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 BC HYDRO OR THE CORPORATION)

PURPOSE

This Letter of Expectations between the Shareholder and BC Hydro is an agreement on their respective roles, responsibilities and on corporate mandate including high level strategic priorities, public policy issues and performance expectations. This Letter is reviewed and updated annually. The Letter is the basis for the development of BC Hydro’s Service Plans and Annual Service Plan Reports. This Letter applies equally to both parties. The Letter does not create any legal or binding obligations on the parties and is intended to promote a co-operative working relationship.

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; and
- Ensure British Columbians continue to benefit from competitively priced and reliable power for generations to come.

To achieve this mandate direction, and in response to the Shareholder’s general direction, frameworks and principles, BC Hydro will:

- 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;
- conduct its affairs to achieve its mandate and the performance expectations of the Shareholder including establishing and implementing corporate strategies, policies, programs, plans and financial outcomes consistent with the Shareholder’s general direction and with the 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 Service Plan Reports that describe progress toward achieving those goals, strategies, performance measures and targets and post both documents on its website;
- develop and implement strategies to manage financial and performance risks identified in the Service Plan;
- provide the Shareholder with reports and other information that would enable the Shareholder to carry out its responsibilities; and
- inform the Shareholder immediately if the Corporation is unable to meet the performance and financial targets identified in its Service Plan.

The Shareholder also sets broad policy direction to ensure BC Hydro’s operation and performance are consistent with government’s strategic priorities and Fiscal Plan, as such BC Hydro will:

- 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 BC Hydro’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 BC Hydro's scope of operations;

- 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;
- ensure the 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;
- 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;
- ensure BC Hydro’s membership in the Crown Corporation Employers’ Association is in good standing;
- 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;
- ensure that Board appointments to BC Hydro’s subsidiaries have been approved by Cabinet; and
- comply with Government’s requirement that lobbyists not be engaged to act on behalf of BC Hydro in its dealings with Government.

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;
- present a plan to review all cost structures with a view to realizing cost savings for ratepayers and implement the resultant cost savings starting Fall 2010;
- 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;
- 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;
- 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;
- continue to use communications and consultation processes to promote openness and transparency with First Nations and the Corporation’s stakeholders;
- maintain the highest level of ethical behaviour with BC Hydro partners in the development and maintenance of projects;
- 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;
• through its subsidiary Powerex, actively pursue extra-Provincial energy trading markets and explore and identify opportunities to facilitate access for independent power producers to sell electricity in western North American markets;
• support the Shareholder's greenhouse gas reduction strategy through the phase-out of reliance on Burrard Thermal for firm energy; and
• 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.

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 any changes to the Corporation's mandate;
• establish and communicate the general and Crown-specific financial frameworks under which the Corporation operates (borrowing, investment, and payment to the Shareholder);
• issue performance management guidelines including guidelines for Service Plans and Annual Service Plan Reports (http://www.gov.bc.ca/cas/publications/index.html);
• review, provide feedback and final approval of the Corporation's Service Plans and Annual Service Plan Reports;
• provide broad policy direction and confirmation of general frameworks/principles to the Corporation within which the Corporation may establish/apply specific policies/processes;
• advise the Corporation of Government's strategic priorities, decisions and public policy and any performance objectives and expectations that may impact the Corporation; and
• issue directives or orders or sponsor submissions on behalf of the Corporation that may be required to seek decisions or policy direction by the Executive Council or its committees in order to facilitate the 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 Remuneration Guidelines for Appointees to Crown Agency Boards (http://www.gov.bc.ca/cas/publications/index.html). The Shareholder has also issued the Best Practice Guidelines – BC Governance and Disclosure Guidelines for Governing Boards of Public Sector Organizations (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 such direction including implementation expectations to the Corporation as decisions are made.

The Shareholder will also, on a continuing basis, monitor the achievement of the goals, objectives, performance and financial targets and risk assessments identified in the Corporation's 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 and regulatory framework that will impact the Corporation’s business activities; and
- will provide ongoing policy support and may propose legislation, regulations and/or 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 clean and renewable 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, representatives for 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 an Information Requirements and Events 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 the parties that there will be advance discussion and review of key documents such as Service Plans, Quarterly Financial Reports and Annual Service Plan 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 parties 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 and/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 Resource Office 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 Resource Office is responsible for co-ordinating the overall process for preparing 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 Blair Lekstrom
Minister of Energy, Mines and Petroleum Resources

Jan 21, 2010

Date

Dan Doyle
Chair, BC Hydro

Jan 6, 2010

Date

cc. Honourable Gordon Campbell
Premier

Mr. Allan Seckel
Deputy Minister to the Premier and Cabinet Secretary

Mr. Graham Whitmarsh
Deputy Minister and Secretary to Treasury Board
Ministry of Finance

Mr. Greg Reimer
Deputy Minister
Ministry of Energy, Mines and Petroleum Resources
Ms. Bev Van Ruyven
A/President and Chief Executive Officer
BC Hydro

Ms. Marie Ty
A/ Assistant Deputy Minister
Crown Agencies Resource Office
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; and
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.