

June 28, 2006



SHAREHOLDER'S LETTER OF EXPECTATIONS

BETWEEN

**THE MINISTER 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 (Letter) between the Shareholder and the Corporation is an agreement on the respective roles and responsibilities of each. The Letter serves as the basis of agreement between the Shareholder and the Corporation on a corporate mandate including high-level performance expectations, public policy issues and strategic priorities¹. The Letter is also the basis for developing the Corporation's Service Plans and Annual Service Plan Reports. It will be reviewed annually and updated as required.

The Letter is intended to inform and guide the development of the Corporation's annual Service Plan. The Letter applies to both the

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

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Shareholder and the Corporation. The Letter does not create any legal or binding obligations on the part of the Shareholder or the Corporation but rather is intended to define and promote a positive and co-operative working relationship.

This Letter replaces any previous such documents between the Shareholder and the Corporation.

CORPORATION ACCOUNTABILITIES

The Shareholder confirms the following direction to the Corporation:

- The Corporation's mandate as an agent of the Shareholder is defined in the *Hydro and Power Authority Act*;
- The Minister of Finance is the fiscal agent for the Corporation, and provides the Corporation with access to government financing and banking services; and
- The Corporation is to undertake responsive action to the regulatory oversight of the BC Utilities Commission pursuant to the *Utilities Commission Act*.

In responding to the Shareholder's performance expectations, general and specific frameworks and direction, the Corporation 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 consistent with principles of efficiency, effectiveness and customer service;
- Prepare Service Plans with clearly articulated goals, objectives, strategies, performance measures and targets, and Annual Service Plan Reports that detail 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);
- Conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by the Shareholder;
- Develop and implement strategies to manage risks identified in the Service Plan;
- Provide the Shareholder with reports and other information that would enable the Shareholder to carry out its responsibilities;

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- Provide information to the Shareholder if the Corporation is unable to meet the targets identified in its Service Plan; and
- Take appropriate action to ensure that if Shareholder-directed transactions affect the Service Plan or financial targets of the Corporation, the Shareholder is informed of any impacts.

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

- Take appropriate action to continually review and improve its lines of business and internal service organizations to enhance accountability, cost effectiveness and performance;
- Aggressively pursue cost-effective conservation, efficiency, and demand-side management programs (i.e., Power Smart);
- Conduct a review of the Corporation's approach to consulting with the public, stakeholders and First Nations to ensure effectiveness;
- Proactively provide public information and education regarding the supply of and the demand for electricity and options for meeting future needs in consultation with government;
- Pursue outsourcing of services where costs can be reduced for electricity consumers while retaining quality of service;
- Acquire new electricity supply competitively from the private sector, with a target of 50% of new supply over 10 years from 2002 to 2012 from BC Clean Electricity;
- Provide the Shareholder with a comprehensive review of all options available to meet BC's growing demand for electricity over the next twenty years;
- 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; and
- Advise and consult with the Shareholder in advance of any anticipated or desired BC Hydro initiatives that could have public policy implications.

The Corporation will have reported back to the Shareholder on the above directed specific actions by December 2006.

SHAREHOLDER 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

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performance expectations, the Shareholder will:

- Establish, review, revise and communicate Crown corporations' mandates;
- Establish the overall and Crown-specific financial frameworks under which Crown corporations operate (borrowing, investment, and payment to the Shareholder);
- Issue performance management guidelines, including guidelines for service planning and annual reports (<http://www.gov.bc.ca/cas/rpts/>);
- Provide strategic input and advice to Crown corporations in the development of their Service Plans and Annual Reports;
- Provide broad policy direction and confirmation of general frameworks/principles to Crown corporations, within which the Crown corporations may establish and apply specific policies/processes;
- Advise Crown corporations of government's priorities, strategic decisions and public policy and performance objectives and expectations that may impact Crown corporations; and
- Issue directives or orders, or sponsor submissions on behalf of Crown corporations that may be required to seek decisions or policy direction by the Executive Council or its committees, in order to facilitate Crown corporations fulfilling their mandates and achieving the performance targets outlined in Crown corporations' Service Plans.

The Shareholder has announced its intention to undertake a comprehensive review of the November 2002 Energy Plan. Until the completion of the energy plan review, the Corporation will continue to exercise its mandate as defined in the *Hydro and Power Authority Act* in a manner consistent with the direction contained the November 2002 Energy Plan. If during this review period, the Corporation is unclear with regard to the province's policy direction, the Corporation will seek direction from the Shareholder.

The Shareholder has recently 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. The shareholder has also issued Best Practice Guidelines for board governance and disclosure and expects them to be implemented by all Crown corporations effective April 2006 (<http://www.fin.gov.bc.ca/ooop/brdo/corporateguidelines.pdf>). During the term of this Letter, the Shareholder may provide broad policy direction to the Crown Corporation sector, and will communicate any such direction to Crown corporations, including implementation expectations, as decisions are made.

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

AREAS OF SHARED ACCOUNTABILITY

Communications

It is agreed by both the Shareholder and the Corporation that in order 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 the Corporation are committed to enhanced transparency and accountability to the public. The Shareholder has enacted a public reporting structure through the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, and the *Financial Information Act*.

The Shareholder has provided the Corporation with a reporting calendar which sets out financial and performance reporting requirements (<http://www.gov.bc.ca/cas>). The Corporation 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 the Corporation.

It is agreed by both the Shareholder and the Corporation that there will be advance discussion and review of key strategic documents such as Service Plans, Quarterly Financial Reports, Annual Reports and BC Hydro's development of long term goals and objectives. These discussions will be completed in advance of established deadlines to ensure effective and timely review and consideration by the Shareholder. The Chair will present BC Hydro's Service Plan to the Government Caucus Committee on Natural Resources and Economy prior to the Plan being tabled in the Legislature.

In addition to these financial and performance reporting requirements, the Corporation agrees to provide information to the Shareholder related to risks and opportunities anticipated in achieving financial forecasts. The Shareholder and the Corporation agree that, as a matter of course, each will advise in a timely manner of any issues that may materially impact the business of the Corporation or the interests of the Shareholder.

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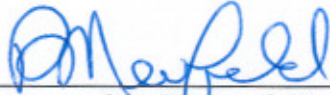
In order to ensure effective and timely communications between the parties, the Chair and the Minister Responsible will meet quarterly to review and discuss progress and issues. Once a year, the Chair will also meet with Cabinet to review and discuss progress and issues.

It is agreed that the Corporation, when asked, will appear before the Select Standing Committee on Crown Corporations, an all party committee of the Legislature.

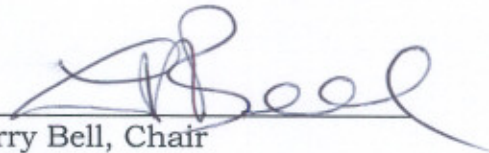
It is also agreed that the Corporation will post the most recent signed copy of the Shareholder Letter of Expectations on its website. The Ministry will also post a signed copy of the Letter on its website.

Review and Revision of this Letter

In addition to co-ordinating the overall process for preparing this Letter on behalf of the Shareholder, the Minister Responsible is accountable for undertaking reviews of this Letter and monitoring its implementation. If deemed necessary by either party, the Shareholder and the Corporation will discuss any issues and may agree to amend this letter.



Honourable Richard Neufeld
Minister of Energy, Mines
and Petroleum Resources



Larry Bell, Chair
BC Hydro

July 26/06
Date

19 July 2006
Date

cc. Honourable Gordon Campbell, Premier

Jessica McDonald, Deputy Minister to the Premier and Cabinet Secretary
Office of the Premier

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

Bob Elton, Chief Executive Officer
BC Hydro

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Dana Hayden, Deputy Minister
Strategic Policy, Natural Resources and the Economy
Office of the Premier

Tamara Vrooman, Deputy Minister and Secretary to Treasury Board
Ministry of Finance

Molly Harrington, A/CEO
Crown Agencies Secretariat