

APPENDIX B:

PROTOCOL RE:
YUKON DEVELOPMENT
CORPORATION'S ROLE AS
SOLE SHAREHOLDER OF
YUKON ENERGY CORPORATION

PROTOCOL

RE: **YUKON DEVELOPMENT CORPORATION'S
ROLE AS SOLE SHAREHOLDER OF
YUKON ENERGY CORPORATION**

WHEREAS:

- A. Yukon Development Corporation ("Development") is a Corporation created by the Yukon *Development Corporation Act* ("Development Act") and is an agent of the Government of Yukon;
- B. One of Development's principal objects relates to the provision of a continuing and adequate supply of energy in the Yukon in a manner consistent with sustainable development;
- C. To implement this function Development caused to be incorporated on March 12, 1987 a wholly-owned subsidiary, Yukon Energy Corporation ("Energy"), under the *Business Corporations Act* ("Corporations Act");
- D. Since incorporation, Energy has acquired electrical energy generation, transmission and distribution assets and has been carrying on their activities for customers in Yukon;
- E. Energy's rate structure is subject to the authority of the Yukon Utilities Board ("YUB");
- F. Development wishes to clarify the extent to which, and the manner in which, Development will, as the sole shareholder of Energy, exercise its rights in relation to Energy with a view to ensuring Energy retains independence as a separate corporation and in the conduct of its business, and also to express the principles on which Development expects Energy to carry out its mandate.

Accordingly, the following sets out the guidelines to be followed by Development in relation to Energy:

- 1. Development will exercise its rights as sole shareholder of Energy only in the manner and to the extent prescribed by law and in particular the *Development Act*, regulations passed pursuant to that Act, the Corporations Act and the by-laws of Energy ("Energy By-laws") which include:
 - (a) the election and removal of directors of Energy ("Energy Directors");
 - (b) appointment of auditors;

- (c) changes to Energy's by-laws;
- (d) approval of the annual financial statements

through the process of Energy's annual general meeting and other general meetings.

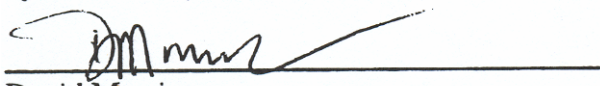
2. Development expects Energy to carry out its mandate on the following principles, subject always to the legal and fiduciary responsibilities and duties of its directors:

- (a) Energy's Board of Directors will
 - (i) direct and control the business and affairs of Energy in accordance with the Corporations Act and other applicable legislation in the best interests of Yukon ratepayers and Energy;
 - (ii) take a forward looking approach to decision making;
 - (iii) develop a comprehensive understanding of Energy and the risks and opportunities facing it as well as director responsibilities, liabilities and due diligence requirements;
 - (iv) ensure appropriate policies, systems and practices are in place to carry out Energy's mandate;
 - (v) implement lawful directives issued by Development pursuant to the *Development Act*;
 - (vi) monitor management controls, periodically review related policies and practices for areas of weakness or inefficiencies, and ensure that the appropriate controls are in place;
 - (vii) provide general direction to the CEO and President of Energy and conduct an annual performance evaluation;
- (b) Energy will:
 - (i) be responsible for the adoption, implementation and monitoring of a multi-year strategic plan and annual business plans. The plans will identify comprehensive, attainable goals and objectives, and set appropriate performance measures for Energy. Copies of these plans will be provided to the Minister;
 - (ii) ensure that its strategic plan will be consistent with the goals and principles of sustainable development of energy resources, efficient use of energy and a secure supply of reliable energy;

- (iii) set policies that support the attainment of Energy's mandate, and its strategic and business plans;
 - (iv) establish policies to identify and manage liabilities and promote the efficient use of Energy's resources and assets in a manner that will safeguard Energy from inappropriate use or loss;
 - (v) manage its own public communications under the leadership of the Board through the offices of the Chair and CEO and President;
 - (vi) provide Development and the Minister with quarterly reports on financial performance, operations and major issues;
 - (vii) ensure an annual financial audit;
 - (viii) prepare an annual report on Energy's objectives and performance;
 - (ix) ensure that its affairs are conducted in accordance with its statutory and regulatory requirements, corporate by-laws, and policies; and
 - (x) adopt and implement bylaws to define the Board's operations and delegation of authority.
3. Development and Energy will annually each hold a public meeting to discuss the results of the annual report in a timely manner. Energy will endeavour to hold its public meeting in at least two locations each year.
4. In general, communications from Development to Energy will be from Development's CEO to Energy's CEO and President in writing.
5. To the extent that Development is lawfully entitled to give any directions to Energy relating to Energy's business, that direction, to take effect, must be consistent with the "best interests" of rate payers, any letter of expectations provided by the Minister, must not interfere with the jurisdiction of the YUB, and must be consistent with regulatory principles and orders of the YUB.
6. Development will review and approve Energy's strategic plan in a timely manner and when necessary expedite any other approvals legally required for Energy to carry out any of its activities, including:
- (a) sale, lease or disposal of all, or substantially all, of the assets of Energy;
 - (b) development or acquisition of new hydro generation assets greater than 3 MW, other than incremental expansion of existing hydro generation plants and infrastructure funded through customer or third party contributions or rates approved by the YUB;

- (c) development or acquisition of new transmission and distribution lines greater than 20 kV, other than replacement or maintenance of existing systems and incremental expansion of existing infrastructure to connect additional customers and infrastructure funded through customer or third party contributions or rates approved by the YUB;
 - (d) establishment or modification of rate relief programs for power consumers;
 - (e) making of any contract for management of all, or substantially all, assets of Energy.
7. Development will, with required approvals, provide or assist in providing by guarantee or other means, financing for Energy's activities as required by Energy from time to time.
8. (a) Development will have not more than 10 directors including the CEO as a director "ex-officio"
- (b) Development will cause its bylaws to be amended to provide for 8(a) above.
9. (a) Energy will have no more than ten directors including the CEO and President as a director "ex-officio".
10. Development acknowledges that the debt to equity investment in Energy will be maintained at 60:40.
11. These Shareholder Guidelines will be reviewed by Development in consultation with Energy to determine whether any changes are required to ensure that Energy can effectively carry out its responsibilities and its authorized activities.

Approved by
YUKON DEVELOPMENT CORPORATION
by its authority signatory:



David Morrison
Chair, Board of Directors
Yukon Development Corporation

Date: August 6/04