

TERMS OF REFERENCE BOARD OF DIRECTORS

Purpose

BC Hydro is a provincial crown Corporation established by the *Hydro and Power Authority Act* (the “*Hydro Act*”). The Directors and Chair are appointed by and accountable to Government. The Corporation also falls under the jurisdiction of the provincial Government through the *Utilities Commission Act*, *Financial Administration Act* and the *Financial Information Act*.

While the *Hydro Act* allocates the responsibility to “*manage the affairs of the Authority or supervise the management of those affairs*” to the Board, the Board delegates to the Chief Executive Officer the responsibility for the day-to-day leadership and management of the Corporation.

Directors are stewards of the Corporation. They have the responsibility to oversee the conduct of business, supervise management and endeavor to ensure that all major issues affecting the business and affairs of the Corporation are given proper consideration. In performing its functions, the Board also considers the legitimate interests in BC Hydro held by other stakeholders including employees, suppliers, customers and communities.

In supervising the conduct of business, the Board, through the Chief Executive Officer, sets the standards of conduct for BC Hydro and ensures the safety of its operations.

Procedures and Organization

The Board operates by delegating to management certain of its authorities, including spending authorizations, and by reserving certain powers to itself. Current approval authority levels are outlined at Tab 35.

The Board retains responsibility for managing its own affairs including the responsibility to:

- a) Annually review, in conjunction with the Chief Executive Officer, the skills and experience represented on the Board in light of the strategic direction of the Corporation, for the purpose of recommending the criteria Government should consider when appointing Directors.
- b) Make recommendations to the Chair and to Government regarding the criteria it should consider in making appointments to the Board.
- c) On the recommendation of the Chair, appoint, determine the composition of, and set the mandate for, Board Committees.
- d) Implement an appropriate process for assessing the effectiveness of Board governance, Committees and the contribution of Directors.
- e) Assume responsibility for the Corporation’s corporate governance practices and ensure they meet the needs of Government, the Corporation, and the public.
- f) Appoint the Secretary to the Board.

The Board of Directors has specific responsibility for environmental matters that have a bearing on the business of BC Hydro. On 23 May 2008, the Board adopted a standard that sets out these roles and responsibilities. In addition, certain environmental responsibilities were delegated by the Board of Directors to the Chief Executive Officer. Please refer to Tab 5.

Duties and Responsibilities

Commercial Interests and Public Policy

The shareholders of a commercial enterprise elect a Board of Directors to represent their ownership interests. In contrast, Government, as the representative of the public at large, is the sole shareholder of a crown corporation and Cabinet has responsibility for appointing suitable Directors to govern that Corporation. In its representative capacity, Cabinet must ensure that the business affairs of its crown corporations are conducted in the public interest.

The positioning of a crown corporation raises unique challenges for its governance. Commercial crown corporations such as BC Hydro, are governed not only by financial results but also by expectations of corporate behaviour consistent with standards that apply to the public sector.

BC Hydro applies sound business practices to manage its operations and develop corporate strategies that result in a profitable business enterprise. It is also committed to discharging the public policy responsibilities that are assigned to it by its shareholder, the Government, and agreed upon by the Corporation.

One of the major challenges of the Board and its management is to ensure the Corporation is operated in a commercial manner while fulfilling its public policy responsibilities.

Shareholder's Letter of Expectations between Government and BC Hydro

Government's *Governance Framework for Crown Corporations* establishes guiding principles for the governance of its Crown agencies. The framework also identifies roles and responsibilities for the Shareholder and its Crown corporations and provides for a *Shareholder's Letter of Expectations* to be jointly developed.

The *Shareholder's Letter of Expectations* confirms the shared understanding of the Shareholder, represented by the Minister of Energy and Mines, and BC Hydro, on issues of corporate mandate, public policy, strategic priorities and performance expectations. The *Letter* also serves as the basis of agreement between the Shareholder and BC Hydro on those issues, priorities and expectations and will, as a result, be utilized in the development of BC Hydro's annual Service Plan.

Once approved by the Board, the Chair signs the *Shareholder's Letter of Expectations* on the Board's behalf. The current *Letter*, which is reviewed annually and amended as required, is located at Tab 32.

Selection of Management

The Board has the responsibility to:

- a) Appoint and replace the Chief Executive Officer and monitor and evaluate the Chief Executive Officer's performance.
- b) Approve the Chief Executive Officer's compensation.
- c) Provide advice and counsel to the Chief Executive Officer in the execution of the Chief Executive Officer's duties.
- d) Review the appointment and compensation of Vice-Presidents, acting upon the advice of the Chief Executive Officer and upon the recommendation of the Human Resources Committee.
- e) Ensure plans are made for management succession and development.

Strategy Determination

The Board has the responsibility to:

- a) Annually review with management, and approve the Corporation's strategic business plan, taking into consideration the public policy responsibilities of the Corporation.
- b) Safeguard the Corporation's resources by approving annual operating and capital budgets, and major new project proposals.

Monitoring and Acting

The Board has the responsibility to:

- a) Monitor BC Hydro's progress towards the objectives set in the corporate strategic business plan, operating and capital plans, and to revise and alter its direction through management in light of changing circumstances.
- b) Direct management to ensure that systems are in place for maintaining the integrity of and implementing BC Hydro's internal financial control and management information systems.

Risk Oversight

The Board is responsible for risk oversight across the entire portfolio of activities and risks engaged in by the Corporation, including understanding the relationship between the principal risks. With input from management, the Board identifies principal risks to BC Hydro achieving its objectives, endorses management's recommendations around risk tolerance and ensures that systems are in place to manage and monitor those risks. Through its review of reports from the Chief Risk Officer and with input from the Board Committees, the Board of Directors will assess the appropriateness and consistent application of systems to manage principal risks within the Corporation and ensure that key matters of risk are brought forward for action by the Board and management.

The Chief Executive Officer of the Corporation, with advice from the Chief Risk Officer is responsible for establishing processes, procedures and mechanisms by which key matters of risk are identified, and ensuring that strategies are developed to manage such risks.

The Board will receive quarterly reports from the Chief Risk Officer, and from other areas of the Corporation as it considers appropriate or timely.

Policies and Procedures

The Board has the responsibility to:

- a) Approve and monitor, through management, compliance with all significant policies and procedures that govern BC Hydro's operations.
- b) Approve and act as the guardian of BC Hydro's corporate values.
- c) Direct management to implement systems designed to ensure that BC Hydro operates at all times within applicable laws and regulations, and to the highest ethical and moral standards.

Corporate Communications

The Board must pay particular attention to the fact that it operates within a highly public environment. The actions of the Corporation have a significant public impact and there is a need to ensure communications with the public and Government are effective and appropriate.

The Board has the responsibility to:

- a) Ensure the Corporation has in place a policy to enable management and the Board to communicate effectively with the Government, stakeholders and the public generally.

- b) Ensure the financial performance of BC Hydro is adequately and promptly reported to the Government, the public, security holders and regulators.
- c) Ensure financial results are reported fairly and in accordance with generally accepted accounting principles.
- d) Ensure timely reporting of any other developments that have a significant and material effect on the performance of BC Hydro.
- e) Report annually to the Government on the Board's stewardship for the preceding year through its Annual Report.

General Legal Obligations of the Board of Directors

The Board is responsible for directing management to ensure legal requirements have been met, and documents and records have been properly prepared, approved and maintained.

Legal duties are imposed on Directors. The basic legal duties are imposed at common law. Directors are under a fiduciary¹ duty to BC Hydro to carry out the duties of their office:

- Honestly and in good faith.
- In the best interests of BC Hydro.
- With the care, diligence, and skill of a reasonably prudent person.

Directors have specific statutory duties and obligations under employment, environmental and financial reporting law as well as under the withholding provisions of taxation law.

¹ without being legally precise, a fiduciary duty is duty to act for the benefit of another, like a trustee.