

APPENDIX C

SHAREHOLDER'S LETTER OF EXPECTATIONS

The *Shareholder's Letter of Expectations* describes the relationship between BC Hydro and the Province, and sets out objectives the shareholder wishes BC Hydro to achieve. The Province and BC Hydro review the letter annually and update it as required.

Directions outlined in the letter for which this Annual Report is referring, dated January 2010, focus on accountability, energy conservation, climate change, stakeholder consultation, private sector support, supply options, electricity trading and government relations.

OUTLINED BELOW IS HOW BC HYDRO HAS RESPONDED TO EACH OF THE SHAREHOLDER'S EXPECTATIONS:

BC Hydro shall:

Ensure that BC Hydro's priorities reflect Government's goals of building a strong economy; job creation; infrastructure and private sector investment; First Nations reconciliation; and climate action initiatives.

BC Hydro action

BC Hydro's priorities reflect government's goals. In addition, the reintegration of BCTC has resulted in a significant amount of change at BC Hydro, in tandem with the enactment of the *Clean Energy Act* and the introduction of new executive leaders. Accordingly, the company's Strategic Plan was updated with a revised vision and six strategic objectives, which replace the previous purpose statement, 15 Guiding Principles and six short-term priorities. These directives will ensure that we continue to be aligned with Government's goals.

BC Hydro shall:

Conduct its affairs to achieve its mandate and the performance expectations and objectives of the Shareholder, including establishing plans and implementing corporate strategies, programs, plans and financial outcomes that are consistent with the Shareholder's general direction and consistent with principles of efficiency, effectiveness and customer service.

BC Hydro action

Annually, BC Hydro prepares a Service Plan and Quarterly Reports, which outline our performance in alignment to the expectations laid out by the Shareholder. These can be found under **Reports** in our company information section on bchydro.com.

BC Hydro shall:

Conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by the Shareholder.

BC Hydro action

This annual report is consistent with the legislative, regulatory and policy framework established by the Shareholder.

BC Hydro shall:

Prepare Service Plans with clearly articulated goals, objectives, strategies and performance measures and targets, and Annual Reports that detail progress toward achieving those goals, and post both documents on its website.

BC Hydro action

BC Hydro prepares and publishes the **Service Plan** and **Annual Report**. In addition, the *G3 Report*, **Quarterly Reports** and supplemental reports are posted online, as appropriate.

BC Hydro shall:

Display all annual Statement of Financial Information schedules prepared under *The Financial Information Act* in an easily accessible location on its website.

BC Hydro action

BC Hydro's financial information is released through its **Annual Report**, in addition to the *Financial Information Act* return information which is clearly displayed, every year, under the Openness and Accountability section on the bchydro.com website.

BC Hydro shall:

Develop and implement strategies to manage risks identified in the Service Plan.

BC Hydro action

BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions. The key risks BC Hydro faces are divided into six categories for management purposes: employee, public and dam safety; reliability; financial performance; regulatory; organization risk; and environmental.

BC Hydro shall:

Provide the shareholder with reports and other information that would enable the Shareholder to carry out its responsibilities.

BC Hydro action

Annually, BC Hydro prepares a Service Plan, Quarterly Reports and the Annual Report, which outline our performance in alignment to the expectations laid out by the Shareholder. These can be found under **Reports** in our company information section on bchydro.com.

BC Hydro shall:

Inform the shareholder immediately if the Corporation is unable to meet the performance and financial targets identified in its Service Plan.

BC Hydro action

BC Hydro prepares **Quarterly Reports**, which outline our performance and progress in relation to the goals established in the Service Plan.

BC Hydro shall:

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.

BC Hydro action

BC Hydro currently supplies electricity at one of the lowest carbon intensities in the world. Concern about greenhouse gas emissions is now a permanent part of utility planning and BC Hydro has developed a climate change strategy that will manage regulatory risk and ensure compliance, reduce greenhouse emissions and prepare for the unavoidable physical impacts of climate change.

BC Hydro shall:

Support the Healthier Choices Initiative, ensuring that all vending machines located in facilities owned or leased by BC Hydro have food products which meet the Shareholder's Nutrition Guidelines for Vending Machines in public buildings.

BC Hydro action

Beginning in April 2009, as part of the Province's Healthier Choices Initiative, non-contracted vending machines at all BC Hydro buildings and sites have been transitioned to provide healthier choices under the terms of the Nutrition Guidelines.

BC Hydro shall:

Ensure Shareholder is advised in advance of the release of any information requests by BC Hydro under the *Freedom of Information and Protection of Privacy Act*.

BC Hydro action

BC Hydro notifies the Shareholder in advance of the release of all information requests under the *Freedom of Information and Protection of Privacy Act*.

BC Hydro shall:

Ensure any debit/credit card payment services provided to the public are in compliance with the international Payment Card Industry (PCI) Data Security Standards by the October 1, 2010 deadline.

BC Hydro action

BC Hydro ensures that its payment services are in compliance with these data security standards and has adjusted their payment services accordingly.

BC Hydro shall:

Ensure BC Hydro's membership in the Crown Corporation Employer's Association is in good standing.

BC Hydro action

BC Hydro's membership in the Crown Corporation Employer's Association is updated each year and continues to be in good standing.

BC Hydro shall:

Annually assess the Board appointment process to ensure that succession results in a balance of renewal and continuity of Board membership and provide the results of this assessment to the shareholder for consideration.

BC Hydro action

See [Corporate Governance](#) to see the latest organization structure and changes to the Board Renewal processes that have been made in the last year.

BC Hydro shall:

Ensure that Board appointments of BC Hydro's subsidiaries have been approved by Cabinet.

BC Hydro action

BC Hydro ensures that the provincial government are kept informed of any subsidiary appointments, and obtains Cabinet approval for them. For more information, please refer to the [Corporate Governance](#) section to see the latest organization structure and changes to the Board Renewal processes that have been made in the last year.

BC Hydro shall:

Comply with the Government's requirement that lobbyists not be engaged to act on behalf of BC Hydro in its dealings with Government.

BC Hydro action

As a Crown Corporation, BC Hydro deals directly with the Government and does not engage lobbyists in this area.

BC Hydro shall:

Continually review and improve its organizational structure to enhance accountability, cost effectiveness and performance.

BC Hydro action

BC Hydro continually examines its overall organizational effectiveness to ensure that we are delivering safe, reliable and cost-effective service for our customers.

BC Hydro shall:

Present a plan to review all cost structures with a view to realizing cost savings for ratepayers and implement the resultant cost savings starting in Fall 2010.

BC Hydro action

BC Hydro continued its vacancy management strategy in fiscal 2011 by working through the integration process and undertaking a workforce analysis to review the structure and function of business units. It also reviewed its financial and procurement processes, moving to national and international best practices (IFRS, GAAP) within the last two years. The Revenue Requirements process also helps to ensure that our cost structures are reviewed on a regular basis to ensure cost savings and efficiencies.

BC Hydro shall:

Aggressively pursue all actions necessary to implement the objectives of the Energy Plan as set out in Appendix 1 to uphold British Columbia's leadership as one of the greenest jurisdictions in Canada.

BC Hydro action

As outlined in the Service Plan and *Clean Energy Act*, we have updated our strategic plan to ensure that our business objectives, key projects and initiatives will enable us to fulfill the terms and directives of the *Clean Energy Act*.

BC Hydro shall:

Continue to support the Shareholder in the development of materials for the Cabinet Committee on Climate Action and Clean Energy to ensure British Columbia remains a leader in clean and renewable energy.

BC Hydro action

BC Hydro supports the work of the Cabinet Committee whenever requested.

BC Hydro shall:

Support the Shareholder's clean energy powerhouse objectives by helping to identify strategies aimed at developing British Columbia's clean, renewable, low carbon energy potential to stimulate new investment, industry and employment in the province.

BC Hydro action

BC Hydro has helped to identify strategies aimed at developing British Columbia's clean, renewable, low carbon energy potential to stimulate new investment, industry and employment in the province through the development of new projects and working with independent power producers to create new sources of energy. We have also investigated new forms of technology in our operations, in addition to supporting a variety of green programs, including the use of electric vehicles, the development of our new strategies and objectives, and asking the public and communities for input as to how we can better use our resources through the Integrated Resource Planning process.

BC Hydro shall:

Continue to use communications and consultation processes to promote openness and transparency with First Nations and the Corporation's stakeholders.

BC Hydro action

BC Hydro is committed to building trusted and sustainable long-term relationships with our stakeholders and First Nations in the communities we serve and live in. Sometimes, this involves undertaking consultation processes on a variety of capital projects or initiatives, and listening to a community's interests and concerns. Stakeholder and First Nation consultation is embedded as part of the process with all of our projects, and our staff throughout the province ensure that we communicate about our work in a timely and effective way to B.C. residents.

BC Hydro shall:

Maintain the highest level of ethical behaviour with BC Hydro partners in the development and maintenance of projects.

BC Hydro action

BC Hydro acts with integrity in all of our business relationships, complying with all applicable laws, following best practice guidelines in corporate governance. BC Hydro has a Code of Conduct and policies that ensure we maintain the highest level of ethical behaviour in the development and maintenance of projects. In addition, we require individuals and companies who conduct business with us to use similar high standards of conduct. For more information, please see the Openness and Accountability section of our Corporate Governance section at http://www.bchydro.com/about/company_information/openness_accountability.html.

BC Hydro shall:

Provide open and non-discriminatory procurement of goods, services and construction consistent with the Shareholder's procurement and Capital Asset Management Framework policies and British Columbia's obligations under the Trade, Investment and Labour Mobility Agreement between British Columbia and Alberta.

BC Hydro action

BC Hydro ensures that its procurement processes are consistent with the Shareholder's by adopting policies and processes consistent with the Shareholder's and with the New West Partnership Trade Agreement (which has replaced the Trade, Investment and Labour Mobility Agreement between British Columbia and Alberta). During fiscal 2011 BC Hydro also conducted a Supplier Engagement Survey to better understand its relationships with suppliers and how these could be improved. The results of these survey included ten recommendations to improve BC Hydro's engagement with its suppliers and thereby bring benefits to both BC Hydro and its suppliers.

BC Hydro shall:

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.

BC Hydro action

Powerex continues its energy marketing and trade activities including buying and supplying wholesale power, natural gas, ancillary services, financial energy products, and, more recently, environmental products with an ever-expanding list of trade partners. These activities help optimize BC Hydro's electric system resources and provide significant economic benefits to British Columbians.

BC Hydro shall:

Support the Shareholder's greenhouse gas reduction strategy through the phase-out of reliance on Burrard Thermal for firm energy.

BC Hydro action

As directed by the *Clean Energy Act* (CEA) BC Hydro will not plan to rely on energy or capacity from Burrard, except: in the case of emergency, to provide transmission support services or as authorized by regulation.

As a result, a five year operating plan and associated capital scenario for Burrard has been developed that meets system reliability requirements while minimizing the introduction of incremental costs without compromising safety, reliability or the environment. BC Hydro has also ensured flexibility to respond to different system conditions and emergencies that could emerge over time.

BC Hydro shall:

Encourage British Columbians to do their part in being leaders in energy efficiency, the reduction of greenhouse gas emissions and making the Province a healthy place for future generations.

BC Hydro action

BC Hydro encourages B.C. residents and its customers to do their part to conserve energy and reduce GHG emissions whenever possible, through a variety of conservation initiatives and programs. See www.bchydro.com/powersmart for more information.