

**Newfoundland and Labrador Hydro
Corporate Governance Committee (“CGC”)
July 10, 2006
Item: Review of Board of Directors Charter**



This document reflects the comments of the CGC from its June 29, 2006 meeting.

The Corporation currently does not have a Board of Directors Charter. In developing a Board charter the Committee may wish to consider the practices included in the following:

- ❑ Guidelines and required governance disclosures contained in securities regulation for publicly-traded companies;
- ❑ Other practices found in other public organizations with a single Shareholder.

It can serve as an inventory of items that the Committee may wish to consider as it moves forward.

Comparison to National Policy 58-201, Corporate Governance Guidelines and National Instrument 58-101. Disclosure of Corporate Governance Practices

NP 58-201 provides guidance on corporate governance practices for publicly traded companies. While generally there is no “requirement” for public companies to comply with these guidelines, they are required to provide public disclosure on whether or not they comply. As a result of these disclosure requirements, the guidelines established in NP 58-201 have become accepted practices in most public companies. While some of the practices in NP 58-201 are very specific to publicly traded companies, many of the required practices are relevant to other entities, and in fact are being adopted as best practices outside the public company environment. This is evident by the guidelines established by the Federal Treasury Board for federal Crown Corporations.

National Policy 58-201 Guidelines	CGC Recommendation	Deliverable
(1) The board should have a majority of independent directors.	<ul style="list-style-type: none"> ❑ Benchmark best practices and develop independence criteria appropriate for Hydro. ❑ Consider adopting criteria similar to EPCOR: (i) Did not work for Hydro; (ii) Did not have any immediate family member engaged in the employment of Hydro; (iii) Did not benefit from a business relationship with Hydro that could reasonably be perceived to materially interfere 	<ul style="list-style-type: none"> ❑ See item # 13 on CGC charter review.

	with their independent judgment; and (iv) Did not receive remuneration from Hydro other than Director's fees and disbursements.	
(2) The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director".	<ul style="list-style-type: none"> ❑ Agree, the Board Chair is currently independent and should continue to be an independent Director. ❑ To be included in BOD charter. 	
(3) The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	<ul style="list-style-type: none"> ❑ Committee should determine whether this is a meeting of "independent" directors or "non-management" directors. ❑ To be included in BOD charter. 	
(4) The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the company, including responsibility for:		
<ul style="list-style-type: none"> ❑ (a) To the extent feasible, satisfying itself as to the integrity of the chief executive officer and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization; 	<ul style="list-style-type: none"> ❑ The CEO performance should be linked to the performance contract. 	<ul style="list-style-type: none"> ❑ See item #9 on CGC charter review – W. Chamberlain to determine if written descriptions exist for Chair and CEO.
<ul style="list-style-type: none"> ❑ (b) Adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, 	<ul style="list-style-type: none"> ❑ Determine how the Board can become more engaged in the development and approval of the strategic plan. ❑ Consider whether the Board should have a preliminary budget discussion in August each year 	

<p>the opportunities and risks of the business;</p>	<p>to provide input into the Strategic Planning process, followed up by a more detailed discussion of the plan at its October or November meeting.</p>	
<ul style="list-style-type: none"> <input type="checkbox"/> c) The identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks; 	<ul style="list-style-type: none"> <input type="checkbox"/> The Corporation is in the process of developing a risk framework to better identify and manage risks and to demonstrate to the Board and Audit Committee how it manages risk. 	<ul style="list-style-type: none"> <input type="checkbox"/> D. Sturge to have risk framework ready prior to the Oct. 27th Board meeting.
<ul style="list-style-type: none"> <input type="checkbox"/> (d) Succession planning (including appointing, training and monitoring senior management); 	<ul style="list-style-type: none"> <input type="checkbox"/> To determine the levels for which the Board wishes to be involved (ie. Executive management and/or next level of Managers) <input type="checkbox"/> To be considered by the Compensation Committee. 	<ul style="list-style-type: none"> <input type="checkbox"/> W. Chamberlain to raise this issue with Compensation Committee.
<ul style="list-style-type: none"> <input type="checkbox"/> (e) Adopting a corporate disclosure policy for the company; 	<ul style="list-style-type: none"> <input type="checkbox"/> The Board should ensure that the Corporation has an appropriate Emergency Communications Plan ("ECP") and Disclosure Policy. <input type="checkbox"/> Ensure the role(s) of the Board are reflected in the ECP. 	<ul style="list-style-type: none"> <input type="checkbox"/> Management to have policies developed prior to the November Board meeting.
<ul style="list-style-type: none"> <input type="checkbox"/> (f) The company's internal control and management information systems; and 	<ul style="list-style-type: none"> <input type="checkbox"/> Agree; ensure it is incorporated in the Audit Committee and Board charters. 	
<ul style="list-style-type: none"> <input type="checkbox"/> (g) Developing the company's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the company. 	<ul style="list-style-type: none"> <input type="checkbox"/> Yes, to be driven by Corporate Governance Committee. <input type="checkbox"/> To be included in BOD charter. 	<ul style="list-style-type: none"> <input type="checkbox"/> D. Sturge to draft a set of corporate governance guidelines for consideration by the CGC prior to the Oct. 27th Board meeting.

<p>(5) The written board mandate should also set out:</p>		
<ul style="list-style-type: none"> ❑ (a) Measures for receiving feedback from stakeholders; and 	<ul style="list-style-type: none"> ❑ Make this specific to the Shareholder and ensure it is linked to the Corporation's Shareholder Relation's Strategy. 	<ul style="list-style-type: none"> ❑ D. Sturge to ask Dawn Dalley to update CGC on the Shareholder Relation's Strategy at its next meeting following the June 29th meeting.
<ul style="list-style-type: none"> ❑ (b) Expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials. 	<ul style="list-style-type: none"> ❑ Yes, ensure appropriate linkage to the board evaluation process. ❑ A Director Intranet site is under development to enhance communication and distribution of materials. ❑ Expectations and responsibilities to be included in BOD charter. 	
<p>(6) The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.</p>	<ul style="list-style-type: none"> ❑ Develop the appropriate descriptions. 	<ul style="list-style-type: none"> ❑ See item # 9 in CGC charter review.
<p>(7) The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the</p>	<ul style="list-style-type: none"> ❑ Agree, to be included in BOD charter. 	<ul style="list-style-type: none"> ❑ See item # 2 in CGC charter review.

<p>contribution individual directors are expected to make. All new directors should also understand the nature and operations of the company's business.</p>		
<p>(8) The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the company's business remains current.</p>	<p><input type="checkbox"/> Agree, to be included in BOD charter.</p>	<p><input type="checkbox"/> See item # 2 in CGC charter review.</p>
<p>(9) The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:</p>	<p><input type="checkbox"/> Agree, to be included in BOD charter.</p>	<p><input type="checkbox"/> See item # 3 in CGC charter review.</p>
<p><input type="checkbox"/> (a) Conflict of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;</p>	<p><input type="checkbox"/> Agree</p>	
<p><input type="checkbox"/> (b) Protection and proper use of corporate assets and opportunities;</p>	<p><input type="checkbox"/> Agree</p>	
<p><input type="checkbox"/> c) Confidentiality of corporate information;</p>	<p><input type="checkbox"/> Agree</p>	
<p><input type="checkbox"/> (d) Fair dealing with the</p>	<p><input type="checkbox"/> Agree</p>	

company's security holders, customers, suppliers, competitors and employees;		
<input type="checkbox"/> (e) Compliance with laws, rules and regulations; and	<input type="checkbox"/> Agree	
<input type="checkbox"/> (f) Reporting of any illegal or unethical behaviour.	<input type="checkbox"/> Agree	
(10) The board should be responsible for monitoring compliance with the code.	<input type="checkbox"/> Agree, to be included in BOD charter.	
(11) The board should appoint a nominating committee composed entirely of independent directors.	<input type="checkbox"/> The Director nominating activities will be undertaken by the Corporate Governance Committee. <input type="checkbox"/> Develop an appropriate definition of independence.	<input type="checkbox"/> See item #'s 1 and 13 in CGC charter review.
(12) Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:		
<input type="checkbox"/> (a) Consider what competencies and skills the board, as a whole, should possess.	<input type="checkbox"/> Agree, to be included in BOD charter.	<input type="checkbox"/> See item # 1 in CGC charter review.
<input type="checkbox"/> (b) Assess what competencies and skills each existing director possesses.	<input type="checkbox"/> Agree, to be included in BOD charter.	<input type="checkbox"/> See item #1 in CGC charter review.
(13) The board should appoint a compensation committee composed entirely of independent directors.	<input type="checkbox"/> Agree, committee already in place	
(14) The compensation committee	<input type="checkbox"/> Agree to be included in all Committee mandates	<input type="checkbox"/>

<p>should be given the authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.</p>	<p>also.</p>	
<p>(15) The compensation committee should be responsible for:</p>		
<ul style="list-style-type: none"> ❑ (a) Reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation; and 	<ul style="list-style-type: none"> ❑ Agree, to be included in BOD charter. ❑ Work to be undertaken by the Compensation Committee – to be included in charter. 	
<ul style="list-style-type: none"> ❑ (b) Making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans. 	<ul style="list-style-type: none"> ❑ To be included in the charter for the compensation committee. 	
<p>(16) The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution.</p>	<ul style="list-style-type: none"> ❑ Agree, to be included in BOD charter. 	<ul style="list-style-type: none"> ❑ See item # 4 in CGC charter review.
<p>(17) Other</p>	<ul style="list-style-type: none"> ❑ Determine the best way to ensure the Board is engaged in understanding, supporting and monitoring the Corporation's safety practices and 	

	<p>performance. Consider having a standing safety update at the beginning of each meeting.</p> <ul style="list-style-type: none"> ❑ Consider including responsibility for health and safety in the Environment Committee and renaming it the HS&E Committee. ❑ Safety performance is currently included in the Performance Report presented to the Board at each meeting. 	
<p>(18) The Board has the authority to approve the creation of Committees as necessary to assist the Board in performing its activities. Currently the Board has the following Committees:</p> <ul style="list-style-type: none"> • Audit • Corporate Governance • Compensation • Environment 	<ul style="list-style-type: none"> ❑ To be incorporated in the Board charter. 	

Best Practices from EPCOR

Best Practice	CGC Recommendation	Deliverable
<p>(19) The Board holds an annual strategic planning session, and reviews and approves the corporation's Long Term Plan.</p>	<ul style="list-style-type: none"> ❑ See comments in item # 4(b) above. 	
<p>(20) The Board sets aside one meeting with EPCOR's Shareholder each year to report on the strategic plan and respond to questions.</p>	<ul style="list-style-type: none"> ❑ See comments in item # 4(b) above. 	
<p>(21) The Audit Committee monitors</p>	<ul style="list-style-type: none"> ❑ See comments in item # 17 in the Audit 	

<p>financial risks and the Board has oversight responsibility for all business risks faced by the company. Risk management is a standing agenda item at all regular Board meetings.</p>	<p>Committee charter review.</p>	
<p>(22) A formal communications program is in place and requires the timely disclosure of material information relating to the business activities and corporate performance to the public and to the Shareholder.</p>	<p><input type="checkbox"/> See comments in items 4(e) and 5(a) above.</p>	
<p>(23) The Board determines, on an annual basis, whether a member of EPCOR's Board is independent if they:</p>	<p><input type="checkbox"/> See comments in item # 13 on CGC charter review.</p>	
<p>✓ (a) Did not work for EPCOR;</p>		
<p>✓ (b) Did not have any immediate family member engaged in the employment of EPCOR;</p>		
<p>✓ c) Did not benefit from a business relationship with EPCOR that could reasonably be perceived to materially interfere with their independent judgment;</p>		
<p>✓ (d) Did not receive remuneration from EPCOR other than Director's fees and disbursements.</p>		