



SHAREHOLDER'S LETTER OF EXPECTATIONS

BETWEEN

**THE MINISTER ENERGY AND MINES
(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 Corporation is an agreement of the respective roles and responsibilities of each, and serves as the basis of agreement between the Shareholder and the Corporation 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 should inform the development of the Corporation's Service Plans and Annual Service Plan Reports. The Letter applies to the Shareholder and the Corporation. This 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.

¹ The Province of British Columbia's *Governance Framework for Crown Corporations* (http://www.gov.bc.ca/cas/down/govframe_redraft.pdf) establishes guiding principles for the governance of Crown corporations. The Governance Framework 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

This Shareholder's Letter of Expectations letter replaces any previous such documents between the Shareholder and the Corporation.

Government has provided the following direction to the Corporation:

Based on the results of the Corporation's Core Services Review and the government's November 2002 Energy Plan, the Corporation will undertake the following actions:

- maintain core assets under public ownership;
- implement actions necessary to maintain low electricity rates;
- assist as required to complete the transformation of BC Transmission Corporation (BCTC) to an independent regulated transmission utility by April 1, 2005. The relationship between the Corporation and BCTC is defined in the Key Agreements between the parties, designated by the Lieutenant Governor in Council under the Transmission Corporation Act, on November 20, 2003;
- fully participate in various regulatory processes, under the direction of the BC Utilities Commission, related to planning, capital projects, energy supply contracts, and rate setting for both the Corporation and BCTC; and
- continuous improvement of lines of business and internal service organizations to enhance accountability and performance.

The Parties hereby specifically agree that:

CORPORATION ACCOUNTABILITIES

In responding to government's performance expectations and the general and specific frameworks and direction of the Shareholder, 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, consumer choice and customer service;
- prepare Service Plans with clearly articulated goals, objectives, strategies and performance measures and targets, and annual reports that detail progress toward achieving those goals;
- 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;
- provide information to the Shareholder if the Corporation is unable to meet the targets identified in its Service Plan;

- take appropriate action to ensure that if Shareholder-directed transactions affect the Service Plan or financial targets of the Corporation, the Shareholder recognizes these changes;

In addition, the Shareholder directs the Corporation to take the following specific actions in support of the general objective of maintaining low electricity rates:

- implement the Heritage Contract to lock in the value of the Corporation's existing low-cost generation assets for B.C. ratepayers;
- 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 from BC Clean Electricity;
- pursue cost-effective conservation and demand-side management programs;
- through Powerex, continue to be an active participant in extra-provincial energy trading markets;
- continue, under the direction of a steering committee Chaired by Ministry staff, to participate in discussions on the formation of RTO West and other initiatives related to coordinated transmission planning, or enhanced reliability and trade; and
- implement stepped and time of use rate structures for large customers to provide better price signals for conservation and efficiency.

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 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;
- advise Crown corporations 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 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.

During the term of this Letter, the Shareholder anticipates providing policy direction in a number of areas that will affect all Crown corporations, including:

- Capital Asset Management Framework;
- CEO and executive compensation;
- enterprise risk management;
- zoning and land use;
- property taxation;
- First Nations policy and treaty mandates;
- climate change;
- donations; and
- environmental remediation.

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

Specific to the Corporation, the Shareholder has:

- confirmed the Corporation's mandate as an agent of the Shareholder, under the *Hydro and Power Authority Act*;
- confirmed the role of the Minister of Finance as fiscal agent to the Corporation;
- established regulatory oversight of the Corporation by the BC Utilities Commission pursuant to the *Utilities Commission Act*;
- enacted the *Transmission Corporation Act* to provide the legislative framework for an independent and publicly-owned BCTC to operate, manage and maintain the Corporation's transmission assets and provide reliable and open-access transmission services for the Corporation and other users;
- enacted the *BC Hydro Public Power Legacy and Heritage Contract Act* to provide the legislative framework for ongoing public ownership of core assets and implementation of the Heritage Contract;
- preserved its right to provide broad policy direction and confirmation of general frameworks/principles, within which the Corporation may establish and apply specific policies and processes.

AREAS OF SHARED ACCOUNTABILITY:

Communications:

It is agreed by both the Shareholder and the Corporation 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.

Reporting:

The Shareholder and the Corporation are committed to enhanced transparency and accountability to the public. The Shareholder has put in place a public reporting

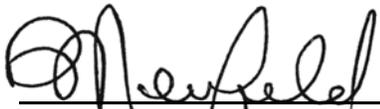
structure set out in the *Budget Transparency and Accountability Act*, the *Financial Administration Act*, and the *Financial Information Act*. The Shareholder has provided the Corporation with a financial reporting calendar and details of performance reporting requirements (<http://www.gov.bc.ca/cas>). 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.

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.

Review and Revision of this Letter:

In addition to co-ordinating the overall process for preparing this Letter on behalf of the Shareholder, the Crown Agencies Secretariat 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.



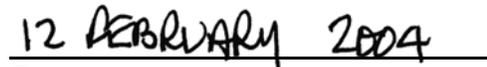
Honourable Richard Neufeld
Minister of Energy and Mines



Date



Larry Bell, Chair
BC Hydro



Date

- cc. Honourable Gordon Campbell
Premier
- Ken Dobell
Deputy Minister and Cabinet Secretary
Office of the Premier
- Dana Hayden
Chief Executive Officer
Crown Agencies Secretariat
- Bob Elton
President and Chief Executive Officer
BC Hydro