

**BRITISH
COLUMBIA**

The Best Place on Earth

SHAREHOLDER'S LETTER OF EXPECTATIONS

BETWEEN

**THE MINISTER OF ENERGY, MINES AND PETROLEUM RESOURCES
(AS REPRESENTATIVE OF THE SHAREHOLDER,
THE GOVERNMENT OF BRITISH COLUMBIA)**

AND

**THE CHAIR OF THE BRITISH COLUMBIA HYDRO AND POWER
AUTHORITY
(AS REPRESENTATIVE OF THE CORPORATION)**

PURPOSE

This Shareholder's Letter of Expectations between the Shareholder and the British Columbia Hydro and Power Authority is an agreement on the respective roles and responsibilities of each, and serves as the basis of agreement between the Shareholder and BC Hydro on corporate mandate including: high-level performance expectations; public policy issues; and strategic priorities¹. It will be reviewed annually and updated as required. The Shareholder's Letter of Expectations is the basis for the development of the BC Hydro's Service Plans and Annual Service Plan Reports. The Letter applies equally to the Shareholder and BC Hydro. The Letter does not create any legal or binding obligations on the part of the Shareholder or BC Hydro but rather is intended to define and promote a positive and co-operative working relationship.

¹ The Province of British Columbia's Crown Agency Accountability System (CAAS) (http://www.gov.bc.ca/cas/attachments/shareholder's_expectations_manual_2006.pdf) establishes guiding principles for the governance of Crown corporations. The CAAS identifies roles and responsibilities for the Shareholder and Crown corporations, and provides for a Shareholder's Letter of Expectations (Letter) to be jointly developed.

BC HYDRO ACCOUNTABILITIES

Government has provided the following mandate direction to BC Hydro:

- Pursuant to the *Hydro and Power Authority Act*, BC Hydro's mandate includes the generation, manufacture, distribution and supply of power subject to the regulatory oversight of the British Columbia Utilities Commission pursuant to the *Utilities Commission Act*;
- BC Hydro's purpose is to provide reliable power, at low cost, for generations; and
- The Province's Energy Plan: A Vision for Clean Energy Leadership (Energy Plan) sets out a range of actions for BC Hydro to undertake and support to further the Shareholder's economic, environmental, innovation and sustainability initiatives. A list of Energy Plan initiatives relating to BC Hydro is enclosed as Appendix 1.

In responding to Government's performance expectations and the general and specific frameworks and direction of the Shareholder, BC Hydro will:

- conduct its affairs to achieve its mandate and the performance expectations and objectives of the Shareholder, including establishing and implementing corporate strategies, policies, programs, plans and financial outcomes that are consistent with the Shareholder's general direction and with principles of integrity, efficiency, effectiveness, and customer service;
- conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by the Shareholder;
- prepare Service Plans with clearly articulated goals, strategies, performance measures and targets, and Annual Reports that describe the Corporation's progress toward achieving those goals, and post both documents on its website;
- display all annual Statement of Financial Information schedules prepared under the *Financial Information Act* in an easily accessible location on its website (some of this information is included in Annual Reports and does not need to be otherwise displayed);
- develop and implement strategies to manage risks identified in the Service Plan;
- comply with the Shareholder's requirements to make the Public Sector carbon neutral by 2010, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the Corporation's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the Corporation's scope of operations;
- encourage staff involvement in developing ideas and new solutions to meet Government's climate change objectives, including energy conservation programs and fleet and traffic management initiatives, and report on results achieved;
- support the Shareholder's Healthier Choices Initiative, including ensuring that all non-contracted vending machines located in facilities owned or leased by the Corporation have food products which meet the Shareholder's Nutrition Guidelines for Vending Machines in Public Buildings, and that contracted vending machines be transitioned to

the Nutrition Guidelines for Vending Machines in Public Buildings as soon as practicable upon expiry of their contracts;

- provide the Shareholder with reports and other information that would enable the Shareholder to carry out its responsibilities; and
- provide information to the Shareholder immediately if the Corporation is unable to meet the performance and financial targets identified in its Service Plan.

In addition, the Shareholder directs BC Hydro to take the following specific actions:

- Continually review and improve its organizational structure to enhance accountability, cost effectiveness and performance;
- Aggressively pursue all actions necessary to implement the objectives of British Columbia's Energy Plan; continue to provide Government with a monthly progress report on key initiatives and as well as a summary of annual progress on environmental leadership, innovation, energy conservation and efficiency, and energy security and self-sufficiency in BC Hydro's annual report to the Shareholder;
- Pursue the installation of smart meters to replace existing meters of residential and commercial customers by 2012, as required by the 2008 amendments to the *Utilities Commission Act*;
- Actively participate in the BC Utilities Commission's review of long term transmission requirements to ensure a comprehensive process;
- In consultation with the Shareholder, proactively provide public information and education regarding the supply of and the demand for electricity, and the options for meeting future needs in consultation with Government;
- Provide technical expertise as appropriate to support the Ministry in developing energy efficiency programs and regulations;
- Through its subsidiary Powerex, actively pursue extra-provincial energy trading markets and explore and identify opportunities to facilitate access for independent power producers to western North American markets;
- Advise and consult with the Shareholder in advance of any anticipated or desired BC Hydro initiatives that could have public policy implications; and
- Demonstrate at an appropriate point in time that mid-term contract negotiations with the International Brotherhood of Electrical Workers resulted in a cost-neutral labour cost to BC Hydro as employer.

BC Hydro will report back to the Shareholder on the above directed specific actions by December 2009.

SHAREHOLDER'S RESPONSIBILITIES

The Shareholder is responsible for the legislative, regulatory and public policy framework in which Crown Corporations operate. In order to meet these responsibilities and support achievement of Government's performance expectations, the Shareholder will:

- establish, review, revise and communicate the Crown Corporation's mandate;

- establish and communicate the general and Crown-specific financial frameworks under which the Crown Corporation operate (borrowing, investment, and payment to the Shareholder);
- issue performance management guidelines, including guidelines for Service Plans and Annual Reports (<http://www.gov.bc.ca/cas/publications/index.html>);
- provide input and feedback to the Crown Corporation in the development of its Service Plans and Annual Reports;
- provide broad policy direction and confirmation of general frameworks/principles to the Crown corporation, within which the Crown Corporation may establish and apply specific policies/processes;
- advise the Crown Corporation of Government's priorities, strategic decisions and public policy and performance objectives and expectations that may impact the Crown Corporation; and
- issue directives or orders or sponsor submissions on behalf of the Crown Corporation that may be required to seek decisions or policy direction by the Executive Council or its committees, in order to facilitate the Crown Corporation fulfilling its mandate and achieving the performance targets outlined in its Service Plans.

The Shareholder has developed policies for ministries and Crown Corporations for Capital Asset Management (<http://www.fin.gov.bc.ca/tbs/camf.htm>) and Board remuneration policies for Crown agencies (<http://www.gov.bc.ca/cas/publications/index.html>). The Shareholder has also issued Best Practice Guidelines for board governance and disclosure (<http://www.lcs.gov.bc.ca/brdo/governance/index.asp>). During the term of this Letter, the Shareholder may provide additional policy direction to the Crown agency sector, and will communicate any such direction, including implementation expectations, to Crown Corporations as decisions are made.

The Shareholder will also, on a continuing basis, monitor the achievement of the goals, objectives and performance and financial targets identified in Crown Corporations' Service Plans.

Specific to BC Hydro, the Shareholder:

- has confirmed BC Hydro as an agent of the Shareholder as set out in the *Hydro and Power Authority Act*;
- has established the Minister of Finance as the fiscal agent for BC Hydro, to provide access to Government financing and banking services;
- will consult with BC Hydro on any changes to the legislative framework that will impact the Corporation's business activities; and
- will provide ongoing policy support and may propose legislation, regulations and/or special directions where appropriate to facilitate regulatory approvals for BC Hydro to undertake Energy Plan related activities, particularly those which contribute to:
 - environmental leadership, innovation, energy conservation and efficiency; and
 - energy security and self-sufficiency, particularly with respect to the acquisition of additional energy and capacity from new British Columbia-based generating facilities.

AREAS OF SHARED ACCOUNTABILITY:

Communications

It is agreed by both the Shareholder and BC Hydro that, to ensure effective and efficient day-to-day communications and relationship building, officials representing both parties will be tasked with implementing the contents of this Letter and keeping the Minister Responsible and the Board of Directors informed of progress in a timely fashion.

Reporting

The Shareholder and BC Hydro are committed to transparency and accountability to the public. The Shareholder has put in place a public reporting structure which is set out in the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, and the *Financial Information Act*. The Shareholder has provided BC Hydro with a reporting calendar which sets out financial and performance reporting requirements (<http://www.gov.bc.ca/cas/publications/index.html>). BC Hydro agrees that it will meet these financial and performance reporting requirements. If Government determines that changes to the reporting requirements are necessary, the Shareholder will communicate these to BC Hydro.

It is agreed by both the Shareholder and BC Hydro that there will be advance discussion and review of key documents such as Service Plans, Quarterly Financial Reports and Annual Reports. These discussions will be completed sufficiently in advance of deadlines to ensure the opportunity for effective and timely input by the Shareholder.

In addition to these financial and performance reporting requirements, BC Hydro agrees to provide information to the Shareholder related to risks and opportunities anticipated in achieving financial forecasts and performance targets.

The Shareholder and BC Hydro agree that, as a matter of course, each will advise the other in a timely manner of any issues that may materially impact the business of BC Hydro or the interests of the Shareholder.

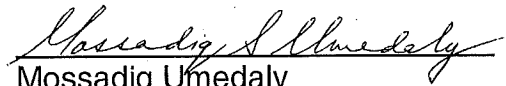
It is agreed that BC Hydro will post the most recent signed copy of the Shareholder's Letter of Expectations on its website. Crown Agencies Secretariat will also post a signed copy of the Letter on its website.

Review and Revision of this Letter

The Minister of Energy, Mines and Petroleum Resources is accountable for undertaking reviews of this Letter and monitoring its implementation. The Crown Agencies Secretariat is responsible for co-ordinating the overall process for preparing Shareholder's Letters of Expectation, and may assist the Minister in undertaking reviews of this Letter and monitoring its implementation. If deemed necessary by either party, the Shareholder and BC Hydro will discuss any issues and may agree to amend this Letter on a more frequent than annual basis.



Honourable Richard Neufeld
Minister of Energy, Mines and Petroleum Resources



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Chair, BC Hydro

Date

Jan 14 / 2009

Date

Feb 17, 2009

pc: Honourable Gordon Campbell
Premier

Ms. Jessica McDonald
Deputy Minister to the Premier and Cabinet Secretary

Mr. Chris Trumpy
Deputy Minister and Secretary to Treasury Board
Ministry of Finance

Chris Johnson
A/Assistant Deputy Minister and
Chief Executive Officer
Crown Agencies Secretariat

Mr. Greg Reimer
Deputy Minister
Ministry of Energy, Mines and Petroleum Resources

Mr. Bob Elton
President and Chief Executive Officer
BC Hydro

Appendix 1: Actions pertaining to BC Hydro in the BC Energy Plan

The Policy Actions in the BC Energy Plan pertaining to BC Hydro are:

- Set an ambitious conservation target, to acquire 50 percent of BC Hydro's incremental resource needs through conservation by 2020.
- Ensure a coordinated approach to conservation and efficiency is actively pursued in British Columbia.
- Encourage utilities to pursue cost effective and competitive demand side management opportunities.
- Explore with British Columbia utilities new rate structures that encourage energy efficiency and conservation.
- Ensure self-sufficiency to meet electricity needs, including "insurance".
- Establish a standing offer for clean electricity projects up to 10 megawatts.
- Continue public ownership of BC Hydro and its heritage assets, and the British Columbia Transmission Corporation.
- Establish the existing heritage contract in perpetuity.
- Invest in upgrading and maintaining the heritage asset power plants and the transmission lines to retain the ongoing competitive advantage these assets provide to the province.
- All new electricity generation projects will have zero net greenhouse gas emissions.
- Zero net greenhouse gas emissions from existing thermal generation power plants by 2016.
- Require zero greenhouse gas emissions from any coal thermal electricity facilities.
- Ensure clean or renewable electricity generation continues to account for at least 90 percent of total generation.
- Government supports BC Hydro's proposal to replace the firm energy supply from the Burrard Thermal plant with other resources. BC Hydro may choose to retain Burrard for capacity purposes after 2014.
- Ensure the procurement of electricity appropriately recognizes the value of aggregated intermittent resources.
- Work with BC Hydro and parties involved to continue to improve the procurement process for electricity.
- Pursue Government and BC Hydro's planned Remote Community Electrification Program to expand or take over electricity service to remote communities in British Columbia.
- Ensure BC Hydro considers alternative electricity sources and energy efficiency measures in its energy planning for remote communities.
- Issue an expression of interest followed by a call for proposals for electricity from sawmill residues, logging debris, and beetle killed timber to help mitigate the impacts from the provincial mountain pine beetle infestation.
- BC Hydro's Net Metering Program was established as a result of Energy Plan 2002. BC Hydro will offer the same price to those in BC Hydro's Net Metering Program who

have a surplus at the end of the year as will be offered in the standing offer program for small projects.

- As part of the BC Energy Plan, BC Hydro and the Province will enter into initial discussions with First Nations, the Province of Alberta and communities to discuss Site C to ensure that communications regarding the potential project and the processes being followed are well known. The purpose of this step is to engage the various parties up front to obtain input for the proposed engagement process.