

CONSOLIDATED FINANCIAL STATEMENTS 2009

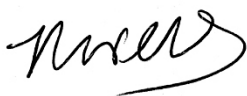
MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 12, 2009. The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

The consolidated financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The Audit & Risk Management Committee also recommends the appointment of external auditors to the Board of Directors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.



R.G. (Bob) Elton

President and Chief Executive Officer



Charles Reid

Executive VP Finance & Chief Financial Officer

Vancouver, Canada

May 12, 2009

AUDITORS' REPORT

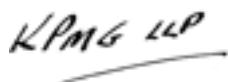
The Lieutenant Governor in Council, Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2009 and the consolidated statements of operations, comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at and for the year ended March 31, 2008, prior to the adjustments relating to the change in accounting policy for derivative commodity trading gains and losses described in Note 2 and the correction of presentation errors in derivative commodity assets and liabilities as described in Note 21 to the financial statements, were audited by another firm of chartered accountants who expressed an opinion without reservation on those statements in their audit report dated May 9, 2008. We have audited the adjustments to the 2008 financial statements as described in Notes 2 and 21 to the consolidated financial statements and, in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.



Chartered Accountants

Vancouver, Canada

May 12, 2009

CONSOLIDATED STATEMENT OF OPERATIONS

(Revised Note 2)

<i>for the years ended March 31 (in millions)</i>	2009	2008
Revenues		
Domestic	\$ 2,814	\$ 2,944
Trade	1,455	1,266
	4,269	4,210
Expenses		
Energy Costs:		
Domestic	1,236	948
Trade	1,157	1,109
Operations	394	517
Maintenance	366	305
Administration	155	120
Taxes	167	153
Amortization (Note 7)	394	368
	3,869	3,520
Operating Income	400	690
Financial Charges (Note 8)	472	463
(Loss) Income Before Regulatory Account Transfers	(72)	227
Net Change in Regulatory Accounts (Note 5)	438	142
Net Income	\$ 366	\$ 369

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>for the years ended March 31 (in millions)</i>	2009	2008
Net Income	\$ 366	\$ 369
Other Comprehensive (Loss) Income (Note 17)	(98)	76
Comprehensive Income	\$ 268	\$ 445

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>for the years ended March 31 (in millions)</i>	2009	2008
Retained Earnings, Beginning of Year	\$ 1,865	\$ 1,784
Net Income	366	369
Accrued Payment to the Province	—	(288)
Retained Earnings, End of Year	\$ 2,231	\$ 1,865

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(Restated Note 21)

as at March 31 (in millions)

	2009	2008
ASSETS		
Property, Plant and Equipment, Net (Note 9)	\$ 11,745	\$ 10,743
Current Assets		
Cash and cash equivalents	190	22
Current portion of sinking funds (Note 11)	2	506
Accounts receivable and accrued revenue	713	537
Inventories (Note 4)	178	83
Prepaid expenses	170	99
Current portion of derivative financial instrument assets	836	559
	2,089	1,806
Other Assets and Deferred Charges		
Intangible assets (Note 10)	395	411
Sinking funds (Note 11)	113	89
Employee future benefits (Note 16)	337	295
Regulatory assets (Note 5)	1,358	933
Derivative financial instrument assets	331	170
	2,534	1,898
	\$ 16,368	\$ 14,447
LIABILITIES AND EQUITY		
Long-Term Debt (Note 12)		
Long-term debt net of sinking funds	\$ 6,996	\$ 6,957
Sinking funds presented as assets	113	89
	7,109	7,046
Current Liabilities		
Current portion of long-term debt, net of current sinking funds	2,329	584
Current portion of sinking funds presented as assets	2	506
Current portion of long-term debt (Note 12)	2,331	1,090
Accounts payable and accrued liabilities	1,272	1,266
Current portion of derivative financial instrument liabilities	877	561
	4,480	2,917
Other Liabilities		
Regulatory liabilities (Note 5)	342	361
Deferred contributions (Note 14)	1,046	982
Derivative financial instrument liabilities, long-term	195	249
Other long-term liabilities (Note 15)	1,007	971
	2,590	2,563
Shareholder's Equity		
Retained earnings	2,231	1,865
Accumulated other comprehensive income (Note 17)	(42)	56
	2,189	1,921
	\$ 16,368	\$ 14,447

Commitments and Contingencies (Note 18)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:



Mossadiq S. Umedaly
Chairman



Tracey L. McVicar
Chair, Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>for the years ended March 31 (in millions)</i>	2009	2008
Operating Activities		
Net income	\$ 366	\$ 369
Regulatory account transfers	(488)	3
Adjustments for non-cash items:		
Amortization of regulatory accounts (Note 5)	59	84
Amortization expense	394	368
Foreign exchange translation (gains) losses	33	(17)
Unrealized (gains) losses on mark-to-market	(18)	27
Other items	(22)	(11)
	324	823
Changes in non-cash working capital:		
Accounts receivable and accrued revenue	(31)	(24)
Accounts payable and accrued interest	128	26
Prepaid expenses	(72)	12
Inventories	(95)	(1)
	(70)	13
Cash provided by operating activities	254	836
Investing Activities		
Property, plant and equipment and intangible asset expenditures	(1,384)	(1,068)
Deferred contributions	97	100
Other items	(17)	(17)
Cash used in investing activities	(1,304)	(985)
Financing Activities		
Bonds		
Issued	352	830
Retired	(94)	(542)
Revolving borrowings	687	159
Sinking fund withdrawals	509	143
Debt issue and related costs	(2)	—
Payment to the Province	(288)	(331)
Settlement of derivative instruments	54	(96)
Cash provided by financing activities	1,218	163
Increase in cash and cash equivalents	168	14
Cash and cash equivalents, beginning of year	22	8
Cash and cash equivalents, end of year	\$ 190	\$ 22
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 492	\$ 512

See accompanying notes to consolidated financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PURPOSE

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown Corporation of the Province of British Columbia (the Province) by enactment of the *Hydro and Power Authority Act*. As directed by the *Hydro and Power Authority Act*, BC Hydro's mandate is to generate, manufacture, distribute and supply power. BC Hydro's corporate purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation (see Note 5) by the British Columbia Utilities Commission (BCUC) which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation and distribution facilities in the province of British Columbia. BC Hydro also owns transmission facilities in the province of British Columbia that are operated by British Columbia Transmission Corporation (BCTC), an independent Crown Corporation of the Province.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of BC Hydro and its principal wholly-owned operating subsidiaries Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd., collectively with BC Hydro (the Company). All intercompany transactions and balances are eliminated upon consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities and commitments at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to management estimates and assumptions include the determination of the allowance for doubtful accounts, the fair value of sinking funds and derivative financial instruments, the actuarial assumptions used to value the employee future benefit plans, the useful lives of property, plant and equipment and intangible assets, amounts for accrued liabilities and contingencies, and the accrual for unbilled revenue at period end. Actual results could differ from these estimates.

REGULATORY ACCOUNTING

BC Hydro is regulated by the BCUC and both entities are subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the BCUC. Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Calculation of its revenue requirements and rates charged to customers are established through applications filed with and approved by the BCUC.

BC Hydro applies various accounting policies that differ from GAAP for enterprises that do not operate in a rate-regulated environment (see Note 5). Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application to, and approval by, the BCUC. When a deferral account has been or will be applied for, and, in management's estimate, acceptance of deferral treatment by the BCUC is considered probable, BC Hydro defers such costs in advance of a final decision of the BCUC. If the BCUC subsequently denies the application for regulatory treatment, the remaining deferred amount is recognized in net income.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

REVENUES AND ENERGY COSTS

Domestic revenues comprise sales to customers within the Province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade.

Energy trading contracts that meet the definition of a financial or non-financial derivative are accounted for on a fair value basis whereby any realized gains and losses and unrealized changes in the fair value are recognized in trade revenues in the period the change occurred.

Energy trading and other contracts which do not meet the definition of a derivative are accounted for on an accrual basis whereby the realized gains and losses are recognized as revenue as the contracts are settled. Such contracts are considered to be settled when, for the sale of products, the significant risks and rewards of ownership transfer to the buyer, and for the sale of services, those services are rendered.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

FOREIGN CURRENCY TRANSLATION

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Exchange gains or losses arising from translation of foreign denominated monetary balances and transactions are reflected in finance charges in the statement of operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Property, plant and equipment in service include the cost of plant and equipment financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to amortization.

Unfinished construction consists of costs of property, plant and equipment that are under construction or not ready for service. Costs are transferred to property, plant and equipment in service when the constructed asset is substantially complete and capable of operation at a pre-determined significant level of capacity.

Property, plant and equipment in service are amortized on an individual or pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of property, plant and equipment are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	7 – 20
Computer hardware	2 – 10
Service vehicles	7 – 20
Sundry	20 – 45

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

INTANGIBLE ASSETS

Intangible assets are recorded at cost. Intangible assets with indefinite useful lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events indicate that the asset may be impaired.

Intangible assets with finite useful lives are amortized over their useful lives on a straight line basis. The expected useful lives, in years, are as follows:

Software	2 – 10
Land Rights	20
Clearings	100
Sundry	10 – 20

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property, plant and equipment and amortized intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and units of a money market fund that are carried at fair value.

INVENTORIES

Inventories are comprised of materials and supplies and natural gas and are valued at the lower of weighted average cost and net realizable value. Cost of materials and supplies includes invoiced costs and directly attributable costs of acquiring the inventory.

FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

BC Hydro accounts for its financial instruments in accordance with Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified or designated as “held-for-trading”, or classified as “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities”. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition. All regular-way purchases or sales of financial assets are accounted for on a settlement date basis.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in other comprehensive income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method of amortization. Derivatives, including embedded derivatives that are not closely related to the host contract and must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheet. The classification of financial instruments is described in Note 13.

DERIVATIVE FINANCIAL INSTRUMENTS

BC Hydro and its subsidiaries use derivative financial instruments to manage interest rate and foreign exchange risks related to debt and exposure to electricity and natural gas commodity market prices.

Derivative financial instruments are classified as "held-for-trading" unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded as either an asset or liability with changes in fair value recognized in net income. Gains or losses from financial derivatives related to commodity prices are recognized in trade revenues. Gains or losses from financial derivatives related to foreign currency exchange rates are recognized in finance charges and domestic revenues.

Derivative financial instruments are used by BC Hydro to manage economic exposure to market risks relating to commodity prices, foreign currency exchange rates and interest rates. BC Hydro's policy for domestic operations is not to utilize derivative financial instruments for speculative purposes.

For energy trading activities and certain liability management derivatives that are not accounted for as hedges, mark-to-market accounting is applied. For energy trading, open trade positions that are derivative commodity instruments are recorded at fair value and recorded as assets or liabilities in the balance sheet. The changes in fair value of open positions, primarily resulting from changes in market prices subsequent to the transaction date, are recognized as gains or losses in the period of change. For energy trading activities, the gains or losses are included in trade revenues. For liability management activities, the related gains or losses are included in finance charges. For foreign currency exchange risk associated with natural gas commodities, the related gains or losses are included in domestic revenues.

HEDGES

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for unrealized gains or losses attributable to the hedged risk and recognized in net income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which is also recorded in net income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to net income over the remaining term of the original hedging relationship, using the effective interest method of amortization.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2009 AND 2008

the hedged item. When hedge accounting is discontinued, the cumulative gain or loss previously recognized in accumulated other comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset or liability, the amount recognized in accumulated other comprehensive income is transferred to the carrying amount of the asset or liability when it is recognized. In other cases the amount recognized in accumulated other comprehensive income is transferred to net income in the same period that the hedged item affects net income.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the hedging relationship is discontinued, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

FAIR VALUE

The fair value of financial instruments and energy trading positions reflect changes in the level of commodity market prices, interest and foreign exchange rates. Fair value is determined based on exchange or over-the-counter quotations. Where no such information is available, fair value is established through pricing models using inputs based on observable market data and reflects the amount that BC Hydro expects it would receive or pay to terminate the position at the date that the value is established.

Fair value amounts reflect management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of future prices and foreign exchange rates, time value, counterparty and own credit risk, and volatility. The assumptions used in establishing fair value amounts could differ from actual prices and the impact of such variations could be material.

DEFERRED REVENUE

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US\$22 million each year for a 35-year period ending in fiscal 2021 and US\$100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

DEFERRED CONTRIBUTIONS

Contributions in aid of construction are amounts paid by certain customers toward the cost of property, plant and equipment required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The contributions were made to assist in financing the construction of the dams. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation is incurred at the present value of the estimated future costs when a reasonable estimate of the fair value can be made. When a liability is initially recorded, BC Hydro capitalizes the costs by increasing the carrying value of the associated long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over the useful life of the associated asset. Actual costs incurred upon settlement of an asset retirement obligation are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in earnings at that time.

DEFINED BENEFIT PLANS

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs. For the purpose of calculating the return on plan assets the assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over ten per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 11 years (2008 – 11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

ENVIRONMENTAL EXPENDITURES AND LIABILITIES

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. The objective is to minimize the impact on the quality of the natural and social environment, providing enhancements wherever practical.

Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded items.

TAXES

BC Hydro pays local government taxes and grants in lieu to municipalities and regional districts. As a Crown Corporation, BC Hydro is exempt from Canadian federal and provincial income taxes.

COMPARATIVE FIGURES

Certain amounts in the prior year's statements related to derivative financial instrument assets and liabilities, employee future benefits, accrued liabilities and other long-term liabilities have been reclassified to conform to the current year's presentation.

NOTE 2: CHANGE IN ACCOUNTING POLICY AND ADOPTION OF NEW ACCOUNTING STANDARDS

CHANGE IN ACCOUNTING POLICY

BC Hydro's subsidiary Powerex has elected to change its accounting policy for recording revenues and related costs for physical derivative natural gas transactions. Under the previous accounting policy, settlements of derivative financial instruments involving the sale or purchase of physical natural gas was reported on a gross basis in the income statement as sales and cost of energy, respectively. As these contracts are considered derivative financial instruments, Powerex has determined it is more representative to present the revenues and related costs on a net basis upon settlement.

Prior year balances have been revised to conform with the new policy, resulting in a decrease in trade revenue and trade energy costs of \$644 million. There was no impact on net income and therefore, no adjustment to opening retained earnings.

ACCOUNTING STANDARDS ADOPTED IN 2009

Effective April 1, 2008, BC Hydro adopted four new CICA accounting standards: (a) Section 1535, *Capital Disclosures*; (b) Section 3031, *Inventories*; and (c) Section 3862, *Financial Instruments – Disclosures*; and Section 3863, *Financial Instruments – Presentation*. The main requirements of these new standards and the resulting financial statement impact are described below.

(a) Capital Disclosures

CICA Section 1535 requires disclosure of: (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about what the entity considers as capital; and (iii) whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. Refer to Note 6 for additional disclosures.

(b) Inventories

CICA Section 3031 provides significantly more guidance on the measurement of inventories, with an expanded definition of cost and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory write-downs. Refer to Note 4 for additional disclosures.

(c) Financial Instruments – Disclosures and Financial Instruments – Presentation

CICA Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation* replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The incremental disclosures required as a result of adopting these Sections can be found in Note 13. The transitional provisions provide that certain of the incremental disclosures need not be provided on a comparative basis in the year of adoption.

(d) Credit Risk and the Fair Value of Financial Assets and Liabilities

In January 2009, the CICA Emerging Issues Committee ("EIC") issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Liabilities*. EIC-173 provides guidance that an entity's own credit risk and the credit risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities. Adoption of this guidance is applied retrospectively without restatement of prior periods. For the year ended March 31, 2009, the revaluation of financial assets and liabilities resulted in a decrease in Net Income and Other Comprehensive Income of \$13 million and \$25 million, respectively. The adjustment to the April 1, 2008 opening balances for retrospective application of impacts prior to 2009 had no material effect on either opening Retained Earnings or Accumulated Other Comprehensive Income.

NOTE 3: FUTURE ACCOUNTING CHANGES

(a) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. IFRS will replace Canada's current Generally Accepted Accounting Principles (GAAP) for those enterprises. These include profit-oriented enterprises that are responsible to large or diverse groups of stakeholders, including government business enterprises, which would include crown corporations such as BC Hydro. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of the transition to IFRS on its consolidated financial statements.

(b) Goodwill and Intangible Assets

Effective April 1, 2009, the Company will adopt new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. It is anticipated that these changes will not have a material impact on the Company's consolidated financial statements.

(c) Accounting for Rate-Regulated Operations

In August 2007, the AcSB considered the comments received on its March 2007 Exposure Draft, "Rate-Regulated Operations," and decided to: (i) remove the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation; (ii) not withdraw from the Handbook all other recognition and measurement guidance relating specifically to rate-regulated operations; and (iii) retain AcG-19, *Disclosures by Entities Subject to Rate Regulation*, but to make consequential amendments to the Guideline as a result of the above changes. The changes are applicable prospectively to BC Hydro's fiscal year beginning on April 1, 2009. It is anticipated that these changes will not have a material impact on the Company's regulatory accounting practices.

NOTE 4: INVENTORIES

<i>(in millions)</i>	2009	2008
Materials and supplies	\$ 75	\$ 69
Natural gas trading inventories	103	14
Total	\$ 178	\$ 83

Effective April 1, 2008, the Company retrospectively adopted CICA Handbook Section 3031, *Inventories*, with reclassification of comparative prior period amounts. This new section requires that certain major spare parts and standby equipment be reclassified from inventory to property, plant and equipment. The new Handbook section also allows previously recorded impairment losses taken on inventory to be reversed if there is evidence that the net realizable value has subsequently been recovered. Materials and supplies inventories are carried at cost and during the year ended March 31, 2009 there were no write downs recorded to reduce these inventory items to their net realizable value. Due to significant decreases in forward gas prices, natural gas trading inventories have been written down to net realizable value as at March 31, 2009.

The Company includes certain major spare parts as property, plant and equipment and depreciates these assets over their useful lives. To meet the requirements of the new section, on adoption the Company reclassified approximately \$55 million in asset components previously classified as materials and supplies to property, plant and equipment, and this is reflected in the March 31, 2008 comparative figures.

NOTE 5: REGULATION

RATE REGULATION

On March 13, 2009, the BCUC issued its decision on BC Hydro's F2009/F2010 Revenue Requirements Application (RRA). The approved rate increases for fiscal 2009 and fiscal 2010 are 2.34 per cent and 8.74 per cent, respectively. The BCUC had previously approved an interim rate increase of 6.56 per cent for fiscal 2009.

The BCUC also confirmed the 0.5 per cent deferral account rate rider for fiscal 2009, and a 1 per cent deferral account rate rider for fiscal 2010 for the purpose of recovering a portion of the current balances in the Heritage Deferral Account, Non Heritage Deferral Account, Trade Income Deferral Account and BCTC Deferral Account (collectively the "deferral accounts"). The rate rider has an indefinite term. Recovery of the deferral accounts as approved by the BCUC from the rate rider in fiscal 2009 was \$14 million. The interim rate in place for fiscal 2009 was higher than the final rate approved by the BCUC and as a result, BC Hydro will issue refunds to customers as a credit to their accounts and these refunds are accrued for as at March 31, 2009.

Results for the period ended March 31, 2009 reflect the approved rate increase for fiscal 2009 and all other directives issued by the BCUC in its decision which affect fiscal 2009 results.

REGULATORY ACCOUNTS

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2009, the impact of regulatory accounting has resulted in an increase to net income of \$438 million (2008 - \$142 million increase).

<i>(in millions)</i>	2008	Transfers	Addition (Reduction)	Amortization	Net Change	2009
Regulatory Assets						
Heritage Deferral Account	\$ 78	—	274	(23)	251	\$ 329
Non-Heritage Deferral Account	52	43	(6)	(15)	(21)	74
BCTC Deferral Account	21	—	(6)	(6)	(12)	9
Demand-Side Management Programs	309	—	95	(42)	53	362
First Nation Negotiations, Litigation and Settlement Costs	360	13	32	(6)	26	399
Other Regulatory Accounts	113	(50)	115	7	122	185
Total Regulatory Assets	\$ 933	6	504	(85)	419	\$ 1,358
Regulatory Liabilities						
Future Removal and Site Restoration Costs	\$ 192	—	—	(20)	(20)	\$ 172
Trade Income Deferral Account	103	—	7	(30)	(23)	80
Foreign Exchange Gains and Losses	66	—	(33)	24	(9)	57
Other Regulatory Accounts	—	—	33	—	33	33
Total Regulatory Liabilities	\$ 361	—	7	(26)	(19)	342
Net Regulatory Asset	\$ 572	6	497	(59)	438	\$ 1,016

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<i>(in millions)</i>	2007	Accounting Policy Change and Other	Addition (Reduction)	Amortization	Net Change	2008
Regulatory Assets						
Heritage Deferral Account	\$ 178	\$ (2)	\$ (48)	\$ (50)	\$ (98)	\$ 78
Non-Heritage Deferral Account	209	—	(98)	(59)	(157)	52
BCTC Deferral Account	13	—	12	(4)	8	21
Demand-Side Management Programs	282	—	63	(36)	27	309
First Nation Negotiations, Litigation and Settlement Costs	122	4	237	(3)	234	360
Other Regulatory Accounts	70	—	35	8	43	113
Total Regulatory Assets	\$ 874	\$ 2	\$ 201	\$ (144)	\$ 57	\$ 933
Regulatory Liabilities						
Future Removal and Site Restoration Costs	\$ 210	\$ —	\$ —	\$ (18)	\$ (18)	\$ 192
Trade Income Deferral Account	203	—	(43)	(57)	(100)	103
Foreign Exchange Gains and Losses	16	17	18	15	33	66
Total Regulatory Liabilities	\$ 429	\$ 17	\$ (25)	\$ (60)	\$ (85)	\$ 361
Net Regulatory Asset	\$ 445	\$ (15)	\$ 226	\$ (84)	\$ 142	\$ 572

HERITAGE DEFERRAL ACCOUNT (HDA)

Under a Special Directive issued by the Province, the BCUC was directed to authorize BC Hydro to establish the HDA. This account is intended to mitigate the impact of certain variances between the forecasted costs in a revenue requirements application and actual costs of service associated with the Heritage Resources by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$251 million decrease in net income (2008 - \$98 million increase).

NON-HERITAGE DEFERRAL ACCOUNT (NHDA)

Under a Special Directive issued by the Province, BCUC approved the establishment of the NHDA, which is intended to mitigate the impact of certain cost variances between the forecasted costs in a revenue requirements application and actual costs related to energy acquisition and maintenance of BC Hydro's distribution assets by adjustment of net income. In its March 13, 2009 decision, the BCUC approved the deferral to the NHDA of cost of energy due to load variance against forecast, as well as the transfer of the fiscal 2007 Winter Storm Regulatory Account balance of \$43 million to the NHDA for recovery. In the absence of rate regulation, GAAP would require the inclusion of the cost variances deferred in the NHDA in operating results in the year in which they are incurred, which would have resulted in a \$21 million increase in net income (2008 - \$157 million increase).

BCTC DEFERRAL ACCOUNT

Under a Special Directive issued by the Province, variances that arise between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$12 million increase in net income (2008 - \$8 million decrease).

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DEMAND-SIDE MANAGEMENT PROGRAMS

Established under a regulatory order from the BCUC, demand-side management programs are designed to reduce the energy requirements on BC Hydro's system. Costs of the programs include materials, direct labour and applicable portions of administration charges, equipment costs, and incentives. Amounts are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, generally not in excess of ten years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2009, \$95 million of period costs were incurred and amortization of previously capitalized amounts totaled \$42 million (2008 - \$63 million and \$36 million, respectively). Consequently, net income would have been \$53 million lower than would have been recorded in the absence of rate regulation (2008 - \$27 million decrease).

FIRST NATION NEGOTIATIONS, LITIGATION AND SETTLEMENT COSTS

Established under a regulatory order, provisions for and costs incurred with respect to First Nation negotiations, litigation and settlements are deferred and costs incurred are amortized on a straight-line basis over a period of 10 years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2009, \$32 million (2008 - \$237 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled \$6 million (2008 - \$3 million). Consequently, net income would have been \$26 million lower than would have been recorded in the absence of rate regulation (2008 - \$234 million decrease).

OTHER REGULATORY ACCOUNTS

Included in other regulatory accounts are the following regulatory assets and liabilities: Foreign Exchange Gains and Losses Arising from the Translation of Specified Foreign Currency Financial Instruments, Site C Costs, Depreciation Study Adjustments, Contributions in Aid of Construction Amortization Variance, Procurement Enhancement Initiative costs, Capital Project Investigation costs and Smart Metering and Infrastructure project costs. All of these accounts have been approved by the BCUC through regulatory order, except for the Smart Metering and Infrastructure project costs for which BC Hydro applied to the BCUC for approval in May 2009.

In addition to the above accounts, in its March 13, 2009 decision on the F2009/2010 RRA, the BCUC approved new regulatory asset and liability accounts for the following:

- Employment Cost regulatory account for capturing variance between actual and planned net employment costs
- Amortization regulatory account for capturing differences between actual and planned amortization resulting from variances in capital additions
- Finance Charges regulatory account for differences between actual and planned finance charges
- Taxes regulatory account for the deferral of differences between forecast and actual school taxes and grants-in-lieu
- Storm Damage regulatory account for capturing the variance between actual storm-related costs and the average of the last five normal weather years
- GM Shrum Unit 3 Outage regulatory account for all incurred and future direct and indirect costs related to the Unit 3 failure.

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BC Hydro is carrying out a Home Purchase Offer Program (HPOP) for owners of certain residential properties located on BC Hydro's transmission right of way corridor located between Tsawwassen Substation and English Bluff Terminal Station. Purchase agreements for 104 properties totaling approximately \$62 million have been finalized and purchases are planned to be concluded by the end of September 2009. HPOP net costs will be recorded in a regulatory account per Direction No. 1 to the BCUC dated March 12, 2009 and will be recovered in future rates.

In 2009, \$89 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2008 - \$43 million decrease).

FUTURE REMOVAL AND SITE RESTORATION COSTS

As part of its October 2004 decision, BCUC ordered the establishment of a regulatory provision for future removal and site restoration costs. This account was established in 2006 by a one-time transfer of \$251 million from retained earnings. The costs of dismantling and disposal of property, plant and equipment will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

This liability has been recognized solely as a result of rate regulation as costs for future removal and site restoration have been established in excess of amounts required as asset retirement obligations. In the absence of rate regulation, it is likely that a liability would not be recognized. The amortization of previously capitalized amounts totaled \$20 million in the current year (2008 - \$18 million). Consequently, net income would be \$20 million lower than would have been recorded in the absence of rate regulation.

TRADE INCOME DEFERRAL ACCOUNT

Established under a Special Directive issued by the Province, this account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the net income of Powerex based on GAAP. The difference between the Trade Income forecast and actual Trade Income is deferred except for amounts arising from a net loss in Trade Income or the portion of Trade Income in excess of \$200 million.

In the absence of rate regulation, GAAP would require the inclusion of actual Trade Income to be reflected in operating results, regardless of the variance between forecast and actual amounts, which would have resulted in a \$23 million decrease in net income (2008 - \$100 million increase).

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of BCUC and operating results experienced during the year.

NOTE 6: CAPITAL MANAGEMENT

Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Capital requirements are consequently managed through the retention of equity subsequent to the Payment to the Province and the imposed requirement of maintaining a debt to equity ratio not exceeding 80:20.

BC Hydro monitors its capital structure on the basis of its debt to equity ratio. For this purpose, BC Hydro defines debt as revolving borrowings and interest-bearing borrowings less investments held in sinking funds and cash and cash equivalents. Effective April 1, 2008

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equity for regulatory purposes comprises retained earnings and accumulated other comprehensive income. In the prior year, equity for regulatory purposes comprised retained earnings, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction. The change was enacted by the Province on January 17, 2008.

BC Hydro manages its capital so as not to exceed the 80:20 debt to equity ratio as defined by the Province. During the year ended March 31, 2009, there were no changes in this approach to capital management.

The debt to equity ratio, based on equity as defined for regulatory purposes, at March 31, 2009 and March 31, 2008 was as follows:

<i>(in millions)</i>	2009	2008
Total long-term debt, net of sinking funds	\$ 9,325	\$ 7,541
Less: cash and cash equivalents	(190)	(22)
Net Debt	\$ 9,135	\$ 7,519
Retained earnings	2,231	1,865
Accumulated other comprehensive income	(42)	56
Deferred revenue	—	368
Contributions from the Columbia River Treaty	—	157
Contributions in aid of construction	—	825
Total Equity	\$ 2,189	\$ 3,271
Net Debt to Equity Ratio for Regulatory Purposes	81 : 19	70 : 30

Payment to the Province

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20. No payment will be made to the Province in 2009 (2008 - \$288 million).

NOTE 7: AMORTIZATION

<i>(in millions)</i>	2009	2008
Amortization of property, plant and equipment in service	\$ 359	\$ 338
Amortization of intangible assets	41	42
Amortization of deferred contributions	(33)	(31)
Property, plant and equipment written-off	6	12
Dismantling costs	20	18
(Gain) loss on sale, retirement and disposal of assets	1	(11)
Total	\$ 394	\$ 368

NOTE 8: FINANCE CHARGES

<i>(in millions)</i>	2009	2008
Interest on long-term debt	\$ 504	\$ 512
Sinking fund income	(8)	(25)
Foreign exchange (gains) losses	33	(17)
Other	(7)	29
	522	499
Less: Assigned to unfinished construction	(50)	(36)
Total	\$ 472	\$ 463

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

<i>(in millions)</i>	2009				2008			
	Property, Plant and Equipment			Net	Property, Plant and Equipment			Net
	in Service	Accumulated Amortization	Unfinished Construction	Book Value	in Service	Accumulated Amortization	Unfinished Construction	Book Value
Generation								
Hydraulic	\$ 5,988	\$ 2,067	\$ 354	\$ 4,275	\$ 5,730	\$ 1,978	\$ 303	\$ 4,055
Thermal	427	272	11	166	411	259	9	161
Diesel	49	27	5	27	49	25	—	24
	6,464	2,366	370	4,468	6,190	2,262	312	4,240
Lines	7,693	2,926	321	5,088	7,079	2,808	283	4,554
Substations	2,758	1,295	148	1,611	2,563	1,252	170	1,481
Other								
Land and buildings	445	197	49	297	407	189	41	259
Equipment	181	115	6	72	182	120	3	65
Computer hardware	72	45	58	85	62	40	28	50
Service vehicles	148	63	12	97	131	63	10	78
Sundry	21	10	16	27	28	16	4	16
	867	430	141	578	810	428	86	468
Total	\$ 17,782	\$ 7,017	\$ 980	\$ 11,745	\$16,642	\$ 6,750	\$ 851	\$ 10,743

NOTE 10: INTANGIBLE ASSETS

<i>(in millions)</i>	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	\$ 356	\$ 233	\$ 123	\$ 357	\$ 218	\$ 139
Clearing	178	60	118	178	58	120
Sundry	37	16	21	37	12	25
	571	309	262	572	288	284
Not Subject to Amortization						
Land Rights	133	—	133	127	—	127
Total	\$ 704	\$ 309	\$ 395	\$ 699	\$ 288	\$ 411

NOTE 11: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

<i>(in millions)</i>	2009		2008	
	Carrying Value	Weighted Average Effective Rate ¹	Carrying Value	Weighted Average Effective Rate ¹
Money market funds ²	\$ 2	0.2%	\$ 509	2.8%
Province and BC Crown Corporation bonds	74	4.3 %	54	4.7%
Federal and other provincial government securities	39	5.0 %	32	4.8%
Total	\$ 115		\$ 595	

¹ Rate calculated on market yield to maturity.

² Money market funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.

NOTE 12: LONG TERM DEBT AND DEBT MANAGEMENT

BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province.

The Board of Directors approved commercial paper borrowing program, which includes revolving borrowings, is limited to \$2,000 million. At March 31, 2009, the outstanding amount under the borrowing limit was \$1,691 million (2008 - \$996 million).

During fiscal 2009, BC Hydro issued bonds totaling \$352 million (2008 - \$830 million) with a weighted average effective interest rate of 4.6 per cent (2008 - 4.9 per cent) and a weighted average term to maturity of 19.2 years (2008 - 20.4 years).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity:

	2009				2008			
	Canadian	US	Total	Weighted Average Interest Rate ¹	Canadian	US	Total	Weighted Average Interest Rate ¹
<i>(dollar amounts in millions of Canadian dollars)</i>								
Maturing in fiscal:								
2009	\$ —	\$ —	\$ —	—	\$ 94	\$ —	\$ 94	10.1
2010	574	63	637	6.5	574	51	625	6.5
2011	150	—	150	6.5	150	—	150	6.5
2012	450	—	450	6.1	450	—	450	6.1
2013	200	—	200	4.8	200	—	200	4.8
2014	500	252	752	6.4	—	—	—	—
1-5 years	1,874	315	2,189	6.2	1,468	51	1,519	6.4
6-10 years	675	252	927	5.1	975	206	1,181	6.1
11-15 years	1,701	—	1,701	8.8	1,801	—	1,801	8.5
16-20 years	10	630	640	6.6	110	514	624	6.9
21-25 years	1,300	—	1,300	5.4	1,300	—	1,300	5.4
26-30 years	—	378	378	7.4	—	308	308	7.4
Over 30 years	350	—	350	5.0	200	—	200	4.9
Bonds and debentures	5,910	1,575	7,485	6.6	5,854	1,079	6,933	6.7
Revolving borrowings	1,691	—	1,691	1.0	996	—	996	3.4
	7,601	1,575	9,176		6,850	1,079	7,929	
Adjustments to carrying value resulting from hedge accounting	147	27	174		88	20	108	
Unamortized premium, discount, and issue costs	106	(16)	90		112	(13)	99	
	\$ 7,854	\$ 1,586	\$ 9,440		\$ 7,050	\$ 1,086	\$ 8,136	
Less: Current portion			2,331				1,090	
Long-term debt			\$ 7,109				\$ 7,046	

¹ The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments used to manage interest rate risk.

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The following interest rate contracts were in place at March 31, 2009 in an asset position of \$68 million (2008 – \$67 million). Floating rates are based on the effective rates at the balance sheet date and vary over time. Such contracts are used to hedge the impact of interest rate changes on debt.

<i>(dollar amounts in millions)</i>	2009	2008
Receive fixed, pay floating rate swaps		
Notional amount ¹	\$ 1,565	\$ 1,957
Weighted average receive rate	4.48%	4.57%
Weighted average pay rate	1.03%	3.83%
Weighted terms	3 years	4 years
Receive floating, pay fixed rate swaps		
Notional amount ¹	\$ 290	\$ 290
Weighted average receive rate	0.96%	4.01%
Weighted average pay rate	4.90%	4.90%
Weighted terms	4 years	5 years

¹ Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

The following foreign currency contracts were in place at March 31, 2009 in an asset position of \$14 million (2008 – liability of \$144 million) were in place at March 31, 2009. Such contracts are primarily used to hedge foreign dollar principal and interest payments.

<i>(dollar amounts in millions)</i>	2009	2008
Cross-Currency Swaps		
United States dollar to Canadian dollar – notional amount ¹	US \$200	US \$200
United States dollar to Canadian dollar – weighted average contract rate	1.45	1.45
Weighted remaining term	4 years	5 years

¹ Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

<i>(dollar amounts in millions)</i>	2009	2008
Foreign Currency Forwards		
United States dollar – notional amount ¹	US \$898	US \$767
United States dollar – weighted average contract rate	1.19	1.21
Weighted remaining term	16 years	17 years

¹ Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.

NOTE 13: FINANCIAL INSTRUMENTS

FINANCIAL RISKS

BC Hydro is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in commodity prices, interest rates and foreign currency exchange rates, as well as credit risks and liquidity risks. The nature of the financial risks and BC Hydro's strategy for managing these risks has not changed significantly from the prior period.

The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under Section 3862 of the CICA Handbook. However, for a complete understanding of the nature and extent of risks BC Hydro is exposed to, this note should be read in conjunction with BC Hydro's discussion of Risk Management found in the Management Discussion and Analysis section of the 2009 Annual Report.

(a) Credit Risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. BC Hydro is exposed to credit risk related to cash and cash equivalents, short-term and long-term investments, and derivative instruments. It is also exposed to credit risk related to accounts receivable arising from its day to day electricity and natural gas sales in and outside British Columbia. Maximum credit risk with respect to financial assets is limited to the carrying amount presented on the balance sheet with the exception of US dollar sinking funds classified as held-to-maturity and carried on the balance sheet at amortized cost of \$113. The maximum credit risk exposure for these US dollar sinking funds as at March 31, 2009 is its fair value of \$124 (refer to the table on Page 100). BC Hydro manages this risk through Board-approved credit risk management policies which contain limits and procedures to the selection of counterparties. Exposures to credit risks are monitored on a regular basis.

(b) Liquidity Risk

Liquidity risk refers to the risk that BC Hydro will encounter difficulty in meeting obligations associated with financial liabilities. BC Hydro manages liquidity risk by forecasting cash flows to identify financing requirements and by maintaining committed credit facilities. BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province. Cash from operations reduces BC Hydro's liquidity risk. BC Hydro does not believe that it will encounter difficulty in meeting its obligations associated with financial liabilities.

BC Hydro was previously subject to an overall borrowing limit imposed by legislation of \$8,800, net of sinking funds, as defined by the *Hydro Power and Authority Act*. This limit was repealed effective May 1, 2008.

(c) Market Risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk, such as changes in commodity prices and equity values. BC Hydro monitors its exposure to market fluctuations and may use derivative contracts to manage these risks, as it considers appropriate. Other than in its energy trading subsidiary Powerex, BC Hydro does not use derivative contracts for trading or speculative purposes.

i. Currency Risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. BC Hydro's currency risk is primarily with the US dollar.

The majority of BC Hydro's currency risk arises from long-term debt in the form of US dollar denominated bonds. Energy commodity prices are also subject to currency risk as they are primarily denominated in US dollars. As a result, BC Hydro's trade revenues and purchases of energy commodities, such as electricity and natural gas, and associated accounts receivable and accounts payable, are affected by the Canadian/US dollar exchange rate. In addition, all commodity derivatives and contracts priced in US dollars are also affected by the Canadian/US dollar exchange rate.

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BC Hydro actively manages its currency risk through a number of Board-approved policy documents. BC Hydro uses cross currency swaps and forward foreign exchange purchase contracts to achieve and maintain the Board-approved US dollar exposure targets.

ii. **Interest Rate Risk**

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. BC Hydro is exposed to changes in interest rates primarily through its variable rate debt and the active management of its debt portfolio including its related sinking fund assets and temporary investments. BC Hydro Board-approved debt management strategies include maintaining a percentage of variable interest rate debt within a certain range. BC Hydro enters into interest rate swaps to achieve and maintain the target range of variable interest rate debt.

iii. **Commodity Price Risk**

BC Hydro is exposed to commodity price risk as fluctuations in electricity prices and natural gas prices could have a materially adverse effect on its financial condition. Prices for electricity and natural gas fluctuate in response to changes in supply and demand, market uncertainty, and a variety of other factors beyond BC Hydro's control.

BC Hydro enters into derivative contracts to manage commodity price risk. Risk management strategies, policies and limits are designed to ensure BC Hydro's risks and related exposures are aligned with the Company's business objectives and risk tolerance. Risks are managed within defined limits that are regularly reviewed by the Board of Directors.

FINANCIAL INSTRUMENTS, INTEREST AND OTHER INCOME AND EXPENSE

The following table provides a comparison of carrying values and fair values for non-derivative financial instruments as at March 31, 2009:

<i>(in millions)</i>	March 31, 2009		March 31, 2008		Interest Income (Expense) recognized into income For the year ended March 31, 2009
	Carrying Value	Fair Value	Carrying Value	Fair Value	
Held for Trading:					
Cash and cash equivalents	\$ 190	\$ 190	\$ 22	\$ 22	\$ 3
Revolving borrowings – Cdn	(1,691)	(1,691)	(996)	(996)	(26)
Loans and Receivables:					
Accounts receivable and accrued revenue	\$ 713	\$ 713	\$ 537	\$ 537	\$ —
Available for Sale:					
Sinking funds – Cdn	\$ —	\$ —	\$ 506	\$ 506	\$ —
Sinking funds – US	\$ 2	\$ 2	\$ —	\$ —	\$ —
Held to Maturity:					
Sinking funds – US	\$ 113	\$ 124	\$ 89	\$ 98	\$ 5
Other Financial Liabilities:					
Accounts payable and accrued liabilities	\$ (1,272)	\$ (1,272)	\$ (1,266)	\$ (1,266)	\$ —
Long-term debt (including current portion due in one year)	\$ (7,749)	\$ (8,981)	\$ (7,140)	\$ (8,329)	\$ (476)

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For non-derivative financial assets and liabilities classified as held-for-trading, loans and receivables, available-for-sale, held-to-maturity and other financial liabilities, \$2 million has been recognized in net income for the period relating to changes in fair value. For loans and receivables, the carrying value approximates fair value and amortized cost due to the short term nature of these financial instruments. For available-for-sale financial assets, no amount has been recorded in other comprehensive income and no amount was removed from other comprehensive income and reported in net income for the period.

The fair value of derivative instruments, designated or not designated as hedges, was as follows:

<i>(in millions)</i>	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Designated Hedges Used to Manage Risk				
Associated with Long-term Debt:				
Foreign currency contracts (cash flow hedges for \$US denominated long-term debt)	\$ (1)	\$ (1)	\$ (148)	\$ (148)
Interest rate swaps (fair value hedges for debt)	83	83	73	73
	82	82	(75)	(75)
Non-Designated Hedges:				
Foreign currency contracts	3	3	—	—
Commodity derivatives	13	13	(4)	(4)
Embedded derivatives	(3)	(3)	(2)	(2)
	13	13	(6)	(6)
Total	\$ 95	\$ 95	\$ (81)	\$ (81)

Represented by:

	2009	2008
Current portion of derivative financial instrument assets	\$ 836	\$ 559
Current portion of derivative financial instrument liabilities	(877)	(561)
Derivative financial instrument assets	331	170
Derivative financial instrument liabilities, long-term	(195)	(249)
Total	\$ 95	\$ (81)

As at March 31, 2009 there were no non-designated interest rate swaps.

For the year ended March 31, 2009, a loss of \$3 million was recognized in finance charges related to the ineffective portion of designated cash flow hedges and fair value hedges. For designated cash flow hedges for the year ended March 31, 2009, a gain of \$151 million was recognized in other comprehensive income. For the year ended March 31, 2009, \$249 million was removed from other comprehensive income and reported in net income, offsetting foreign exchange losses recorded in the year.

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For derivatives not designated as hedging instruments, a gain of \$2 million was recognized in domestic revenue for the year ended March 31, 2009 with respect to operational hedges and embedded derivatives. A gain of \$1 million was recognized in finance charges for the year ended March 31, 2009 with respect to foreign currency contracts for cash management purposes. A gain of \$62 million was recorded in trade revenue for the year ended March 31, 2009 with respect to commodity derivatives.

DOMESTIC ELECTRICITY RECEIVABLES

A customer application and a credit check are required prior to initiation of services. For customers with no BC Hydro credit history, call centre agents ensure accounts are secured either by a credit bureau check, a cash security deposit, or a credit reference letter.

The value of domestic and trade accounts receivable, by age and the related provision for doubtful accounts are presented in the following tables.

DOMESTIC AND TRADE ACCOUNTS RECEIVABLE NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

(in millions)

Current	\$	465
Past due (30-59 days)		20
Past due (60-89 days)		5
Past due (more than 90 days)		4
		494
Allowance for doubtful accounts		(9)
Total	\$	485

At the end of each reporting period a review of the provision for doubtful accounts is performed. It is an assessment of the potential amount of domestic and trade accounts receivable which will not be paid by customers after the balance sheet date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions, and historical information. The following table presents a summary of the movement of the allowance for doubtful accounts.

(in millions)

Balance as at April 1, 2008	\$	(6)
Additions during the period		(3)
Amounts written off during the period		—
Balance as at March 31, 2009	\$	(9)

FINANCIAL ASSETS ARISING FROM BC HYDRO'S TRADING ACTIVITIES

A substantial majority of BC Hydro's counterparties associated with its trading activities are in the energy sector. This industry concentration has the potential to impact the Company's overall exposure to credit risk in that the counterparties may be similarly affected by changes in economic, regulatory, political, and other factors. The Company manages credit risk by authorizing trading transactions within the guidelines of the Company's risk management policies, by monitoring the credit risk exposure and credit standing of counterparties on a regular basis, and by obtaining credit assurances from counterparties to which they are entitled under contract.

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The Company regularly uses standard master netting agreements that allow for netting of exposures and often include margining provisions. In addition, the Company has credit loss insurance that covers most credit exposure associated with transactions that are delivered in the United States.

With respect to these financial assets, BC Hydro assigns credit limits for counterparties based on evaluations of their financial condition, net worth, regulatory environment, cost recovery mechanisms, credit ratings, and other credit criteria as deemed appropriate. Credit limits and credit quality are monitored periodically and a detailed credit analysis is performed at least annually. Further, BC Hydro has tied a portion of its contracts to master agreements that require security in the form of cash or letters of credit if current net receivables and replacement cost exposure exceed contractually specified limits. The following table outlines the distribution, by credit rating, of financial assets that are neither past due nor impaired:

	Investment Grade	Unrated	Non-Invested Grade	Total
	%	%	%	%
Accounts receivable	79	18	3	100
Derivative commodity assets	98	2	0	100

The outstanding amount of collateral received from customers at March 31, 2009 was \$48 million.

LIQUIDITY RISK

The following table details remaining contractual maturities at March 31, 2009 of BC Hydro's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows. Interest payments have been computed using contractual rates or, if floating, based on rates current at March 31, 2009. In respect of the cash flows in US dollars, the exchange rate as at March 31, 2009 has been used.

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	Carrying Value	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015 and thereafter
<i>(in millions)</i>							
Non-Derivative Financial Liabilities							
Total trade and other payables (excluding interest accruals)	\$ 1,126	\$(1,126)	\$ —	\$ —	\$ —	\$ —	\$ —
Bank overdrafts	22	(22)	—	—	—	—	—
Long-term debt (including interest payments)	9,564	(2,803)	(603)	(892)	(615)	(1,126)	(9,383)
		(3,951)	(603)	(892)	(615)	(1,126)	(9,383)
Derivative Financial Liabilities							
Interest rate swaps used for hedging	35	(9)	(11)	(10)	(8)	(4)	—
Cross currency swaps used for hedging	40						
Cash outflow		(8)	(3)	(4)	(6)	(294)	—
Cash inflow		7	4	4	7	256	—
Forward foreign exchange contracts used for hedging	(54)						
Cash outflow		(101)	—	—	—	—	(923)
Cash inflow		116	—	—	—	—	974
Other forward foreign exchange contracts designated at fair value	—						
Cash outflow		(36)	—	—	—	—	—
Cash inflow		37	—	—	—	—	—
Financially settled commodity derivative liabilities designated at fair value	911	(730)	(166)	(15)	(2)	—	—
Physically settled commodity derivative liabilities designated at fair value	84	(136)	8	(14)	—	—	—
		(860)	(168)	(39)	(9)	(42)	51
Total		(4,811)	(771)	(931)	(624)	(1,168)	(9,332)
Financially settled commodity derivative assets designated at fair value	(739)	638	116	11	1	—	—
Physically settled commodity derivative assets designated at fair value	(269)	420	199	80	2	2	—
Net Total¹		\$(3,753)	\$ (456)	\$ (840)	\$ (621)	\$(1,166)	\$(9,332)

¹ BC Hydro believes that the liquidity risk associated with derivative financial liabilities needs to be considered in conjunction with the profile of payments or receipts arising from derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not considered financial instruments under Section 3855 are not included in this analysis, which is prepared in accordance with Section 3862.

MARKET RISKS

(a) Currency Risk

Sensitivity Analysis

A \$0.01 strengthening or weakening of the US dollar against the Canadian dollar at March 31, 2009 would have no impact on net income and would have no material impact on other comprehensive income. The new regulatory account that captures all variances from forecasted finance charges as described in Note 5 eliminates any impact on net income. This analysis assumes that all other variables, in particular interest rates, remain constant.

This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at March 31, 2009 and had been applied to each of BC Hydro's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next quarter end balance sheet date.

(b) Interest Rate Risk

Fair value sensitivity analysis for fixed rate non-derivative instruments

BC Hydro does not account for any fixed rate financial assets or liabilities as held-for-trading or available-for-sale. Therefore a change in interest rates at March 31, 2009 would not affect net income or other comprehensive income with respect to these fixed rate instruments.

Sensitivity analysis for variable rate non-derivative instruments and derivative instruments

An increase or decrease of 100-basis points in interest rates at March 31, 2009 would have no impact on net income and would have no material impact on other comprehensive income. The new regulatory account that captures all variances from forecasted finance charges as described in Note 5 eliminates any impact on net income. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at March 31, 2009 and had been applied to each of BC Hydro's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in interest rates over the period until the next quarter end balance sheet date.

(c) Commodity Price Risk

Sensitivity Analysis

BC Hydro's subsidiary Powerex trades and delivers energy and associated products and services throughout North America and enters into derivative contracts to manage their commodity price risks. As a result, BC Hydro has exposure to movements in certain commodity prices, including the market price of electricity and fuels used to produce electricity. BC Hydro manages these exposures through an established risk management framework that limits components of and overall market risk exposures, delegates authority to trade, pre-defines approved products, and mandates regular reporting of exposures. A Risk Management Committee forms a key part of the corporate governance framework.

BC Hydro's trading activities are subject to various limits and controls, including Value at Risk in US dollars ("VaR"), Stop-Loss/Gain limits, and transaction limits. These various market risk limits are approved by the Board of Directors. A VaR measure estimates the pre-tax forward trading loss that could result from changes in the forward price curve, with a specific level of confidence, over a specific time period. Powerex uses an industry standard monte carlo VaR model, a 95 per cent confidence interval, and a 10-day holding-period.

Powerex's VaR, calculated under the methodology described above, was approximately US \$11 million at March 31, 2009.

VaR as a measure of portfolio risk has several limitations. It is a lagging indicator of price risk given the recent historical volatilities in the market place and it cannot forecast unusual outlier events that may occur in the future. In addition, it is sometimes difficult to appropriately estimate the VaR associated with illiquid or non-standard products. As a result, Powerex uses additional measures to supplement the use of VaR to measure price risk. These include the use of a historic VaR methodology, weekly stress tests, notional limits for illiquid or emerging products, and independent reporting regarding non-standard options.

NOTE 14: DEFERRED CONTRIBUTIONS

<i>(in millions)</i>	2009	2008
Contributions in aid of construction	\$ 898	\$ 825
Contributions arising from the Columbia River Treaty	148	157
Total	\$ 1,046	\$ 982

NOTE 15: OTHER LONG-TERM LIABILITIES

<i>(in millions)</i>	2009	2008
Environmental liabilities	\$ 14	\$ 16
Accrued pension benefit liability (Note 16)	84	80
Accrued other benefit plan liability (Note 16)	197	183
First Nations liabilities	326	317
Deferred revenue	381	368
Asset retirement obligations	5	7
Total	\$ 1,007	\$ 971

For asset retirement obligations, BC Hydro estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately \$22 million, which will be incurred between 2010 and 2018. A discount rate of 5.9 per cent was used to calculate the carrying value of the asset retirement obligations.

NOTE 16: EMPLOYEE FUTURE BENEFIT PLANS

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which provide pension benefits in excess of statutory limits to certain employees. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangements are unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2006. The next valuation for funding purposes will be as of December 31, 2009.

BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation.

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Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

<i>(in millions)</i>	Pension Benefit Plans		Other Benefit Plans	
	2009	2008	2009	2008
Net expense	\$ 5	\$ 3	\$ 24	\$ 24

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

<i>(in millions)</i>	Pension Benefit Plans		Other Benefit Plans	
	2009	2008	2009	2008
Accrued benefit obligation	\$ 2,183	\$ 2,633	\$ 188	\$ 221
Fair value of plan assets	1,902	2,554	—	—
Plan deficit	\$ (281)	\$ (79)	\$ (188)	\$ (221)
Unamortized net actuarial losses	574	348	(28)	12
Unamortized past service costs	5	6	—	—
Unamortized transition (asset) liability	(45)	(60)	19	26
Accrued benefit asset (liability)	\$ 253	\$ 215	\$ (197)	\$ (183)

Represented by:

	2009	2008	2009	2008
Accrued benefit asset	\$ 337	\$ 295	\$ —	\$ —
Accrued benefit liability	(84)	(80)	(197)	(183)
	\$ 253	\$ 215	\$ (197)	\$ (183)

The net accrued benefit liability is included in Other Long-Term Liabilities (Note 15) and the pension asset is included in other assets and deferred charges.

The pension plan assets and obligations are measured as at December 31, 2008. The other benefit plan obligations are measured as at March 31, 2009. No valuation allowance was required in fiscal 2009 and fiscal 2008. Only the statutory pension plan was fully funded in fiscal 2008 and no benefit plans were fully funded in fiscal 2009.

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(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2009	2008	2009	2008
Discount rate				
Benefit cost	5.5%	5.5%	5.85%	5.5%
Accrued benefit obligation	7.35%	5.5%	7.70%	5.85%
Expected long-term rate of return on plan assets	7.5%	7.2%	n/a	n/a
Rate of compensation increase				
Benefit cost	3.8%	3.8%	n/a	n/a
Accrued benefit obligation	3.8%	3.8%	n/a	n/a
Health care cost trend rates				
Weighted average health care cost trend rate	n/a	n/a	5.5%	6.4%
Weighted average ultimate health care cost trend rate	n/a	n/a	3.9%	3.9%
Year ultimate health care cost trend rate will be achieved	n/a	n/a	2013	2013

(d) Other information about BC Hydro's benefit plans is as follows:

<i>(in millions)</i>	Pension Benefit Plans		Other Benefit Plans	
	2009	2008	2009	2008
Employer contributions	\$ 36	\$ 49	\$ —	\$ —
Employee contributions	\$ 21	\$ 17	\$ —	\$ —
Benefits paid	\$ 127	\$ 121	\$ 10	\$ 10
Settlement payments	\$ 6	\$ 9	\$ —	\$ —

The actuarial valuation as at December 31, 2006 that was completed in September 2007, revealed a specific funding requirement of approximately \$18 million. BC Hydro made the \$18 million payment during fiscal 2008. This amount represents a funding commitment to fulfill certain requirements specified by the *BC Pension Benefits Standards Act* related to the unlikely event that BC Hydro ceases to operate, and are designated as contributions to the BC Hydro pension plan. Amounts contributed are in addition to existing funding commitments and do not materially impact operating results in the period in which the payments are made.

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(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	2009	2008
Equities	60%	58%	56%
Fixed income investments	30%	30%	31%
Real estate	10%	12%	13%

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

NOTE 17: OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

OTHER COMPREHENSIVE INCOME (LOSS)

<i>(in millions)</i>	2009	2008
Other Comprehensive Income (Loss)		
Unrealized loss on sinking fund balances	\$ —	\$ (4)
Reclassification to income of loss on sinking funds	—	3
Unrealized gain (loss) on derivatives designated as cash flow hedges	151	(68)
Reclassification to income on derivatives designated as cash flow hedges	(249)	145
Other Comprehensive Income (Loss)	\$ (98)	\$ 76

Comprehensive income consists of net income and other comprehensive income (OCI). OCI represents the changes in shareholder's equity during a period arising from transactions and changes in the fair value of available for sale securities and the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of operations are met.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

<i>(in millions)</i>	2009	2008
Accumulated other comprehensive income (loss), beginning of period	\$ 56	\$ (20)
Other comprehensive income (loss) for the period	(98)	76
Accumulated Other Comprehensive Income (Loss), End of Period	\$ (42)	\$ 56

NOTE 18: COMMITMENTS AND CONTINGENCIES

ENERGY COMMITMENTS

BC Hydro (excluding Powerex) has long-term energy purchase contracts to meet a portion of its expected future domestic electricity requirements. The minimum obligations to purchase energy under these contracts have a total value of approximately \$16,889 million of which approximately \$2,410 million relates to the purchase of natural gas and natural gas transportation contracts, at market prices over 30 years. The remaining commitments are at predetermined prices. Powerex has energy purchase commitments with an estimated minimum payment obligation of \$4,931 million extending to 2025 and purchase commitments for energy and capacity services with a value of \$428 million extending to 2014.

The total combined payments for the next five years are approximately (in millions): 2010 - \$1,364; 2011 - \$1,395; 2012 - \$1,399; 2013 - \$1,293; 2014 - \$1,249.

Powerex has energy sales commitments over the next five years with a total estimated value of \$2,418 million.

LEASE AND SERVICE AGREEMENTS

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately \$573 million. Payments for the next five years are approximately (in millions): 2010 - \$144; 2011 - \$141; 2012 - \$139; 2013 - \$137; 2014 - \$7.

HOME PURCHASE OFFER PROGRAM

As of March 31, 2009, purchase agreements for 104 properties have been finalized under the Home Purchase Offer Program. The commitment in connection with these agreements total approximately \$62 million. The acquisition of these properties is expected to close between April 1 and September 30, 2009.

LEGAL CONTINGENCIES

a) Since 2000, Powerex has been named, along with other energy providers, in lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. Powerex has obtained dismissals of all but one of the lawsuits. In the remaining lawsuit, the California Department of Water Resources (CDWR) has claimed that it was forced under duress to enter into numerous transactions with Powerex in 2001. The trial in the CDWR litigation is scheduled to begin on May 18, 2010 in federal court. If CDWR is successful at trial the case will then go to the Federal Energy Regulatory Commission (FERC) to determine appropriate remedies.

FERC has approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming or other improper practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier to the California market throughout the energy crisis. FERC's approval of this settlement is currently being challenged by various California parties. If the challenges are unsuccessful, FERC's determination that Powerex did not engage in market manipulation will stand and could provide Powerex with additional defences in the remaining litigation and other FERC proceedings.

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FERC decided earlier in the proceedings that certain market-wide refunds will have to be paid by energy providers to various California parties. The precise amount has not been determined and the timing of the refunds is unknown. In addition, FERC has been ordered by the Ninth Circuit to reconsider additional refunds based on allegations of seller market manipulation and on quarterly reporting deficiencies. CDWR transactions will be included in these latter inquiries.

At March 31, 2009, Powerex was owed US \$263 million (CDN \$332 million) by the California Power Exchange (Cal Px) and the California Independent System Operator (CAISO) related to Powerex's electricity trade activities in California during the period covered by the lawsuits. As a result of defaults by a number of California utilities, the Cal Px and CAISO were unable to pay these amounts to Powerex. It is expected those receivables will be offset against any refunds that Powerex is required to pay.

Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

- b) Facilities and Rights of Way: BC Hydro is subject to existing and pending legal claims relating to alleged infringement and damages in the operation and use of facilities owned by BC Hydro. These claims may be resolved unfavourably with respect to BC Hydro and may have a significant adverse effect on BC Hydro's financial position. For existing claims in respect of which settlement negotiations have advanced to the extent that potential settlement amounts can reasonably be predicted, management has recorded a provision for the potential costs of those settlements. For pending claims, management believes that any loss exposure that may ultimately be incurred may differ materially from management's current estimates. Management has not disclosed the ranges of expected outcomes due to the potentially adverse effect on the negotiation process for these pending claims.
- c) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

NOTE 19: GEOGRAPHIC INFORMATION

Revenues, based on point of delivery, are as follows:

<i>(in millions)</i>	2009	2008
British Columbia	\$ 2,824	\$ 2,948
Canada (excluding British Columbia)	373	234
United States	1,072	1,028
Total	\$ 4,269	\$ 4,210

Substantially all of BC Hydro's assets are located in the Province of British Columbia. Energy sales outside of British Columbia are carried out by Powerex, a wholly owned subsidiary of BC Hydro. The fiscal 2008 balances have been restated to reflect location of the customer, rather than the previous allocation which was based on point of delivery.

NOTE 20: RELATED PARTY TRANSACTIONS

As Crown Corporations of the Province, BC Hydro, BCTC and the Province are considered related parties. As a regulatory agency of the Province, BCUC would also be considered a related party of BC Hydro as both organizations are subject to common significant influence by the Province. All transactions between BC Hydro and its related parties are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions are summarized below:

<i>(in millions)</i>	2009	2008
Province of BC		
Accounts receivable	\$ 92	\$ 63
Accounts payable	53	354
Water rental fees	310	318
Cost of energy sales	229	245
Taxes	108	99
Finance charges	472	463
Payment to the Province	288	331
BCTC		
Accounts receivable	\$ 56	\$ 58
Accounts payable	49	47
Cost of energy sales	77	59
Operating costs	91	87
Other	53	35
Columbia Power Corporation		
Accounts payable	1	6
Cost of energy sales	53	45

BC Hydro's debt is either held or guaranteed by the Province (see Note 12). Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. At March 31, 2009, the aggregate exposure under this indemnity totaled approximately \$78 million (2008 – \$158 million). BC Hydro has not experienced any losses to date under this indemnity.

NOTE 21: PRIOR PERIOD ERROR

BC Hydro's subsidiary Powerex has identified a balance sheet classification error in the prior year financial statements relating to the presentation of its derivative commodity assets and liabilities. Derivative commodity assets and liabilities under the same Master Netting Agreement were previously presented in the balance sheet on a net basis. However, as Powerex only had the legal right to offset these transactions in the event of default and did not have the legal right to offset these transactions at the reporting date, the derivative commodity assets and liabilities should have been presented on the balance sheet on a gross basis.

Prior year balances have been restated to correct the presentation error, resulting in an increase to the current portion of derivative financial instrument assets and liabilities of \$478 million and non-current derivative financial instrument assets and liabilities of \$64 million.