

**Waneta 2/3 Interest Business Case**  
**Appendix B – Review of Waneta Capital Expenditure Forecasts**

## 1. Methodology

The Waneta Transaction Team engaged BC Hydro subject matter experts to review the potential sustaining capital costs for the hydroelectric facility (“the Facility”) under consideration for purchase as part of the transaction for the 2/3 Interest of Waneta. The subject matter experts involved in this review are identified in Table 1.

**Table 1 – Subject Matter Experts**

Line of Business	Resource	Role
Generation	[REDACTED]	Generation Lead, electrical, protection and controls, mechanical, civil
	[REDACTED]	Asset Management
Capital Infrastructure and Project Delivery	[REDACTED]	Dam Safety Lead
	[REDACTED]	Hydrotechnical
Transmission	[REDACTED]	Transmission Lead, Asset Management
	[REDACTED]	Transmission Strategy and Standards
	[REDACTED]	Transmission Engineering
	[REDACTED]	Stations Strategy and Standards
	[REDACTED]	Transmission Field Manager
Supporting Resources	[REDACTED]	Waneta Operating Committee
	[REDACTED]	Cost Estimating
	[REDACTED]	Negotiating Team contacts

Subject matter experts were provided the following reference information to inform their review:

- A Condition Assessment and Capital Plan Review for the Facility conducted by Klohn Crippen Berger in September 2009.
- The *Waneta Dam Condition Report* prepared by Hatch for Teck, dated March 15, 2017.
- Information available in the Teck data room between May and June of 2017.
- Information gathered through a site visit conducted on June 14<sup>th</sup> by a subset of the subject matter experts.
- Information gathered through questions posed to Teck and/or Fortis BC staff.

There are two main considerations informing the development of capital expenditure scenarios:

First, a key consideration in the assessment of capital requirements is the standard to which the facility is maintained (the “Operating Standard”). BC Hydro considered two Operating Standards for the facility:

- **Good Utility Practice**, which is the standard currently specified under the Co-Ownership and Operating Agreement between Teck and BC Hydro. Good Utility Practice corresponds to a standard where capital expenditures are based on regulatory requirements and commercial levels of risk tolerance.

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- **Leading Utility Practice**, which is the standard currently applied to the BC Hydro operating fleet. Leading Utility Practice corresponds to a standard where risks are actively managed when identified irrespective of regulatory requirements, and with a lower risk tolerance than Good Utility Practice.

Second, a key consideration of capital requirements is the expected economic life of the asset. BC Hydro considered two capital investment strategies:

- A “Harvest” scenario where investments are made to preserve the 40-year economic life, but not extend the life beyond this point. It remains likely that the asset will continue to operate following this 40-year life, however the go-forward present value benefits net of required investments may drop below zero.
- A “Life Extension” scenario where investments are made to extend the asset life indefinitely. In such a case we have adopted a 70-year economic planning life as the “extended” life.

Based on these two considerations, BC Hydro identified three capital scenarios for consideration.

- 1) Life Extension Scenario with Leading Utility Practice for dam safety and water passage items
- 2) Harvest Scenario with Good Utility Practice for dam safety and water passage items
- 3) Harvest Scenario with Leading Utility Practice for dam safety and water passage items

BC Hydro also considered a scenario with Life Extension based on Good Utility Practice, however discarded this option as it was determined that there would be insufficient certainty in extending the life beyond 40 years under the lower investment rates of Good Utility Practice.

Section 2 of this memo describes the capital expenditures that would be made under the Life Extension Scenario and was the primary estimate prepared by the subject matter experts. Sections 3 and 4 describe the modifications made to the Life Extension Scenario to develop the Harvest – Good Utility Practice and the Harvest – Leading Utility Practice scenarios.

Common assumptions for all scenarios include:

- This analysis does not consider any capital constraints at BC Hydro. Timing of expenditures has been developed based on prioritization of critical work with consideration of expected development time.
  - o Note that while it is possible to postpone some components of this work for a number of years should BC Hydro wish to do so, this would be expected to be subject to future decisions not considered in this memo.
- The capital requirements in this memo are identified for known requirements and other issues identified in the reference information. This memo does not reflect the potential for unexpected or unidentified issues to arise with respect to the facility over the operating life, which would result in costs greater than are currently shown here.
- The estimates in this memo are indicative only due to the low level of scope definition and the lack of any recent detailed inspections of the asset, and should be considered Class 5 estimates according to the AACE definition.

Estimates are provided in 2017 real dollars and are for the entire generating Facility, rather than the 2/3 of the Facility currently considered for purchase under the Waneta transaction. Note that any increased capital costs due to the application of BC Hydro standards to the Facility would also have potential impacts on the long-term costs of BC Hydro’s existing 1/3 share in the Facility.

2. Life Extension Forecast

2.1. Dam Safety and Water Passage

Estimated Capital Requirements:

Capital requirements related to dam safety and water passage are primarily associated with requirements to bring the Facility up to the dam safety standards that will be applied by BC Hydro on BC Hydro assets. The Facility is not currently subject to the same Leading Utility Practice as BC Hydro facilities.

The identified capital requirements are:

- Upgrades to the spillway gates (estimated cost \$85 million):
  - o [Redacted]
  - o [Redacted]
- Dam & Spillway Pier Anchoring (estimated cost of \$30 million if anchoring required)
  - o [Redacted]
  - o [Redacted]
    - [Redacted]
    - [Redacted]
  - o [Redacted]
- Spillway Chute Rehabilitation (estimated cost of \$25 million)
  - o [Redacted]
  - o [Redacted]
- Intake Gate Upgrades and Rehabilitation (estimated cost of \$10 million)
  - o [Redacted]
  - o [Redacted]
- Dam Drainage Systems (estimated cost of \$10 million)
  - o [Redacted]
- Drainage of Concrete Blocks (estimated cost of \$5 million, repeated every 35 years)

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- [Redacted]
- [Redacted]
- Modify documentation to BC Hydro standard (estimated cost of \$0.3 million)
  - [Redacted]
  - [Redacted]
- Conduct Dam Break Analysis (estimated cost of \$0.3 million)
  - [Redacted]
  - [Redacted]

**Comparison to Seller’s Forecasts**

The Seller has not included a substantial amount of capital for dam safety work in its capital forecasts. The identified dam safety investments of value >\$1 million are:

- Concrete rehabilitation work (estimated cost of \$1.5 million)
  - [Redacted]
  - [Redacted]
- Spillway gate upgrade for flood conditions (estimated cost of \$1.2 million)
  - [Redacted]
  - [Redacted]
- Drainage Investigation (estimated cost of (1.5 million))
  - [Redacted]
  - [Redacted]

The remaining gap between BC Hydro and the Seller’s forecasts is approximately \$170 million (2018 real dollars) over the initial 20 years following the purchase of the Facility. This difference is largely driven by:

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- [REDACTED]
- [REDACTED]
- [REDACTED]

**2.2. Powerhouse and Generating Units**

**Estimated Capital Requirements**

The majority of capital requirements within the powerhouse are associated with overhauls of the four generating units, with the balance made up of upgrades and overhauls to auxiliary systems, powerhouse civil maintenance, and an allowance for miscellaneous small capital requirements.

The identified capital requirements are:

- **Generating Equipment Overhauls**
  - o Each of the generating units will require rehabilitation and/or replacement of key parts. Different components of the unit will have different useful lives and will be replaced on different schedules.
  - o Table 2 below shows the individual components of the generating units, the overhaul frequency, and the forecast capital cost per overhaul. Note, however, that in some cases the initial BC Hydro overhaul cost for specific components may be higher than the long-term costs due to BC Hydro’s use of modular exciters, governors, and protection and control equipment – once the asset is brought up to this standard future upgrades are for only a portion rather than the entire piece of equipment.

**Table 2 – Generating Equipment Overhaul Frequency and Cost**

<b>Equipment</b>	<b>Asset Life / Overhaul Frequency</b>	<b>Overhaul Cost (\$2017 millions)</b>
Generator (core, stator winding, rotor winding)	45 years	26.7
Turbine (runner, wicket gates, headcover/bottom ring)	45 years	32.7
Unit Circuit Breaker	40 years	4.0
Unit Transformer	40 years	8.5
Exciter	20 years	1.0
Governor	20 years	1.0
Protection and Control	20 years	3.5
Vibrosyst M Machine Condition Monitoring	20 years	0.5
Station Service	30 years	0.7
Scroll Case and Draft Tube Drain Valves	50 years	0.4
Service Water (cooling and fire protection)	50 years	0.7
Intake Operating Gate (incl coatings)	40 years	3.0

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Penstock Coating	40 years	5.0
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- Upgrade or overhaul of the draft tube stop log crane (estimated cost \$1.5 million)
  - o [REDACTED]
- Upgrade or overhaul of the unwatering pumps (estimated cost \$1.0 million)
  - o [REDACTED]
- Upgrade or overhaul of the sump pumps and the sump pump oil spill containment (estimated cost \$1.7 million)
  - o [REDACTED]
- Upgrade or overhaul of the powerhouse crane (estimated cost \$1.5 million)
  - o [REDACTED]
- Upgrade or overhaul of the service water piping (estimated cost \$7.8 million)
  - o [REDACTED]
- Powerhouse civil structure repairs (estimated cost \$6.3 million)
  - o [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
- An allowance for minor capital works (estimated cost \$0.5 million)
  - o [REDACTED]
  - o [REDACTED]
- Establishment of a Communications and Control System to Fraser Valley Operations (“FVO”) (estimated cost \$10 million)
  - o [REDACTED]
  - o [REDACTED]

Comparison to Senior’s Forecast





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The Seller includes allowances for major unit overhauls in their capital forecast and for other minor capital works. The amounts included in the Seller’s forecasts are as follows:

- A life extension for unit 3 in 2020 for an estimated cost of \$16.9 million
- An control room upgrade in 2021 for \$0.7 million
- A security systems upgrade in 2021 for \$1.1 million

The gap between BC Hydro and the Seller’s forecasts is approximately \$240 million (2018 real dollars) over the initial 20 years following the purchase of the Facility. Key differences between the Seller and BC Hydro’s forecasts are as follows:

- [REDACTED]
- [REDACTED]
- [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
  - o [REDACTED]
- [REDACTED]

**2.3. Transmission Stations**

**Estimated Capital Requirements**

The estimate of power transmission capital requirements covers only those requirements associated with:

- the Facility substation
- the transmission lines connecting the substation to the generating Facility (Lines 1-4)
- Line 71
- A portion of the substation.

The identified capital requirements for the assets within the current scope are:

- Rehabilitation and replacement of the transformers and circuit breakers within the substation (estimated cost of \$25 million)

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- [REDACTED]
- [REDACTED]
- Upgrades to oil spill containment (estimated cost of \$0.5 million)
  - [REDACTED]
  - [REDACTED]
- Pole replacement programs (estimated cost of \$20 million for Line 71, \$15 million for Lines 1-4)
  - [REDACTED]
  - [REDACTED]
- Other annual capital requirements of approximately \$0.7 million per year for the Transmission Lines and Substation

**Comparison to Seller’s Forecasts**

The seller identified costs for the substations and lines. The gap between BC Hydro and the Seller’s forecasts is approximately \$30 million (2018 real dollars) over the initial 20 years following the purchase of the Facility.

[REDACTED]

### 3. Harvest Forecasts

This section describes the modifications made to the life extension forecasts to develop alternate scenario forecasts where the asset is harvested over the remaining 40-year economic life.

#### 3.1. Leading Utility Practice

For the harvest scenario utilizing Leading Utility Practice, the following assumptions were made:

- **Dam Safety and Water Passage:** The capital forecast for dam safety and water passage assets would remain the same as under the Life Extension forecast. These items deal with the overall risk tolerance associated with the assets, rather than extension of the economic life.
- **Generation Electrical and Mechanical:** BC Hydro would utilize the Teck forecast as a baseline for the generation assets. BC Hydro made adjustments to the Teck forecast only where the current asset condition and/or age indicates that Teck will be required to invest capital above their current forecast to maintain the 40-year economic life. These adjustments are:
  - o Refurbishment of the following components of Units 1, 2 and 4: Generators, Governors, Exciters, Protection and Controls, Vibrosyst
  - o Upgrade of intake gates – current do not meet BC Hydro’s definition of Good Utility Practice
- **Transmission:** BC Hydro would not purchase the transmission line until 2039 under the expected scenario. As a result, BC Hydro would not make incremental investments in the transmission assets over the Lease term. BC Hydro’s only addition would be in the period following the Lease:
  - o A pole replacement program starting when BCH purchases the transmission assets in 2039.

#### 3.2. Good Utility Practice

For the harvest scenario utilizing Leading Utility Practice, the following assumptions were made:

- **Dam Safety and Water Passage:** BC Hydro would utilize the Teck forecast as a baseline for dam safety and water passage capital. Additional capital investments in dam safety and water passage expected by BC Hydro would be deferred until following the Lease term, except where BC Hydro believes such investments would be required in order to meet Good Utility Practice. Any investments not made during the Lease term would be made shortly after the end of the Lease term. The incremental capital investments remaining within the Lease term would be:
  - o Upgrades to address dam drain system deficiencies
- **Generation Electrical and Mechanical:** BC Hydro would utilize the Teck forecast as a baseline for the generation assets. Teck’s approach is expected to be consistent with a harvest strategy. BC Hydro made adjustments to the Teck forecast only where the current asset condition and/or age indicates that Teck will be required to invest capital above their current forecast to maintain the 40-year economic life. These adjustments are:
  - o Refurbishment of the following components of Units 1, 2 and 4: Generators, Governors, Exciters, Protection and Controls, Vibrosyst
  - o Upgrade of intake gates – current do not meet BC Hydro’s definition of Good Utility Practice
- **Transmission:** BC Hydro would not purchase the transmission line until 2039 under the expected scenario. As a result, BC Hydro would not make incremental investments in the transmission assets over the Lease term. BC Hydro’s only addition would be in the period following the Lease:
  - o Inclusion of a pole replacement program starting when BC Hydro purchases the transmission assets in 2039.

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Appendix B – Review of Waneta Capital Expenditure Forecasts

#### 4. Forecast Comparison

The following figures show the comparison between the three capital forecasts. Note that the life extension forecast is for 70 years, while the two harvest forecasts are for 40 years.

Figure 1 – Life Extension Scenario with Leading Utility Practice

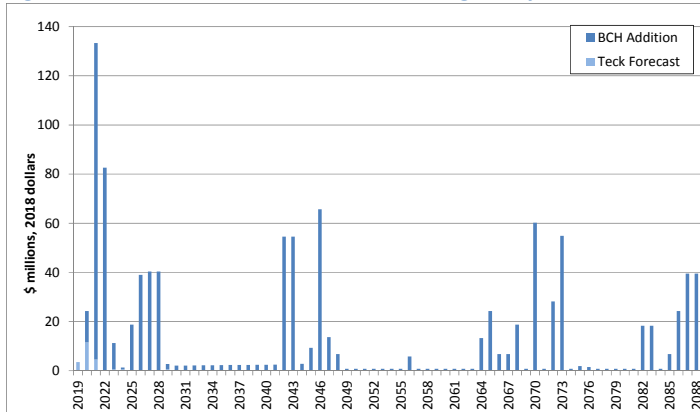


Figure 2 – Harvest Scenario with Leading Utility Practice

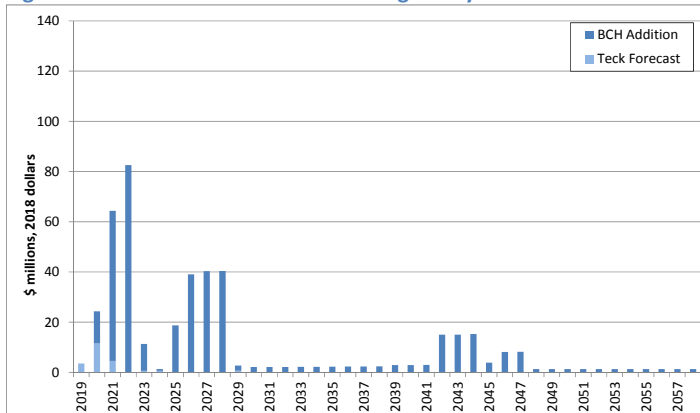
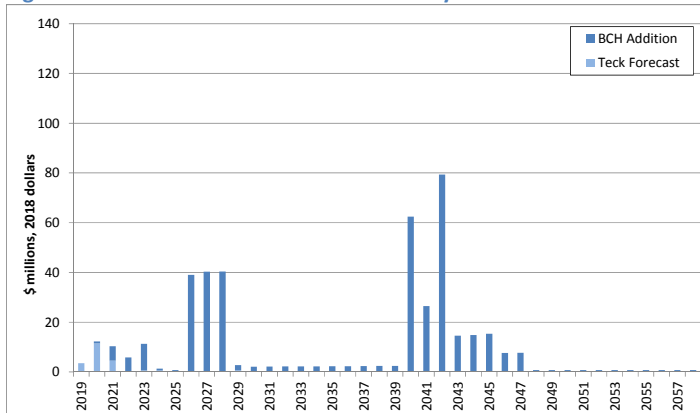


Figure 3 – Harvest Scenario with Good Utility Practice



## **APPENDIX C**

### **Analysis of Waneta Transmission Options**

**1. Background**

Teck’s Line 71 is a 25 km, 230kV line that currently provides transmission capacity to Teck, BC Hydro, Powerex and FortisBC. The transmission line and the related contractual rights associated with the asset move BC Hydro’s one-third share of Waneta output to the BC Hydro system and provide scheduling rights to the BC-US border for Teck, FortisBC and Powerex market access. During the lease period it is expected that the 2/3 interest in the Waneta generation would serve the Teck smelter load and that Teck will require the Line 71 asset to periodically import to serve smelter load in the case of a Waneta outage, or to export a small volume of surplus Waneta electricity to market (generally purchased by PWX).

BC Hydro is aware of the following parties owning rights to Line 71 capacity:

- Under the Co-Ownership Agreement with Teck, BC Hydro currently has guaranteed scheduling rights to move BC Hydro’s one-third share of Waneta output (up to 250 MW through 2035) over a portion of Line 71 capacity (370 MW) to the BC Hydro system and to the BC-US border.
- Under the 1987 letter agreement with Teck, FortisBC also has import and export scheduling rights to and from the BC-US border using the residual Line 71 rights not used by Teck.

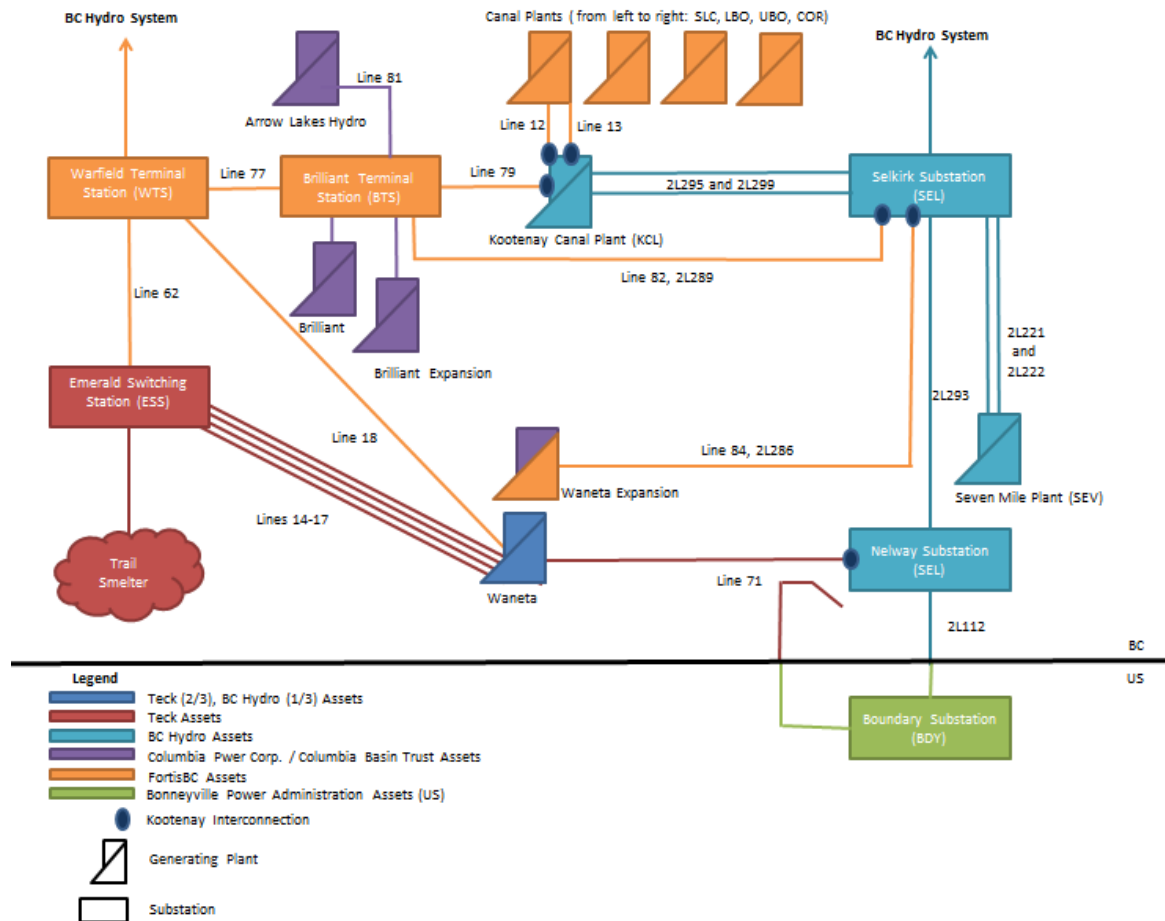
At the end of the lease of the generation assets (whether through its expiry or a default scenario) BC Hydro will need the ability to deliver the full Waneta generation to the BC Hydro system. This can be achieved through:

- Contractual transmission rights to Line 71 along with some potential rights on the FortisBC system.
- Ownership rights to Line 71 along with some potential rights on the FortisBC system.
- Construction of additional transmission capacity from Waneta to the BC Hydro system.

The amount of transmission capacity required from Waneta to the BC Hydro system depends primarily on whether or not the Teck smelter is served by BC Hydro. Post-lease, the transmission capacity requirement from Waneta is approximately 250 MW if BC Hydro is serving the smelter load, and up to 480MW if BC Hydro is not serving the smelter load. As discussed below, since L71 has a capacity of only 370MW, if the Waneta generation is not serving smelter load, when the generation is more than 370MW, additional transmission capacity would be required to deliver the Waneta generation to the BC Hydro system. Teck currently has the option to purchase up to 150 MW of capacity rights (or an undivided interest) on Lines 62, 77 and 79.

[REDACTED]

Figure 1 Regional Transmission Overview



## 2. Methodology

This appendix evaluates various Line 71 scenarios to assess its value to BC Hydro as part of the broader purchase of the Waneta 2/3 Interest. This analysis reviewed options with both BC Hydro and Teck ownership of the transmission assets for various terms.

The following assumptions are made for the purposes of developing a recommendation on Line 71:

1. BC Hydro purchases the remaining 2/3 of Waneta subject to a lease to Teck for 20 years. The option for Teck to renew for a further 10 years is not considered in this analysis.
2. As provided in the ROFO, the transmission assets considered include Line 71 and Lines 14-17 (connecting the Waneta generating station to the Teck smelter at Emerald Switching Station [ESS]). This evaluation has not considered separating the ownership of these assets and has generally included Lines 14-17 under the heading Line 71.

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3. The 1987 letter agreement for FortisBC rights to Line 71 use remains in place despite BC Hydro purchase of the transmission assets, [REDACTED]
4. As provided in the ROFO, Teck will not be charged for wheeling imports on Line 71.
5. The capacity of Line 71 is 370 MW which is approximately 110 MW less than the full capacity of the Waneta plant. After the lease period, in the infrequent hours where Waneta is not serving the [REDACTED] load and is generating near full output, BC Hydro would need to acquire additional transmission capacity to ensure delivery of the entire output of Waneta generation.<sup>2</sup> Two options exist to deliver:
  - Purchase transmission rights on the FortisBC system via Lines 62/77/79.
  - Build transmission, either through an upgrade of Line 71, or through a separate extension to the BC Hydro system.

This appendix does not consider the acquisition of the additional 110 MW of transmission capacity and assumes it is required regardless in all of the scenarios outlined below<sup>3</sup>.

### 3. Option Identification and Analysis

BC Hydro identified three options associated with the acquisition of Line 71 Transmission rights to bring 370 MW of Waneta output to the BC Hydro system. These scenarios are outlined in Table 1.

Table 1 Ownership Scenarios

	Scenario 1: Buy Tx Assets in 20 Years	Scenario 2: Buy Tx Assets Now	Scenario 3: Get Rights to Tx Assets in 20 Years
<b>During-lease</b>	Teck	BC Hydro	Teck
<b>Post-lease ownership</b>	BC Hydro	BC Hydro	Teck (or another purchaser)
<b>Post-lease rights</b>	Teck holds 300MW of import rights	Teck holds 300MW of import rights	BC Hydro holds sufficient rights for Waneta

- Scenario 1 defers the purchase of the transmission asset until the end of the lease when it is potentially required by BC Hydro.
- Scenario 2 corresponds to the structure of Teck’s transaction with Fortis Inc. where Fortis Inc. purchases the transmission assets up front and provides post-lease import rights to Teck.
- Scenario 3 avoids the purchase of the transmission assets entirely, and assumes that BCH is able to negotiate for sufficient transmission rights from Teck (or another purchaser) for the post-lease period.

#### 3.1. Costs and Revenues

BC Hydro prepared a discounted cashflow valuation model to evaluate the costs and revenues of the three options. A description of the costs and revenues of each scenario is below.

<sup>1</sup> The 1987 letter agreement with Teck provides for a FortisBC wheeling cost [REDACTED] whereas the BC Hydro OATT is approximately \$8/MW/hr and \$3/MW/hr (\$201 [REDACTED] with a value escalation to [REDACTED] electricity rates) for firm and non-firm transmission, respectively.

<sup>2</sup> Currently under the Co-ownership and Operating Agreement, in relation to BC Hydro’s [REDACTED] interest in Waneta, BC Hydro has first priority capacity on Line 71 for 246 MW through 2035; and first priority [REDACTED] Line [REDACTED] for 123 MW after 2035.

<sup>3</sup> Based on a BC Hydro usage of 150 GWh/yr on the FortisBC system, the present value cost over a 20-year post-lease period is approximately \$15M (2018\$).



- **Scenario 1 (Buy Transmission Assets in 20 years)**
  - o During Lease:
    - Cost: None
    - Revenue: None
  - o Post Lease:
    - Cost:
      - Assumed purchase price of \$20 million (2038\$)
      - Operating, maintenance and recurring operating costs
    - Revenues:
      - Revenue from Fortis BC under the 1987 letter agreement
      - Use by Teck to serve its smelter load will be covered by a wheeling agreement for up to 300 MW of import at no cost.
  
- **Scenario 2 (BC Hydro purchases Transmission Assets immediately)**
  - o During Lease:
    - Cost:
      - Purchase price of \$20 million (2018\$) with leaseback to Teck
      - Operating, maintenance and recurring capital paid by Teck during the lease term
    - Revenues:
      - Lease payments from Teck
      - It is assumed that FortisBC transmission use would be paid to Teck under the 1987 letter agreement
  - o Post-Lease
    - Cost:
      - Operating, maintenance and recurring operating costs
    - Revenues:
      - Revenue from Fortis BC under the 1987 letter agreement
      - Use by Teck to serve its smelter load will be covered by a wheeling agreement for up to 300 MW of import at no cost.
  
- **Scenario 3 (BC Hydro does not purchase transmission assets)**
  - o During Lease:
    - Cost: None
    - Revenues: None
  - o Post-Lease
    - Cost:
      - Cost of transmission capacity paid to Teck, assumed to be based on Teck cost to operate and maintain
    - Revenues: None

Table 2 provides a summary of the costs and revenues, as well as the net present value of the cashflow streams.

**Table 2 Costs and Revenues<sup>4</sup>**

<b>Option</b>	<b>Scenario 1: Buy Tx Assets in 20 Years</b>	<b>Scenario 2: Buy Tx Assets Now</b>	<b>Scenario 3: Get Rights to Tx Assets in 20 Years</b>
During Lease:	None	Lease Revenue	None
Post Lease:	– OMA – Sustaining Capital – FBC Revenue	– OMA – Sustaining Capital – FBC Revenue	– Teck OMA – Teck Sustaining Capital
<b>Net Present Value (2018\$M)</b>	(14.0)	(13.1)	(8.4)

As shown, all three options result in net costs to BC Hydro with a Net Present Value ranging from \$8.4M to \$14.0M in 2018 dollars.

<sup>4</sup> [https://extranet.bchydro.com/sites/W67/docs/01\\_Finance/Financial\\_Model/Tx Assets 2017-06-13.xlsm](https://extranet.bchydro.com/sites/W67/docs/01_Finance/Financial_Model/Tx_Assets_2017-06-13.xlsm)

### 3.1. Risks and Opportunities

#### 3.1.1. Risk Assessment

There is a difference in BC Hydro’s risk exposure between scenarios. Table 3 provides an overview of the risks associated with each option. Further discussion is provided below.

**Table 3 Key Risks**

	<b>Scenario 1: Buy Tx Assets in 20 Years</b>	<b>Scenario 2: Buy Tx Assets Now</b>	<b>Scenario 3: Get Rights to Tx Assets in 20 Years</b>
Access to transmission	– Certain access to transmission	– Certain access to transmission – BCH potentially able to upgrade Line 71 during lease	– Access to firm transmission for the full Waneta capacity is uncertain as Teck will control assets
Cost certainty	– Cost will be determined by BC Hydro	– Cost will be determined by BC Hydro	– Cost will be subject to negotiations with Teck
Asset Maintenance	– No asset maintenance or operation required for lease term	– No asset maintenance or operation required for lease term	– No asset maintenance or operation required
Regulatory Risk			
Potential for counterparty objections			

#### Access to Transmission

BC Hydro gains transmission access certainty if it purchases the transmission immediately (Scenario 2) or in 20 years (Scenario 1). Purchasing the assets now may also provide BC Hydro with the opportunity to upgrade the capacity of L71 to be able to transfer the full generating capacity from the Waneta Plant to the BC Hydro system. Under Scenario 3, BC Hydro’s ability to acquire transmission rights by upgrading Line 71 would be subject to Teck’s agreement to upgrade the line. Specifically, BC Hydro’s access would be subject to available rights in second preference to Teck’s own usage as well as their upkeep of the line to maintain sufficient capacity.

Cost Certainty

Cost certainty is achieved under Scenario 1 and 2 as the price of the transmission assets is being negotiated as part of the Waneta transaction, with the exception of the Line 62/77/79 option which has a variable option price based on the book value at the time that the option is exercised. Scenario 3 has higher cost uncertainty as the costs will be unknown until such time that the access rights are obtained following the lease. In addition, Teck has indicated that it is not interested in owning transmission once it no longer owns the Waneta Plant so it is conceivable that Teck may look to sell the transmission assets to another party [REDACTED] from whom BC Hydro would need to acquire rights.

Asset Maintenance

Under all scenarios, operation and maintenance costs will be covered by Teck during the lease term. Following the lease, BC Hydro will assume responsibility for these costs under Scenario 1 and 2 given that BC Hydro will own the Line 71.

Regulatory Risk

[REDACTED]

Potential Counterparty Objections

[REDACTED]

3.1.2. Opportunities

Different opportunities may be realized under each scenario. This section provides an overview of the opportunities associated with each option.

- Scenario 1 (Buy Transmission Assets in 20 years)

- o During Lease:
  - BC Hydro maintains current access to L71 while Teck covers operation and maintenance costs.
- o Post Lease:
  - [REDACTED]

- [REDACTED]
- Scenario 2 (BC Hydro purchases Transmission Assets immediately)
  - o During Lease: N/A
  - o Post-Lease
    - [REDACTED]
    - [REDACTED]
- Scenario 3 (BC Hydro does not purchase transmission assets): no additional opportunities are available under this scenario.

4. Sensitivities

Two sensitivities were examined:

1. An increase in the annual sustaining capital and OMA of \$1M total per year.
2. [REDACTED]

Table 4 Net Present Value Sensitivities

Net Present Value (2018\$M)	Scenario 1: Buy Tx Assets in 20 Years	Scenario 2: Buy Tx Assets Now	Scenario 3: Get Rights to Tx Assets in 20 Years
Baseline	[REDACTED]	[REDACTED]	[REDACTED]
\$1M/yr increase in mtce costs	[REDACTED]	[REDACTED]	[REDACTED]

Table shows that both ownership scenarios (1&2) are very similar in net present value regardless of sensitivity,

[REDACTED]

ED

E

D

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5. Discussion and Conclusions

Scenario 1 preserves the status quo and secures the necessary transmission assets when they are required at a potentially discounted price. This scenario maintains the status quo on the transmission ownership during the term of the Generating Lease [REDACTED] This scenario carries the potential for transmission tariff revenues at the end of the Generating Lease term.

Scenario 2 secures BC Hydro’s interests in the transmission assets now but [REDACTED] This scenario also carries the potential for transmission tariff revenues at the end of the Generating Lease term.

Scenario 3 secures future contractual access to Teck’s transmission capacity for Waneta generation [REDACTED]. This scenario also has the lowest net present cost; however, this option would leave BC Hydro in the unusual position of owning and operating a generation asset that is not directly related to the BC Hydro system, which would introduce greater uncertainty over how the electricity could be delivered to the BC Hydro system. Further, Teck has also indicated it would not prefer to continue to own and operate transmission assets following the expiry of the lease. There is also the potential that a third party [REDACTED] would acquire the line [REDACTED].

All three scenarios are expected to result in costs to BC Hydro. However, it should be noted that only Scenario 2 uses firm cost assumptions (as it is based on the Teck deal with Fortis Inc.). [REDACTED]

The conclusion of this analysis is that Scenario 1 is preferred: a structure where Teck retains the transmission assets for the term of the Generating Lease and BC Hydro only purchases Line 71 and Teck’s other transmission assets at the end of the lease period (or in case of a Teck default) when BC Hydro requires the assets to deliver the Waneta generation to the BC Hydro system. This scenario provides a comparable cost to Scenario 2 and higher costs than Scenario 3, but has substantially less risk [REDACTED].

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**Waneta 2/3 Interest Business Case  
Appendix D – Long-Term Planning Scenarios**

## **APPENDIX D**

### **Sensitivity Analysis using Long-Term Planning Scenarios**

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Waneta 2/3 Interest Business Case  
Appendix D – Long-Term Planning Scenarios

BC Hydro is undertaking a scenario planning process to help assess the risks of Recommended Actions for the 2018 Integrated Resource Plan. The process has led to identification of five scenarios that describe plausible ways in which the future could evolve over the next three decades with implications for the way in which society produces, distributes, and consumes energy. These scenarios will be used to inform planning and development of initiatives with long-term implications for the company.

BC Hydro has applied the conceptual framework of these scenarios to the Waneta Transaction and conducted sensitivity analysis on the present value of the transaction according to the scenarios. Please note that this represents the first time these scenarios have been used in project evaluation, and these results should be taken as indicative.

Three planning scenarios have been identified to help assess the risks for the Project:

- The “Borders Rising” scenario represents a world in which globalization falters and lack of ability to agree on global trade also impacts concerted action on climate change. It is a world in which retrenchment occurs and protectionism reigns. Fossil fuels continue to play a big role in the energy mix with a primary focus on security of supply and technological advancements in resource extraction keeping a lid on fossil fuel prices. Low cost natural gas generation keeps market electricity prices low in addition to increasing the cost competitiveness of utilities in neighbouring jurisdictions.

For analysis, BC Hydro made the following adjustments to the assumptions in the discounted cashflow model:

- o Long-term load growth slowed due to challenges with industrial growth as a result of a protectionist world – assume 10-year delay to LRB deficit.
  - o Due to industrial challenges, the Teck smelter load does not come to BC Hydro.
  - o Long-run marginal cost of clean energy and capacity is as-forecast at \$145/MWh.
- The “Great Expectations” scenario represents a world in which nations continue to act autonomously in fighting climate change. A mixed bag of approaches across the world is adopted with many jurisdictions directing solutions such as Renewable Portfolio Standards. Renewables backed up by gas capacity is the default source of electricity in North America while electrification of the transportation and other sectors drives up electricity demand.

For analysis, BC Hydro made the following adjustments to the assumptions in the discounted cashflow model:

- o Long-term load growth accelerated due to additional electrification – assume 5-year acceleration to LRB deficit.
- o Long-run marginal cost of energy increases as additional clean energy acquisition activity pushes prices up the supply curve – assume LRMC with clean resources at 15% premium to forecast (\$167/MWh).

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- The “Tech Transforms” scenario represents a future in which rapidly evolving technology and consumer expectations disrupt current energy market models. In this scenario, distributed generation plays a key role in smart, community energy systems. Battery technology advances rapidly while there is an even greater focus on energy efficiency. Utilities see a significant percentage of their customer self-generate non-trivial volumes of their electricity needs resulting in a reduction in net electricity demand.

For analysis, BC Hydro made the following adjustments to the assumptions in the discounted cashflow model:

- o Long-term load growth significantly reduced – assume change to LRB deficit is delayed indefinitely (i.e. BCH is in indefinite surplus).
  - o Distributed generation and technology changes keep market electricity prices suppressed – assume market sale prices remain around \$33/MWh (2018 real dollars).
  - o Due to low market prices, the Teck smelter load does not come to BC Hydro.
- The three scenarios described above represent a broad spectrum of potential ways in which the world could evolve with differing impacts on the cost-effectiveness of the transaction options. The impacts on the cost-effectiveness of the transaction options in BC Hydro’s two other future scenarios, “Last Resort” and “Integrated Markets” are similar to Great Expectations and have not been evaluated separately.

**Table 1 Sensitivity to Long-Term Planning Scenarios – Transaction**

Planning Scenario	Key Assumptions	Net Value of Transaction (\$ millions)
<b>Base Planning Assumptions</b>		
BCH Base Planning Scenario (LRMC – Clean)	<ul style="list-style-type: none"> <li>- Expected LRB with LNG, no smelter load</li> <li>- Generation valued at LRMC (Clean)</li> </ul>	882
Core Analysis – Market (ABB)	-	
<b>Alternative Assumption Scenarios</b>		
Borders Rising	<ul style="list-style-type: none"> <li>- 10-year delay to LRB deficit due to industrial load challenges, smelter not served by BCH</li> <li>- Generation valued at LRMC (Clean + Gas) once in deficit</li> </ul>	391
Great Expectations	<ul style="list-style-type: none"> <li>- Long-term load growth 5 year accel to LRB</li> <li>- Smelter not served by BCH</li> <li>- Generation valued at LRMC Clean +15%</li> </ul>	1,271
Tech Transforms	<ul style="list-style-type: none"> <li>- No long-term load growth, no smelter load</li> <li>- Generation valued at current real \$ market prices (\$33/MWh for energy + capacity)</li> </ul>	(326)

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**Waneta 2/3 Interest Business Case  
Appendix E – Review of Alternate Transaction Structures**

**APPENDIX E  
Review of Alternate Transaction Structures**

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**NOTE: This document is confidential and contains information that is commercially sensitive to both BC Hydro and other parties listed in this document.**

**1. Background**

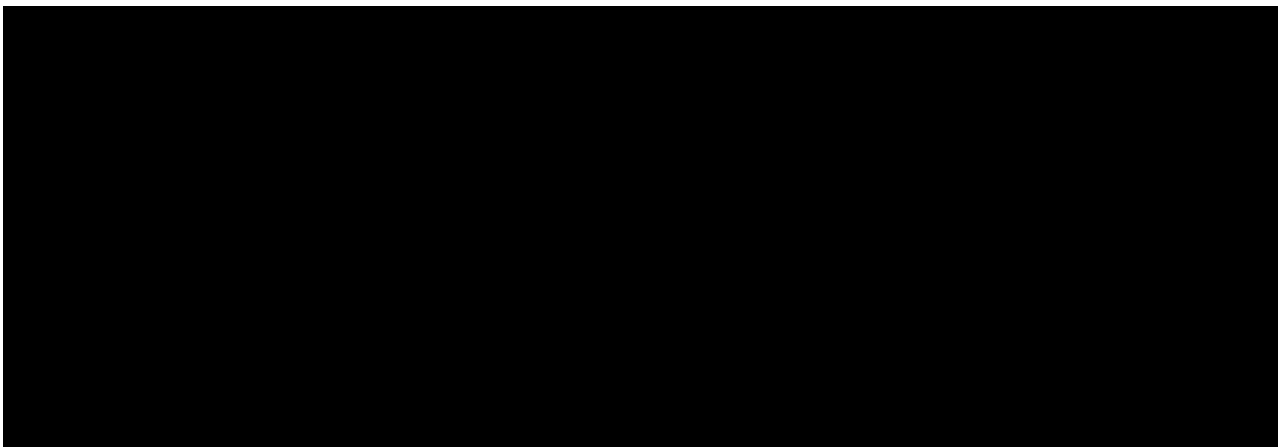
Throughout the sales process undertaken by Teck, BC Hydro has been approached by numerous parties with a goal of potentially enhancing a bid or transaction involving BC Hydro and the 2/3 Interest. The ability of BC Hydro to engage in discussions with third parties was significantly limited by the terms and conditions of non-disclosure agreements with Teck and conditions under which Teck undertook its sale process. Within these limitations, BC Hydro undertook the following engagement with third parties.

- [REDACTED]
- [REDACTED]

This appendix describes BC Hydro’s consideration of the alternative transaction structures that may be available through engagement with these third parties.

Note that, due to the limited time period (60 days) that BC Hydro has to consider the ROFO Sale Notice, as well as the relative complexity of the various agreements underlying the 2/3 Interest, it is not feasible to reach commercial terms with a third party for participation in the purchase of the 2/3 Interest within the ROFO notice period. As a result, BC Hydro has developed its business case to make a determination on whether to purchase the 2/3 Interest without third-party participation. However, the alternative transaction structures may provide the ability to enhance the value of the transaction following the ROFO period. In order to preserve this potential enhanced value, BC Hydro is negotiating a right to assign the Transaction contracts to another party following the ROFO response.

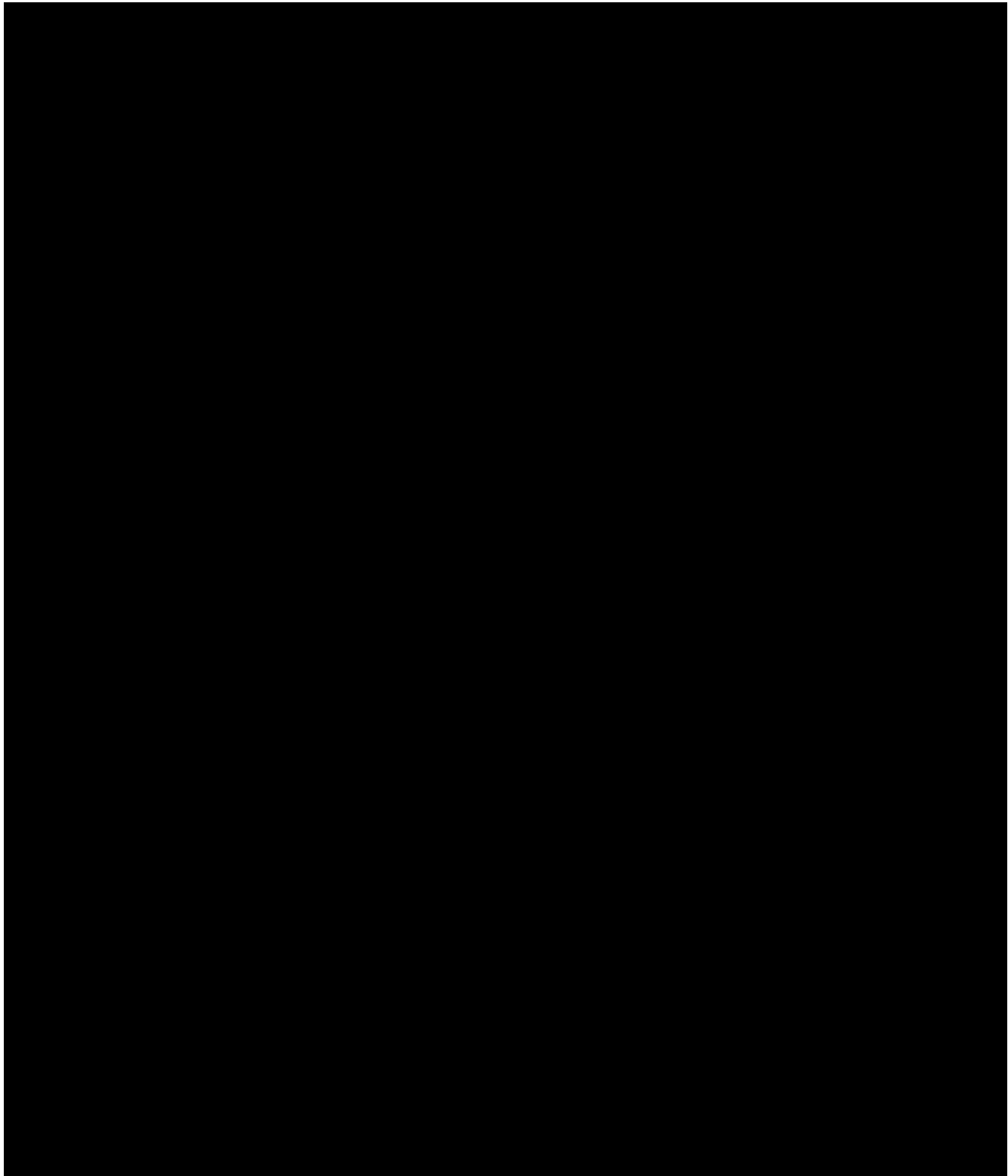
**2. Potential for Value Enhancement**



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Waneta 2/3 Interest Business Case  
Appendix E – Review of Alternate Transaction Structures

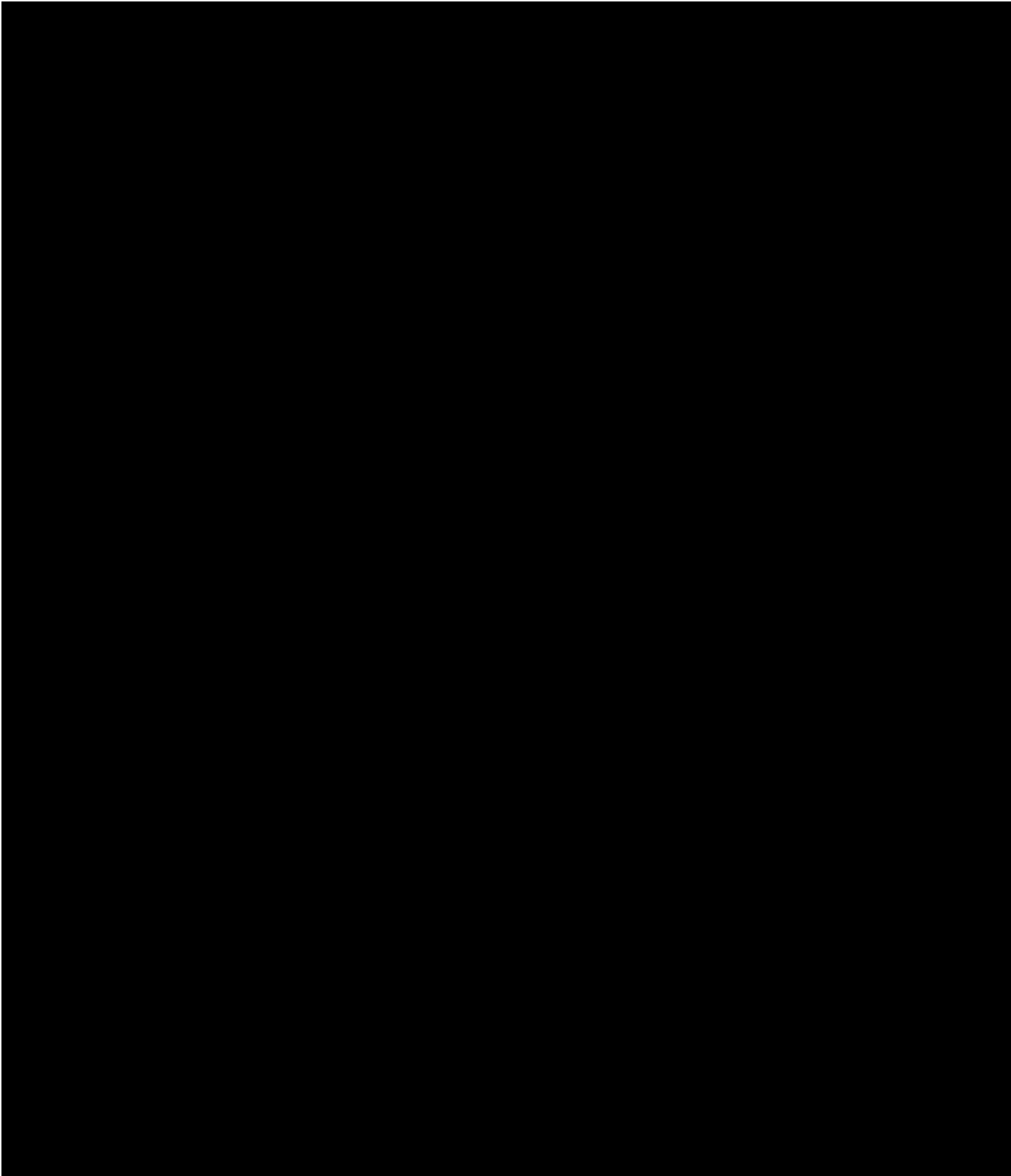
**3. Alternate Transaction Structures**



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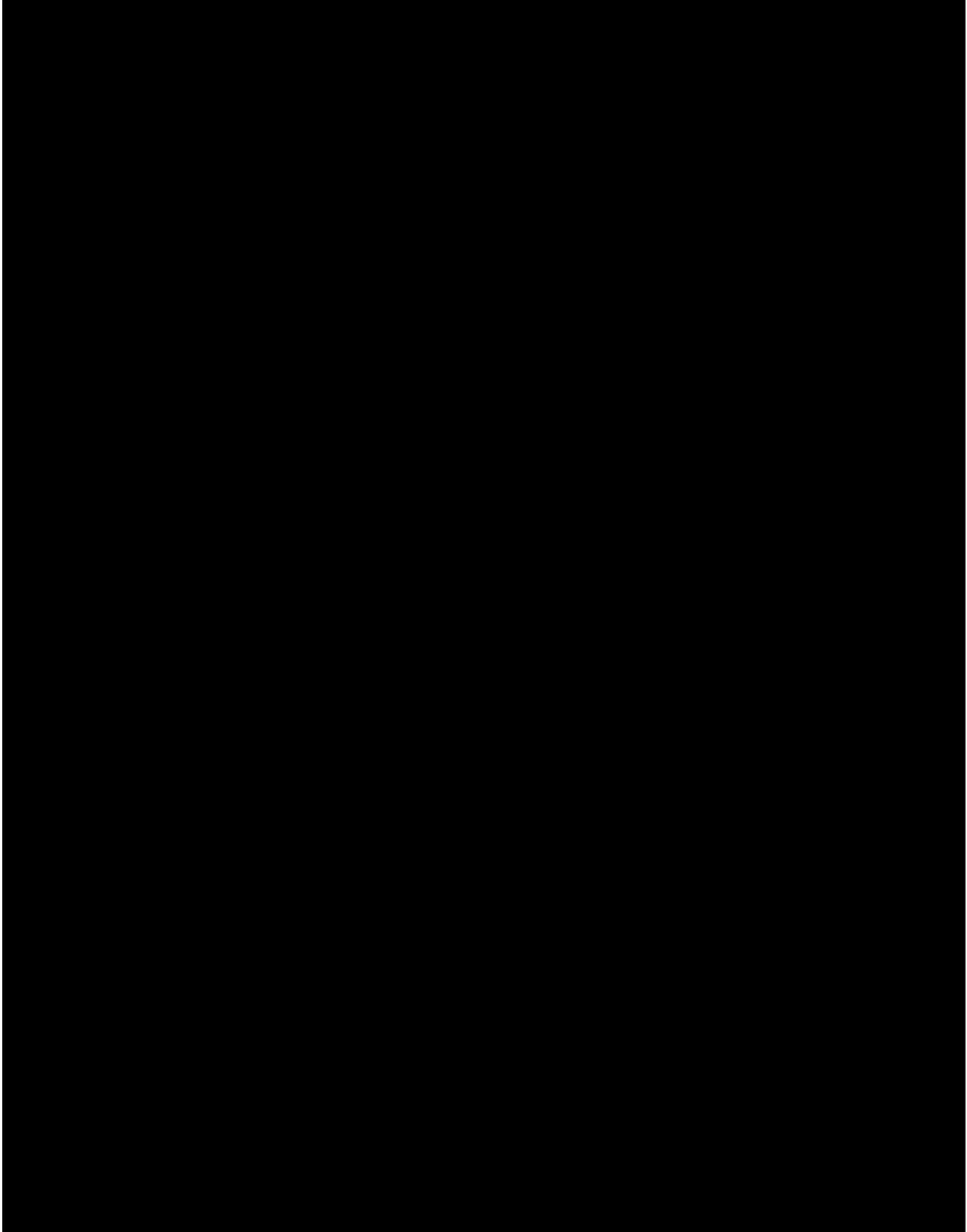
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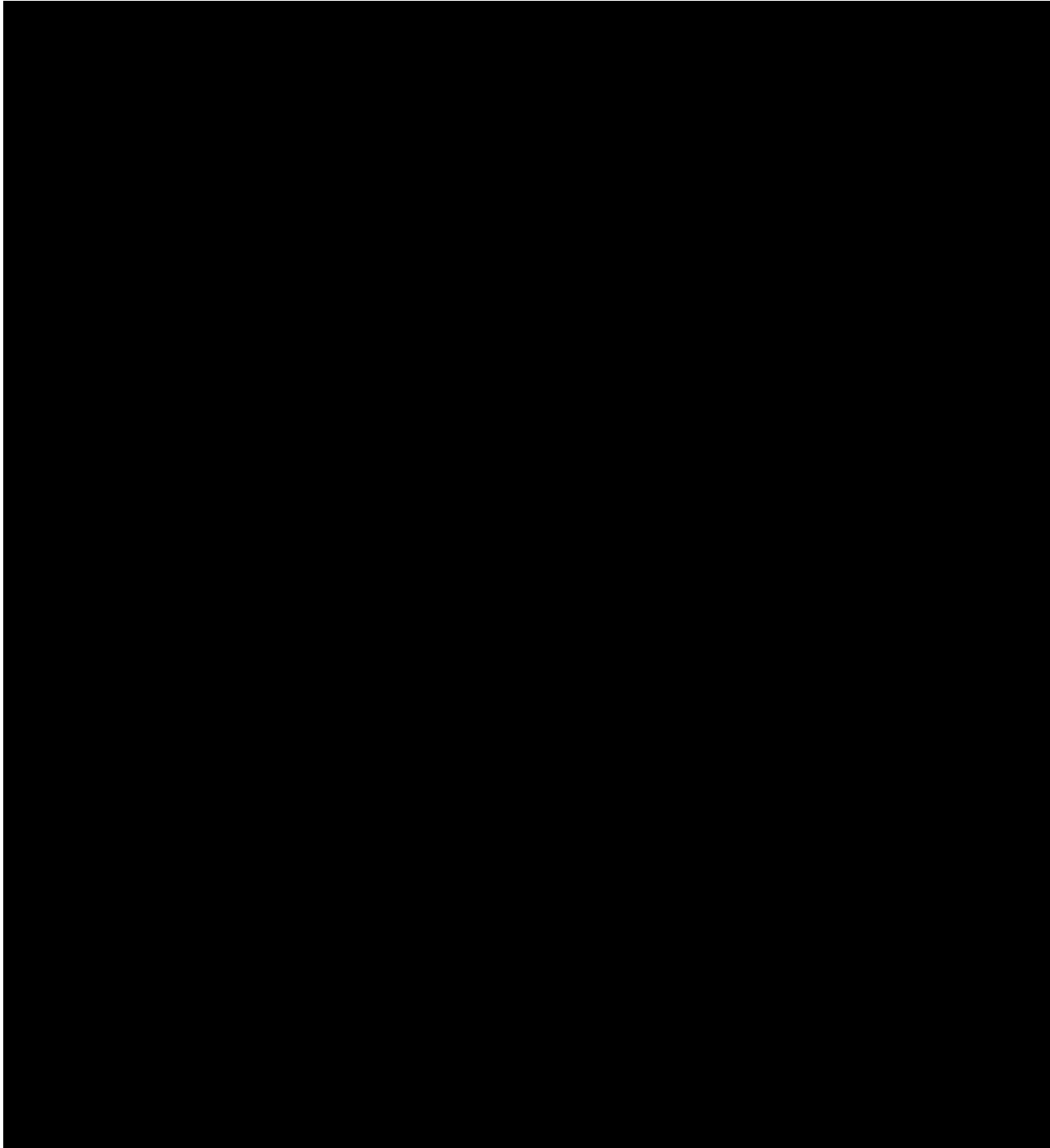
**Waneta 2/3 Interest Business Case  
Appendix E – Review of Alternate Transaction Structures**



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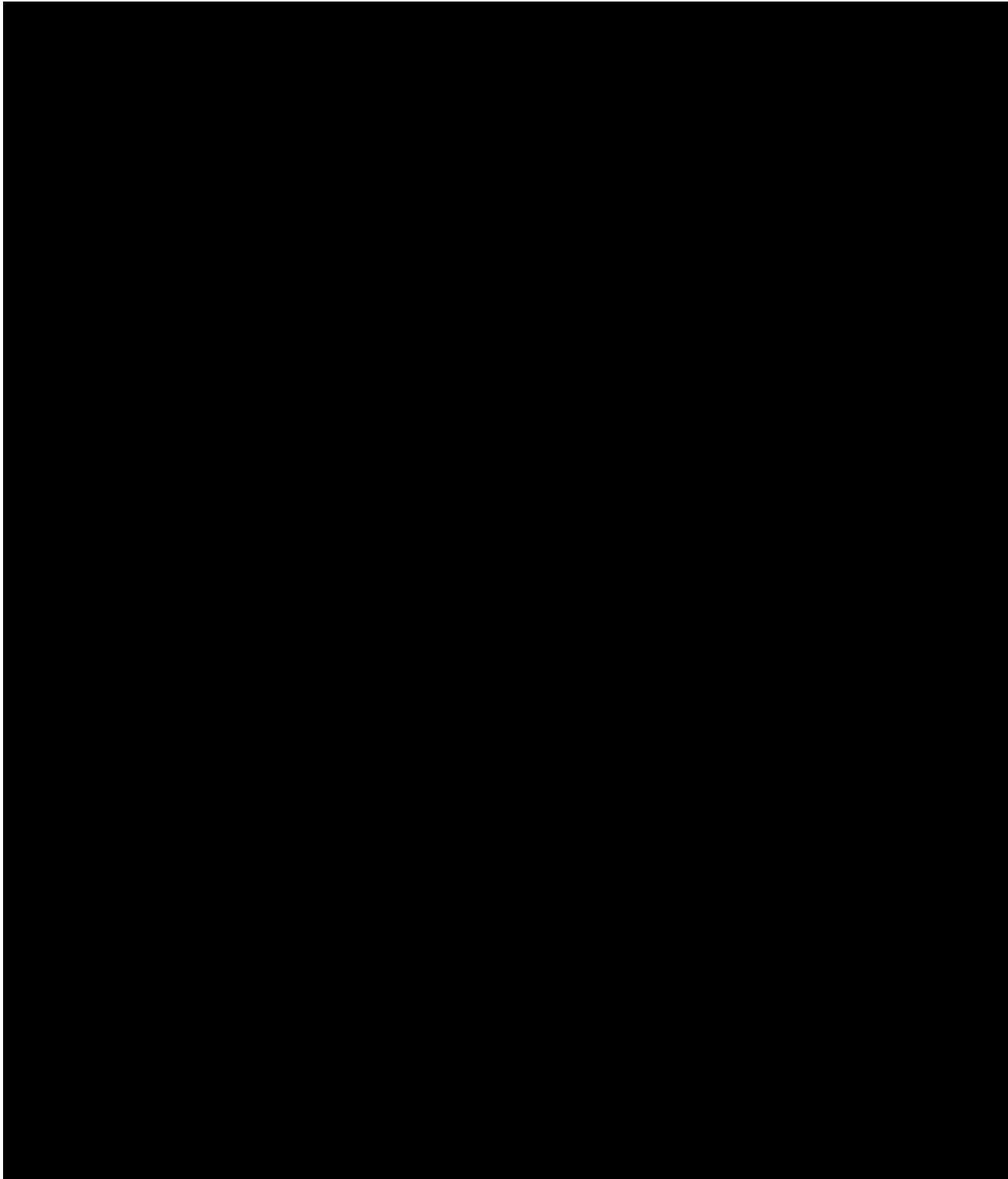
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Waneta 2/3 Interest Business Case  
Appendix E – Review of Alternate Transaction Structures

**4. Comparison of Alternative Structures**



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**Waneta 2/3 Interest Business Case  
Appendix F – Counterparty Opportunity Cost**

**Appendix F  
Assessment of Counterparty Opportunity Cost**

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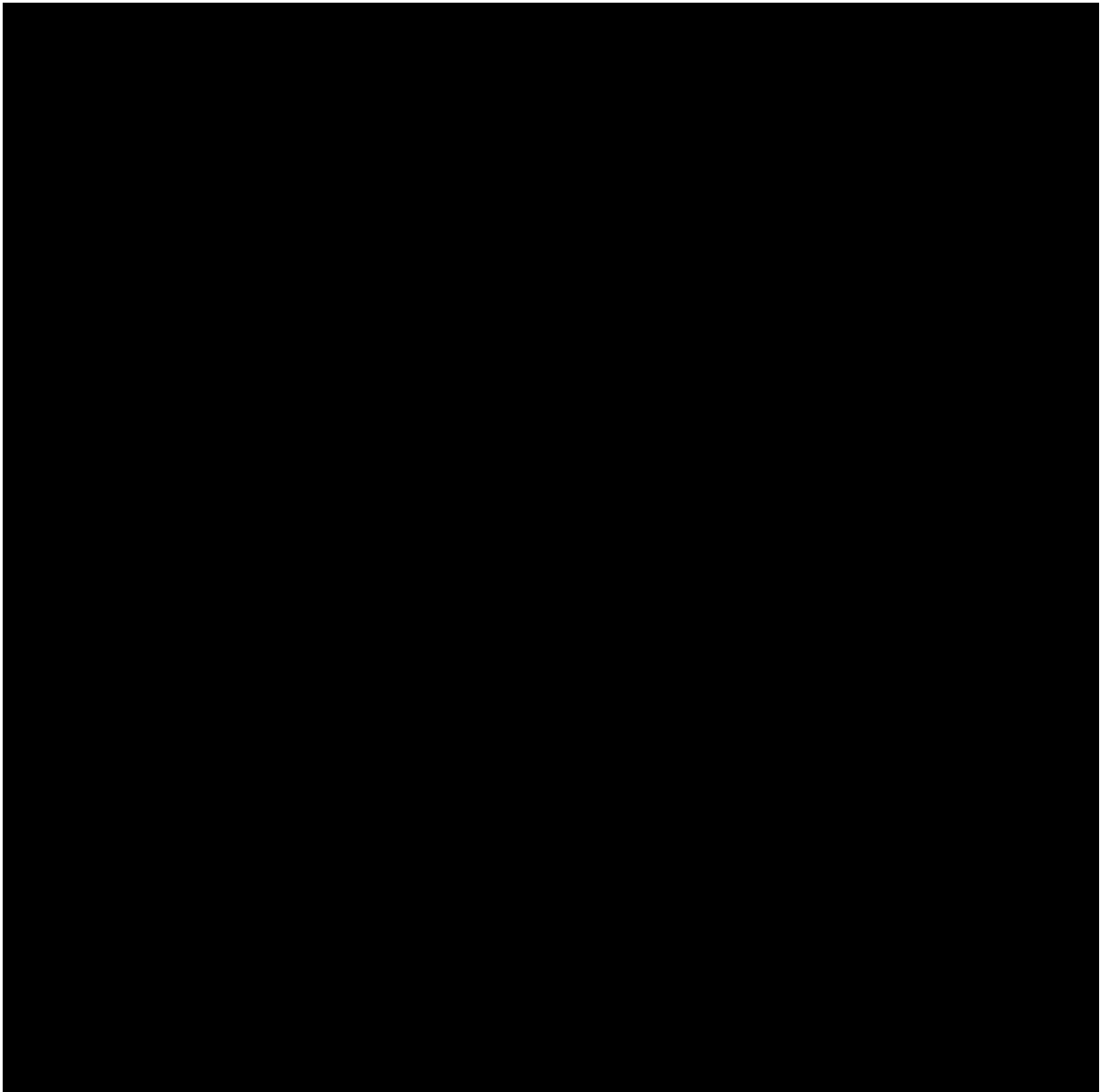
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**Waneta 2/3 Interest Business Case  
Appendix F – Counterparty Opportunity Cost**

BC Hydro conducted an analysis of the value of the transaction from the perspective of both the seller (Teck) and potential participants in Teck’s auction process (of which Fortis Inc. has been the successful bidder). This analysis was undertaken to understand the potential range of pricing BC Hydro should expect to see in Teck’s auction process and allow for informed consideration of potential BC Hydro negotiating positions. It should be noted that, based on the agreement between Teck and Fortis Inc., the question of opportunity cost is now moot – the price of the transaction to BC Hydro is now \$1.2 billion irrespective of how the other parties value the transaction.

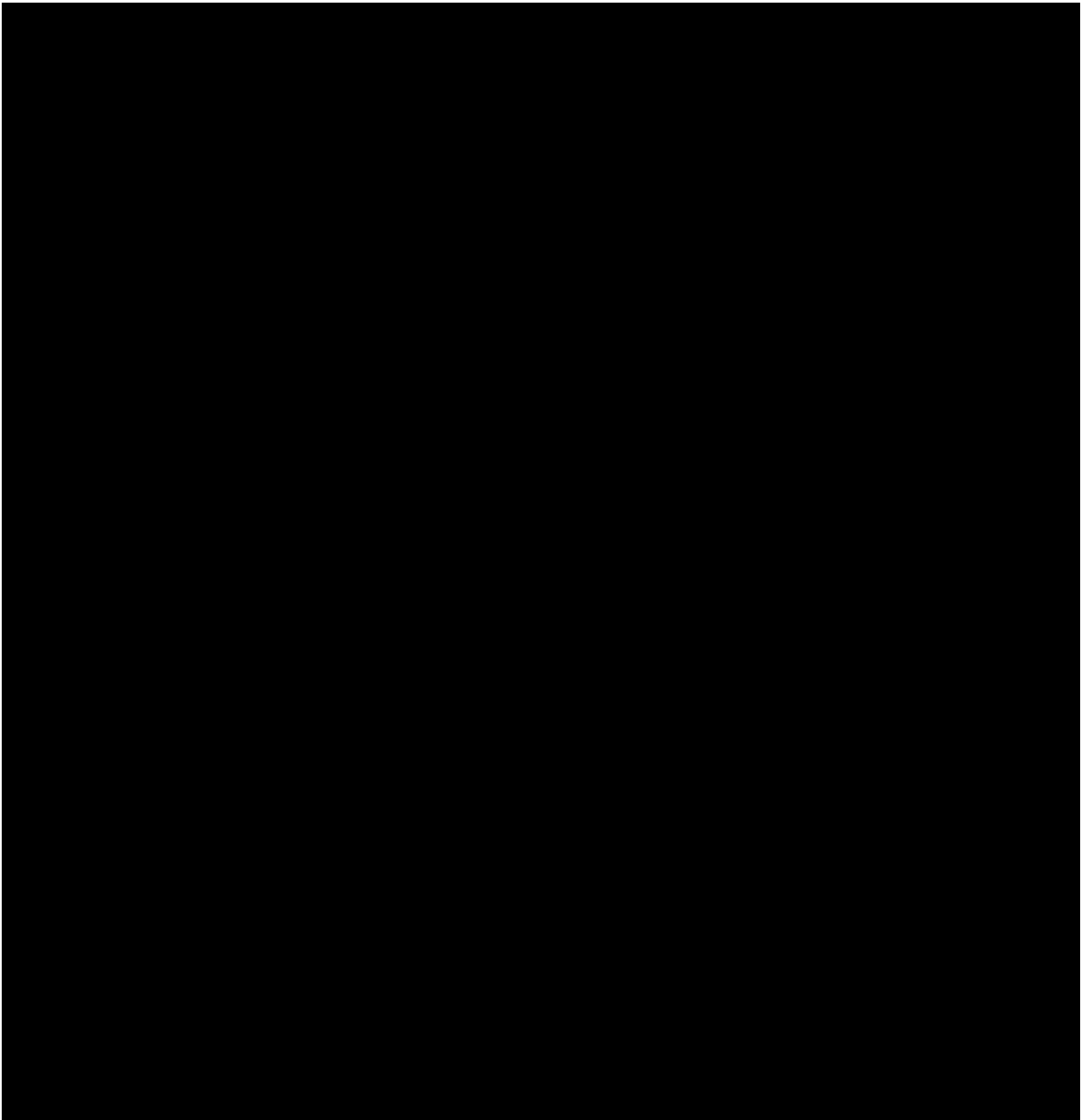
**1. TECK OPPORTUNITY COST**



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**Waneta 2/3 Interest Business Case  
Appendix F – Counterparty Opportunity Cost**



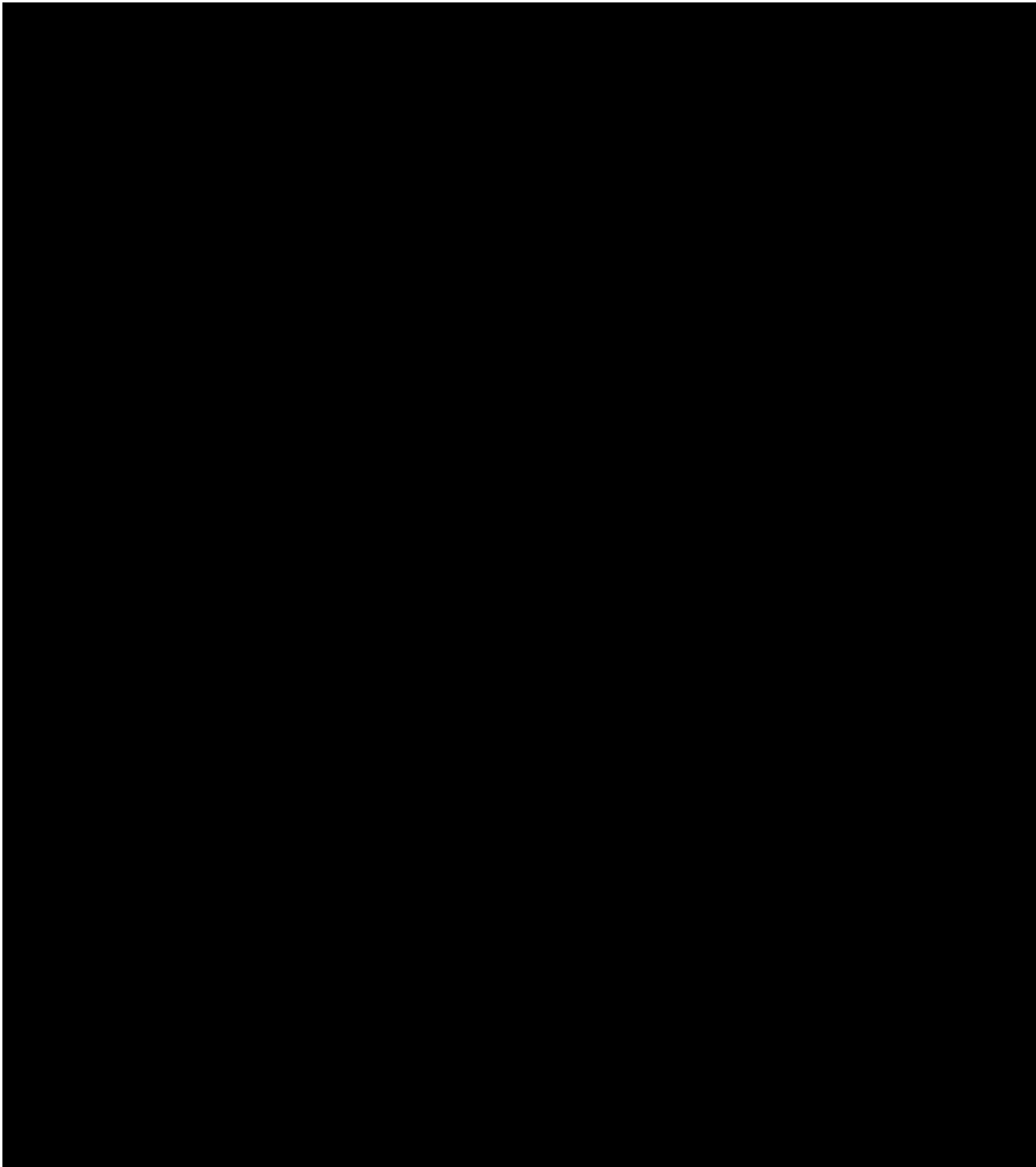
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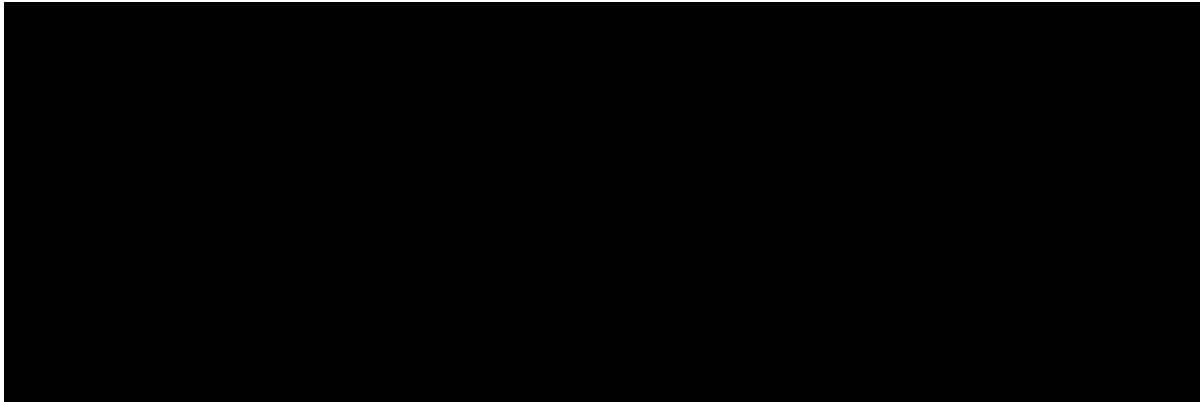
**Waneta 2/3 Interest Business Case  
Appendix F – Counterparty Opportunity Cost**

**2. FORTIS INC. OPPORTUNITY COST**



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## **Waneta 2017 Transaction**

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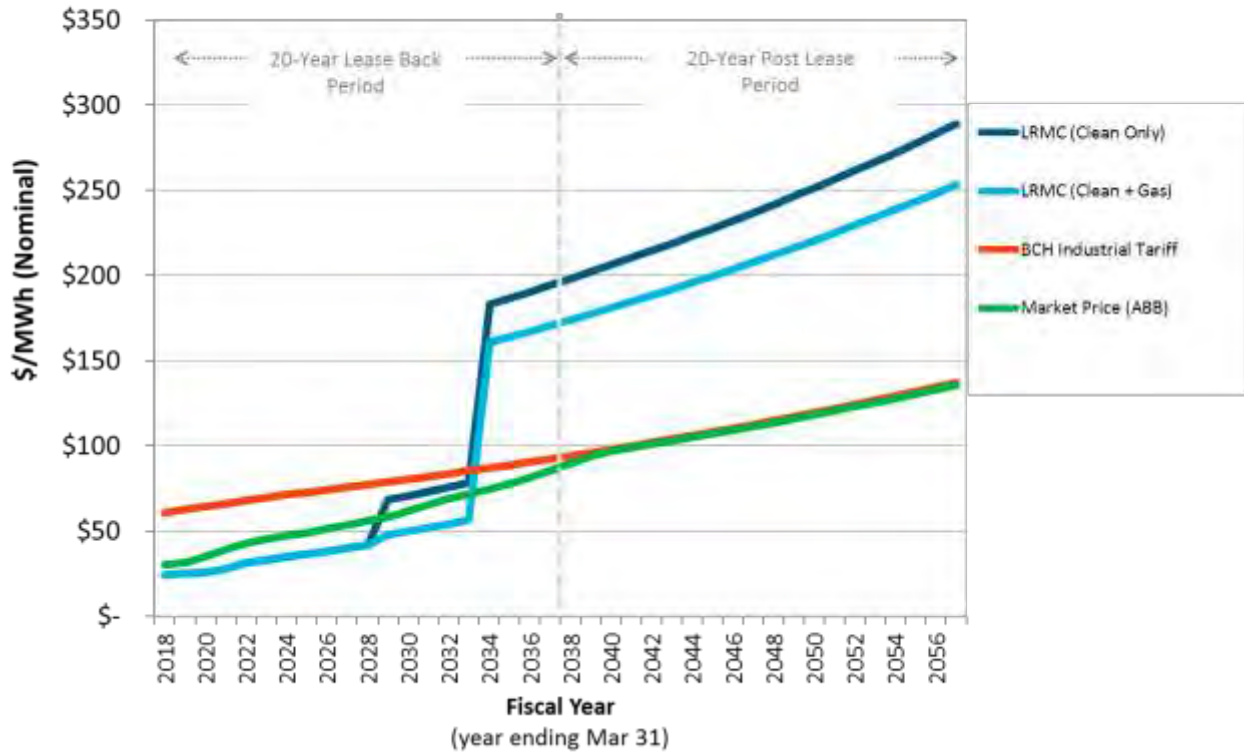
### **Appendix N-1**

### **Business Case Figures With Extrapolated Market Price Redacted**

## Business Case Figures With Extrapolated Market Price Redacted

Figure 3 from Waneta 2017 Business Case:  
Capacity-Adjusted Energy Price Forecast  
Comparison

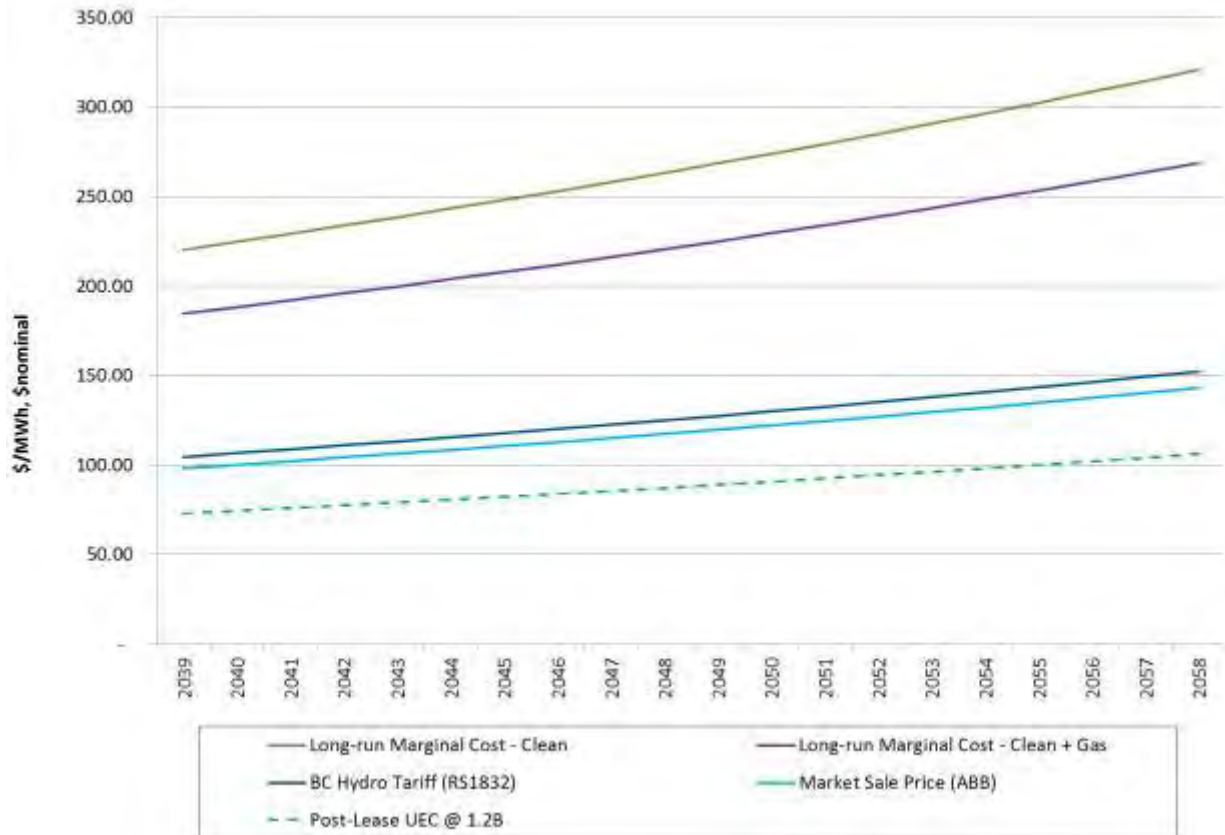
Without "Extrapolated" Market Price Curve



Business Case Figures With  
Extrapolated Market Price Redacted

Figure 4 from Waneta 2017 Business Case:  
Post-Lease UEC Comparison to Valuation  
Indices

Without "Extrapolated" Market Price Curve

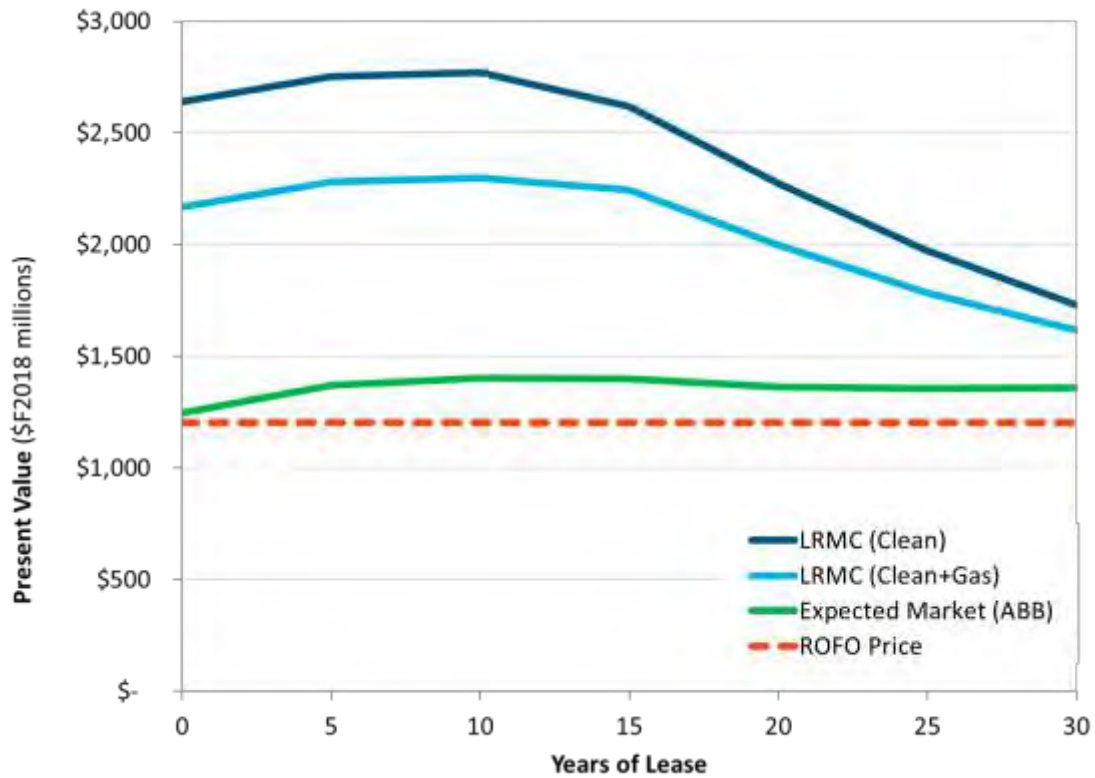




Business Case Figures With  
Extrapolated Market Price Redacted

Figure 5 from Waneta 2017 Business Case:  
Transaction Value vs Lease Duration

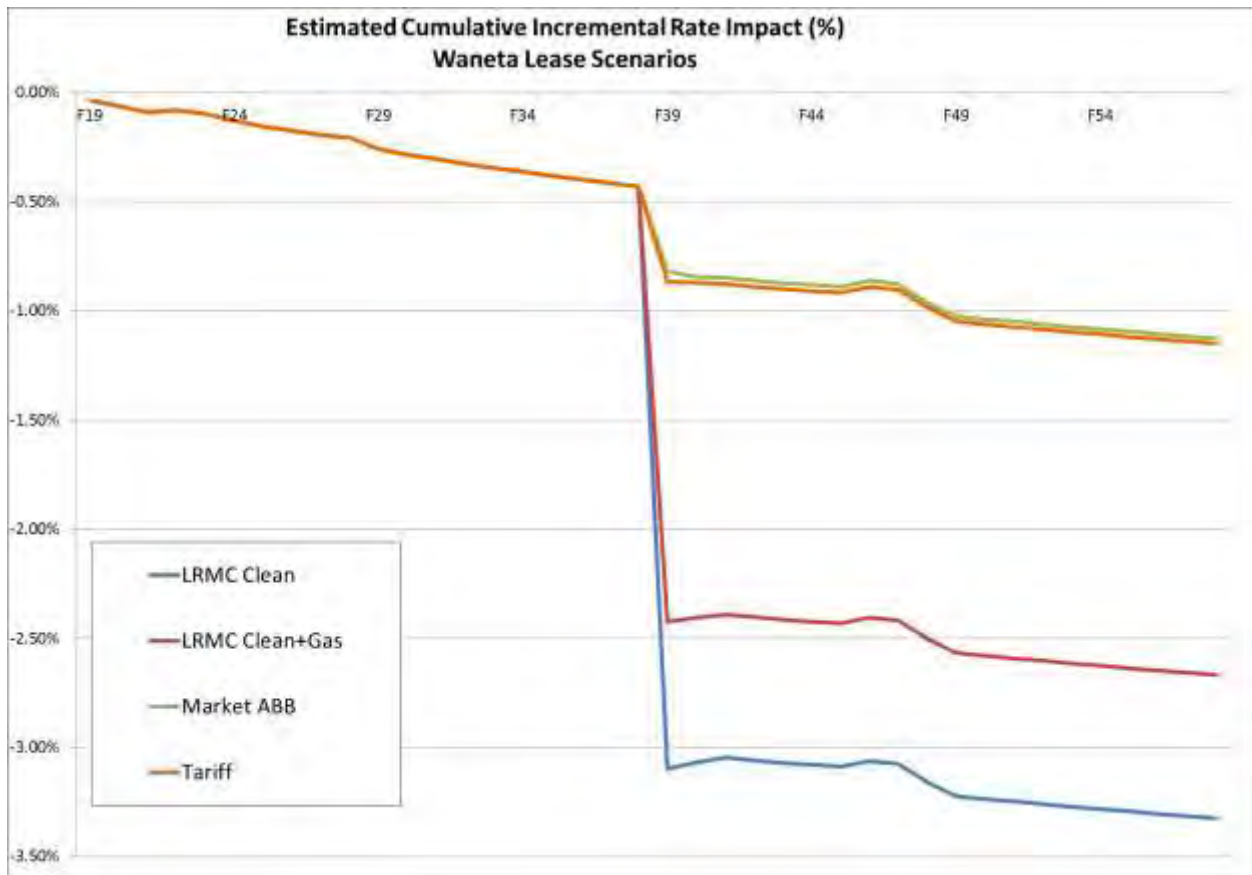
Without "Extrapolated" Market Price Curve



Business Case Figures With  
Extrapolated Market Price Redacted

Figures 6 and 8 from Waneta 2017 Business Case:  
Cumulative Incremental Rate Impact - Core  
Scenarios

Without "Extrapolated" Market Price Curve



## **Waneta 2017 Transaction**

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### **Appendix O**

#### **BC Hydro's LRB Outlooks Provided in the Current Site C Proceeding**

<b>British Columbia Utilities Commission</b> Information Request No. <b>1.4.0</b> Dated: <b>September 8, 2017</b> British Columbia Hydro & Power Authority Response issued <b>September 18, 2017</b>	Page 1 of 1
British Columbia Utilities Commission <b>Site C Inquiry</b>	

**4.0 Reference: Appendix K, Tables K-1, K-2, K-3, K-4.**

1.4.0 Please ask BC Hydro for the following information:

BC Hydro's Site C Submission, Appendix K, tables K-1, K-2, K-3 and K-4 in a working spreadsheet

For Table K-1 and Table K-2 above, the row titled "2016 May Mid Load Forecast Before DSM" in a working spreadsheet, showing the load by each key customer segment (residential, commercial, light industrial etc.)

**RESPONSE:**

The attached working excel file contains the supporting information for both Appendix K and the 2016 May Mid Load Forecast Before DSM. In preparing the attached file we discovered that several numbers in Appendix K had been updated since the RRA figures and were reflected in the materials provided to Deloitte. We have highlighted the affected numbers in yellow in the attached file and we note that the changes are not material and do not impact the timing of need for new supply nor our submission conclusions. As such we are not proposing to file an errata at this time.

The revision included: correcting the "Existing and Committed IPP Resource" energy and capacity amounts for two small IPP projects in the fiscal 2034 to fiscal 2036 period; aligning the high and low peak load in fiscal 2035 and fiscal 2036 to the load forecast that what was provided to Deloitte; and correcting the "Surplus/Deficit as % of Net Load (Planning View)" in Table K-3 to be based on planning estimates during the test period and in Table K-1 to remove Revelstoke Unit 6 from the calculation in order to be consistent with the rest of the table.

The attached file contains six worksheets (or tabs), as follows:

1. "Table K-1 Energy - NoSiteC ": Table K-1: Energy Load Resource Balance after Planned Resources without Site C and Revelstoke Unit 6;
2. "Table K-2 Capacity - NoSiteC": Table K-2: Capacity Load Resource Balance after Planned Resources without Site C and Revelstoke Unit 6;
3. "Table K-3 Energy – wSiteC": Table K-3: Energy Load Resource Balance after Planned Resources with Site C and without Revelstoke Unit 6;
4. "Table K-4 Capacity – wSiteC": Table K-4: Capacity Load Resource Balance after Planned Resources with Site C and without Revelstoke Unit 6;
5. "Load: Energy": May 2016 Energy Load Forecast Before Demand Side Management; and
6. "Load: Peak": May 2016 Peak Load Forecast Before Demand Side Management.

**REFER TO LIVE SPREADSHEET MODEL**

**Provided in electronic format only**

**(Accessible by opening the Attachments Tab in Adobe)**

<b>British Columbia Utilities Commission</b> Information Request No. <b>2.21.1</b> Dated: <b>October 22, 2017</b> British Columbia Hydro & Power Authority <b>SUPPLEMENTAL</b> Response issued <b>October 24, 2017</b>	Page 1 of 1
British Columbia Hydro & Power Authority <b>Site C Inquiry</b>	

**21.0 Reference: BC Hydro Response to BCUC IR 2.21.0**

2.21.1 In response to IR 21, BC Hydro confirmed that other than Revelstoke Unit 6 and Site C there are no other currently planned resources that have not been included in the tables. Please provide updated functioning spreadsheets including Revelstoke 6 as a planned resource and provide an explanation as to why the existing and committed IPP resources, the IPP renewals and the standing offer program resources are different than from the RRA. If any other changes are made, please describe those changes.

**RESPONSE:**

Attachment 1 to this response provides a working excel file containing the updated load resource balance tables filed in our response to BCUC Site C IR 1.4.1 and now with the addition of the planned Revelstoke Unit 6 project in fiscal 2027.

The values for (1) Existing and Committed IPP Resources; (2) IPP Renewals; and (3) Standing Offer Program from the response to BCUC Site C IR 1.4.1 are identical to the updated tables in the F2017-F2019 Revenue Requirements Application (RRA) proceeding with one exception for the energy from Existing and Committed IPP Resources in fiscal 2036. The fiscal 2036 value was corrected in our response to BCUC Site C IR 1.4.1. BC Hydro also notes that the high and low peak loads were also revised slightly (for fiscal 2035 and fiscal 2036) in our response to BCUC Site C IR 1.4.1 – these changes impact the “Small Gap Surplus/(Deficit)” and the “Large Gap Surplus/(Deficit)” amounts shown. We have highlighted the affected numbers in yellow in Attachment 1.

The original RRA load resource balances (provided in F2017 – F2019 RRA Exhibit B-1-1, Tables 3-6, 3-7, 3-8 and 3-9) were revised during the RRA proceeding in our response to BCUC RRA IR 1.11.1 (Exhibit B-9). In order to assist the Commission, we have provided a copy of that RRA response as Attachment 2 because it provides a useful explanation and accounting of the changes from the original RRA tables.

Attachment 1 to this response contains four worksheets (or tabs), as follows:

1. “Table K-1a Energy - NoSiteC “: Table K-1: Energy Load Resource Balance after Planned Resources without Site C;
2. “Table K-2a Capacity - NoSiteC”: Table K-2: Capacity Load Resource Balance after Planned Resources without Site C;
3. “Table K-3a Energy – wSiteC”: Table K-3: Energy Load Resource Balance after Planned Resources with Site C;
4. “Table K-4a Capacity – wSiteC”: Table K-4: Capacity Load Resource Balance after Planned Resources with Site C;

British Columbia Utilities Commission Information Request No. 1.11.1 Dated: <b>October 6, 2016</b> British Columbia Hydro & Power Authority Response issued <b>November 21, 2016</b>	Page 1 of 7
British Columbia Hydro & Power Authority <b>Fiscal 2017 – Fiscal 2019 Revenue Requirements Application</b>	<b>Exhibit: B-9</b>

**11.0 Topic: Chapter 3 – Load and Revenue Forecast**

**Reference: LOAD AND REVENUE FORECAST  
Exhibit B-1-1, p. 3-32, Table 3-9, Appendix V, p. 35  
Load resource balance**

Table 3-9 on page 3-32 shows that, after considering planned resources, there is a peak capacity deficit of 96MW in F2023 and 236MW in F2024, a capacity surplus in F2025 to F2028, and a forecasted capacity deficit from F2029 onwards.

BC Hydro requests on Page 35 of Appendix V to the Application \$38.6 million in funding for capacity focused pilots to understand the dependability of the capacity savings for inclusion in BC Hydro's planning.

1.11.1 Please explain BC Hydro's assumptions that result in a capacity deficit in F2023 and F2024.

**RESPONSE:**

**In the course of responding to information requests, BC Hydro noticed inconsistencies between the Load Resource Balance Tables 3-6, 3-7, 3-8 and 3-9, and IPP Table 4-9 in the Application. As such, BC Hydro has revised the Load Resource Balance tables to address the inconsistency as well as a couple of minor corrections. These revisions are included at the end of this response.**

**The load resource balance in Table 3-9 shows the assumptions and is repeated below for ease of reference for fiscal 2023 and fiscal 2024, with additional details on existing and committed IPP resources. The load resource balance includes capacity contributions from existing and committed resources, as well as planned resource additions. Please note that we are also assuming no North Coast capacity additions will take place before the end of the fiscal 2024.**

**The resulting capacity is not sufficient to meet the forecasted load growth in fiscal 2023 and fiscal 2024. BC Hydro plans to rely on the market as a cost effective resource for a short period of time until the Site C Clean Energy Project is fully in service in fiscal 2025 consistent with Recommended Action 7 in the 2013 Integrated Resource Plan. This short period of time (i.e., fiscal 2023, fiscal 2024) is shown as a deficit in Table 3-9 in the Application to reflect planned market reliance or possible alternatives such as load curtailment.**

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(MW)		F2023	F2024
<b><i>Existing and Committed Heritage Resources</i></b>			
Heritage Resources (including Site C)	(a)	11,480	11,480
<b><i>Existing and Committed IPP Resources</i></b>			
Pre-F2006 Call		311	300
F2006 Call		132	132
2008 Clean Power Call		204	204
Bioenergy Calls		123	123
Standing Offer Program (signed EPAs)		35	35
Other		361	337
Sub-total	(b)	1,167	1,132
<b><i>Future Supply-Side Resources</i></b>			
IPP Renewals		419	441
Standing Offer Program		53	61
Revolstoke 6			
Sub-total	(c)	472	502
Total Supply	(d) = a + b + c	13,120	13,113
14% of Supply Requiring Reserves***	(e)	-1,808	-1,807
<b>Effective Load Carrying Capability</b>	(f) = d + e	11,311	11,306
<b><i>Demand - Integrated System Peak</i></b>			
2016 May Mid Load Forecast Before DSM*		-11,930	-12,119
Expected LNG Load		-361	-361
Sub-total	(g)	-12,291	-12,480
<b><i>Existing and Committed Demand Side Management &amp; Others Measures</i></b>			
SMI Theft Reduction		11	11
Voltage and VAR Optimization		0	0
2016 DSM Plan F16 savings		204	201
<b><i>Planned Demand Side Management Measures</i></b>			
2016 DSM Plan F17 to F19 savings		311	305
2016 DSM Plan F20+ savings		358	421
Sub-total	(h)	884	938
		<b>F2023</b>	<b>F2024</b>
<b>Surplus / (Deficit) **</b>	(i) = f + g + h	<b>(96)</b>	<b>(236)</b>



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As noted above, in the course of responding to information requests, BC Hydro noticed inconsistencies between the Load Resource Balance Tables 3-6, 3-7, 3-8 and 3-9, and IPP Table 4-9 in the Application. As such, BC Hydro has revised the Load Resource Balance tables to address the inconsistency as well as a couple of minor corrections. The revision only affects the presentation in these tables and has no other impacts on the Application. There is no change to the overall surplus/deficit after planned resources during the test period, but an increase of 30 GWh in F2020 growing to 100 GWh in F2024.

The revision included: re-allocating an IPP project from “existing and committed” to “future resources”; revising the future Standing Offer Program energy from planned energy reliance to operating energy; re-allocating IPP turndown energy between IPP line items; the “Surplus/Deficit as % of Net Load (Planning View)” was corrected to be based on planning estimates during the test period; and adding capacity contributions from several small IPP projects in the fiscal 2034 to fiscal 2036 period.

The revised tables are below and a set of tables that shows the changes from the original are also shown.

**Table 3-6 Energy Load Resource Balance with Existing and Committed Resources**

(GWh)		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036	
<b>Existing and Committed Heritage Resources</b>																						
1	Heritage Resources (including Site C)	(a)	48,445	46,895	46,014	48,491	48,491	48,491	48,491	48,857	52,383	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	
2	<b>Existing and Committed IPP Resources</b>	(b)	13,198	14,592	14,337	14,364	14,097	13,782	13,547	13,210	12,814	12,414	12,307	11,983	11,467	10,720	10,259	10,203	10,163	10,015	9,476	8,110
3	<b>Total Supply (Operating View)**</b>	(c) = a + b	61,643	61,487	60,351	62,856	62,588	62,274	62,038	62,067	65,197	66,191	66,084	65,761	65,244	64,497	64,037	63,981	63,941	63,792	63,253	61,887
<b>Demand - Integrated System Total Gross Requirements</b>																						
4	2016 May Mid Load Forecast Before DSM*		-58,334	-59,013	-60,413	-61,371	-62,309	-63,675	-64,836	-66,008	-67,109	-68,310	-69,267	-70,256	-71,222	-72,296	-73,374	-74,535	-75,462	-76,393	-77,215	-78,089
5	Expected LNG Load		-61	-148	-148	-252	-1,265	-2,299	-2,721	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848	-2,848
6	Sub-total	(d)	-58,395	-59,162	-60,561	-61,624	-63,574	-65,974	-67,557	-68,856	-69,957	-71,158	-72,115	-73,104	-74,070	-75,144	-76,222	-77,383	-78,310	-79,241	-80,063	-80,937
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																						
7	SMT Theft Reduction		83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
8	Voltage and VAR Optimization		67	152	171	188	219	240	254	259	263	268	285	290	295	300	305	310	315	320	325	331
9	2016 DSM Plan F16 savings		982	970	939	940	935	926	923	917	912	885	863	855	848	844	807	770	760	758	757	736
10	Sub-total	(e)	1,131	1,204	1,193	1,211	1,237	1,249	1,260	1,258	1,258	1,235	1,231	1,228	1,226	1,227	1,195	1,163	1,157	1,161	1,165	1,150
			F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036
11	<b>Surplus/Deficit (Operational View)**</b>	(f) = c + d + e	4,379	3,529	983	2,443	251	(2,451)	(4,259)	(5,531)	(3,502)	(3,732)	(4,800)	(6,115)	(7,600)	(9,420)	(10,990)	(12,239)	(13,212)	(14,288)	(15,644)	(17,900)
12	<b>Surplus / Deficit as % of Net Load (Planning View)**</b>		112%	113%	110%	108%	104%	99%	94%	92%	95%	94%	93%	91%	89%	87%	85%	84%	83%	81%	80%	78%
13	<b>Low Load Forecast Surplus/Deficit (Operational View)**</b>		6,700	6,089	3,995	5,833	4,118	1,835	506	(492)	1,839	1,904	1,045	(24)	(1,248)	(2,802)	(4,146)	(5,057)	(6,772)	(6,670)	(7,973)	(10,099)
14	<b>High Load Forecast Surplus/Deficit (Operational View)**</b>		1,992	638	(2,612)	(1,962)	(4,761)	(6,203)	(10,889)	(12,534)	(10,879)	(11,495)	(12,726)	(14,368)	(16,235)	(18,524)	(20,367)	(21,911)	(23,150)	(24,509)	(26,282)	(28,887)
	* 2016 Integrated System Load Forecast with losses																					
	** See section 3.4.2 for description of Operational versus Planning View																					

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**Table 3-7 Peak Capacity Load Resource Balance with Existing and Committed Resources**

(MW)		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036
<b>Existing and Committed Heritage Resources</b>																					
1	Heritage Resources (including Site C)	(a)	11,372	11,410	11,416	11,416	11,416	11,480	11,480	11,480	12,020	12,211	12,211	12,211	12,211	12,211	12,211	12,625	12,625	12,625	12,625
2	<b>Existing and Committed IPP Resources</b>	(b)	1,593	1,673	1,621	1,572	1,490	1,461	1,167	1,132	1,069	1,025	1,025	975	938	806	806	802	796	771	747
3	14% of Supply Requiring Reserves***	(c)	-1,787	-1,803	-1,797	-1,790	-1,778	-1,783	-1,742	-1,737	-1,811	-1,832	-1,832	-1,825	-1,819	-1,801	-1,859	-1,858	-1,857	-1,854	-1,851
4	<b>Effective Load Carrying Capability</b>	(d) = a + b + c	11,178	11,280	11,240	11,198	11,128	11,157	10,905	10,874	11,279	11,404	11,362	11,330	11,216	11,572	11,568	11,563	11,542	11,521	11,468
<b>Demand - Integrated System Peak</b>																					
5	2016 May Mid Load Forecast Before DSM*		-10,776	-11,021	-11,209	-11,374	-11,541	-11,737	-11,930	-12,119	-12,313	-12,515	-12,708	-12,943	-13,155	-13,386	-13,614	-13,840	-14,074	-14,303	-14,542
6	Expected LNG Load		-19	-19	-19	-22	-22	-329	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361
7	Sub-total	(e)	-10,795	-11,039	-11,228	-11,447	-11,763	-12,066	-12,291	-12,480	-12,674	-12,876	-13,069	-13,304	-13,516	-13,747	-13,975	-14,201	-14,435	-14,664	-14,903
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																					
8	SM Theft Reduction		11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
9	Voltage and VAR Optimization		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	2016 DSM Plan F16 savings		216	214	210	211	210	207	204	201	198	193	199	185	183	180	174	168	165	165	162
11	Sub-total	(f)	227	226	222	222	221	218	215	212	209	204	200	197	194	192	186	179	176	176	173
12	<b>Surplus / (Deficit) **</b>	(g) = d + e + f	610	466	234	(27)	(414)	(691)	(1,170)	(1,393)	(1,168)	(1,268)	(1,465)	(1,745)	(1,993)	(2,349)	(2,454)	(2,695)	(2,946)	(3,206)	(3,493)
13	Low Load Forecast Surplus / (Deficit) **		1,030	934	782	590	287	100	(310)	(482)	(218)	(245)	(400)	(627)	(821)	(1,113)	(943)	(1,113)	(1,508)	(1,750)	(1,997)
14	High Load Forecast Surplus / (Deficit) **		160	(84)	(444)	(855)	(1,358)	(1,769)	(2,408)	(2,693)	(2,552)	(2,700)	(2,926)	(3,270)	(3,589)	(4,024)	(3,953)	(4,242)	(4,538)	(4,848)	(5,198)

\* 2016 Integrated System Load Forecast with losses  
 \*\* Planning View is shown in this table. Capacity load resource balances are only shown in Planning View. See section 3.4.2  
 \*\*\* This is also referred to as the Planning Reserve - the system generating capacity beyond that required to meet peak demand that is necessary to meet reliability criteria. See section 1.2.2 of the IRP for more details on the criteria.

**Table 3-8 Energy Load Resource Balance after Planned Resources**

(GWh)		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036
<b>Existing and Committed Heritage Resources</b>																					
1	Heritage Resources (including Site C)	(a)	48,445	46,895	46,014	48,491	48,491	48,491	48,491	48,857	52,383	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777	53,777
2	<b>Existing and Committed IPP Resources</b>	(b)	13,198	14,592	14,337	14,364	14,097	13,782	13,547	13,210	12,814	12,414	12,307	11,983	11,467	10,720	10,259	10,203	10,163	10,015	9,476
<b>Future Supply-Side Resources</b>																					
3	IPP Renewals		106	280	571	647	779	936	1,114	1,349	1,628	1,951	2,032	2,223	2,617	3,328	3,788	3,828	3,863	4,011	4,549
4	Standing Offer Program		71	130	291	419	546	674	801	929	1,056	1,184	1,311	1,439	1,566	1,694	1,821	1,949	2,076	2,204	2,320
5	Revestible B																				
6	Sub-total	(c)	177	410	862	1,066	1,325	1,609	1,916	2,278	2,684	3,135	3,370	3,688	4,209	5,048	5,635	5,803	5,966	6,241	6,895
7	<b>Total Supply (Operational View) **</b>	(d) = a + b + c	61,820	61,897	61,213	63,922	63,913	63,883	63,954	64,345	67,881	69,327	69,454	69,449	69,453	69,545	69,672	69,783	69,906	70,033	70,149
<b>Demand - Integrated System Total Gross Requirements</b>																					
8	2016 May Mid Load Forecast Before DSM*		-58,334	-59,013	-60,413	-61,371	-62,309	-63,675	-64,836	-66,008	-67,109	-68,310	-69,267	-70,256	-71,222	-72,296	-73,374	-74,535	-75,462	-76,393	-77,215
9	Expected LNG Load		-51	-148	-146	-252	-1,285	-2,299	-2,721	-2,948	-2,948	-2,948	-2,948	-2,948	-2,948	-2,948	-2,948	-2,948	-2,948	-2,948	-2,948
10	Sub-total	(e)	-58,385	-59,162	-60,561	-61,624	-63,574	-65,574	-67,557	-68,956	-69,957	-71,158	-72,115	-73,104	-74,070	-75,144	-76,222	-77,383	-78,310	-79,241	-80,063
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																					
11	SM Theft Reduction		83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83	83
12	Voltage and VAR Optimization		67	152	171	188	219	240	254	259	263	268	285	290	295	300	305	310	315	320	325
13	2016 DSM Plan F16 savings		982	970	939	940	935	926	923	917	912	885	863	855	848	844	807	770	760	758	757
<b>Planned Demand Side Management Measures</b>																					
14	2016 DSM Plan F17 to F19 savings		389	988	1,679	1,896	1,931	1,969	1,956	1,935	1,917	1,908	1,896	1,853	1,787	1,694	1,613	1,547	1,462	1,300	1,224
15	2016 DSM Plan F20+ savings		0	0	0	292	904	1,454	1,897	2,310	2,637	2,946	3,229	3,500	3,758	4,006	4,248	4,473	4,690	4,908	5,116
16	Sub-total	(f)	1,521	2,192	2,873	3,399	4,072	4,672	5,112	5,502	5,811	6,089	6,356	6,581	6,770	6,927	7,055	7,183	7,310	7,368	7,505
17	<b>Surplus / (Deficit) (Operational View) **</b>	(g) = d + e + f	4,945	4,928	3,524	5,897	4,411	2,582	1,509	991	3,735	4,257	3,685	2,926	2,154	1,328	506	(417)	(1,093)	(1,840)	(2,410)
18	<b>Surplus / Deficit as % of Net Load (Planning View) **</b>		113%	115%	115%	114%	111%	108%	106%	105%	109%	109%	107%	106%	105%	103%	102%	101%	99.97%	99%	97%
19	<b>Small Gap Surplus/(Deficit) (Operational View) **</b>		7,266	7,467	6,536	9,087	8,279	6,967	6,275	6,020	9,076	9,893	9,540	9,017	8,506	7,946	7,350	6,766	6,346	5,779	5,262
20	<b>Large Gap Surplus/(Deficit) (Operational View) **</b>		2,559	2,036	(70)	1,293	(601)	(3,171)	(5,130)	(6,012)	(3,641)	(3,906)	(4,231)	(5,328)	(6,482)	(7,776)	(8,872)	(10,089)	(11,059)	(12,060)	(13,047)

\* 2016 Integrated System Load Forecast with losses  
 \*\* See section 3.4.2 for description of Operational versus Planning view

<p align="center"><b>British Columbia Utilities Commission</b> Information Request No. 1.11.1 Dated: <b>October 6, 2016</b> British Columbia Hydro &amp; Power Authority Response issued <b>November 21, 2016</b></p> <p align="center"><b>British Columbia Hydro &amp; Power Authority</b> <b>Fiscal 2017 – Fiscal 2019 Revenue Requirements</b> <b>Application</b></p>	<p>Page 5 of 7</p> <hr/> <p><b>Exhibit: B-9</b></p>
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**Table 3-9 Peak Capacity Load Resource Balance after Planned Resources**

[MW]		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036	
<b>Existing and Committed Heritage Resources</b>																						
1	Heritage Resources (including Site C)	(a)	11,372	11,410	11,416	11,416	11,416	11,480	11,480	11,480	12,020	12,211	12,211	12,211	12,211	12,211	12,211	12,211	12,211	12,211	12,211	
<b>Existing and Committed IPP Resources</b>																						
2		(b)	1,593	1,673	1,621	1,572	1,490	1,461	1,167	1,132	1,069	1,025	1,025	975	938	806	806	802	796	771	747	683
<b>Future Supply-Side Resources</b>																						
3	IPP Renewals		9	23	55	79	120	135	419	441	450	486	486	514	538	671	671	674	680	705	862	901
4	Standing Offer Program		4	18	24	31	39	46	53	61	68	76	83	91	98	106	113	120	128	135	142	150
5	Revelstoke 6																					
6	Sub-total	(c)	13	41	78	110	159	181	472	502	519	562	1,057	1,092	1,124	1,264	1,272	1,283	1,296	1,326	1,492	1,539
7	Total Supply	(d) = a + b + c	12,978	13,124	13,115	13,098	13,065	13,122	13,120	13,113	13,608	13,797	14,293	14,279	14,273	14,281	14,702	14,709	14,717	14,724	14,864	14,847
8	14% of Supply Requiring Reserves***	(e)	-1,788	-1,809	-1,808	-1,805	-1,801	-1,809	-1,807	-1,807	-1,884	-1,910	-1,980	-1,978	-1,977	-1,978	-2,037	-2,038	-2,039	-2,040	-2,060	-2,057
9	Effective Load Carrying Capability	(f) = d + e	11,189	11,315	11,307	11,293	11,264	11,313	11,311	11,306	11,725	11,887	12,313	12,301	12,296	12,303	12,665	12,671	12,678	12,684	12,804	12,790
<b>Demand - Integrated System Peak</b>																						
10	2016 May Mid Load Forecast Before DSM		-10,776	-11,021	-11,209	-11,374	-11,541	-11,737	-11,930	-12,119	-12,313	-12,515	-12,708	-12,943	-13,155	-13,386	-13,614	-13,840	-14,074	-14,303	-14,542	-14,774
11	Expected LNG Load		-19	-19	-19	-72	-222	-329	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361	-361
12	Sub-total	(g)	-10,795	-11,039	-11,228	-11,447	-11,763	-12,066	-12,291	-12,480	-12,674	-12,876	-13,069	-13,304	-13,516	-13,747	-14,201	-14,435	-14,664	-14,903	-15,135	-15,135
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																						
13	S&M Theft Reduction		11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11
14	Voltage and VAR Optimization		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15	2016 DSM Plan F16 savings		216	214	210	211	210	207	204	201	198	193	189	185	183	180	174	168	165	165	165	162
<b>Planned Demand Side Management Measures</b>																						
16	2016 DSM Plan F17 to F19 savings		66	167	272	310	314	316	311	305	299	295	290	282	272	259	247	237	225	207	198	195
17	2016 DSM Plan F20+ savings		0	0	0	47	170	285	358	421	468	514	554	593	629	663	696	725	753	788	822	808
18	Sub-total	(h)	283	392	494	578	706	818	884	938	977	1,013	1,045	1,072	1,095	1,114	1,128	1,142	1,154	1,171	1,196	1,178
19	Surplus / (Deficit) **	(i) = f + g + h	687	668	573	424	296	85	(86)	(236)	27	23	288	70	(124)	(330)	(462)	(589)	(693)	(808)	(903)	(1,169)
20	Small Gap Surplus / (Deficit) **		1,107	1,136	1,121	1,041	908	856	765	675	995	1,046	1,354	1,188	1,048	897	1,093	953	796	629	554	328
21	Large Gap Surplus / (Deficit) **		237	118	(105)	(403)	(737)	(1,013)	(1,334)	(1,536)	(1,339)	(1,409)	(1,172)	(1,455)	(1,721)	(2,014)	(1,917)	(2,177)	(2,445)	(2,711)	(2,894)	(3,226)
* 2016 Integrated System Load Forecast with losses ** Planning View is shown in this table. Capacity load resource balances are only shown in Planning View. See section 3.4.2. *** This is also referred to as the Planning Reserve - the system generating capacity beyond that required to meet peak demand that is necessary to meet reliability criteria. See section 1.2.2 of the IRP for more details on the criteria.																						

The following four tables show the differences between Tables 3-6, 3-7, 3-8 and 3-9 in the Application as compared to the revised tables above.

**Table 3-6 Energy Load Resource Balance with Existing and Committed Resources**  
**Difference from Table in Application**

[GWh]		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036	
<b>Existing and Committed Heritage Resources</b>																						
1	Heritage Resources (including Site C)	(a)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Existing and Committed IPP Resources</b>																						
2		(b)	-54	-89	-120	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92
3	Total Supply (Operating View**)	(c) = a + b	-54	-89	-120	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92
<b>Demand - Integrated System Total Gross Requirements</b>																						
4	2016 May Mid Load Forecast Before DSM*		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5	Expected LNG Load		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Sub-total	(d)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																						
7	S&M Theft Reduction		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8	Voltage and VAR Optimization		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	2016 DSM Plan F16 savings		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	Sub-total	(e)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	Surplus/(Deficit) (Operational View) **	(f) = c + d + e	(54)	(89)	(120)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)
12	Surplus / Deficit as % of Net Load (Planning View) **		5%	7%	6%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
13	Low Load Forecast Surplus/(Deficit) (Operational View) **		(54)	(89)	(120)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)
14	High Load Forecast Surplus/(Deficit) (Operational View) **		(54)	(89)	(120)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)	(92)
* 2016 Integrated System Load Forecast with losses ** See section 3.4.2 for description of Operational versus Planning View																						

<b>British Columbia Utilities Commission</b> Information Request No. 1.11.1 Dated: <b>October 6, 2016</b> British Columbia Hydro & Power Authority Response issued <b>November 21, 2016</b>	Page 6 of 7
British Columbia Hydro & Power Authority <b>Fiscal 2017 – Fiscal 2019 Revenue Requirements Application</b>	<b>Exhibit: B-9</b>

**Table 3-7 Peak Capacity Load Resource Balance with Existing and Committed Resources Difference from Application Table**

(MW)		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036
<b>Existing and Committed Heritage Resources</b>																					
1	Heritage Resources (including Site C) (a)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Existing and Committed IPP Resources</b>																					
2	(b)	0	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	17	17
3	14% of Supply Requiring Reserves*** (c)	0	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	-2	-2
4	Effective Load Carrying Capability (d) = a + b + c	0	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	-10	15	15
<b>Demand - Integrated System Peak</b>																					
5	2016 Mid Load Forecast Before DSM*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Expected LNG Load	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7	Sub-total (e)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																					
8	SM Theft Reduction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Voltage and VAR Optimization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	2016 DSM Plan F16 savings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	Sub-total (f)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	Surplus / (Deficit) ** (g) = d + e + f	0	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	15	15
13	Low Load Forecast Surplus / (Deficit) **	0	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	15	15
14	High Load Forecast Surplus / (Deficit) **	0	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	15	15
* 2016 Integrated System Load Forecast with losses ** Planning View is shown in this table. Capacity load resource balances are only shown in Planning View. See section 3.4.2. *** This is also referred to as the Planning Reserve - the system generating capacity beyond that required to meet peak demand that is necessary to meet reliability criteria. See section 1.2.2 of the IRP for more details on the criteria.																					

**Table 3-8 Energy Load Resource Balance after Planned Resources Difference from Application Table**

(GWh)		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036
<b>Existing and Committed Heritage Resources</b>																					
1	Heritage Resources (including Site C) (a)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Existing and Committed IPP Resources</b>																					
2	(b)	-54	-89	-120	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92	-92
<b>Future Supply-Side Resources</b>																					
3	IPP Renewals	45	46	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Standing Offer Program	9	44	118	135	152	169	186	202	219	236	253	270	286	303	320	337	354	371	386	403
5	Revelstoke 6	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Sub-total (c)	54	89	120	135	152	169	186	202	219	236	253	270	286	303	320	337	354	371	386	403
7	Total Supply (Operational View) ** (d) = a + b + c	0	0	0	43	60	77	94	110	127	144	161	178	195	211	228	245	262	279	294	311
<b>Demand - Integrated System Total Gross Requirements</b>																					
8	2016 Mid Load Forecast Before DSM*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Expected LNG Load	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	Sub-total (e)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																					
11	SM Theft Reduction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	Voltage and VAR Optimization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
13	2016 DSM Plan F16 savings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Planned Demand Side Management Measures</b>																					
14	2016 DSM Plan F17 to F19 savings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15	2016 DSM Plan F20+ savings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
16	Sub-total (f)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
17	Surplus / (Deficit) (Operational View) ** (g) = d + e + f	0	0	0	43	60	77	94	110	127	144	161	178	195	211	228	245	262	279	294	311
18	Surplus / Deficit as % of Net Load (Planning View) **	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
19	Small Gap Surplus/(Deficit) (Operational View) **	0	0	0	43	60	77	94	110	127	144	161	178	195	211	228	245	262	279	294	311
20	Large Gap Surplus/(Deficit) (Operational View) **	0	0	0	43	60	77	94	110	127	144	161	178	195	211	228	245	262	279	294	311
* 2016 Integrated System Load Forecast with losses ** See section 3.4.2 for description of Operational versus Planning view																					

<b>British Columbia Utilities Commission</b> Information Request No. 1.11.1 Dated: <b>October 6, 2016</b> British Columbia Hydro & Power Authority Response issued <b>November 21, 2016</b>	Page 7 of 7
British Columbia Hydro & Power Authority <b>Fiscal 2017 – Fiscal 2019 Revenue Requirements</b> <b>Application</b>	<b>Exhibit:</b> <b>B-9</b>

**Table 3-9 Peak Capacity Load Resource Balance after Planned Resources  
Difference from Application Table**

(MW)		F2017	F2018	F2019	F2020	F2021	F2022	F2023	F2024	F2025	F2026	F2027	F2028	F2029	F2030	F2031	F2032	F2033	F2034	F2035	F2036
<b>Existing and Committed Heritage Resources</b>																					
1	Heritage Resources (including Site C)	(a)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	<b>Existing and Committed IPP Resources</b>	(b)	0	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	-12	17	17
<b>Future Supply-Side Resources</b>																					
3	IPP Renewals		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4	Standing Offer Program		0	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	5
5	Revelstoke 6		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Sub-total	(c)	0	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	12	5
7	Total Supply	(d) = a + b + c	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	29	21
8	14% of Supply Requiring Reserves***	(e)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	-4	-3
9	Effective Load Carrying Capability	(f) = d + e	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	18
<b>Demand - Integrated System Peak</b>																					
10	2016 May Mid Load Forecast Before DSM*		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
11	Expected LNG Load		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12	Sub-total	(g)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Existing and Committed Demand Side Management &amp; Others Measures</b>																					
13	SM Theft Reduction		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
14	Voltage and VAR Optimization		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15	2016 DSM Plan F16 savings		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Planned Demand Side Management Measures</b>																					
16	2016 DSM Plan F17 to F19 savings		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
17	2016 DSM Plan F20+ savings		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18	Sub-total	(h)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19	<b>Surplus / (Deficit) **</b>	(i) = f + g + h	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	18
20	<b>Small Gap Surplus / (Deficit) **</b>		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	18
21	<b>Large Gap Surplus / (Deficit) **</b>		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	25	18

\* 2016 Integrated System Load Forecast with losses  
 \*\* Planning View is shown in this table. Capacity load resource balances are only shown in Planning View. See section 3.4.2.  
 \*\*\* This is also referred to as the Planning Reserve - the system generating capacity beyond that required to meet peak demand that is necessary to meet reliability criteria. See section 1.2.2 of the IRP for more details on the criteria.

## **Waneta 2017 Transaction**

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### **Appendix P**

### **Statement of Indigenous Principles**

# Statement of Indigenous Principles

## OUR COMMITMENT

BC Hydro exists to serve British Columbians by providing clean, reliable and affordable electricity. We recognize that maintaining and developing the system has impacts on the lives and interests of Indigenous People. To support our move towards true and lasting reconciliation with Indigenous People, BC Hydro will acknowledge past wrongs, listen to Indigenous perspectives and seek shared understanding with First Nations communities and governments.

Through our Statement of Indigenous Principles, we commit that:

- 1** We will always operate safely and protect the safety of individuals.
- 2** We will inform First Nations communities, to the best of our ability, of our multi-year planning, identifying potential projects and works as early as possible for discussion.
- 3** We will strive to provide the most clear, accessible and transparent information possible.
- 4** We will seek advice on Indigenous perspectives on how to best reduce or avoid impacts on the environment, cultural heritage and social needs.
- 5** We will be accessible and open to understanding the unique interests of Indigenous Peoples in relation to our operations.
- 6** We will respect that our perspectives may be based on different world views.
- 7** We will seek opportunities for meaningful benefit with First Nation communities as we refurbish existing facilities and assets, build new infrastructure or undertake work.
- 8** We will seek solutions to improving the accessibility of clean reliable and affordable power to First Nations communities in remote areas of the province.
- 9** We will support Indigenous candidates to succeed in gaining employment with BC Hydro and to increasingly become a part of our workforce.
- 10** We will deliver on our commitments and we will be open and transparent if something is standing in the way of our mutual success.

BC Hydro is sincere in its commitment to ensure these principles are understood and acted upon by everyone in our organization, including contractors.

## **Waneta 2017 Transaction**

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### **Appendix Q**

**Press Releases,  
dated August 1, 2017**



**News release**

Aug. 1, 2017

**BC Hydro plan to purchase remaining two-third interest in Waneta Dam will keep rates affordable**

VANCOUVER – BC Hydro today announced it plans to purchase the remaining two-third ownership interest in the Waneta Dam and Generating Station in Trail, B.C. from Teck Resources Limited (Teck) for \$1.2 billion. The purchase is forecast to have a beneficial financial impact each year, helping to keep rates affordable for BC Hydro's customers.

"BC Hydro was presented with a unique opportunity to purchase the remaining two-thirds interest in the Waneta Dam and our analysis shows that this purchase is in the best interest of our customers. Our number one priority is to keep rates low, and this purchase will help make rates more affordable," said Ken Peterson, Executive Chair of BC Hydro.

The transaction includes a 20-year lease agreement where the electricity generated from the two-thirds share will continue to supply power to the Teck smelter in Trail at set prices. Teck also has an option to extend the lease by a further 10 years. As a result, this decision has no impact on BC Hydro's energy supply and demand balance.

"We are excited about this opportunity to secure a source of clean, reliable power at a cost-effective price along with a long-term lease for that power," said Chris O'Riley, President of BC Hydro. "The lease will provide a long-term stable supply of power to the smelter, supporting local jobs and economic development for many years to come."

With this planned purchase, BC Hydro will have complete ownership of the dam and the Waneta generating station. The final decision to move forward is subject to a number of conditions, including approval by the BC Utilities Commission.

"Our government is committed to making BC Hydro rates more affordable and I'm encouraged that BC Hydro's analysis indicates this purchase is a step in that direction," said Michelle Mungall, Minister of Energy, Mines and Petroleum Resources. "Now, the BC Utilities Commission will be provided with the opportunity to conduct a thorough review to confirm the benefits of this transaction to ratepayers."

In May, Teck announced it had reached an agreement to sell its two-thirds share of the Waneta Dam and Generating Station to Fortis Inc. When BC Hydro purchased a one-third share of Waneta in 2010, it negotiated a right of first offer on any future sales of the remaining two-thirds interest retained by Teck. As a result of this agreement, Teck offered to sell the two-third interest to BC Hydro on substantially the same terms and conditions that it was prepared to sell to Fortis Inc.

"Securing a long-term source of clean, reliable power at a cost-effective price to continue serving the Trail smelter is a great development for the entire province," said Katrine Conroy, Minister of Children and Family Development and MLA for Kootenay West. "At the same time, Kootenay jobs and economic investment will strengthen as a result of BC Hydro's purchase of the Waneta Dam."

BC Hydro conducted an in-depth review of the opportunity to purchase the remaining two-thirds interest in the dam. BC Hydro's Board of Directors was briefed frequently throughout the process and gave its final approval last week. Government performed its own due diligence and endorsed the decision.

**Facts:**

- The Waneta Dam is located close to the Canada-US border, near the mouth of the Pend d'Oreille River just before it enters the Columbia River near Trail, B.C.
- The dam was originally constructed in 1954 by the Consolidated Mining and Smelting Company of Canada Limited (now known as Teck) to generate power specifically for use at its smelter located in Trail, B.C.
- Its four generating units total 480 megawatts of capacity and produce approximately 2,680 gigawatt hours of energy per year.
- In 2010, BC Hydro purchased a one-third share of the Waneta Dam for \$825 million. Teck owns the other two-thirds.
  - The BC Utilities Commission found that the BC Hydro purchase of one-third interest in the Waneta Dam was in the public interest. This decision was based on a review of cost effectiveness, due diligence and local impact.
- BC Hydro's one-third is supplied to BC Hydro customers and Teck's two-thirds is currently supplied to the Teck smelter in Trail. Under the terms of the current transaction two-thirds of the generation will continue to supply electricity to Teck's smelter in Trail during the lease period.

**Contact:**

BC Hydro Media Relations  
p. 604 928 6468



**For Immediate Release**  
17-34-TR

Date: August 1, 2017

## Update Regarding Waneta Dam Sale

**Vancouver, B.C.** – Teck Resources Limited (“Teck”), (TSX: TECK.A and TECK.B, NYSE: TECK) today announced that BC Hydro has exercised its right of first offer to purchase Teck’s two-thirds interest in the Waneta Dam in British Columbia, Canada, for \$1.2 billion cash.

There are no material changes to the commercial terms of the previously announced Waneta purchase agreement between Fortis Inc. (“Fortis”), and Teck. Under the agreement, Teck Metals Ltd. (“Teck Metals”) will be granted a 20-year lease to use the two-thirds interest in Waneta to produce power for its industrial operations in Trail. Annual payments will begin at approximately \$75 million per year and escalate at 2% per annum, equivalent to an initial power price of \$40/MWh based on 1,880 GWh of energy per annum. Teck Metals will have an option to extend the lease for a further 10 years at comparable rates.

Under the Waneta purchase agreement with Fortis, Teck expects to pay Fortis a break fee of approximately \$28 million.

Teck expects to realize a net book gain of approximately \$800 million on closing. No cash tax will be payable on the proceeds.

Closing of the transaction is subject to customary conditions, including receipt of regulatory approvals and certain consents, and is not expected before the first quarter of 2018.

### About Teck

Teck is a diversified resource company committed to responsible mining and mineral development with major business units focused on copper, steelmaking coal, zinc and energy. Headquartered in Vancouver, Canada, its shares are listed on the Toronto Stock Exchange under the symbols TECK.A and TECK.B and the New York Stock Exchange under the symbol TECK. Learn more about Teck at [www.teck.com](http://www.teck.com) or follow [@TeckResources](https://twitter.com/TeckResources).

### Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995 and forward-looking information as defined in the Securities Act (Ontario). The forward-looking statements in this news release include statements concerning the expected closing and timing of closing of the proposed transaction. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of Teck to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Factors that may

cause actual results to vary include, but are not limited to, whether or not the closing conditions are met within a timely manner or at all.

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**Waneta 2017 Transaction**

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**Appendix R**

**First Nations Notice (Fact Sheet)  
dated August 29, 2017**

# WANETA DAM ACQUISITION

DATE	August 29, 2017
BACKGROUND	<p>In 2010, BC Hydro purchased one-third of Teck Metals Limited's Waneta Dam and related generating assets. The acquisition was filed with the British Columbia Utilities Commission, which decided that the transaction was in the public interest based on a review of cost effectiveness, due diligence and local impact. As part of the acquisition, BC Hydro was provided a right of first offer to purchase the remaining two-thirds interest if Teck contemplated selling it.</p> <p>On May 12, 2017, Teck announced that it had come to an agreement to sell its two-thirds share to Fortis Inc. As a result BC Hydro had 60 days to review the transaction and determine if we would exercise the option to purchase the two-thirds based on substantially the same terms and conditions that Teck was prepared to sell to Fortis Inc.</p>
LOCATION OF FACILITY	The Waneta Dam is located close to the Canada-US border, near the mouth of the Pend d'Oreille River just before it enters the Columbia River, near Trail, B.C.
CURRENT STATE	<p>BC Hydro has decided to exercise its option to purchase the remaining two-thirds share of the Waneta Dam and Generating Station from Teck for \$1.2 billion. With this purchase, BC Hydro will have complete ownership of the dam and generating station, subject to a long-term lease to Teck for its existing two-thirds share of the Waneta Dam.</p> <p>The lease to Teck is a 20-year lease agreement, with a 10 year renewal option, so that the electricity from the two-thirds share will continue to supply power to the Teck smelter in Trail at set prices. As a result, this decision has no impact on BC Hydro's energy supply and demand balance during the lease period.</p> <p>Teck will provide annual payments to BC Hydro at approximately \$75 million per year and escalate at 2% per annum, equivalent to an initial power price of \$40/MWh based on 1,880 GWh of energy per annum. . In addition, as is currently the case, Teck and BC Hydro will continue to jointly make decisions with respect to the operations and maintenance of the facility (through an operating committee) and will continue to share the costs for the ongoing operations of Waneta. The transaction also gives rise to an option for BC Hydro to become the operator (who reports to the Operating Committee). Teck is currently the operator of Waneta. It is the operator's role to operate, manage and maintain Waneta in accordance with its legal obligations.</p> <p>The final decision to move forward with the transaction is subject to a number of conditions, including approval by the BC Utilities Commission.</p>

- PURPOSE OF ACTIVITIES                      Securing a long-term source of clean, reliable power at a cost-effective price will help to keep rates affordable for BC Hydro’s customers.
- ANTICIPATED SCHEDULE
- Mid-September 2017 – determine whether BC Hydro will become the operator of Waneta
  - September/October 2017 – file BCUC application for approval of transaction
  - August 2018 – transaction complete

**Top Questions and Answers**

Question	Answer
<p><b>1. Why are you purchasing Teck’s interest in the Waneta Dam?</b></p>	<ul style="list-style-type: none"> <li>• This is a unique opportunity for BC Hydro and a comprehensive review determined it was in the best interest of our customers.</li> <li>• It provides us with the opportunity to:               <ul style="list-style-type: none"> <li>○ Keep rates affordable for our customers – the purchase is forecast to have a beneficial financial impact each year.</li> <li>○ Secure a long-term source of clean, reliable power at a cost-effective price.</li> <li>○ Support local jobs and economic development through a long-term lease, which will continue to provide power to the smelter in Trail at set prices.</li> </ul> </li> </ul>
<p><b>2. How will this benefit your customers?</b></p>	<ul style="list-style-type: none"> <li>• The purchase is forecast to have a beneficial financial impact each year, helping to keep rates affordable for our customers. At the end of the lease period, the two-thirds share is BC Hydro’s power. The benefit of the transaction will be made public through the BC Utilities Commission process.</li> </ul>
<p><b>3. Who determined this purchase made sense? Did you involve a third party?</b></p>	<ul style="list-style-type: none"> <li>• BC Hydro’s Board approved the transaction after reviewing BC Hydro’s analysis that the purchase is in the interest of our customers</li> <li>• BC Hydro engaged with third party experts as part of its review of the transaction</li> <li>• The purchase is subject to review and approval by the BC Utilities Commission</li> </ul>
<p><b>4. You say this will have a beneficial impact on rates. Does that mean you won’t increase rates?</b></p>	<ul style="list-style-type: none"> <li>• We conducted a rate analysis that found the purchase is in the best interest of our customers in both the short and long-term and that it will help keep electricity rates low.</li> <li>• This analysis will form a key part of our regulatory filing with the BC Utilities Commission who will review our application before a final decision is made.</li> </ul>
<p><b>5. Don’t you already have enough debt? Does it make sense to add another \$1.2 billion?</b></p>	<ul style="list-style-type: none"> <li>• While the decision to purchase Teck’s two-thirds share of the Waneta Dam will increase our debt, we will also earn revenue from our lease agreement with Teck.</li> <li>• Our analysis considers the revenues and all of the costs and shows that the purchase is beneficial to our ratepayers in both the short and long-term, and will help keep electricity rates low.</li> <li>• The final decision to move forward would be subject to approval by the BC Utilities Commission.</li> </ul>



Question	Answer
<p><b>6. Don't you already have enough power?</b></p>	<ul style="list-style-type: none"> <li>• The transaction includes a 20-year lease agreement where the electricity generated from the two-thirds share will continue to supply power to the Teck smelter in Trail at set prices.</li> <li>• Teck also has the option to extend the lease by 10 years at the end of the 20-year lease agreement.</li> <li>• As a result, this decision will have no impact on BC Hydro's energy supply and demand balance as long as Teck's smelter load remains at or near current levels.</li> </ul>
<p><b>7. If you purchase this dam, do you still need Site C?</b></p>	<ul style="list-style-type: none"> <li>• BC Hydro needs the power from Site C with or without this purchase.</li> <li>• The transaction includes a 20 to 30-year lease agreement where the electricity generated from the two-thirds share will continue to supply power to the Teck smelter in trail at set prices.</li> <li>• As a result, this decision has no impact on BC Hydro's energy supply and demand balance as long as Teck's smelter load remains at or near current levels.</li> </ul>
<p><b>8. The two-thirds share of Waneta will provide one-third of the power of Site C at one-eighth of the price of Site C. Why?</b></p>	<ul style="list-style-type: none"> <li>• Waneta and Site C are fundamentally different.</li> <li>• Here's why:               <ul style="list-style-type: none"> <li>○ Waneta was constructed in 1954 and has been in operation for over 60 years. Its value has depreciated over that time, upgrades will be required and its useful life is much shorter than a new facility.</li> <li>○ The two-thirds share of Waneta will continue to serve Teck's smelter at set prices for the next 20 to 30 years. The lease agreement restricts the use of the asset and impacts the value of the transaction per megawatts.</li> </ul> </li> </ul>
<p><b>9. What's the reason for the cost discrepancy between the original purchase of 1/3 in 2010 for \$825-million and the current cost of \$1.2-billion for 2/3?</b></p>	<ul style="list-style-type: none"> <li>• BC Hydro purchased its one-third share of the Waneta dam in 2010 to serve our customers and the price paid reflected the value of being able to acquire a new supply of energy and capacity at the time.</li> <li>• The BCUC found that the purchase of one-third interest in the Waneta dam was in the public interest. This decision was based on a review of cost effectiveness, due diligence and local impact.</li> <li>• The two-thirds share of the Waneta dam will continue to serve Teck's smelter at set prices for the next 20 to 30 years. This lease agreement restricts the use of the asset and impacts the value of the transaction. There are no restrictions on the one-third power supply from the facility purchased in 2010 so it has a higher value per megawatt hour than the remaining two-thirds.</li> <li>• Other differences between the two transactions include market prices and BC Hydro's demand/supply position</li> </ul>
<p><b>10. Does this mean fewer opportunities for the clean energy industry?</b></p>	<ul style="list-style-type: none"> <li>• The transaction includes a 20 to 30-year lease agreement where the electricity generate from the two-thirds share will continue to supply power to the Teck smelter in trail at set prices.</li> <li>• As a result, this decision has no impact on BC Hydro's current energy supply and demand balance, and does not impact opportunities for IPPs as long as the lease is in effect.</li> </ul>



Question	Answer
<p><b>11. How will the lease agreement work with Teck?</b></p>	<ul style="list-style-type: none"> <li>• The two-thirds share of the Waneta dam will continue to serve Teck's smelter at set prices during the lease period. This lease agreement restricts the use of the asset and impacts the value of the transaction.</li> <li>• The lease has an initial 20-year terms at set prices. Teck has the option to extend the lease for a further 10 years and continue to use the two-thirds share to power its smelter at higher, set prices.</li> </ul>
<p><b>12. Who will operate the dam?</b></p>	<ul style="list-style-type: none"> <li>• This is not yet determined; a decision is to be made by mid-September. BC Hydro has the option to become operator pursuant to our contractual rights and we are considering this option. It is the operator's role, whether it is BC Hydro or Teck, to continue to operate, manage and maintain Waneta Dam in accordance with its legal obligations.</li> </ul>
<p><b>13. If the BCUC approves the purchase, when will it happen?</b></p>	<ul style="list-style-type: none"> <li>• The transaction is required to close (be completed) within 12 months of BC Hydro's decision to purchase Teck's two-third interest in Waneta, so by early August, 2018. If the remaining conditions (e.g., BC Utilities Commission approval) are met sooner, the transaction could close sooner.</li> </ul>
<p><b>14. What will be the scope of the BCUC review – what will it look at? Will there be public input?</b></p>	<ul style="list-style-type: none"> <li>• The BCUC will decide on the specific scope of the review, and when and how there will an opportunity for public input.</li> <li>• They will complete a thorough review to confirm that the purchase will benefit our customers.</li> </ul>
<p><b>15. What happens if the smelter goes under? Is this a bad deal for ratepayers?</b></p>	<ul style="list-style-type: none"> <li>• The lease will stay in effect as long as Teck continues to make its monthly rental payments and is not otherwise in default under the agreements.</li> <li>• If the smelter load ceases to exist, Teck will have to find a new home for the power or choose to terminate the lease.</li> <li>• Our analysis considers the revenues and all of the costs and shows that the purchase is beneficial to our ratepayers in both the short and long-term, and will help keep electricity rates low.</li> </ul>

## **Waneta 2017 Transaction**

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### **Appendix S**

#### **Definitions, Acronyms and Abbreviations**

## Definitions, Acronyms and Abbreviations

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<b>2010 Waneta Decision</b>	<i>Reasons for Decision regarding A Filing by British Columbia Hydro and Power Authority for the Acquisition from Teck Metals Ltd. of an Undivided One-Third Interest in the Waneta Dam and Associated Assets, March 12, 2010, BC Utilities Commission</i>
<b>3808 PPA</b>	BC Hydro Rate Schedule 3808 - Power Purchase Agreement

### A

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<b>ABB Forecast</b>	Market price forecast prepared for BC Hydro by ABB, filed in confidence
<b>APA</b>	Asset Purchase Agreement arising from the Waneta 2010 Transaction
<b>Application</b>	BC Hydro Application regarding the Waneta 2017 Transaction

### B

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<b>BC Hydro</b>	British Columbia Hydro and Power Authority
<b>BCUC</b>	British Columbia Utilities Commission
<b>Beneficiaries</b>	<ol style="list-style-type: none"><li>1. Teck, until the closing of the Waneta 2017 Transaction; then</li><li>2. The Tenant under the Lease and BC Hydro as the reversionary owner of the two-thirds interest, each until the expiry of the term of the Lease; and then</li><li>3. BC Hydro as the owner of the two-thirds interest, or its assignee or successor in interest, after the term of the Lease has expired</li></ol>
<b>BPA</b>	Bonneville Power Administration
<b>Brilliant Expansion Project</b>	An expansion project adjacent to the Brilliant Dam completed in 2007

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**C**

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<b>CBT</b>	Columbia Basin Trust
<b>COA</b>	2010 Co-Ownership and Operating Agreement, a part of the Waneta 2010 Transaction
<b>Commission</b>	British Columbia Utilities Commission
<b>COPOA</b>	Co-Possessors and Operating Agreement, a part of the Waneta 2017 Transaction
<b>CPA</b>	Canal Plant Agreement
<b>CPC</b>	Columbia Power Corporation
<b>CPCN</b>	Certificate of Public Convenience and Necessity

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**E**

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<b>EI.</b>	Elevation
<b>Extrapolated Forecast</b>	Market price forecast, developed in part from confidential forward market prices

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**F**

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<b>F17-F19 RRA</b>	BC Hydro's Fiscal 2017 to Fiscal 2019 Revenue Requirements Application
<b>Fortis Transaction</b>	Agreement, subject to the ROFO, under which Teck would have sold its two-thirds interest in the Waneta Dam and related transmission assets to Fortis Inc. for \$1.2 billion
<b>FortisBC</b>	FortisBC Inc., a regulated electric utility serving the West Kootenay region

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**G**

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<b>Guarantee</b>	Guarantee Agreement between Teck Resources and BC Hydro, a part of the 2017 Waneta Lease Agreement
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**I**

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IRP	Integrated Resource Plan
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**K**

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km	Kilometres
kV	Kilovolt

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**L**

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Lease	Waneta Lease Agreement, a part of the Waneta 2017 Transaction
Lease Period	The term of the Lease
Line 71	A 230 kV transmission line that extends about 25 kilometers from the Waneta Dam to the United States border where it interconnects with the transmission system of the BPA, looping through BC Hydro's Nelway Substation
LRB	Load-resource balance
LRMC	Long-Run Marginal Cost

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**M**

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m	Metres
m <sup>3</sup> /s	Cubic-metres per second
Mid-C	Mid-Columbia wholesale trading hub

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**N**

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NPV	Net present value
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**O**

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OATT	Open Access Transmission Tariff
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**P**

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<b>PASDA</b>	1994 Power Asset Sale and Development Agreement
<b>PNCA</b>	Pacific Northwest Coordination Agreement

**R**

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<b>Reply Notice</b>	August 1, 2017 election by BC Hydro pursuant to the ROFO to purchase the Waneta Assets
<b>ROFO</b>	Right of First Offer as provided for in the COA

**S**

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<b>Sale Notice</b>	June 1, 2017 notice by Teck to BC Hydro pursuant to the ROFO
<b>SPRA</b>	Surplus Power Rights Agreement
<b>SRW</b>	WAS Access Easement, a part of the Waneta 2017 Transaction

**T**

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<b>Teck</b>	Teck Metals Ltd. (formerly Teck Cominco Metals Ltd. and before that Cominco Ltd.)
<b>Teck Wheeling Agreement</b>	An agreement for approval by the Commission under which BC Hydro will provide a wheeling service to Teck after the Lease Period, a part of the Waneta 2017 Transaction
<b>Tenant</b>	A Teck subsidiary, until closing, and then Teck thereafter
<b>Treaty</b>	Columbia River Treaty
<b>Trust Agreement</b>	Contract Bare Trust Agreement, a part of the Waneta 2017 Transaction

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## U

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U.S.	United States of America
UCA	<i>Utilities Commission Act</i>
UEC	Unit Energy Cost

## W

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<b>Waneta 2010 Transaction</b>	The acquisition of a one-third interest in Waneta by BC Hydro from Teck, approved by Commission Order No. G-12-10 on February 3, 2010
<b>Waneta 2017 Business Case</b>	The business case developed by BC Hydro to inform its decision to enter into the Waneta 2017 Transaction
<b>Waneta 2017 Transaction</b>	Transaction between BC Hydro and Teck for, among other things, the purchase by BC Hydro from Teck of the Waneta Assets
<b>Waneta Assets</b>	All of Teck's assets and rights that BC Hydro will be acquiring upon completion of the Waneta 2017 Transaction, excluding the Transmission Assets
<b>Waneta Expansion Project</b>	Hydroelectric development project at Waneta completed in 2015
<b>Waneta Interconnection Agreement</b>	An agreement to provide for the interconnection of the electrical systems of Teck and BC Hydro, and the provision of ancillary services to Teck, a part of the Waneta 2017 Transaction
<b>Waneta Purchase Agreement</b>	An agreement to effect the sale of the Waneta Assets to BC Hydro, a part of the Waneta 2017 Transaction
<b>WELP</b>	Waneta Expansion Limited Partnership
<b>WKPL</b>	West Kootenay Power Ltd.