

Date: December 12, 2013
Cliff No.: 82898

MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Dave Nikolejsin, Deputy Minister of Energy and Mines

s.12, s.14, s.15, s.17

Pages 2 through 4 redacted for the following reasons:

s.12, s.14, s.15, s.17

s.14

MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

- I PREPARED FOR:** Honourable Bill Bennett, Minister of Energy and Mines
- II ISSUE:** December 16, 2013 briefing with Minister Mary Polak and staff from the BC Environmental Assessment Office (EAO) regarding the application from Creek Power Inc. for an Environmental Assessment Certificate for the Narrows Inlet Hydro Project

III BACKGROUND:

Narrows Inlet Hydro Holding Corp. (NIHHC) has completed its requirements for an environmental assessment review of their Narrows Inlet Hydro Project (Project). The Project has been referred to Ministers Mary Polak and Bill Bennett for a decision within 45 days (by January 20, 2014) to issue NIHHC an Environmental Assessment Certificate (EAC).

The proposed Project Application accepted on August 21, 2012, consisted of five interrelated hydroelectric facilities (Chickwat Creek, CC Creek, SS Creek, Ramona Creek Upper and Ramona Creek Lower). The Project did not trigger a provincial *Environmental Assessment Act* review as it did not exceed the 50 megawatt (MW) threshold. However, NIHHC requested that the EAO designate the proposed Project as reviewable under section 7(3)(a) of the Act. The CC Creek and SS Creek facilities were subsequently removed from the Application on March 13, 2013. The current proposed Project is 33 MW in capacity.

The Project is located in the Tzoonie River valley and Narrows Inlet, approximately 50 km north of Sechelt. It is comprised of three hydroelectric facilities (a conventional run-of-river component and a hybrid component that involves both run-of-river and lake storage (Ramona Lake)); development of Ramona Lake for storage and flow regulation to supply Ramona Creek components; and associated transmission (an underground segment of 0.3 km on the east bank of Sechelt Inlet, 1.7 km of submarine cable crossing of Sechelt Inlet, and an overhead segment of 6.7 km interconnecting to an existing line). The three hydroelectric facilities located on the upper Ramona Creek, lower Ramona Creek and Chickwat Creek were awarded a 40-year Electricity Purchase Agreement in BC Hydro's 2008 Clean Power Call, with commissioning dates in early 2016, for Chickwat Creek, and in 2018 for the Ramona Creek facilities.

NIHHC is a private, locally owned company that is located in Gibsons, British Columbia. The main shareholders of NIHHC are Renewable Power Corporation and Altaqua Renewable Power Corporation, both engineering and construction firms with a history of run-of-river project development.

The proposed Project would be located fully within the asserted territory of the *shishálh* Nation (formerly Sechelt Indian Band). The *shishálh* Nation has recently been awarded \$500,000 equity funding through the First Nations Clean Energy Business Fund

and plan to invest in building the Narrows Inlet Hydro Project, in partnership with private investors and another First Nation.

IV DISCUSSION:

EAO staff attendees at the December 16, 2013 briefing will likely be Doug Caul, Garry Alexander, May Darling and Greg Leake.

The EAO recommends that an EAC be issued for the Project on the terms and conditions set out in the attachments to the EAC. The EAO has proposed 26 conditions that would mitigate potential impacts, should Ministers decide to issue an EAC. Based on the analysis in the Assessment Report and the mitigation measures, monitoring and other commitments by NIHC, the EAO has concluded that there would be no significant adverse environmental, economic, social, heritage or health effects. EAO concluded that the Crown has fulfilled its obligations to consult and accommodate First Nations. Specific details regarding the assessment process are included in the EAO's comprehensive briefing material.

Under the Concurrent Permitting Regulation, NIHC has applied for Concurrent Permitting of *Land Act* tenures and *Water Act* licences, which requires permitting agencies to issue decisions on authorizations within 60 days of the Ministers issuing an EAC.

Concerns with the proposed Project, as submitted in the Application in August 2012, were raised by technical reviewers early in the review process. These concerns were primarily focussed on potential impacts to wildlife, water quality and fish and fish habitat. On January 25, 2013, EAO acted on a request from NIHC to suspend the timeline for the environmental assessment review to address numerous concerns relating to fish and fish habitat, water quality and wildlife. On March 13, 2013, the Proponent removed two of the five proposed Project hydroelectric facilities (CC Creek and SS Creek) as mitigation to offset effects to fish and fish habitat, water quality and wildlife.

The estimated total capital investment is \$141 million. Construction is estimated to generate 360 to 390 person years of employment over four years with 75 full-time positions and three part-time positions. Two direct full-time jobs and total direct and indirect employment of 98 person years are expected over the 40 years of operation.

V RECOMMENDED RESPONSE:

The Ministry supports issuance of an EAC for the proposed Project.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: Minister Bennett meeting on Monday, January 27, 2014, with the BC Wildlife Federation (Bill Bosch, President; George Wilson, Vice President; and Al Martin, Director, Strategic Initiatives).

III BACKGROUND:

Representatives from the BC Wildlife Federation (BCWF) wish to discuss support for fish and wildlife management. They have identified three topic areas for discussion, as follows:

- funding for fish and wildlife management;
- (hydroelectric) compensation programs for fish and wildlife impacts; and
- Creston Valley Wildlife Management Area.

The BCWF is a non-profit, Province-wide conservation organization with 40,000 individual members. It originated in the 1890s with the formation of some of its current member fish and game clubs. In 1947, the Provincial BC Game Commission requested that all clubs be joined together by one body, now named the BCWF, to ease the burden of consultations.

Funding for Fish and Wildlife Management -- the BCWF supported the surcharge/user-pay funding formula implemented following the Government's Core Review in 2001. The BCWF has advocated to be directly involved in setting expenditure priorities, noting that hunting and angling licences cover the majority of the cost of provincial fisheries and wildlife management.

The BCWF has presented to the Standing Committee of Finance, most recently in September 2013, key recommendations focused on funding for fish and wildlife, including an increase in funding, and provision of funding for fish and wildlife management equal to the revenue collected from related licences and permits.

(Hydroelectric) Compensation Program for Fish and Wildlife Impacts -- the Fish and Wildlife Compensation Program (FWCP) is a partnership between BC Hydro, the Province of British Columbia, Fisheries and Oceans Canada, First Nations and local communities and groups to conserve and enhance fish, wildlife and their supporting habitats affected by the creation of BC Hydro owned and operated generation facilities in the Coastal, Columbia and Peace regions of British Columbia. More than \$110 million (M) has been invested in more than 1,500 projects since 1988.

The FWCP launched in the Peace Region in 1988 with an \$11M fund. In 1994, it began working in the Columbia River Basin with a commitment of \$3.2M per year in perpetuity from BC Hydro (indexed to inflation). In 1999, the FWCP began work on Vancouver Island and the coast with an annual commitment of \$1.7M to fund

projects. A comprehensive review of the FWCP in all regions was completed in 2008.

Creston Valley Wildlife Management Area -- the Creston Valley Wildlife Management Area (WMA) is located in a natural flood plain between the Purcell and Selkirk mountains, just south of Kootenay Lake. It covers 7,000 hectares and features lakes, diked marshlands, sloughs and areas containing grasslands, shrubs and forests. Over 300 species of birds and over 80 other animal species have been documented in the WMA, some of which are extremely rare.

In 1960, the BCWF and the West Kootenay Association of Rod and Gun Clubs delineated the Creston Valley WMA when they applied to purchase Crown lands there for wildlife conservation. Following various hearings, studies and surveys, the *Creston Valley Wildlife Management Act* was passed in March 1968.

The primary designation tool for conservation lands is the "wildlife management area" under section 4 of the Provincial *Wildlife Act*. The Creston Valley WMA is the only one in the Province with its own legislation. In 2008, the Province initiated a review of the Creston Valley WMA's management structure and financial sustainability. The Province then made the decision to repeal the *Creston Valley Wildlife Management Act* and have the Ministry of Forests, Lands and Natural Resource Operations (FLNRO) designate the Creston Valley WMA under the *Wildlife Act* and bring its governance structure into line with other WMAs.

In 2012, the Province and Ducks Unlimited Canada (DUC) signed a memorandum of understanding towards an agreement to jointly operate the Creston Valley WMA for 30 years. DUC committed investing \$850,000 in the Creston Valley WMA to improve wetland habitat and upgrade the site's water management. Neither the Province nor DUC have plans to fund the interpretive centre and associated public outreach and education programs. There is interest from BCWF and the community, including Regional District, Lower Kootenay Band, and the Creston Chamber of Commerce, to have the centre continue operating.

IV DISCUSSION:

The BCWF may advocate for funding support for fish and wildlife management as per their recommendations to the Standing Committee of Finance. Most of these interests and recommendations fall under the purview of the Minister of FLNRO. BCWF did meet with Minister Thomson in September 2013. FLNRO staff has had follow-up discussion with BCWF on their concerns.

A September 2013 report entitled *The Creston Valley Wildlife Management Area, "The Case for Compensation"* makes the case for the Columbia Basin Trust (CBT) and BC Hydro to supply permanent funding of \$1M annually in compensation for the loss of the natural wetlands that occurred when dams, namely the Libby Dam in Montana, were built under the Columbia River Treaty (CRT) in the 1960s. This report is supported by the BCWF.

The CBT was created in 1995 by the Province, which provided \$276M to invest in power projects, as well as a \$45M initial endowment and \$2M per year from 1995-2010 for operations in recognition of the impacts of the construction of the CRT dams (total of \$353M). The purpose of CBT is to promote social, economic and environmental well-being in the Canadian portion of the Columbia River Basin. CBT's delivery of benefits is currently approximately \$20M per year, and will be increasing to almost \$40M per year over the next four years.

During CRT community consultations, people expressed concern that the operations of the Libby Dam are impacting the Creston dikes and Creston Valley WMA. A 2012 study by BGC Engineering Inc., commissioned by the Ministry of Energy and Mines (CRT team), found this not to be the case.

The Creston Valley WMA has received funding for projects through the FWCP. The delivery model for the FWCP includes long-term operational projects delivered through agreement with the Province (FLNRO). There are no CRT benefits from the Canadian entitlement directed to the FWCP. The FWCP conserves and enhances fish and wildlife impacted by the construction of BC Hydro dams. It does not focus on operational impacts (e.g. changes in water levels). Separate from the FWCP, the WMA also receives (indexed for inflation) \$400,000 from BC Hydro for operations annually (currently administered in partnership with Ducks Unlimited Canada).

V KEY MESSAGES:

- Acknowledge the important role of the BCWF in fish and wildlife management and conservation throughout the Province.
- Encourage the BCWF to continue to work with the Provincial transition team working on implementing the decision of Cabinet regarding the Creston Valley WMA. The Province is committed to moving the Creston Valley WMA towards a more effective and sustainable governance model while ensuring continued protection of its world class values.
- Although CBT's mandate does not require them to step in and fund the Creston Valley WMA, BCWF may want to approach CBT about the potential for support for related initiatives, e.g. the Creston Valley WMA visitor centre and related public outreach and education programs.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

- I PREPARED FOR:** Honourable Bill Bennett, Minister of Energy and Mines
- II ISSUE:** COPE 378 Concerns Regarding Outsourcing of BC Hydro Services
- III BACKGROUND:**

In 2003, BC Hydro entered into a ten year agreement with Accenture Business Services of British Columbia Limited Partnership (ABS) that was designed to provide savings to customers while improving services by focusing internal resources on core functions of generation and delivery of electricity. The contract with ABS was initially estimated by BC Hydro to cost \$1.4 billion and to provide savings of approximately \$250 million (M) over the term of the contract.

ABS assumed responsibility for components of the following services: information technology; building and office services; customer care; human resources; purchasing; and finance. BC Hydro advises that as of 2011 when negotiations began on a new agreement, the relationship with ABS was expected to achieve more than \$300M in gross savings by 2013.

In 2011/12, BC Hydro made changes to outsourced back office services as follows:

- ABS provides transactional services for: customer care; human resources; accounts payable; and office services under a seven-year outsourcing agreement, effective 2011.
- TELUS provides data centre operations and help desk services (formerly provided by ABS), under a five-year outsourcing agreement, effective 2012.
- SNC Lavalin Operations & Maintenance Inc. provides facilities management services under a five-year outsourcing agreement, effective 2011.

The Canadian Office and Professional Employees Union, local 378 (COPE 378), has collective agreements in place with BC Hydro and ABS and represents nearly 2,000 inside technical, professional and administrative workers at BC Hydro. COPE 378 has completed an analysis of costs associated with the ABS/BC Hydro contract and asserts that outsourcing of services has increased costs in comparison to providing services internally. COPE 378 prepared a draft business case that concludes that BC Hydro would be financially better off to cancel the existing ABS contract and “in source” the services.

IV DISCUSSION

COPE 378 argues in their Draft “Outsourcing History with Accenture and Business Case for Services Returning to BC Hydro” document (provided after Minister Bennett’s October 28, 2013 meeting with COPE 378 representatives) that outsourcing

is no longer providing the benefits of efficiencies and reduced costs that firms originally intended. The point is illustrated with the local example of FortisBC's 2009 application approved by the British Columbia Utilities Commission to "in-source" previously contracted IT and Customer Care services.

COPE 378 questions BC Hydro's savings model and concludes that the overall costs associated with the ABS agreement were \$1.95 billion as compared to the initial BC Hydro estimate of \$1.5 billion. This apparent \$500M overrun includes assumptions of "hidden" contract management and administration costs inferred from BC Hydro financial statements by the authors. The authors report total actual payments to ABS of \$1.515 billion per the *Financial Return Act* (FRA) submissions for 2003 to 2011. The authors do not comment on service improvements or increased outputs that may have taken place to account for the stated cost overrun. COPE 378 further argues that cancellation of the existing ABS contract would result in savings of \$158.55 million to BC Hydro over its term.

BC Hydro advises that savings are calculated in accordance with a financial model that has been independently validated twice over the term of the agreement. The savings model was also examined by provincial auditors during the 2011 Government Review of BC Hydro. According to BC Hydro, contract administration costs have decreased over the contract term from approximately \$3.3M per year, (2 percent of contract spend) to a current cost of less than \$1M (1.8 percent of contract spend).

BC Hydro also reports that service performance indicators are tracked and reported monthly, and that service has improved along with cost savings. The ABS agreement includes service level agreements and a penalty mechanism to promote desired behaviors and performance.

The collective agreement between COPE 378 and ABS expired in August 2013, while the COPE 378/BC Hydro agreement expires in March 2014. This initiative by COPE 378 may be part of a collective bargaining strategy.

V CONCLUSIONS

COPE 378's central point is that all costs associated with outsourcing may not be fully reflected in BC Hydro public reports and statements of cost savings. However, it is evident that COPE 378 estimates of contract costs may be overstated and they have not been subject to independent review. BC Hydro's financial model related to contract savings has been independently assessed and validated.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

- I PREPARED FOR:** Honourable Bill Bennett, Minister of Energy and Mines
- II ISSUE:** Meeting between Minister Bill Bennett and Richard Stout, of the Association of Major Power Consumers of BC

III BACKGROUND:

The Association of Major Power Consumers (AMPC) is the main organization representing the interests of industrial electricity customers in British Columbia. It is frequently an intervenor in British Columbia Utilities Commission (BCUC) proceedings, and was a participant in the industrial electricity policy review (IEPR).

AMPC's major concern over the last several years has been that BC Hydro rate increases is impeding the competition of their members. They have opposed the 93 percent clean and renewable and self-sufficiency objectives in the *Clean Energy Act*, which they believe ultimately increase electricity costs. However, they have also raised concerns that: it takes too long to connect industrial projects to the grid; scope creep and lack of capacity at the BCUC; and the size and scope of regulatory accounts.

With the return of the Provincial Sales Tax (PST) levied on industrial electricity use, some AMPC members, particularly Catalyst, have argued for the PST to be removed from industrial electricity consumption. Residential electricity consumption is PST Exempt.

On December 19, 2013, AMPC sent the Minister a letter indicating that it believes that its membership will see higher rate increases than average BC Hydro customers. AMPC's membership is served under the two-tiered Transmission Service Rate (TSR), which assigns a lower electricity rate to the first 90 percent of a customer's baseline and a higher one to the last 10 percent. A customer that did not change its consumption would pay as much under the TSR as under the flat rate, while a customer that reduced its consumption would have a lower average cost per megawatt-hour. Many of AMPC's members have reduced their electricity consumption such that they purchase electricity almost entirely at the lower, first tier rate. BC Hydro proposes to concentrate industrial rate increases in the first tier, an 11 percent increase, while leaving the second tier unchanged.

IV DISCUSSION:

Government's 10-year plan for BC Hydro implements much, but not all, of what AMPC's membership has asked for in the past, particularly government's decisions to reduce and ultimately eliminate its dividend for several years as regulatory accounts are paid down, and to eliminate the third tier of water rentals. However, AMPC strongly supported the IEPR task force's recommendation for an expanded regulatory compact that would leave the costs and risks of future policy decisions with the shareholder rather than ratepayers. AMPC can also still be expected to oppose the 93 percent clean and renewable objective in particular, as

they expect it to increase electricity costs more than natural gas generation would in the future.

AMPC's more recent concerns that disproportionate increases to the first tier of the TSR will cause disproportionate impacts to their customers may be accurate depending on the previous 3 year consumption. For the TSR as a whole to increase by 9 percent, either both tiers must increase 9 percent or one must increase by more. If all the increase is in the first tier price, and AMPC members purchase a disproportionate amount of their electricity at this price, their rate will increase disproportionately. Since BC Hydro's recent fully allocated cost of service study suggests that industrial customers are facing their full cost of service, and since AMPC members make up the majority of industrial customers, a disproportionate increase in electricity rates paid by AMPC members suggests that the industrial customer class as a whole could end up paying more than its cost of service. Ministry staff are discussing this with BC Hydro.

Both BC Hydro's approved Integrated Resource Plan and the IEPR Task Force Report recommend discounted electricity rates while there is a surplus.

V CONCLUSION:

AMPC's membership has a particularly strong interest in keeping BC Hydro's costs, and rates, low. Government's 10-year plan for BC Hydro demonstrates Government's commitment to this end, and has limited rate increases that would affect AMPC members.

Ministry staff, supported by BC Hydro staff, recommends that AMPC, BC Hydro and the Ministry meet to discuss an appropriate rate design for industrial customers.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUES: BC Hydro Electricity Rates, and Review of the British Columbia Utilities Commission.

III BACKGROUND:

BC Hydro Rates: On November 26, 2013, the Province announced a 10 year plan that will keep electricity rates as low as possible while BC Hydro makes investments in aging assets and new infrastructure to support British Columbia's growing population and economy. Under the plan, BC Hydro will complete all 50 recommendations from the 2011 Government review of BC Hydro by March 2014, including reducing operating costs by \$391 million, eliminating 650 net positions, and rescheduling \$800 million in capital additions prioritizing the most urgent expenditures. BC Hydro will continue to reduce overall costs. To allow BC Hydro to keep more cash for infrastructure investments, the Province will reduce costs to BC Hydro by reducing dividend payments to the Province over five years starting in fiscal 2018, eliminating the upper tier 3 water rental rates (saving BC Hydro \$50 million/year) and tying net income growth to the Consumer Price Index.

Government will set rate increases for the first two years of the 10 year plan at 9 per cent and 6 per cent. The British Columbia Utilities Commission (BCUC) will set increases for the following three years within caps of 4 per cent, 3.5 per cent and 3 per cent. In the final five years of the 10 year plan, rates will be set by the BCUC and actions by Government and BC Hydro will ensure increases will remain low and predictable.

British Columbia Utilities Commission Review: The Industrial Electricity Policy Review Task Force recommended reviewing the BCUC to evaluate resource needs and performance. Through the Core Review process, Government will initiate and independent review of the BCUC. The goal is to increase the effectiveness and efficiency of the BCUC and utility application review processes. After the review of the BCUC, BC Hydro rates can be set by the BCUC in the third year of the 10-year plan.

IV DISCUSSION:

BC Hydro Rates: The impact of rate increases on customers will be:

- For residential customers, a 9 per cent rate increase is about \$8 per month.
- For small commercial customers, a 9 per cent rate increase is about \$20 per month.
- For average industrial customers, a 9 per cent rate increase is about \$139,000 per month.

Capital Plan: BC Hydro's capital plan outlines the investments BC Hydro is making in the province's electrical system over a 10 year period. BC Hydro is forecasting capital expenditures, on average, of \$1.7 billion per year over the next 10 years. The capital will be used to refurbish, upgrade, expand and add to its system of dams and wires – the generation, transmission and distribution assets that create and deliver electricity to B.C.'s homes, businesses and industry.

V CONCLUSION:

Many of BC Hydro's facilities were built decades ago, in the 1960's, 70's and 80's. Today, the aging facilities are in need of reinvestment. Government and BC Hydro are working together to reduce cost pressures to keep rate increases as low as possible.

A Core Review of the BCUC will serve to reduce costs and increase efficiencies with the regulation of utilities.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: First Nations Engagement, Revenue Sharing and the Standing Offer Program.

III BACKGROUND:

Standing Offer Program: As directed by the provincial government in its 2007 Energy Plan, BC Hydro launched the Standing Offer Program (SOP) in April 2008 to encourage the development of small-scale clean energy projects throughout British Columbia. The program is a process to purchase energy from permit-ready projects with a nameplate capacity not more than 15 megawatts.

Revenue Sharing with First Nations: The *Clean Energy Act* enabled the creation of a First Nation Clean Energy Business Fund (FNCEBF), with an initial appropriation of up to \$5 million. The purpose of the fund is to promote increased First Nation participation in the clean energy sector within their asserted traditional territories and treaty areas through agreements between the B.C. Government and eligible First Nations. Revenue sharing from clean energy projects is based on new, net, incremental revenues to government derived from water rentals, land rents and, eventually, wind participation rents. Since March 2013, three FNCEBF revenue sharing agreements have been signed.

IV DISCUSSION:

BC Hydro's Integrated Resource Plan (IRP), approved by the Province on November 26, 2013, introduces a Clean Energy Strategy to support the clean energy sector in British Columbia and promote clean energy opportunities for First Nations communities. This Strategy advances a number of actions over the next two years, including broadening opportunities through the SOP and Net Metering Program; and promoting First Nations participation in clean energy projects. The SOP annual target will increase from 50 gigawatt hours per year (GWh/year) to 150 GWh/year to enable more small-scale projects in communities, without unduly impacting electricity rates.

V CONCLUSION:

The FNCEBF provides capacity development funding to support First Nations to undertake activities such as feasibility, equity funding to qualifying First Nations to help acquire equity positions in clean energy projects and a share in the revenues from clean energy projects.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: New West Partnership (NWP).

III BACKGROUND:

The NWP is an economic partnership between British Columbia, Alberta and Saskatchewan establishing Canada's largest open market and creating a framework for ongoing cooperation to strengthen the western economy. On December 16, 2010, an Energy MOU under the NWP was signed by the Provinces' Energy Ministers establishing a collaborative framework to strengthen and expand the region's energy sector. Under this MOU, the Provinces undertake to work in collaboration to:

- exchange information on regulatory streamlining and process improvements;
- promote energy technology development and deployment in the energy sector;
- promote energy infrastructure of mutual interest;
- coordinate on strategies for increased market access and market diversification of energy goods;
- continue to work together to pursue a commercial arrangement for the adoption and implementation of the Petroleum Registry within British Columbia; and
- exchange information on energy efficiency and alternative energy and promote responsible energy development and use.

A Deputy Minister-level Steering Committee, assisted by a Secretariat, has been established to coordinate Energy MOU related work. The Steering Committee chairperson rotates annually between the Provinces. British Columbia assumed the chair position from Saskatchewan on December 16, 2013.

IV DISCUSSION:

British Columbia was the first province in Canada to require the oil and gas industry to publicly disclose the fluids they use for hydraulic fracturing in the province. As a result of discussions within the NWP, on December 31, 2012, Alberta joined British Columbia in requiring the disclosure of hydraulic fracturing fluids on FracFocus.ca.

V CONCLUSION:

The three provinces continue to collaborate on advocating for responsible regulation within the energy sector in the three Western provinces.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: Site C Clean Energy Project.

III BACKGROUND:

The Site C Clean Energy Project (Project) is BC Hydro's proposed third dam and generating station on the Peace River. By using water already stored upstream in the Williston Reservoir, the Project would generate about 35 per cent of the electricity produced at the W.A.C. Bennett Dam, with only five per cent of the reservoir area.

BC Hydro intends to complete the Project by 2022, subject to the current approval and construction schedule, at a capital cost of \$7.9 billion. The Project would provide 1,100 megawatts of capacity and produce about 5,100 gigawatt-hours of electricity annually. This is about eight per cent of BC Hydro's current electricity needs, providing enough electricity to power more than 450,000 homes. The Project would create an estimated 7,000 person-years of direct construction employment, and up to 35,000 direct and indirect jobs through all stages of development and construction. It also would facilitate the integration of new clean and renewable projects, such as wind, run-of-river hydro and solar, by providing reliable backup to these intermittent resources.

A recommendation of BC Hydro's Integrated Resource Plan (IRP) is to continue to advance the proposed Site C project. The IRP is a 20-year plan that explains how BC Hydro will meet future growth and demand for electricity through investments in infrastructure, conservation and clean energy. After an upfront capital cost, Site C is among the lowest cost options to meet long-term (more than 100 years) electricity needs.

The environmental assessment (EA) of the Project is a joint process between the Canadian Environmental Assessment Agency and the British Columbia Environmental Assessment Office. The EA process, including a Joint Review Panel, is expected to be completed in early 2015.

IV DISCUSSION:

As the provincial and federal EA of the project is currently underway, it would not be prudent for government officials to publicly express opinions on the project.

V CONCLUSION:

Large hydro projects, such as Site C, have the ability to provide a reliable supply of both dependable capacity and energy without ongoing cost volatility.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: British Columbia-Alberta Electricity Intertie.

III BACKGROUND:

As a result of the Alberta Electric System Operator's (AESO) approach to integrating Enbridge's new 300mega-watt (MW) Montana-Alberta Tie Line (MATL), there is a significant restriction of BC's electricity trade with Alberta, which will reduce Powerex's trade income

s.13, s.16

s.13, s.16

s.13, s.16 BC Hydro and Powerex are working on two initiatives to mitigate the impact of the new rule. They have engaged the AESO executive in bilateral negotiations to explore mutually acceptable options to compensate BC Hydro and its customers and to increase the benefits derived from the intertie.

As well, BC Hydro is developing a tariff that would charge the AESO for the transmission capacity that it sets aside on the BC-Alberta Intertie. This path can be avoided by finding a mutually acceptable way that provides for a fair recognition of BC's contribution towards the benefit provided by the BC-Alberta Intertie.

IV DISCUSSION:

s.13, s.16

V CONCLUSION:

s.13, s.16

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**MINISTRY OF ENERGY AND MINES
BRIEFING NOTE FOR INFORMATION**

I PREPARED FOR: David Morel, Assistant Deputy Minister, Mines and Mineral Resources Division

II ISSUE: Mandatory Reporting Requirements for Canada's Extractive Industries

III BACKGROUND:

On June 12, 2013, Prime Minister Stephen Harper announced that the Government of Canada (Canada) will be establishing new mandatory reporting standards for Canadian extractive companies. The goal is to enhance the transparency of payments that companies make to governments, including taxes, licence fees and other receipts.

The new reporting regime seeks to:

1. Improve transparency;
2. Ensure Canada's framework is consistent with existing international standards;
3. Ensure a level playing field for companies operating domestically and abroad while enhancing investment certainty;
4. Help reinforce the integrity of Canadian extractive companies; and,
5. Help ensure that citizens in resource-rich countries around the world are better informed and benefit from the natural resources in their country.

The new reporting standards would cover payments by oil and gas companies (public, private and state-owned) to all levels of government (national, state, local, First Nations/aboriginal peoples) domestically and internationally.

In the United States, the Securities and Exchange Commission (SEC) requires all resource companies listed on U.S. stock exchanges to reveal what they pay to governments (federal and local) on a project-by-project basis. The European Union also has a mandatory approach to disclosure for its companies.

Canada is currently leading a federal-provincial-territorial working group to inform its decision on the options for mandatory reporting. It is seeking to determine the appropriate mechanism for mandatory reporting (e.g., provincial/territorial securities regulators) and determine the scope of mandatory reporting standards to align with other international processes and to minimize the administrative burden and cost.

The Resource Revenue Transparency Working Group (RTWG), an alliance of the Mining Association of Canada, the Prospectors and Developers Association of Canada, Revenue Watch Institute and Publish What You Pay Canada, released on January 16, 2014, its Report entitled *Recommendations on Mandatory Disclosure of Payments from Canadian Mining Companies to Governments*.

In its Report, the Working Group recommends mandatory disclosure requirements for all publically traded Canadian mining companies to ensure that all relevant information is available

and accessible to stakeholders and that companies cannot opt out of compliance. Further, the Working Group recommends the implementation of mandatory disclosure take place through securities regulation – recognizing, in the Working Group’s view, the existing powers of Canadian provincial and territorial securities administrators to regulate the disclosures of public entities in Canada.

IV DISCUSSION:

Revenues from oil, gas and mining companies, in the form of taxes, royalties, signature bonuses and other payments are an important engine for economic growth and social development in developing and transition countries. However, the lack of accountability and transparency in these revenues can exacerbate poor governance and lead to corruption, conflict and poverty.

The Federal Government intends to extend the reporting requirements to include company payments to First Nations. This issue is challenging since many bands and companies insist on confidentiality, ^{s.16} The importance of maintaining confidential information captured in Impact Benefit Agreements has been identified as a key requirement by industry. Canada has not consulted with First Nations about this initiative.

^{s.13}

In addition, the CSA is in agreement that there does not seem to be a clear investor protection objective driving the federal mandatory reporting initiative. Hence, in the absence of strong advocacy from the Canada’s Minister of Finance and/or mining and other stakeholders ^{s.13} Federal officials have not responded to this position and, in fact, noted that it would likely up to the mining sector to push this issue forward.

V CONCLUSION:

Canada’s next steps on developing and implementing a national transparency and reporting regime for the extractive industry could have important implications for British Columbia companies.

ATTACHMENT: Resource Revenue Transparency Working Group report

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√



PROSPECTORS &
DEVELOPERS
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The Resource Revenue Transparency Working Group

Recommendations on Mandatory Disclosure of Payments from Canadian Mining Companies to Governments

January 16, 2014

Acknowledgements

The Resource Revenue Transparency Working Group would like to thank the many individuals, civil society organizations, companies, government officials, investor institutions and academics that have contributed their knowledge and time over the course of developing this framework. The strong support for this initiative expressed by all stakeholder groups is highly appreciated.

Table of Contents

Acknowledgements.....	1
I. Context for Framework.....	3
II. Venue for Implementation.....	4
III. Equivalency	5
IV. Scope of Reporting.....	5
V. Definition of "Mining Company"	6
VI. Control / Subsidiaries.....	6
VII. Defining "Commercial Development"	7
VIII. Required Payment Categories	7
IX. Payment Reporting Threshold	8
X. 'Project' Definition	8
XI. Exemptions.....	9
XII. Form of Disclosure	10
XIII. Format of Disclosure	10
XIV. Regularity of Reporting	11
XV. Verification / Audit Requirements	11
XVI. Penalties.....	11
XVII. Schedule of Implementation / Effective Date.....	11

I. Context for Framework

Every year, approximately \$3 trillion in mineral, oil and gas resources are exported worldwide. Revenues from these sectors have the potential to transform economies for the better, in Canada and every country engaged in the extraction of natural resources. Used smartly and efficiently, they can catalyze economic development, spur growth and reduce poverty. Yet, too often this vast potential goes unrealized. In some cases, particularly where good governance is lacking, resource revenues may be lost to corruption, graft or plain mismanagement. In other cases, funds owed to the government are not collected, starving governments of a much-needed source of financing for development. In still others, secret payments and a lack of clarity around who benefits from resource extraction breeds mistrust between communities, governments and companies, generating unstable business environments, threatening the security of supply, and even, in extreme cases, contributing to violent conflict.

Greater transparency surrounding the collection of resource revenues can help to address these issues, and improve the development outcomes of resource extraction for billions of citizens in oil, gas and mineral producing countries. In particular, improved revenue transparency can help to provide citizens and communities with the information necessary to hold their governments accountable; deter corruption and bribery; inform public debate on resource development; assist investors to properly analyze the financial and political risks inherent in extractive sector development; and help companies secure a social license to operate. As recognized by the Extractive Industries Transparency Initiative, it is helpful to citizens and investors alike when disclosure is contextualized, informing improved analysis and decision-making.

Canadian actors have a critical role to play in achieving these outcomes, by working to improve transparency, as almost 60% of the world's mining companies are listed on Canadian stock exchanges. In recent years, the Toronto Stock Exchange alone has handled over 75% of global public mine financings. With Canadian mining companies operating in more than 100 countries worldwide, Canada's ability to impact international natural resource governance standards through domestic action is significant.

In recognition of Canada's impact on global resource governance, the Mining Association of Canada, the Prospectors & Developers Association of Canada, Publish What You Pay Canada, and the Revenue Watch Institute jointly formed the Resource Revenue Transparency Working Group (the "Working Group") in September of 2012. The objective of the Working Group is to develop a reporting framework for Canadian extractive companies – with the overarching goal of establishing greater transparency in the mining sector in Canada and overseas. The access to information resulting from the implementation of the Working Group's recommended framework is meant to provide citizens around the world with the tools they need to achieve accountable, responsible and transparent management of natural resource development. Specifically, the Working Group seeks to develop a framework that, implemented by a regulatory body, would require Canadian mining companies to publicly disclose the payments they make to governments in every country in which they operate, disaggregated by project.

More than 100 of the largest Canadian companies listed on U.S. stock exchanges are already required to disclose this information under securities rules established under Section 1504 of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") and additional companies will be covered by amendments to the Transparency and Accounting Directives in the EU which includes new mandatory payment reporting requirements passed into law in June and currently being transposed into national law/regulations. In addition, more companies will be covered by rules currently being considered

in Norway and by the EITI, which is now being implemented in 41 countries, with the U.S. and the U.K. also seeking candidacy.

Acknowledging the emergence of mandatory disclosure requirements in a variety of jurisdictions around the world, the Working Group supports incorporating appropriate equivalency mechanisms into its framework, in part to help move towards a globally consistent reporting standard and not create undue reporting burdens for mining companies listed in multiple markets. The Working Group believes that this principle of "equivalency" in reporting is essential, and that the selected venue must include an equivalency mechanism for the implementation of this framework.

II. Venue for Implementation

The Working Group recommends disclosure requirements for Canadian mining companies be mandatory, not voluntary, to ensure that all relevant information is available and accessible to stakeholders, and that companies cannot opt out of compliance. After consideration of the most appropriate venue, or "home," for Canadian disclosure requirements, the Working Group recommends the implementation of a mandatory disclosure framework through securities regulation with a strong equivalency provision to align with other jurisdictions such as the U.S. and the EU. This recommendation aligns with the U.S. model (where such disclosure is regulated by the U.S. Securities and Exchange Commission ("SEC") and recognizes the existing powers of Canadian securities administrators to regulate the disclosures of public entities in Canada.

A consequence of establishing a reporting regime in securities requirements is that disclosure will be mandatory only for public companies. However, the benefits of this approach are clear. Such a regime will take advantage of the experience of the Canadian securities administrators in receiving and managing disclosure filings, and likely require fewer start-up costs than a new reporting and compliance regime. In addition, the use of securities regulation would mean that the disclosure requirements recommended here would extend to foreign companies who seek to raise capital in Canadian markets.

Implementation of mandatory disclosure requirements through provincial securities regulations will require harmonization between provincial securities regulators in order to ensure consistency. Fortunately, strong precedent exists for this, as evidenced by the Canadian Securities Administrators' adoption of national guidance and instruments. While the fragmented nature of the Canadian system may prove more challenging than in countries with a national regulator, the feasibility of implementing mandatory disclosure requirements into provincial securities requirements across Canada is significantly aided by the support observed by the Working Group for this type of disclosure among industry, investors and civil society.¹

¹For more information, please see the following summaries of the Working Group's open consultation and workshops, including one dedicated specifically to addressing venue, here: www.pwyp.ca/en/issues/transparency-working-group

III. Equivalency

As noted above, Canadian disclosure requirements need to include explicit recognition and acceptance of equivalent reporting regimes. Any Canadian legislation implementing this framework needs to mandate that a company may comply with Canadian transparency requirements by submitting a report that it has prepared and filed in another jurisdiction to a standard equivalent to Canadian reporting requirements. Such a report will fully satisfy any and all Canadian transparency reporting requirements. The Working Group recommends that equivalent regimes include the current requirements of Section 1504 of the U.S. Dodd-Frank Act and those established by the EU Transparency and Accounting Directives.

In the event that jurisdictions develop and adopt additional similar transparency disclosure requirements, or amend reporting requirements currently deemed equivalent, each would have to be evaluated on a case-by-case basis to determine whether they are sufficiently equivalent to the Canadian standard.

The Working Group suggests that equivalence be determined based on objective criteria, including:

- Scope of reporting;
- Definition of control;
- Payment categories;
- Minimum payment threshold;
- Project definition;
- Exemptions;
- Format of disclosure;
- Regularity of reporting; and
- Standard of verification.

IV. Scope of Reporting

The Working Group recommends a reporting framework that requires all mining companies that are reporting issuers under Canadian securities legislation to publicly disclose certain types of payments related to the commercial development of mineral deposits made to Canadian and foreign governments, including payments made to national and sub-national authorities² (i.e. states, provinces, counties, districts, municipalities or territories under a national government, including state-owned enterprises³) that meet or exceed a minimum reporting threshold, in each country of operation and for each project, as described in greater detail below.

² For the purposes of this framework, the working group did not address payments made to Aboriginal governments. The working group is aware that payments to Aboriginal governments are being considered for inclusion in the process currently being led by NRCan.

³ State-owned enterprises are defined as companies that are at least majority owned by a foreign government.

V. Definition of "Mining Company"

The Working Group recommends the following definition of "mining company": a company that engages in the commercial development of minerals [i.e. makes any of the payments required], and is a reporting issuer under Canadian securities legislation.

[t]This definition is appropriate for meeting the intent behind new disclosure requirements, and is in line with the requirements outlined in the EU Transparency and Accounting Directives and those in Section 1504 of the U.S. Dodd-Frank Act.

VI. Control / Subsidiaries

To create a level playing field, the Working Group recommends that companies required to comply with the recommended reporting framework include not only parent companies, but their subsidiaries and any other entities over which the parent company exerts control, directly and indirectly, joint control or significant influence. The Working Group recommends that reporting requirements apply to all companies, their subsidiaries, controlled, and jointly controlled and/or associated entities that fit one or more of the following criteria:

1. The company controls the entity according to the definition of control included in International Financial Reporting Standard (IFRS) 10. Companies will report 100% of the payments made by controlled entities.
2. The company jointly controls the entity through a joint arrangement as defined in IFRS 11. Companies with joint control over an entity will report payments on a proportionate basis, listing the proportionate interest.
3. The company exerts significant influence over the entity according to IAS 28. Companies with significant influence over another entity will report payments on a proportionate basis, listing the proportionate interest.
 - a. To avoid duplication, in those cases where a company exerts significant influence over an entity controlled by another publicly-listed company that files mandatory payment disclosure in Canada or another equivalent reporting regime (see: III Equivalency), the company with significant influence will not be required to report.
 - b. Where a company exerts significant influence over an entity and cannot reasonably access and verify the information needed to fulfill the disclosure obligation, the company will include the following statement in its filing: "Recognizing the reporting obligation, the issuer has made efforts to obtain the information. However, the issuer has been unable to fulfill the obligation due to an inability to access and verify the required data."

VII. Defining "Commercial Development"

The Working Group recommends that covered companies disclose all payments that fall into the designated categories (described in Section VIII below) and meet the minimum reporting threshold (described in Section IX below) at every stage of the project life-cycle and extractive sector value chain outlined here:

Project Life Cycle:



Value Chain:



Companies would not be required to disclose by project life cycle or value chain stage (e.g., a company does not have to disaggregate payments by value chain stage such as production or transportation). The comprehensive approach of these models simply ensures that the trigger for disclosure of payments is based on the simple act of a covered company making a payment to government, and that the reporting obligation ends at the cessation of payments to government, for instance in the event of the relinquishment or sale of a property. The inclusion of all stages of the value chain complements the Working Group's recommendation to include payments made related to initial exploration phases (including signature bonuses and license fees), to transportation and export phases (including transportation payments, terminal operations fees and export duties) as well as after mine closure (including payments related to remediation) (see Section V).

VIII. Required Payment Categories

The Working Group recommends that disclosure be required for the following types of payments, on a disaggregated and cash basis:

- Profit Taxes (including profit, income and production taxes)
- Royalties (including royalties-in-kind)
- Fees (including license fees, rental fees and concession fees)
- Production entitlements (by value and volume)
- Bonuses (including signature, discovery and production bonuses)
- Dividends (i.e. withholding tax)
- Infrastructure payments as required by law or contract (e.g., building a road or railway)
- Transportation and terminal operations fees

The fees and bonuses identified are not an exclusive list, and there may be other fees and bonuses a Canadian mining company would be required to disclose; each reporting company will need to consider whether payments it makes fall within the payment types covered by the rules.

These payments are commonly recognized as important components of extractive sector transactions, and are consistent with the payments required to be disclosed under Section 1504 of the Dodd-Frank Act and the minimum reporting requirements of the Extractive Industries Transparency Initiative (EITI). The Working Group also recommends the inclusion of an additional payment disclosure category that represents common payments made by extractive sector companies, which are relevant to citizens and communities in resource-rich countries.

IX. Payment Reporting Threshold

The Working Group recognizes that given the unique nature of the Canadian mining sector, which is comprised of many junior and exploration companies, that a lower reporting threshold than that established in Section 1504 of the U.S. Dodd-Frank Act may be useful in order to ensure reporting by a broad scope of companies. As such, the Working Group recommends proposing two separate thresholds, for large and small issuers in particular – for example, one threshold for issuers listed on the TSX set at \$100,000, to be aligned with the U.S. and EU rules, and a second threshold for venture issuers set at \$10,000. The threshold for small issuers is seen to be important as, without a lower threshold, a large part of the Canadian mining sector would effectively report no revenue paid. This would not be consistent with one of the objectives of this initiative, which is to communicate the flow of revenues more clearly and credibly.

These thresholds should not limit a company from disclosing at a lower payment threshold, including at the \$10,000 level, since these payments may be relevant to citizens and there may be value in reporting at a lower threshold in order to paint a more comprehensive picture of company contributions to local and national economies. Companies may want to work with local communities and other stakeholders to identify whether disclosing at a lower threshold has meaningful benefits.

X. 'Project' Definition

The Working Group recommends that companies disclose information disaggregated by project, but where payment liabilities arise at the entity level they should be reported accordingly. The Working Group recommends, for the purposes of project-level payment disclosure by Canadian companies, that "project" be defined in a manner consistent with the August 2012 rules implementing section 1504 of the U.S. Dodd-Frank Act. The Working Group understands that the term project is routinely employed by mining companies in their disclosure documents and seeks to provide additional guidance that, in the vast majority of cases, should not substantially affect current practice. In the August 2012 rules implementing Dodd-Frank Section 1504, U.S. regulators provided clear guidance to companies on project-level reporting, to make explicit that extractive companies "routinely enter into contractual arrangements with governments for the purpose of commercial development" such that "the contract [...] generally provides a basis for determining the payments, and required payment disclosure" established by Section 1504 of

the U.S. Dodd-Frank Act. Consistent with these rules, the Working Group recommends that a project, for the purposes of this reporting, not be defined:

- on basis of its materiality to the company;
- as equivalent to a reporting unit;
- as an aggregation of all activities within a country;
- or as a geologic basin.

While the SEC stated that, in general, legal agreements (e.g. contracts, licenses, leases, concessions, etc.) issued by a government which give rise to payment liabilities should serve as the basis for determining a "project", U.S. regulators also declined to strictly define this term in order to allow some flexibility to issuers "in applying the term to different business contexts."

The EU Parliament and Member States provided further guidance for "project" definition in the legal changes to the EU Transparency and Accounting Directives that are consistent with the intent of the limitations placed on project definition under Section 1504 of the U.S. Dodd-Frank Act. Specifically, the EU has defined a "project" for the purposes of extractive sector payment reporting as:

"...the operational activities that are governed by a single contract, license, lease, concession or similar legal agreements and form the basis for payment liabilities with a government. Nonetheless, if multiple such agreements are substantially interconnected, this shall be considered a project. 'Substantially interconnected' legal agreements should be understood as a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with the Government, which gives rise to payment liabilities. Such agreements can be governed by a single contract, joint venture, production sharing agreement, or other overarching legal agreement."

XI. Exemptions

The Working Group recommends that there be no exemptions from the reporting recommended by this framework made for any mining company as defined here.

Reporting exemptions run counter to the spirit of improving transparency with enhanced company disclosures, and would result in uneven reporting and differential treatment of companies. Additionally, reporting requirements established for extractive companies by the EU Transparency and Accounting Directives explicitly do not allow for any exemptions from reporting.

XII. Form of Disclosure

The Working Group recommends that payment disclosure be filed on SEDAR in a separate form on an annual basis. Filing mandatory payment reporting in a separate form is aligned with the approach adopted in the U.K. and the U.S. and allows information to be accessed easily by end users. In addition, the use of a separate form will create clear, consistent standards across companies, and by not including it in offering documents such as the prospectus, it will prevent payment disclosure from delaying other filings. The use of a separate form has additional benefits for governments, communities, and civil society organizations as it will make disclosure documents easy to locate, access, and download. Additionally, a separate form could have utility in other applications, creating a level playing field and a consistent regime for reporting regardless of the venue. The Working Group also recommends that the form include a secure prescribed format that is standard across all companies and allows the user to easily compile, search and sort the data.

XIII. Format of Disclosure

The Working Group recommends that company disclosure of information on payments to governments be reported on a disaggregated basis in an annual securities filing made available to the public in full. Payment reporting information should be disclosed in an electronic format that is broadly accessible to stakeholders and accompanied by clear guidance on how information should be uniformly disclosed by reporting companies.

The Working Group recommends that information be clearly identified and organized for clarity and ease of access. Specifically, consistent with information required for the reporting of payments under Section 1504 of the U.S. Dodd-Frank Act, mining companies subject to such disclosure should be required to clearly indicate the following information:

- the total amounts of payments made, by category;
- the currency used to make the payments;
- the financial period in which the payments were made;
- the business segment (reportable segments for the purposes of financial reporting) of the resource extraction issuer that made the payments;
- the government that received the payments, and the country in which the government is located; and
- the project of the resource extraction issuer to which the payments relate.

The Working Group recommends that disclosure of payments be required in either Canadian currency or in the mining company's reporting currency, and that any currency conversions be clearly identified.

XIV. Regularity of Reporting

The Working Group recommends that the disclosure of payments to governments by Canadian mining companies be required on an annual basis, in line with the fiscal year of reporting companies. Where a company acquires new projects, a reasonable amount of time should be granted to allow for the alignment or implementation of accounting systems necessary to access the required payment data. This amount of time may vary, depending on whether the newly acquired project(s) are already reporting to another jurisdiction or not. In these cases, the starting date for disclosure should be consistent with reporting dates for other filings (e.g., AIF, MD&A).

XV. Verification / Audit Requirements

The Working Group recommends that the verification standard be determined in line with existing securities safeguards and requirements and be consistent with the format of disclosure to provide reasonable assurance.

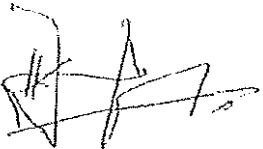

XVI. Penalties

The Working Group recommends that mining companies that fail to report, or report inaccurate information, be given a penalty that is consistent with the current enforcement regime of provincial securities disclosure requirements, and that such penalties are proportionate to the violation and its impact.

XVII. Schedule of Implementation / Effective Date

The Working Group recommends that mandatory disclosure requirements be implemented in an expeditious manner, while providing reporting companies with the appropriate time to adjust their accounting and reporting systems to comply with new disclosure regulations.

The *Recommendations on Mandatory Disclosure of Payments from Canadian Mining Companies to Governments* have been approved by all four member organizations of the Resource Revenue Transparency Working Group, undersigned here.

 _____ Claire Woodside Date Director, Publish What You Pay Canada	 _____ Ross Gallinger Date Executive Director, Prospectors & Developers Association of Canada
 _____ Dani Kaufman Date President, Revenue Watch Institute	 _____ Pierre Gratton Date President and CEO, Mining Association of Canada

MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

- I PREPARED FOR:** The Honorable Bill Bennett, Minister of Energy and Mines
- II ISSUE:** The Deputy Chief Gold Commissioner has issued coal licences for two of seven coal licence applications made by Dunlevy Energy Inc., located in the Dunlevy Valley West of Hudson's Hope.

III BACKGROUND:

Ten coal licence applications for the proposed Dunlevy project (the Project) were submitted from July 2008 to May 2010 by Dunlevy Energy Inc., a wholly owned subsidiary of Jameson Resources Limited, an Australian Securities Exchange listed company. The Project falls within Treaty 8 lands, approximately 36 km northwest of Hudson's Hope. The Treaty provides West Moberly First Nation and Halfway River First Nation the right to hunt, fish and trap. The Province commenced consultation with these First Nations in November 2009.

Significant wildlife and First Nations concerns in the Dunlevy Valley were raised during the Province's consultation and review of the coal licence applications and a concurrent Notice of Work (NOW) application. The Project is located within the range of the Graham herd of South Peace Northern Caribou (SPNC), with portions of the coal licence applications overlapping areas of high elevation winter range habitat (HEWR).

To support the recovery of SPNC, the Chief Gold Commissioner established coal land reserves (CLRs) in December 2012 over HEWR habitat which overlapped Dunlevy's coal licence applications. In January 2013, Dunlevy amended their coal licence applications to remove the overlap with the CLRs, thereby reducing the area of their coal licence applications (Applications) from approximately 26,657 hectares to 8,591 hectares, and reducing the number of applications from ten to seven.

The Province consulted with First Nations on the seven coal licence applications and the associated NOW application concurrently. The statutory decision maker for the coal licence applications is the Chief Gold Commissioner under the authority of the *Coal Act* and the statutory decision maker for the NOW application is the Inspector of Mines under the authority of the *Mines Act*. Additional consultation and review on the NOW will occur prior to a decision being made by the Inspector of Mines under the *Mines Act*.

IV DISCUSSION:

The decision to issue two of the seven licences was primarily informed by the Treaty rights and interests as expressed by Halfway River and West Moberly First Nations, the significant wildlife values associated with the Dunlevy Valley, the potential for impacts to caribou and Stone's sheep, and the proponent's desire to further explore the coal resource in the Dunlevy Valley as indicated in their Notice of Work application.

Considering the balance of interests, it did not seem reasonable that if all seven licences were issued, that the future potential impacts to treaty rights, wildlife, and other identified values could be reasonably mitigated, nor could adequate accommodation be made.

The issuance of the two licences where Dunlevy has expressed interest in further exploration activity has the potential to lead to impacts to both wildlife values and treaty rights; however, it seems reasonable that there are opportunities to mitigate any potential impacts, should further authorizations to explore for coal be issued.

V CONCLUSION:

s.16, s.13

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: Meeting with the Minister of Finance regarding exploration tax incentive programs and Geoscience BC

III BACKGROUND:

The Association for Mineral Exploration British Columbia (AME BC) routinely makes policy recommendations to the Province on a range of areas. On October 11, 2013, AME BC provided a formal submission to the Select Standing Committee on Finance and Government Services outlining recommendations for British Columbia's 2014 Budget. The submission included the three recommendations detailed below:

- the Mining Exploration Tax Credit (METC),
- the B.C. Mining Flow-Through Share Tax Credit (BC MFTS), and
- stable funding for Geoscience BC.

IV DISCUSSION:

AMEBC Recommendation: Change the definition of qualifying expenses eligible under the Mining Exploration Tax Credit to include expenses incurred as a result of consultation with local communities and First Nations.

The METC is a refundable tax credit equal to 20 percent of eligible grassroots mineral exploration expenditures incurred after July 31, 1998, and before January 1, 2017. The 2007 provincial budget enhanced the METC to 30 percent for eligible exploration in Mountain Pine Beetle affected areas. Only expenses incurred for determining the existence, location, extent or quality of a mineral resource in BC are eligible under the METC program. This includes any direct costs associated with prospecting, carrying out geological surveys, drilling and trenching.

According to a study conducted by Ernst and Young on behalf of AME BC, consultation expenses can amount to over 20 percent of total exploration expenditures. s.13, s.16

s.13, s.16

AMEBC Recommendation: Extend the B.C. Mining Flow-Through Share Tax Credit to December 31, 2016 and consider making it permanent.

The British Columbia Mining Flow-Through Share Tax Credit provides a 20 percent tax credit to individuals who invest in flow-through shares offered by a corporation conducting mining exploration in BC. The program is currently set to expire December 31, 2013. AME BC recommends the Province extend this program until December 31, 2016 and consider making it permanent.

s.13, s.16, s.17

s.13, s.16, s.17

AMEBC Recommendation: Provide stable funding for Geoscience BC so that it can continue its successful industry-led program of applied geoscience.

Platform 2013 committed to working with Geoscience BC to establish long-term and predictable funding so that it can continue to foster oil, gas and mineral exploration and development in British Columbia. This commitment was included in the Minister of Forests, Lands and Natural Resource Operations' Mandate Letter, and responsibility is shared with the Ministry of Energy and Mines and the Ministry of Natural Gas Development. To date, Geoscience BC has received \$48.7 million in provincial grants (\$25 million in 2005, \$11.7 million in 2007/08 and \$12 million in 2011). This amounts to an average of \$6.1 million per year in government funding.

s.13, s.16, s.17

V CONCLUSION:

s.13, s.16, s.17

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: Environmental Assessment of the New Prosperity project

III BACKGROUND:

The New Prosperity project is a proposed open-pit copper-gold mine with a 20-year operating life and a production capacity of 70,000 tonnes per day. The estimated capital costs of this project are over \$1 billion. New Prosperity would employ approximately 700 people during construction and 550 people full time during operations.

Taseko Mines Limited received a provincial environmental assessment (EA) certificate for its Prosperity project in January 2010. This initial proposal was rejected by the federal government due to concerns about the project's significant adverse environmental effects. In 2012, Taseko submitted a revised Environmental Impact Statement for New Prosperity. Taseko has also submitted an application to the B.C. Environmental Assessment Office (EAO) for an amendment to the project's existing EA certificate.

Public hearings on the New Prosperity proposal were held from July 22 to August 23, 2013 as part of the federal panel review. Provincial agencies (Ministry of Energy and Mines, Ministry of Forests, Lands and Natural Resource Operations, and Ministry of Environment) participated in the federal review to share expertise and address areas of provincial management and regulatory responsibility.

The federal panel's report was released on October 31, 2013. The panel concluded that the project would result in several significant adverse environmental effects, the key ones being effects on water quality in Fish Lake; on fish and fish habitat in Fish Lake; on current use of lands and resources for traditional purposes by certain Aboriginal groups; and on the cultural heritage of these Aboriginal groups. The panel also concluded there would be a significant adverse cumulative effect on the South Chilcotin grizzly bear population unless mitigation measures were effectively implemented.

The Government of Canada has until March 2014 (i.e., 120 days from the release of the federal panel report) to decide if it should grant the necessary authorizations for the New Prosperity project to proceed.

IV DISCUSSION:

On November 29, 2013, Taseko filed a judicial review application with the Federal Court seeking a declaration that the following findings of the federal panel are invalid and should be quashed or set aside:

- the determination that Taseko underestimated the volume of tailing pore water seepage leaving the tailings storage facility;
- the decision to accept Natural Resources Canada's upper bound estimate as the expected seepage rate from the tailings storage facility; and
- the conclusion that the concentration of water quality variables in Fish Lake and Wasp Lake would likely be a significant adverse environmental effect.

In addition, Taseko is seeking a declaration that the panel "failed to observe principles of procedural fairness in its conduct of the public hearing process". Taseko has indicated that it will not pursue the judicial review if the New Prosperity project is approved by the federal government.

s.17, s.13, s.16

V CONCLUSION:

Taseko's revised New Prosperity proposal requires the approval of both the federal and the provincial governments to proceed. The federal panel report released on October 31, 2013 concludes that the project would result in several significant adverse environmental effects. This report will be used as part of the decision-making process for the federal government.

s.16, s.13

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**MINISTRY OF ENERGY AND MINES
BRIEFING NOTE FOR INFORMATION**

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: December 4, 2013 meeting with Mark Edwards, VP of Community and Government Relations, Teck Resources Limited to discuss the Elk Valley water quality plan and Province's review of electricity rates.

III BACKGROUND:

There are currently five operating coal mines in the Elk Valley in southeast British Columbia owned by Teck Coal Limited. These mines directly employ close to 3,700 people full time.

In order to sustain production and employment levels at its southeast B.C. mines, Teck will need to move into new areas as coal in previously permitted areas is depleted. These changes will need environmental assessments (EAs) in some cases and in most cases permits or permit amendments under the *Mines Act* and the *Environmental Management Act*.

s.13

Teck received an amendment to its EA certificate for Line Creek Operations on September 25, 2013 and subsequently received permit approvals for its Phase II project. The project includes two open pits, a waste rock dump, a seepage water collection system and a major water treatment plant. Water quality concerns including selenium, sulphate, nitrate, cadmium and calcite were considered in the EA and permitting.

Selenium management is a key environmental challenge in southeast B.C. Selenium is a naturally occurring element that, in small doses, is essential to biological function. In larger doses, selenium can be toxic and may bioaccumulate in food webs, where increases may harm birds and fish. The Elk River watershed, which is located downstream of Teck's five southeast B.C. coal mines, has significantly elevated levels of selenium, primarily due to run off from waste rock exposed to erosion from decades of open-pit coal mining.

Teck has highlighted three key issues in a recent letter to the Ministry, and previously provided three additional comments to the Industrial Electricity Policy Review (IEPR). In their October 10, 2013 letter, Teck expressed concerns about the extent of the deferral accounts; cost overruns at BC Hydro; and has asked for an improved revenue formula with long-term notional pricing and amended dividends to limit rate increases during periods of significant capital expenditures. In a previous submission to the IEPR, they highlighted the importance of a fair contribution policy, improvements to the

interconnection process, and their satisfaction with the current transmission service rate structure.

IV DISCUSSION:

In April 2013, the Minister of Environment issued an order under section 89 of the *Environmental Management Act* to Teck. The order requires the company to submit a plan to address selenium and other contaminants in the Elk Valley watershed.

The ministerial order will result in an Elk Valley Area-Based Management Plan to identify long-term concentration targets, considering: current contaminant concentrations; current and emerging economically achievable treatment technologies; sustained balance of environmental, economic and social costs and benefits; and current and emerging science regarding the effects of contaminants. The order defines specific environmental objectives and outcomes such as protection of aquatic ecosystems, protection of human health and protection of groundwater. The order also establishes a long-term selenium concentration target for Lake Koocanusa.

Prior to the ministerial order, Teck had initiated development of an Elk Valley Water Quality Plan, which involves the construction of six water treatment plants to remove selenium and other substances. Teck's initial strategy proposes more than \$600 million in investment over the next five years on treatment facilities and on water diversions, which prevent clean water from flowing through waste rock and picking up selenium and other substances. The first of the plants is the West Line Creek Water Treatment Facility, which is now under construction. This plant will use a biological water treatment process, which was the most sustainable and efficient approach identified in a pilot study reviewed by third-party experts, and is expected to be in operation by the second quarter of 2014.

Implementation of the Elk Valley Area Based Management Plan and Teck's Elk Valley Water Quality Plan will stabilize and reverse the trends of selenium in the Elk Valley watershed over time. The water treatment facilities and other investments will ensure the impacts of coal mining in the area are significantly reduced.

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80 percent of regulatory accounts are already part of rates and are being paid down. BC Hydro will hold a workshop to provide industrial customers with more information on its regulatory accounts. Starting in F2018, BC Hydro's net income will be linked to the Consumer Price Index; the dividend payment will be reduced starting in F2018 and over time be eliminated; and the 3rd Tier Water Rental Rate will be eliminated in F2018. Government has agreed to review industrial rate design, including contribution policy, while leaving the basic structure of the Transmission Service Rate intact. BC Hydro will begin reporting on and benchmarking transmission interconnection timelines by April 1, 2014.

V CONCLUSION:

The Province is working with Teck to protect water quality in the Elk Valley watershed and to move forward on permitting and environmental assessments.

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**MINISTRY OF ENERGY & MINES
BRIEFING NOTE FOR INFORMATION**

I PREPARED FOR: Honourable Bill Bennett, Minister of Energy and Mines

II ISSUE: Meeting with Yukon Minister of Energy, Mines and Resources Scott Kent, Deputy Minister Greg Komaromi, ADM Brian Love, PG Principle Secretary Gordon Steele, TG Principle Secretary Gordon Steele, Economic Development Minister Currie Dixon, and Premier Darrell Pasloski may be in attendance.

III BACKGROUND/DISCUSSION:

The Need to Train and Retain Skilled Workers in the North

British Columbia is committed to building a skilled, stable and productive work force. The priorities are training individuals within our Province and ensuring that under-represented groups and low-skilled workers are part of the solution to labour shortages.

Based on British Columbia's Labour Market 2010-2020 Outlook, 1,027,400 job openings are expected from the \$100 billion in potential and planned projects in mining, oil and gas, transportation, warehousing and utilities in the Province. These projects are expected to create between 73,000 and 84,000 direct construction jobs alone, and increase British Columbia's contribution to Canada's GDP from 12.6 percent (2010) to 13.1 percent (2020).

Access to Low Cost Power and Infrastructure

Yukon Electric presently provides power to the Good Hope Lake/Dease River First Nation using a diesel powered generation plant. For the past four years, BC Hydro has been working with the communities of Jade City and Good Hope Lake to provide electricity service through the Remote Community Electrification Program (RCE). Good Hope Lake is a designated RCE Community under the Remote Communities Regulation. The proposed project consists of a 400 kW diesel generating station and a 250 kW micro hydro system.

The Dease River First Nation is in discussions with Aboriginal and Northern Development Canada (AANDC), BC Hydro and Jade City to finalize financing and other necessary program prerequisites, to obtain BC Hydro utility service for both communities through the RCE. AANDC has advised that funding is committed; however, final agreements are not yet in place. Once the project is complete, Yukon Electric will remove their equipment.

Comprehensive, Effective and Efficient Assessment and Permitting Processes

British Columbia is committed to responsible resource development through more predictable and timely project reviews, strengthened environmental protection and improved consultation with First Nations. The Province also seeks to eliminate the duplication of assessments for the same project, with the goal of achieving one project, one environmental assessment.

British Columbia's Mineral Exploration and Mining Strategy committed to an 80 percent reduction by August 2012 in the backlog of mineral exploration permit applications (called Notices of Work). The Province achieved this target ahead of schedule and reduced the original backlog by 94 percent to 14 applications. The Province also committed to achieving an average turnaround time of 60 days for processing new Notices of Work. As of January 2014, the turnaround time is approximately 55 days, a substantial reduction from the November 2011 turnaround time of 110 days.

Good Relationships with First Nations

On December 27, 2012, the Yukon Court of Appeal released a unanimous decision declaring that the Government of Yukon owes a duty to consult with the Ross River Dena Council when it allows mineral claims to be staked on Crown lands over which the First Nation has asserted claims of Aboriginal rights and title under the *Quartz Mining Act*. s.16, s.13

s.16, s.13

British Columbia is broadly engaged in efforts to build partnerships with First Nations. This includes the Mineral Tax revenue sharing through Economic and Community Development Agreements on new mining projects, major mine expansions and resort development projects, as well as Forest Revenue Sharing and Tenure Agreements. These initiatives provide First Nations with a share of the provincial revenue to build internal governance and advance socio-economic goals in their communities.

Certainty with Respect Access to Land

As outlined in British Columbia's Mineral Exploration and Mining Strategy, the Province is currently completing a review of existing mineral and coal land reserves to determine if more land can be made available for exploration. As outlined in British Columbia's Mineral Exploration and Mining Strategy, a review in 2012 resulted in 51,047 hectares of no registration reserves being removed, making the land available for exploration.

Additionally, conditional reserves encompassing 708,284 hectares of land were also removed. The review of existing mineral and coal land reserves continued in 2013 resulting in 34,297 hectares of no registration reserves being removed and the removal of conditional reserves encompassing 12,056 hectares of land. In 2014, the Province will continue reviewing existing mineral and coal land reserves to determine if more land can be made available for exploration.

IV CONCLUSION

The BC Jobs Plan outlines British Columbia's strategies for continued economic success: low taxes, a competitive business climate, streamlined regulation, commercialization of science and technology across all sectors and a highly skilled and motivated workforce. As Canada's Pacific Gateway, we are attracting investment and opening new markets for British Columbia products and services.

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MINISTRY OF ENERGY AND MINES

BRIEFING NOTE FOR INFORMATION

I PREPARED FOR: Honourable Bill Bennett, Ministry of Energy and Mines

II ISSUE: January 28, 2014 meeting with Manitoba Minister of Mineral Resources

III BACKGROUND:

The Manitoba Minister of Mineral Resources, Honourable Dave Chomiak, has requested a meeting with Minister Bennett during BC's Mineral Exploration Roundup in Vancouver regarding Aboriginal engagement, accommodation and resource revenue and benefit sharing. Deputy Minister Hugh Eliasson and Chris Beaumont-Smith, Acting Manager, Minerals Policy and Business Development will attend with Minister Chomiak.

Mining is the second largest resource sector in Manitoba with 40 companies active in mineral exploration and mining, employing more than 900 Aboriginal workers. In 2012, the Province's combined value of mineral production for metals and industrial minerals exceeded \$1.5 billion.

The Province's seven mines produce 100 percent of Canada's cesium, 13.1 percent of Canada's nickel, 12.9 percent of Canada's zinc, 7.3 percent of Canada's copper, 5.4 percent of Canada's gold and 5.2 percent of Canada's silver.

IV DISCUSSION:

Manitoba's Mining Advisory Council

On November 8, 2013, Minister Chomiak announced the creation of a Mining Advisory Council with representation from First Nations, the mining industry and the Province of Manitoba to ensure First Nations communities benefit from the development of new mines. The Mining Advisory Council (MAC) is intended to provide advice and recommendations to the Province of Manitoba on resource revenue and benefit sharing with First Nations, promoting and increasing First Nations business opportunities, training and employment initiatives, strengthening environmental stewardship and First Nations consultation.

The MAC membership includes nine Chiefs and six senior mining industry representatives including the chair of the Mining Association of Manitoba. The MAC is co-chaired by Chief Donovan Fontaine of Sagkeeng First Nation and Chief Ron Evans of Norway House Cree Nation (former grand chief of the Assembly of Manitoba Chiefs).

Other Mining Initiatives with First Nations – Province of Manitoba:

- The \$4.6-million Northern Manitoba Mining Academy in Flin Flon, a professional training and research facility with state-of-the-art mining simulators and geology labs, a multi-purpose wet lab and video conferencing, which provides a regional hub for the development and administration of mining and geosciences training across the north;
- Over \$13 million in orphaned and abandoned mine site rehabilitation projects awarded to First Nations contractors and business owners; and
- The Mineral Resources Training Program, a partnership between government, industry and Manitoba Keewatinow Okimakinak communities that provides pre-employment training in prospecting, exploration, mining and environmental management.

British Columbia Mining Initiatives with First Nations:

The Province of British Columbia is active in a number of initiatives to support strong working relationships between the Province, industry and First Nations. For example:

- In 2012-2013, the Province signed a total of seven Economic and Community Development Agreements (ECDAs) to share mineral tax revenue with First Nations;
 - Eleven strategic engagement and reconciliation agreements with BC First Nations provide consultation process certainty on mineral and coal tenure and mining exploration and development projects;
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- s.17, s.16, s.13
- Ongoing work with BC's mining industry through regular engagement with the Business Council of British Columbia (BCBC) including BCBC research on benefits sharing with First Nations, advice on provincial consultation and accommodation policy, and bringing BCBC representation onto the Province's Aboriginal Investment Council;
 - Various mining-related education and training programs and opportunities for First Nations including the BC Aboriginal Mine Training Association.

V CONCLUSION:

The BC Ministry of Energy and Mines is interested in Manitoba's Mining Advisory Council and other work to support First Nations participation in the mining sector.

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Pages 49 through 50 redacted for the following reasons:

s.12, s.13, s.16, s.17

BC Hydro Briefing Note

Impact of Regionally Optimized Contracts on First Nations Suppliers

Summary

- BC Hydro is changing the way it procures contractors that provide Power Line Technician services to its distribution system. These changes will result in improvements in safety, quality and service levels as well as overall cost savings.
 - Some First Nations suppliers have expressed concern that regional contracts will have a negative impact on their ability to win contracts from BC Hydro.
 - BC Hydro will post a Request for Proposal (RFP) for pre-qualified Distribution line contractors in late January. BC Hydro will require that all proponents must demonstrate a strong commitment to involve First Nations in this type of work.
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Background

- BC Hydro has approximately 40 active line contractors for distribution work, with typical contract duration between one to three months. The majority of contracts are valued between \$50,000 and \$830,000. On average, BC Hydro spends approximately \$80 million per year on distribution line contracting work.
- Through BC Hydro's Transmission and Distribution Transformation Initiative, BC Hydro is improving its approach to line contracting and implementing a policy of Regionally Optimized Contracts (ROC) for distribution work only.
- ROCs are longer-term, regional contracts awarded to contractors for work such as pole replacements and customer connections.
- ROCs allow BC Hydro to take prices/rates from contractors' bids for various units of work and forecast anticipated work volumes in each geographic region and then use this information to optimize the number and scope of contracts.
- Contractors will benefit from:
 - Longer term contracts (multi-year terms),
 - More innovation in their approach to the work,
 - Significant reductions in the number of yearly bid contracts, and
 - Clear expectations about safety and work quality.
- BC Hydro will benefit from:
 - Sufficient contractor capacity to deliver BC Hydro's annual distribution line work while improving response and delivery times.
 - More competitive pricing which will reduce costs to ratepayers, and

- An increased ability to review contractors from a safety and performance perspective.
- BC Hydro anticipates posting the RFP for pre-qualified distribution line contractors in late January. The contracts will likely be awarded in April 2014.

Discussion

- Some First Nations suppliers have expressed concerns that the regional contracts will have a negative impact on their ability to win contract awards from BC Hydro. For a company to bid on the RFP, they must be pre-qualified under BC Hydro's Master Line Agreement.

s.17, s.16

- Other types of work/services where First Nations suppliers have been active (i.e. vegetation clearing) are not impacted by the change.

Request for Proposal Process

- As part of the RFP evaluation, 5 per cent of the scoring will be based on the proponent's ability to demonstrate their commitment to involving Aboriginal suppliers/contractors in the delivery of awarded work programs.
- The proponent will be asked to submit the following information as part of the RFP:
 - Information regarding the proponent's First Nation inclusion as well as relevant documentation,
 - A description of how the proponent's business practices support or benefit First Nations (i.e. training and/or mentoring programs),
 - Names of First Nations people employed, including the date of employment, position, and their expected role or activities in performing the work.
 - Names of subcontractors expected to be engaged in performing the work that are First Nations businesses, contractors or suppliers, and
 - Measures or benefits the proponent plans to provide in performing the work.
- If a successful contractor is unable to provide this information above, they must create an approved Aboriginal engagement plan with BC Hydro. This requirement would be established through the negotiation and contracting phase and will allow First Nations to be more targeted in forming relationships with Line Contractors.

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s.17, s.16

- Today, there may be as many as 15 different companies who may or may not be doing work in a region. In the future, the First Nations will know which specific company to contact and this will help improve their relationship with contractors.

s.17, s.16

Summary/Next Steps

- Regionally Optimized Contracts will help provide more opportunities for First Nations in securing this type of work as BC Hydro will require all prospective proponents in the RFP process to demonstrate their commitment to involving First Nations.
- BC Hydro plans to issue the RFP on January 31, 2014 and the evaluation of the submissions is expected in March 2014.
- Negotiations with lead proponents are expected to take place in April, 2014 and the contract awards are expected to be announced in May 2014.