

Powell River Energy Inc.

**Application for Exemptions under Section 88(3) of the
*Utilities Commission Act***

30 May 2016

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I. INTRODUCTION¹

Powell River Energy Inc. ("**PREI**") requests that the British Columbia Utilities Commission (the "**Commission**") exempt the entities, facilities and equipment set out below from the application of Part 3 and section 71 of the *Utilities Commission Act*² (the "**Act**"), pursuant to the Commission's authority under section 88(3).

PREI is applying for this exemption, in conjunction with a Ministerial exemption under section 22, to replace Ministerial Exemption Order No. M-22-0101 ("**Order M-22-0101**"), granted in 2001. Order M-22-0101 will expire in 2021, but PREI's renewed energy supply contract ("**2016 PPA**") with Catalyst Paper Corporation ("**Catalyst**") is likely to extend beyond 2021. PREI seeks to extend and update the current exemption

- to accommodate the renewal of the 2016 PPA term beyond 2021, and
- to allow for possible simplification of the PREI corporate ownership chain so surplus power sales of PREI power may be undertaken by another wholesale marketing affiliate of PREI.

PREI has consulted with Catalyst on this application. Catalyst supports the exemption requested by PREI. A letter of support from Catalyst is included with this application in Schedule E.

II. BACKGROUND

A. PREI's Generation and Transmission Facilities

PREI owns and operates two hydroelectric generating stations – Powell and Lois – with an aggregate nameplate capacity of approximately 80 MW, and associated facilities and equipment used to generate and transmit electricity to Catalyst (collectively the "**Power Facilities**"), all located in the vicinity of Powell River, British Columbia. A brief description and schematic of the Power Facilities is attached as Schedule B.

¹ For ease of reference, a list of terms defined in this Application is included in Schedule "A".

² RSBC 1996, c 473.

PREI is undertaking upgrades to the Power Facilities in 2016 and 2017 that will include equipment refurbishments and replacements, and unit overhauls. Following the completion of upgrades, the generation capacity of the Power Facilities is expected to be approximately 90 MW.

B. PREI's Power Supply to Catalyst

PREI delivers all of the electricity generated from the Power Facilities to Catalyst's nearby Powell River pulp and paper mill ("**PR Mill**") according to the deliveries scheduled under the 2016 PPA. The current PR Mill's total electricity load is approximately 130 MW. Catalyst supplies the balance of the PR Mill's electricity requirements from Catalyst's on-site generation and BC Hydro.

Under the terms of the 2016 PPA, PREI agreed to sell and Catalyst agreed to purchase all of the electricity generated by PREI at the Power Facilities unless Catalyst reasonably expects a material reduction in the PR Mill load and reduces its scheduled deliveries in accordance with the agreement. PREI is also excused from its obligation to supply if Catalyst defaults in its purchase obligations under the agreement.

When Catalyst does not take the available PREI generated electricity at the PR Mill, PREI may sell that surplus power to other participants in the wholesale electricity market ("**Wholesale Customers**") or public utilities.

C. Ministerial Exemption Order No. M-22-0101

On 30 January 2001, the Minister of Employment and Investment (now the Minister of Energy and Mines, the "**Minister**") issued Order M-22-0101 under section 22 of the Act. Order M-22-0101 exempts PREI, certain entities affiliated with PREI, Catalyst and the Power Facilities from Part 3 and section 71 of the Act in relation to the sale of PREI electricity to Catalyst and the sale of surplus PREI power to public utilities and Wholesale Customers.

A copy of Order M-22-0101 is enclosed with this application as Schedule D.

D. Circumstances in 2001 and the Exemptions granted by Order M-22-0101

When Order M-22-0101 was issued, the Power Facilities were owned by Pacifica Power Co. Ltd. ("**Powerco**"), a wholly-owned subsidiary of Pacifica Papers Inc. ("**Pacifica**"). The electricity generated by the Power Facilities was used at the PR Mill, which was owned by Pacifica.

PREI sought Order M-22-0101 in contemplation of the sale by Pacifica of an interest in the Power Facilities to Powell River Energy Trust ("**PRET**"). The transfer of Pacifica's interest was achieved through the sale of Powerco and subsequent reorganization to establish PREI as the owner of the Power Facilities. After the reorganization, PREI was owned 50.001% by Pacifica and 49.999% by PRET.

The Order was issued on 30 January 2001, the day before the Power Facilities were transferred to PREI.

On 31 January 2001, PREI also entered into the following agreements:

1. A power purchase agreement with Pacifica, the general partner for Pacifica Papers Co. Limited Partnership ("**PPLP**"), for the supply of PREI electricity from the Power Facilities to Pacifica ("**2001 PPA**") for use at the PR Mill,
2. An operating and maintenance agreement with Maclaren Energy Management Services Inc. (which later changed its name to Brookfield Power Services Inc. ("**BPSI**")), an affiliate of PRET, pursuant to which BPSI operates and manages the Power Facilities on behalf of PREI, and
3. A secondary power purchase agreement ("**Secondary PPA**") with Powell River Energy Limited Partnership ("**PRELP**"), jointly owned by Pacifica, PREI and PRET, pursuant to which PRELP markets and sells electricity generated by PREI not needed or used at the PR Mill ("**Surplus Power**"), to public utilities and to Wholesale Customers.

The electricity PREI generated at the Power Facilities was a "power service" ("**Power Service**") as defined under section 22(1) of the Act, as it then read, so PREI requested an exemption from

Part 3 and section 71 of the Act to allow the PREI electricity sales to occur without triggering public utility regulation.

The sale by Pacifica of a half interest in the Power Facilities and the subsequent sale of electricity by PREI to Pacifica were in support of capital investments over the term of the 2001 PPA.³ PREI sought the Ministerial exemption to assist the proposed arrangements.

The Minister deemed the requested exemption to be in the public interest to facilitate the power generation and sales arrangement which in turn would support the capital investments, and therefore issued Order M-22-0101 exempting

- PREI, Maclaren [now BPSI] and the Power Facilities from Part 3 of the Act, in respect of the production and sale of
 - the Power Service to any of Pacifica and PPLP, and their affiliates, successors or assigns that acquire a controlling interest in the PR Mill (collectively, with Pacifica and PPLP, the "**Pacifica Parties**") for use in the PR Mill,
 - Surplus Power to public utilities and Wholesale Customers, and
 - Surplus Power to PRELP for marketing and sale to public utilities and to Wholesale Customers, and
- the following persons from section 71 of the Act
 - PREI in respect of an energy supply contract for the sale of the Power Service to any of the Pacifica Parties, PRELP and for the sale of Surplus Power to Wholesale Customers,
 - any of the Pacifica Parties, and PRELP, in respect of an energy supply contract, for the purchase of the Power Service from PREI, and Wholesale Customers for the purchase of Surplus Power from PREI,

³ Order M-22-0101, page 2

- PRELP in respect of an energy supply contract for the sale of the Surplus Power to Wholesale Customers, and
- Wholesale Customers in respect of an energy supply contract for the purchase of Surplus Power from PRELP or from PREI.⁴

E. Changes since Order M-22-0101 was issued

Since Order M-22-0101 was issued, some changes have occurred related to: 1) the ownership of PREI, 2) the name of an exempt entity, and 3) the power purchase agreement between PREI and Catalyst. The changes are explained in the sections that follow.

While these changes all fall within the scope of Order M-22-0101, it is timely to update the exemptions

- to accommodate the renewal of the 2016 PPA term beyond 2021, and
- to allow for possible simplification of the PREI corporate ownership chain so surplus power sales of PREI power may be undertaken by another wholesale marketing affiliate of PREI.

(1) Change of name of Pacifica and in Ownership of PREI

- In September 2001, Pacifica amalgamated with Norske Skog Canada Limited ("Norske").
- In October 2005, Norske changed its name to Catalyst Paper Corporation.
- In February 2013, Catalyst sold its remaining interest in PREI (50.001%) to PRET, as well as its interest in PRELP, so that
 - PRET became the sole owner of PREI, and
 - PRET became the sole limited partner of PRELP (PREI remained as the general partner).

⁴ Order M-22-0101, page 2.

(2) 2011 and 2016 Power Purchase Agreements

PREI and Catalyst entered into a new PPA in 2011 ("**2011 PPA**"), replacing the expired 2001 PPA. The 2011 PPA had substantially similar terms as the 2001 PPA and included an option for Catalyst to extend the term of the 2011 PPA for five successive one-year terms commencing on 1 February 2016.

When the initial term of the 2011 PPA expired, PREI and Catalyst entered into the 2016 PPA on substantially similar terms, effective 1 February 2016, to replace the 2011 PPA.

The initial term of the 2016 PPA continues until 31 January 2021 (concurrent with the term of Order M-22-0101). The term will automatically renew for successive one-year terms afterwards unless either party terminates the agreement before the end of the then-current term.

As with the 2001 PPA and the 2011 PPA, the 2016 PPA commits PREI to sell all of the electricity generated at the Power Facilities to Catalyst for use at the PR Mill to the extent that Catalyst can use the energy in its operations. PREI may only sell to others if Catalyst reduces its scheduled deliveries of available electricity following a material reduction in the PR Mill load or if Catalyst defaults in its purchase obligations under the agreement.

(3) Wholesale Marketing Affiliate

To simplify the corporate structure associated with the Secondary PPA sales of Surplus Power, PRELP may assign its interest in the Secondary PPA to an affiliate of PREI or PREI may enter into a new PPA with an alternate affiliate to act as the power wholesale marketing entity ("**Wholesale Marketing Affiliate**") for PREI instead of PRELP. By "affiliate", PREI means a corporate entity that is under the same control as PREI.

PREI is therefore requesting that the exemption include any Wholesale Marketing Affiliate that may be contracted by PREI to sell Surplus Power.

F. Concurrent exemptions requested under Section 22 and Section 88 to replace the M-22-0101 exemptions

Concurrent with this application, PREI has asked the Minister to issue a new exemption under section 22 of the Act to continue the existing M-22-0101 exemptions that would currently fall with the scope of section 22, as follows

- exempting PREI, BPSI and Catalyst from Part 3 and section 71 of the Act for electricity sales to Catalyst, and
- exempting PREI, BPSI from Part 3 and section 71 of the Act for any sale of Surplus Power to a public utility or Wholesale Customer.

The further exemptions requested under section 88 are necessary to establish the same exemptions that are currently granted by Order M-22-0101. The discussion in section G elaborates on this point, explaining how section 22 of the Act has changed since Order M-22-0101 was issued.

Rather than request that all the exemptions be granted under section 88 by the Commission, PREI is requesting that the primary exemptions related to PREI electricity sales to Catalyst be issued by the Minister under section 22. The original exemption was issued by the Minister. The conditions and oversight associated with PREI sales to Catalyst and the economic circumstances of the PR Mill align with the Minister's mandate rather than the Commission's.

PREI seeks to have the new exemptions under sections 22 and 88 come into force concurrent with the termination of Order M-22-0101. Since the section 22 and 88 exemptions are complementary and both must be approved by the Minister, PREI suggests that it would be efficient to coordinate the submissions to the Minister so they are reviewed together.

G. Comparison of the former and current section 22 of the Act

Section 22 of the Act has been amended since Order M-22-0101 was issued. On 30 January 2001, the date that Order M-22-0101 was issued, section 22 of the Act read as follows

- 22(1) For the purpose of this section, a person sells, purchases or produces a power service if the person

- (a) generates electricity,
 - (b) for the purpose of heating or cooling any building, structure or equipment or for any industrial purpose, heats, cools or refrigerates water, air or any heating medium or coolant, using for that purpose equipment powered by a fuel or a geothermal resource or solar energy, or
 - (c) enters into an energy supply contract, within the meaning of section 68, for the provision of electricity.
- (2) The minister may
- (a) exempt, by order, from any or all of section 71 and the provisions of this Part, in respect of the sale, purchase or production of a power service,
 - (i) a person who sells, purchases or produces a power service,
 - (ii) a class of persons who sell, purchase or produce a power service, and
 - (iii) any equipment, facility, plant, project or system of a person or class of persons referred to in subparagraph (i) or (ii), and
 - (b) if the minister makes an order under paragraph (a), impose, in the order, terms and conditions respecting the extent or quantity of the power service to be sold, purchased or produced, the price to be charged for it and any other conditions the minister considers to be in the public interest.
- (3) The minister may
- (a) before making an order under subsection (2), refer the matter to the commission for a review, or
 - (b) authorize the commission to make an order under subsection (2)

[underlining added]

Section 22 currently reads as follows

- 22(1) In this section, "minister" means the minister responsible for the administration of the *Hydro and Power Authority Act*.
- (2) The minister, by regulation, may
- (a) exempt from any or all of section 71 and the provisions of this Part

- (i) a public utility, or
 - (ii) a public utility in respect of any equipment, facility, plant, project, activity, contract, service or system of the public utility, and
- (b) in respect of an exemption made under paragraph (a), impose any terms and conditions the minister considers to be in the public interest.
- (3) The minister, before making a regulation under subsection (2), may refer the matter to the commission for a review

[underlining added]

Section 1 of the Act defines "public utility" as

a person, or the person's lessee, trustee, receiver or liquidator, who owns or operates in British Columbia, equipment or facilities for

- (a) the production, generation, storage, transmission, sale, delivery or provision of electricity, natural gas, steam or any other agent for the production of light, heat, cold or power to or for the public or a corporation for compensation,

The change from "persons" and "equipment" to "public utilities" limits the scope of an exemption that may be granted under the current section 22.

PREI and BPSI fall within the definition of public utility under the Act because of their respective roles in the ownership and operation of the Power Facilities. Catalyst also falls within the definition of public utility since it sells power to BC Hydro under an energy purchase agreement, an arrangement that is unrelated to the PREI-Catalyst relationship. In all three cases, the companies are exempt from public utility regulation under the Act, but they are within the scope of the current section 22 exemption power.

PRELP, any Wholesale Marketing Affiliate, and Wholesale Customers are not "public utilities" as defined by the Act, so section 22 no longer empowers the Minister to exempt them from section 71. Section 22 of the Act also no longer provides the Minister discretion to exempt the Power Facilities from section 71.

Therefore, in accordance with section 88(3) of the Act, PREI requests that the Commission grant the exemption listed in section III (3) of this application to complement the exemptions being granted by the Minister under section 22.

III. PUBLIC INTEREST IN GRANTING THE REQUESTED EXEMPTIONS

(1) Section 88(3) and the Commission's public interest mandate under the Act

Section 88(3) of the Act reads as follows

(3) The commission may, on conditions it considers advisable, with the advance approval of the minister responsible for the administration of the *Hydro and Power Authority Act*, exempt a person, equipment or facilities from the application of all or any of the provisions of this Act or may limit or vary the application of this Act.

In its reasons for the decision attached to Order No. G-41-06⁵, the Commission described the test for granting an exemption under section 88(3) as follows

The Commission is of the view that a section 88(3) exemption order should be issued, with the advance approval of the [Lieutenant Governor in Council], when such exemption serves the objects and purposes of the [UCA] and it is in the public interest to do so [underlining added].

In a recent decision that considered the rationale for public utility regulation under the Act, the Commission elaborated on its view.

Regulation exists to protect consumers against the abuse of monopoly power but, in the Commission Panel's view, the superior protection for consumers is the competitive marketplace. ... This is consistent with the first principle outlined in this Section, to only regulate where required. Competitive forces are generally accepted as providing societal benefits and consumer protection more efficiently and effectively than economic regulation.

⁵ BC Hydro / FortisBC ~ Joint Application for Exemptions from the Act regarding the Canal Plan Agreement

Regulation is costly, time-consuming, and limited by informational asymmetries. It is only in natural monopoly situations where consumer protection is needed that these limitations are outweighed by the benefits of regulation.

Based on the above, the Commission Panel finds as a fundamental principle that regulation is only appropriate where required and is driven by the inability of competitive forces to operate with greater efficiency and effectiveness than a sole service provider.⁶

In 1960, the Supreme Court of Canada interpreted the Commission's mandate for rate-making in the *B.C. Electric Railway*⁷ case. The court spoke of the balance between public utility and ratepayer interests.

More recently, in *British Columbia Hydro and Power Authority v. British Columbia (Utilities Commission)*, the BC Court of Appeal interpreted the Commission's mandate under the Act as a balancing of utility and customer interests.

[46] In this light the Utilities Act is a current example of the means adopted in North America, firstly in the United States, to achieve a balance in the public interest between monopoly, where monopoly is accepted as necessary, and protection to the consumer provided by competition. The grant of monopoly through certification of public convenience and necessity was accompanied by the correlative burden on the monopoly of supplying service at approved rates to all within the area from which competition was excluded.⁸

In this situation, the balance between seller and customer may be achieved directly through commercial negotiation.

(2) The public interest favours exemption from regulation

The Act was enacted to protect the public from potential abuse of market power by public utilities that are natural monopolies. Public utility regulation is a surrogate for a competitive

⁶ Commission Report, *FortisBC Energy Inc. ~ Inquiry into the Offering of Products and Services in Alternative Energy Solutions and Other New Initiatives*, December 2012., page 14.

⁷ *B.C. Electric Railway v. Public Utilities Commission of British Columbia* (1960), [1960] S.C.R. 837; 25 D.L.R. (2d) 689 (S.C. C.), at pages 855-856.

⁸ *British Columbia Hydro and Power Authority v. British Columbia Utilities Commission*, [1996] B.C.J. No. 379, 20 B.C.L.R. (3d) 106, 71 B.C.A.C. 27, (Application for leave to appeal dismissed with costs (without reasons) September 19, 1996 – [1996] S.C.C.A. No. 204).

market when the economic efficiencies associated with a monopoly service may benefit consumers and competition is not feasible to achieve those efficiencies. In this case, the rationale for public utility regulation does not arise.

The requested exemptions align with the objects and purposes of the Act and the public interest for the following reasons.

- PREI, PRELP, the Wholesale Marketing Affiliate and Wholesale Customers are sophisticated commercial parties who have competitive choices. There is no imbalance of market power between the seller and purchaser. There is no need for Commission regulatory oversight.
- Requiring PREI, PRELP, any Wholesale Marketing Affiliate and Wholesale Customers to comply with section 71 and Part 3 of the Act would impose unnecessary costs and administrative burdens on them and the Commission, without any public benefit.
- Extending the exemptions that are currently granted under Order M-22-0101 will accommodate renewal of the 2016 PPA, which will allow PREI to continue to supply Catalyst beyond 2021. That local electricity supply arrangement has worked well since 2001.
- BC Hydro and its customers will benefit from a continued industrial load displacement since BC Hydro can avoid adding high marginal cost energy resources or transmission reinforcement to serve the PR Mill load that PREI currently serves.
- The 2016 PPA will allow the Power Facilities to continue to fund sustaining capital improvements.
- No other participant in the wholesale electricity market will be adversely affected by this exemption since these exemptions have been in effect since 2001.

(3) Requested Exemptions

In accordance with section 88(3) of the Act, PREI respectfully requests that the Commission, with the approval of the Responsible Minister, exempt

- the following persons from section 71 of the Act
 - PRELP and any Wholesale Marketing Affiliate who enters into an energy supply contract with PREI for
 - the purchase of Surplus Power from PREI; and
 - any subsequent sale of that Surplus Power to a public utility or a Wholesale Customer; and
 - any Wholesale Customer who purchases Surplus Power from PREI, PRELP, BPSI, or a Wholesale Marketing Affiliate; and
- the Power Facilities from Part 3 of the Act, except for sections 25, 38, 42 and 43.

Since Order M-22-0101 is being replaced by a new Ministerial exemption under section 22 and this Commission exemption under section 88, this section 88 exemption should remain in effect for the duration of the new Ministerial exemption under section 22.

IV. PROCESS TO REVIEW THIS APPLICATION

PREI asks that this application be reviewed in writing without the need for third party comment. The requested exemptions will continue existing exemptions that have been in effect since January 2001.

The power supply service at the foundation of this exemption is a bilateral arrangement between PREI and Catalyst to supply electricity to the PR Mill. Catalyst has reviewed this application and supports it.

The Power Facilities are interconnected to the Catalyst and BC Hydro systems. PREI and Catalyst have a joint interconnection agreement and ongoing relationship with BC Hydro. Any

transmission of electricity on BC Hydro's system of Surplus Power would be governed by the applicable BC Hydro transmission tariff.

PREI has kept BC Hydro advised of the renewal of the 2016 PPA and its plans to extend the exemptions under the Act. PREI has also given BC Hydro an advance copy of this application. The requested exemptions will not affect PREI's interconnection with BC Hydro.

Any incidental sales of PREI electricity to third parties would be infrequent and secondary to the PREI electricity sale to Catalyst. Such sales would be to public utilities or Wholesale Customers who are sophisticated purchasers and have competitive choices.

In sum, no third party interests will be adversely affected by the granting of the requested exemptions so there is no need for third party comment.

V. CONCLUSION

PREI submits that the exemptions requested above are consistent with the objects and purposes of the Act, they are in the public interest, and they should be granted by the Commission. A draft order for the Commission's consideration is enclosed as Schedule F.

PREI will be pleased to provide any additional information the Commission requires to review this application.

All of which is respectfully submitted by Powell River Energy Inc. by its counsel.

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Communications on this application should also be sent to PREI directly. The contact information is as follows.

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Schedule A – Defined Terms

Term	Definition
2001 PPA	Power Purchase Agreement executed in 2001 for the supply of PREI power from the Power Facilities to Pacifica
2011 PPA	Power Purchase Agreement executed in 2011 between PREI and Catalyst
2016 PPA	Power Purchase Agreement renegotiated by PREI and Catalyst, effective 1 February 2016, to replace the 2011 PPA, as may be amended or replaced
Act	<i>Utilities Commission Act</i> , RSBC 1996, c 473
BPSI	Brookfield Power Services Inc.
Catalyst	Catalyst Paper Corporation
Commission	British Columbia Utilities Commission
Maclaren	Maclaren Energy Management Services Inc.
Minister	Minister of Energy and Mines
Norske	Norske Skog Canada Limited
Order M-22-0101	Ministerial Exemption Order No. M-22-0101
Pacifica	Pacifica Papers Inc.
Pacifica Parties	Pacifica and PPLP, and their affiliates, successors or assigns that acquire a controlling interest in the PR Mill
Power Facilities	The hydroelectric generation, transmission and distribution facilities together with all related equipment, works and undertakings owned or operated by PREI in the vicinity of Powell River, British Columbia, for the generation, transmission and distribution of electricity, as more particularly described in Schedule B.
Power Service	"Power service" as defined under section 22(1) of the Act
PPLP	Pacifica Papers Co. Limited Partnership
PR Mill	Powell River pulp and paper mill

PREI	Powell River Energy Inc.
PRELP	Powell River Energy Limited Partnership
PRET	Powell River Energy Trust
Secondary PPA	Power Purchase Agreement executed in 2001 between PREI and PRELP to sell power to PRELP for the purpose of marketing and selling Surplus Power into the wholesale electricity market.
Surplus Power	Electricity generated by PREI that from time to time may not be needed or used at the PR Mill
Wholesale Customers	Buyers of electricity who are participants in the wholesale electricity market and who are not public utilities subject to Part 3 of the Act
Wholesale Marketing Affiliate	Any Affiliate of PREI responsible for marketing and selling Surplus Power to public utilities and to Wholesale Customers

Schedule B**Description and Schematic of the PREI Power Facilities**

The PREI Power Facilities means the hydroelectric generation, transmission and distribution facilities together with all related equipment, works and undertakings owned or operated by PREI in the vicinity of Powell River, British Columbia, for the generation, transmission and distribution of electricity, and includes:

- a. two hydroelectric generating stations – Powell and Lois – located in the vicinity of Powell River, British Columbia. Each station has two generation units – G1 and G5 at Powell, and GL1 and GL2 at Lois, and
- b. all related facilities, including: dams, powerhouses, turbines, generators, spill gates, penstocks, electrical equipment, power lines, and other associated structures.

The Power Facilities have an aggregate nameplate generation capacity of approximately 80 MW.

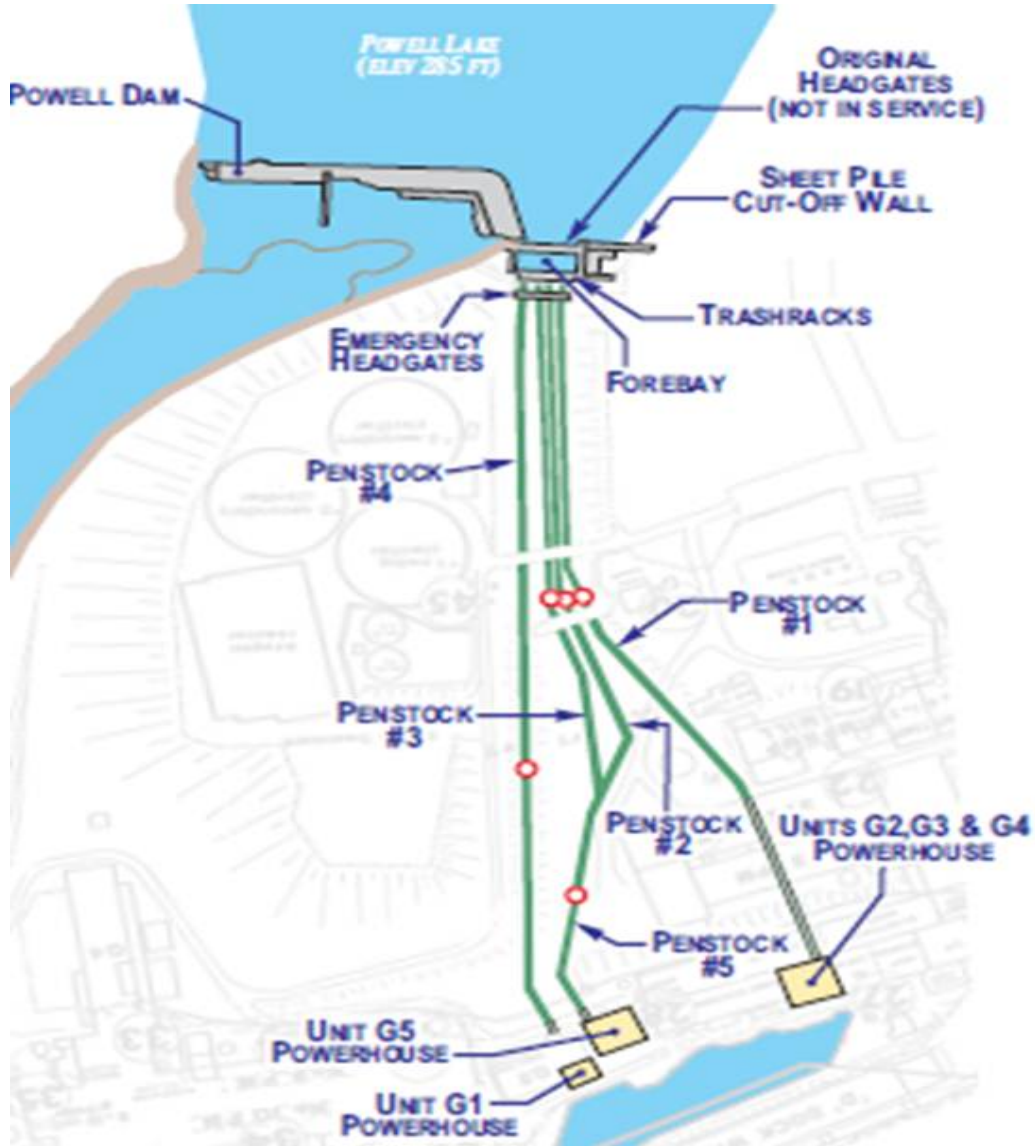
The photos and schematic maps that follow show the configuration and location of the Power Facilities.

Powell Dam and Generating Facilities

Photo



**Powell Dam and Generating Facilities
Schematic Map**



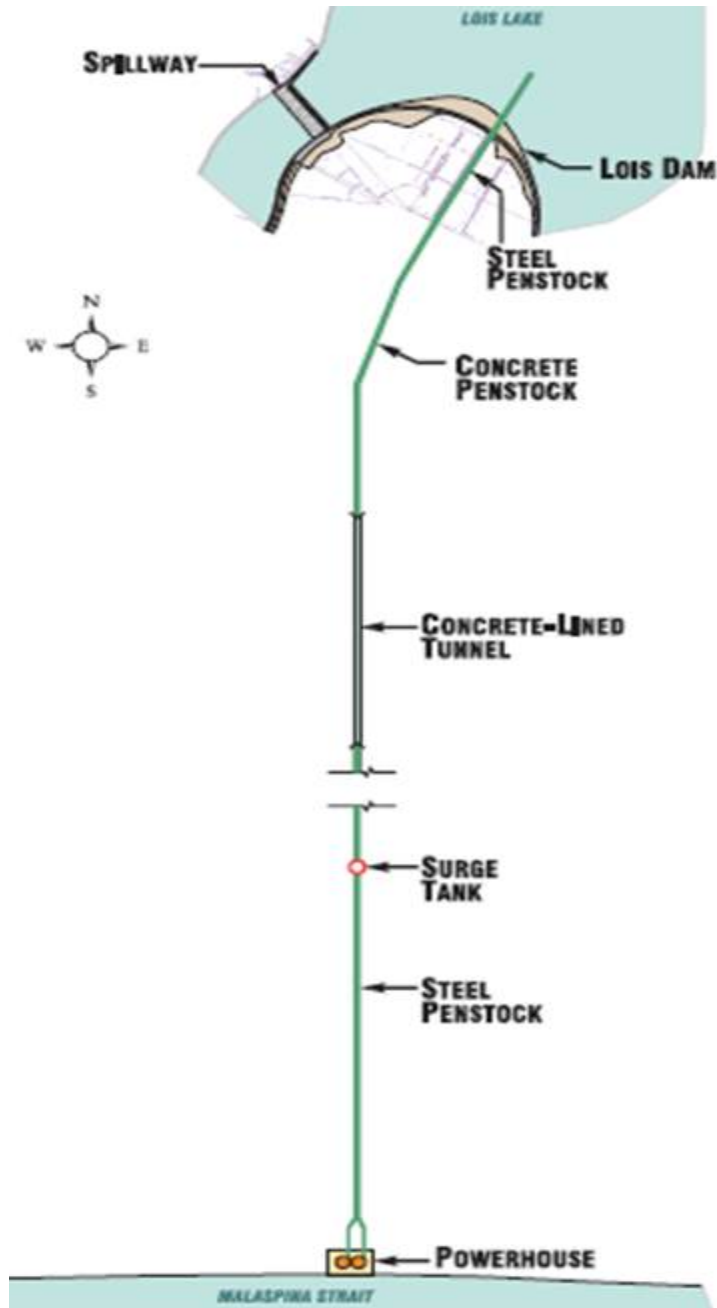
Note: Penstock 1 and Units G2, G3 and G4 have been decommissioned

Lois Dam and Generating Facilities

Photo

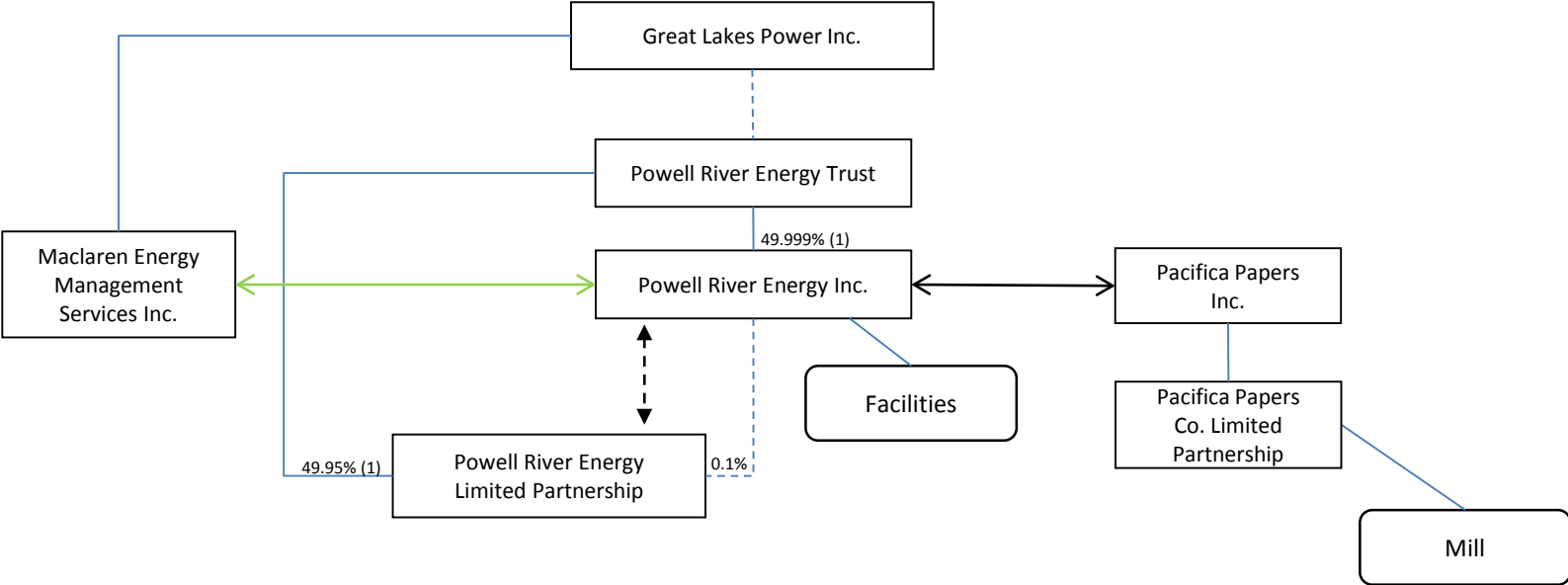


Lois Dam and Generating Facilities Schematic Map



Schedule C – PREI Corporate Ownership Chart

Old Corporate Structure (2001)

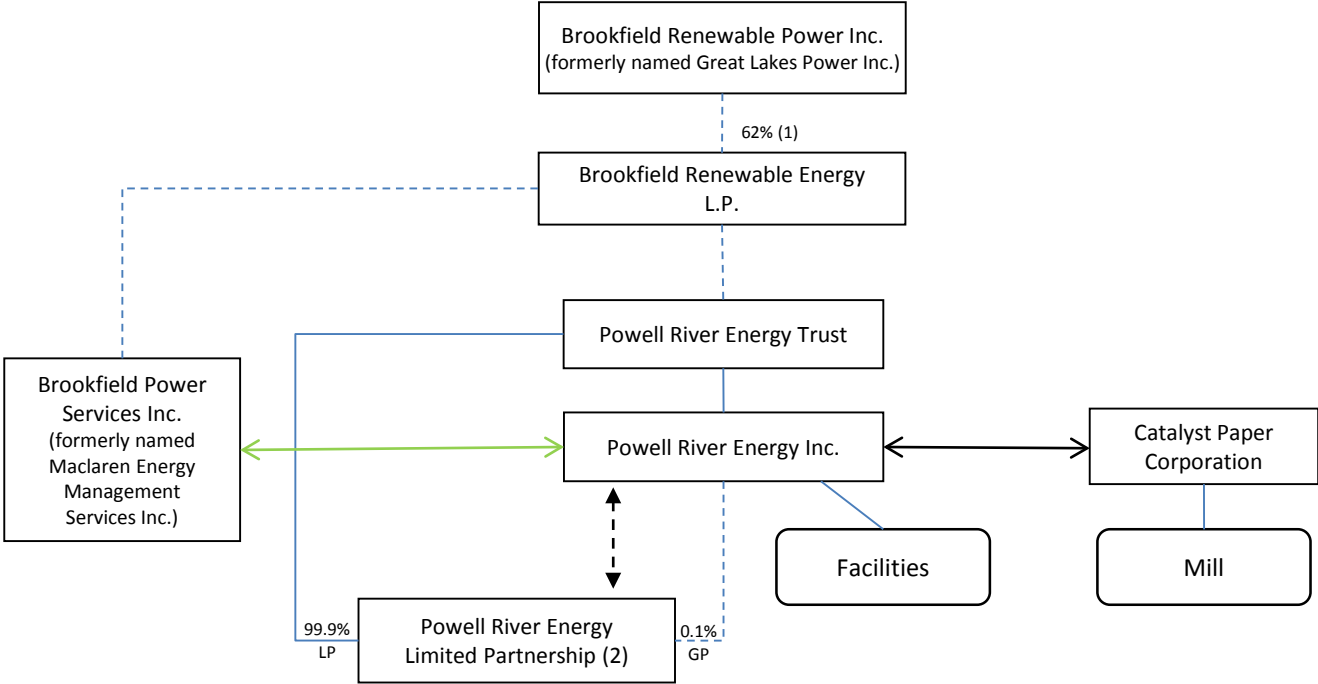


- Direct ownership or partner
- - - Indirect ownership or partner
- ↔ Power Purchase Agreement
- ↔ Secondary Power Purchase Agreement
- ↔ Operating and Maintenance Agreement for the facilities

Ownership is 100% unless otherwise indicated

(1) Remaining interests are held by Norske Skog Canada Limited which later amalgamated with Pacifica Papers Inc. and changed its name to Catalyst Paper Corporation on October 2005

New Corporate Structure



- Direct ownership or partner
- - - Indirect ownership or partner
- ↔ Power Purchase Agreement
- ↔ Secondary Power Purchase Agreement
- ↔ Operating and Maintenance Agreement for the facilities

Ownership is 100% unless otherwise indicated

(1) Remaining interest owned by the public
 (2) Powell River Energy Limited Partnership may be replaced by a Wholesale Marketing Affiliate which would be indirectly wholly owned subsidiary of Brookfield Renewable Power Inc.

Schedule D – Minister's Order M-22-0101

MINISTER'S ORDER NO. M-22-0101

IN THE MATTER OF THE SALE, PURCHASE OR PRODUCTION OF A POWER SERVICE AND AN EXEMPTION FROM THE PROVISIONS OF PART 3 AND SECTION 71 OF THE UTILITIES COMMISSION ACT, R.S.B.C. 1996, c. 473, AS AMENDED ("THE ACT")

WHEREAS, Pacifica Power Co. Ltd. ("Powerco"), a wholly-owned subsidiary of Pacifica Papers Inc. ("Pacifica"), owns hydroelectric generation and transmission facilities (the "Power Facilities") with a combined installed nominal capacity of 82 MW on Powell River and at Lois Lake, British Columbia which are used to generate electricity for the use by Pacifica in its pulp and paper mill (the "Mill") at Powell River, British Columbia;

AND WHEREAS, Pacifica has agreed to sell (the "Sale") an interest in the Power Facilities to Powell River Energy Inc. ("PREI"), a company incorporated under the laws of Canada, through a sale of Powerco and subsequent reorganization, following which the Power Facilities will be owned by PREI and the economic interest in PREI will be owned on an approximately even basis, as between Pacifica and Powell River Energy Trust ("PRET");

AND WHEREAS, PREI and Pacifica, as general partner for and on behalf of Pacifica Papers Co. Limited Partnership ("PPLP"), is entering into a power purchase agreement which sets forth and governs the terms and conditions of the purchase and sale of energy generated by the Power Facilities from PREI to Pacifica (the "Power Purchase Agreement");

AND WHEREAS, Maclaren Energy Management Services Inc. ("Maclaren") will operate and manage the Power Facilities on behalf of PREI;

AND WHEREAS, Pacifica, PREI and PRET have formed Powell River Energy Limited Partnership (the "Partnership") for the purpose of marketing and selling to public utilities in the Province subject to Part 3 of the Act electricity generated by PREI which from time to time may not be needed or used in the Mill operations, subject to the circumstances set forth in sections 2(b) to (d), (e)iii (f) and 3 ("Surplus Power");

AND WHEREAS, the Partnership may also market and sell Surplus Power to participants in the wholesale electricity market who are not public utilities subject to Part 3 of the Act ("Wholesale Customers");

AND WHEREAS, PREI will produce a power service as defined in section 22 (1) of the Act, namely electricity generated at the Power Facilities (the "Power Service"), and will sell

- (a) the Power Service to Pacifica for the continued use by Pacifica, on its own behalf and for and on behalf of PLPP, in the Mill, and
- (b) Surplus Power, directly or indirectly through the Partnership, to public utilities in the Province or to Wholesale Customers;

AND WHEREAS the Sale will permit Pacifica to invest approximately \$100,000,000 in the Mill over the term of the Order;

AND WHEREAS following the Sale, PREI will invest in excess of \$35,000,000 in the Power Facilities over the term of the Order;

AND WHEREAS, pursuant to section 22 of the Act, the Minister of Employment and Investment (the "Minister") is empowered to exempt persons who produce, purchase or sell a power service and their equipment, facilities, plant, project or system from any or all of the provisions of Part 3 and section 71 of the Act;

AND WHEREAS, the Minister considers that it is in the public interest, among other things, to facilitate the investments mentioned above, that the exemptions in this Order be made;

NOW THEREFORE, the Minister pursuant to section 22 of the Act, hereby makes the following Order:

1 The following exemptions are made:

(a) PREI, Maclaren and the Power Facilities are exempt from Part 3 of the Act, in respect of the production and sale of

- (i) the Power Service to any of Pacifica and PPLP, and their affiliates, successors or assigns that acquire a controlling interest in the Mill (collectively with Pacifica and PPLP, the "Pacifica Parties") for use in the Mill;
- (ii) Surplus Power to public utilities and Wholesale Customers, and
- (iii) Surplus Power to the Partnership for marketing and sale to public utilities and to Wholesale Customers;

(b) the following persons are exempt from section 71 of the Act:

- (i) PREI in respect of an energy supply contract, as defined in section 68 of the Act, for the sale of the Power Service to any of the Pacifica Parties, the Partnership and for the sale of Surplus Power to Wholesale Customers;
- (ii) any of the Pacifica Parties, and the Partnership, in respect of an energy supply contract, as defined in section 68 of the Act, for the purchase of the Power Service from PREI, and Wholesale Customers for the purchase of Surplus Power from PREI;
- (iii) the Partnership in respect of an energy supply contract, as defined in section 68 of the Act, for the sale of the Surplus Power to Wholesale Customers;
- (iv) Wholesale Customers in respect of an energy supply contract, as defined in section 68 of the Act, for the purchase of Surplus Power from the Partnership or from PREI.

2. The exemptions in this Order are subject to the condition that the Minister, at the Minister's sole discretion, may rescind all or part of the exemptions referred to in section 1, if any of the following requirements are contravened:
- (a) without the consent of the Minister, which consent will not be unreasonably withheld,
 - (i) PREI will not dispose of the Power Facilities or any interest in them, and
 - (ii) Pacifica will not dispose of its 50 percent economic interest or of its majority shareholding interest in PREI to any person other than: (1) PRET pursuant to the terms of the agreements between Pacifica, PREI and PRET; or (2) in conjunction with the sale of the Mill to a third party purchaser that assumes Pacifica's obligations under the Power Purchase Agreement,except in connection with the granting of security to lenders and the realization of such security by such lenders;
 - (b) during the ten-year period commencing at the date of this Order,
 - (i) PREI will sell all of the available energy generated by the Power Facilities to the Pacifica Parties, and
 - (ii) the Pacifica Parties will make all of that energy available for the use of the Mill,unless such energy is not needed in the ordinary course of the Mill's business;
 - (c) during the ten-year period commencing as at the date of this Order, the Pacifica Parties will purchase, for the use of the Mill all of the available energy generated by the Power Facilities from PREI, and will purchase the energy in priority to purchasing energy from B.C. Hydro, unless such energy is not needed in the ordinary course of the Mill's business;
 - (d) during the ten year period commencing at the date of this Order, the electricity generated by the Power Facilities will be made available to the Mill before any of the generated electricity from the Power Facilities is made available to others, unless such energy is not needed in the ordinary course of the Mill's business;
 - (e) notwithstanding paragraphs (b) to (d), the written arrangements under which the Power Service will be made available to the Pacifica Parties for the use of the Mill
 - (i) will be substantially the same as those provided to the Ministry of Employment and Investment before the signing of this Order,
 - (ii) will be supplied by Pacifica to the Minister as soon as practicable after they have been entered into, and

(iii) will not be materially amended or terminated, during the ten-year period commencing at the date of this Order, without the prior written consent of the Minister, which consent will not be unreasonably withheld, but the consent of the Minister is not required if the amendment or termination of the written arrangements is due to

(A) a bona fide event of default in respect of a party's obligations thereunder, which has not been cured in accordance with the written arrangements between the parties, by the defaulting party, acting in good faith and using all commercially reasonable efforts to do so, or any party acting on its behalf or under its authority, or

(B) the occurrence of an act of insolvency or bankruptcy by a party to the written arrangements unless there is a reasonable possibility that a receiver will continue to operate the Mill or the Power Facilities, and take and pay for, or provide the Power Service according to the written arrangements and provide reasonable security for payment for the Power Service;

(f) subject to the occurrence of any events referred to in section 2 (e) (iii) (A) and (B), commencing on the 10th anniversary of this Order, PREI will offer annually for sale to the Pacifica Parties, before offering it to anyone else, the energy generated by the Power Facilities for the use of the Mill, on terms and conditions reasonably consistent with those in the written arrangements in place during the first ten years of this Order and at rates equal to the greater of

(i) \$34.95 per megawatt-hour plus 20 percent of the annual increase in the Consumer Price Index for Canada calculated annually from the date of this Order;

(ii) rates then in effect and available to comparable large industrial users of power within British Columbia and including those offered by any utility whose service area includes the Mill.

3 The requirements in section 2(b) to (d) and (f) are subject to

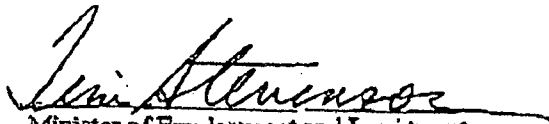
(a) events of force majeure, which do not include lack of finances, loss of markets, inability to perform due to the financial condition of exempted persons, or labour disturbances;

(b) temporary suspensions or reductions due to labour disturbances and commercial contingencies related to the purchase and sale of energy as set forth in the written arrangements in respect thereof between the parties provided that such arrangements do not defeat the over all intent of section 2 (b) to (d), and

(c) the occurrence of any events referred to in section 2 (e) (iii) (A) and (B).

4 . Without prejudice to PREI's ability to apply to extend, renew or modify this Order, the exemptions in this Order end, and this Order is rescinded, 20 years following the date of this Order.

Ordered this 30th day of January, 2001


Minister of Employment and Investment

Schedule E – Catalyst Letter of Support



May 20, 2016

Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, British Columbia
Canada V7B 1C3

Tel: 604 247 4400
Fax: 604 247 0512

Commission Secretary
British Columbia Utilities Commission
6th Floor - 900 Howe Street
Vancouver, B.C. V6Z 2N3

Attention: Laurel Ross

Dear Ms. Ross:

Catalyst Paper Corporation ("**Catalyst**") is filing this letter in support of the application filed by Powell River Energy Inc. ("**PREI**") for exemptions under section 88(3) of the *Utilities Commission Act* (the "**Application**").

As explained in the Application, Catalyst owns and operates a pulp and paper mill in Powell River, British Columbia, to which PREI delivers all of the electricity generated from its two nearby hydroelectric generating stations.

PREI has consulted with Catalyst regarding the Application, particularly in its effort to extend the existing exemptions granted by Ministerial Exemption Order No. M-22-0101. Catalyst has reviewed the Application and supports the exemptions requested by PREI for the reasons given.

Yours truly,

A handwritten signature in cursive script, appearing to read "Pat Sakai".

Pat Sakai
Treasurer and Director Taxation
Catalyst Paper Corporation

Schedule F – Draft Commission Order

IN THE MATTER OF

the *Utilities Commission Act*, RSBC 1996, Chapter 473

and

Powell River Energy Inc.

An Exemption pursuant to section 88(3) of the *Utilities Commission Act*

BEFORE: [Name], Commissioner [Date], 2016
[Name], Commissioner
[Name], Commissioner

ORDER

WHEREAS:

A. In this Order,

- a. "2016 PPA" means the power purchase agreement between PREI and Catalyst, effective 1 February 2016 and as amended from time to time, under which PREI sells electricity to Catalyst for use at the PR Mill.
- b. "2016 Section 22 Exemption Regulation" means the exemption regulation issued by the Minister under section 22 of the Act on [DATE 2016] exempting PREI, Brookfield Power, and Catalyst from Part 3 and section 71 of the Act according to the terms and conditions set out in that regulation.
- c. "Act" means the *Utilities Commission Act*.
- d. "Affiliate" has the same meaning as "affiliate" in the British Columbia *Business Corporations Act*.

- e. "Application" means the application filed by PREI with the Commission on 30 May 2016 requesting exemptions under section 88 of the Act.
- f. "Brookfield Power" means Brookfield Power Services Inc. and its successors and assigns.
- g. "Catalyst" means Catalyst Paper Corporation and its successor and assigns.
- h. "Energy Supply Contract" has the same meaning as "energy supply contract" under the Act.
- i. "Minister's Order M-22-0101" means Minister's Order M-22-0101 issued by the Minister of Employment and Investment in 2001 under section 22 of the Act.
- j. "Power Facilities" means the hydroelectric generation, transmission and distribution facilities together with all related equipment, works and undertakings owned or operated by PREI in the vicinity of Powell River, British Columbia, for the generation, transmission and distribution of electricity, and includes
 - i. two hydroelectric generating stations – Powell and Lois – each with two generating units, and
 - ii. all related dams, powerhouses, turbines, generators, spill gates, penstocks, electrical equipment, power lines, and other associated structures and equipment.
- k. "Public Utility" has the same meaning as "public utility" under the Act.
- l. "PR Mill" means the Catalyst's pulp and paper mill in the vicinity of Powell River, British Columbia.
- m. "PREI" means Powell River Energy Inc. and its successor and assigns.
- n. "PRELP" means Powell River Energy Limited Partnership and its successor and assigns.

- o. "Responsible Minister" means the minister responsible for the administration of the Hydro and Power Authority Act.
 - p. "Surplus Power" means electricity generated by PREI at the Power Facilities that from time to time may not be needed or used at the PR Mill.
 - q. "Wholesale Customer" means a participant in the wholesale electricity market who is not a public utility subject to Part 3 of the Act.
 - r. "Wholesale Marketing Affiliate" means an Affiliate of PREI to whom PREI will sell Surplus Power for resale by the Affiliate into the wholesale electricity market.
- B. Minister's Order M-22-0101 exempts PREI, certain entities affiliated with PREI, Catalyst, the Power Facilities, and the purchasers of Surplus Power from regulation under the Act in relation to the generation, transmission and sale of electricity by PREI to Catalyst for use at the PR Mill, or for the sale of Surplus Power to Public Utilities or to Wholesale Customers.
- C. Under the 2016 PPA, PREI agreed to sell the electricity generated at the Power Facilities to Catalyst for use at the PR Mill, according to the terms and conditions of the 2016 PPA. When Catalyst does not take the PREI generation at the PR Mill, PREI may sell the Surplus Power to Wholesale Customers or public utilities
- D. PREI wishes to extend the exemptions granted by Minister's Order M-22-0101
- a. to accommodate the renewal of the 2016 PPA beyond 31 January 2021, and
 - b. to allow PREI to sell Surplus Power to a Wholesale Marketing Affiliate, in place of PRELP for resale into the wholesale electricity market.
- E. On 31 May 2016, PREI applied under section 88(3) of the Act for exemptions from Part 3 and section 71 of the Act.
- F. Concurrent with the Application, PREI has asked the Minister to issue new exemptions under section 22 of the Act to exempt PREI, Brookfield Power (the operator of the Power

Facilities), and Catalyst from Part 3 and section 71 of the Act, to extend certain exemptions granted by Minister's Order M-22-0101.

- G. The exemptions under section 88(3) of the Act are necessary to complement the new exemptions being granted by the Minister under section 22, so all the exemptions granted by Order M-22-0101 may continue.
- H. Section 88(3) of the Act states the Commission may, on conditions it considers advisable, with the advance approval of the minister responsible for the administration of the *Hydro and Power Authority Act* exempt a person, equipment or facilities from the application of all or any provisions of the Act.
- I. The Commission has considered the Application and is satisfied that an order, under section 88(3) of the Act, granting the exemptions set out in this Order is in the public interest.
- J. By [**Minister's document**] dated [**date**], 2016, the Responsible Minister granted advance approval to the Commission to grant the exemptions set out in this Order.

NOW THEREFORE the British Columbia Utilities Commission orders as follows:

1. Pursuant to section 88(3) of the Act, the Commission exempts
 - a. the following persons from section 71 of the Act
 - i. PRELP and any Wholesale Marketing Affiliate who enters into an Energy Supply Contract with PREI for
 - the purchase of Surplus Power from PREI; and
 - any subsequent sale of that Surplus Power to a Public Utility or a Wholesale Customer;
 - ii. any Wholesale Customer who purchases Surplus Power from PREI, PRELP, Brookfield Power, or a Wholesale Marketing Affiliate; and
 - b. the Power Facilities from Part 3 of the Act, except for sections 25, 38, 42 and 4.

2. The exemptions granted by this order are subject to the following conditions
 - a. PREI will report in writing to the Commission annually, within 90 days of PREI's fiscal year end, the following information for the reporting year
 - i. any material changes to the Power Facilities, and
 - ii. a list of the customers to whom PRELP or any other Wholesale Marketing Affiliate sold Surplus Power.

DATED at the City of Vancouver, in the Province of British Columbia, this [**day**] day of [**month**] 2016.

BY ORDER

[**Name**]

Commissioner