

CONSOLIDATED FINANCIAL STATEMENTS 2010

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 10, 2010. 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.



Bev Van Ruyven
A/President and Chief Executive Officer



Charles Reid
Executive VP Finance & Chief Financial Officer

Vancouver, Canada
May 10, 2010

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, 2010 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, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Handwritten signature of KPMG LLP in black ink, with a horizontal line underneath.

Chartered Accountants

Vancouver, Canada
May 10, 2010

CONSOLIDATED STATEMENT OF OPERATIONS

	<i>(Revised Note 1 & 2)</i>	
<i>for the years ended March 31 (in millions)</i>	2010	2009
Revenues		
Domestic	\$ 3,090	\$ 2,814
Trade	732	1,455
	3,822	4,269
Expenses		
Energy Costs:		
Domestic	1,150	1,236
Trade	635	1,157
Operations	396	395
Maintenance	628	353
Administration	225	167
Taxes	173	167
Amortization (Note 7)	445	395
	3,652	3,870
Operating Income	170	399
Finance Charges (Note 8)	419	472
Loss Before Regulatory Account Transfers	(249)	(73)
Net Change in Regulatory Accounts (Note 5)	696	438
Net Income	\$ 447	\$ 365

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>for the years ended March 31 (in millions)</i>	2010	2009
Net Income	\$ 447	\$ 365
Other Comprehensive Income (Loss) (Note 17)	95	(98)
Comprehensive Income	\$ 542	\$ 267

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>for the years ended March 31 (in millions)</i>	2010	2009
Retained Earnings, Beginning of Year (As Previously Reported)	\$ 2,231	\$ 1,865
Adoption of New Accounting Standard (Note 2)	(10)	(9)
Retained Earnings, Beginning of Year (As Revised)	2,221	1,856
Net Income	447	365
Accrued Payment to the Province (Note 6)	(47)	—
Retained Earnings, End of Year	\$ 2,621	\$ 2,221

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	<i>(Revised Note 1 & 2)</i>	
<i>as at March 31 (in millions)</i>	2010	2009
ASSETS		
Property, Plant and Equipment, Net (Note 9)	\$ 13,822	\$ 11,830
Current Assets		
Cash and cash equivalents	9	190
Accounts receivable and accrued revenue	650	713
Inventories (Note 4)	114	178
Prepaid expenses	135	170
Current portion of derivative financial instrument assets (Note 13)	434	836
	1,342	2,087
Other Assets and Deferred Charges		
Intangible assets (Note 10)	282	269
Sinking funds (Note 11)	96	115
Employee future benefits (Note 16)	313	337
Regulatory assets (Note 5)	2,152	1,360
Derivative financial instrument assets (Note 13)	86	331
	2,929	2,412
	\$ 18,093	\$ 16,329
LIABILITIES AND EQUITY		
Long-Term Debt (Note 12)		
Long-term debt net of sinking funds	\$ 8,631	\$ 6,996
Sinking funds presented as assets	96	115
	8,727	7,111
Current Liabilities		
Current portion of long-term debt (Note 12)	2,074	2,329
Accounts payable and accrued liabilities	1,101	1,272
Current portion of derivative financial instrument liabilities (Note 13)	393	877
	3,568	4,478
Other Liabilities		
Regulatory liabilities (Note 5)	439	342
Deferred contributions (Note 14)	1,079	1,016
Derivative financial instrument liabilities, long-term (Note 13)	224	195
Other long-term liabilities (Note 15)	1,382	1,008
	3,124	2,561
Shareholder's Equity		
Retained earnings	2,621	2,221
Accumulated other comprehensive income (loss) (Note 17)	53	(42)
	2,674	2,179
	\$ 18,093	\$ 16,329

Commitments and Contingencies (Note 18)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:



Dan Doyle
Chairman



Tracey L. McVicar
Chair, Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

(Revised Note 2)

<i>for the years ended March 31 (in millions)</i>	2010	2009
Operating Activities		
Net income	\$ 447	\$ 365
Regulatory account transfers	(508)	(488)
Adjustments for non-cash items:		
Amortization of regulatory accounts (Note 5)	79	59
Amortization expense	445	395
Foreign exchange translation (gains) losses	(34)	33
Unrealized gains on mark-to-market	(13)	(18)
Other items	3	(22)
	419	324
Changes in non-cash working capital:		
Accounts receivable and accrued revenue	63	(31)
Accounts payable and accrued liabilities	(208)	128
Prepaid expenses	35	(72)
Inventories	64	(95)
	(46)	(70)
Cash provided by operating activities	373	254
Investing Activities		
Property, plant and equipment and intangible asset expenditures	(1,554)	(1,384)
Waneta Acquisition (Note 9)	(841)	—
Deferred contributions	101	97
Other items	2	(17)
Cash used in investing activities	(2,292)	(1,304)
Financing Activities		
Bonds		
Proceeds, net of issue costs	2,116	350
Retired	(631)	(94)
Revolving borrowings	240	687
Sinking fund withdrawals	2	509
Payment to the Province	—	(288)
Settlement of derivative instruments	11	54
Cash provided by financing activities	1,738	1,218
(Decrease) Increase in cash and cash equivalents	(181)	168
Cash and cash equivalents, beginning of year	190	22
Cash and cash equivalents, end of year	\$ 9	\$ 190
Supplemental Disclosure of Cash Flow Information		
Interest paid	\$ 509	\$ 492

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 Corporation (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.

The Company accounts for its one-third interest in the Waneta dam and generating facility (Note 9) as a jointly controlled asset. A jointly controlled asset is considered a joint venture as it includes the joint ownership and control of one or more assets to obtain benefits for the venturers. Each venturer takes a share of the output from the assets for its own exclusive use. These consolidated financial statements include BC Hydro's proportionate share of the Waneta dam and generating facility. BC Hydro has also included its share of any liabilities and expenses incurred jointly with Teck Metals Ltd. and any revenue from the sale or use of its share of the output in relation to the Waneta dam and generating facility.

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.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

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.

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.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

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

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 redeemable on demand and 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. Net realizable value is the expected selling price in the ordinary course of business, less any costs expected in selling the inventory.

FINANCIAL INSTRUMENTS

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.

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 until realized. 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 to manage foreign exchange risks related to electricity and natural gas commodity transactions.

Interest rate and foreign exchange related derivative instruments that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. For liability management activities, the related gains or losses are included in finance charges. For foreign currency exchange risk associated with electricity and natural gas commodity transactions, the related gains or losses are included in domestic revenues. BC Hydro’s policy is not to utilize interest rate and foreign exchange related derivative financial instruments for speculative purposes.

Derivative financial instruments are also used by a BC Hydro subsidiary to manage economic exposure to market risks relating to commodity prices. Derivatives used for energy trading activities that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. Gains or losses are included in trade revenues.

HEDGES

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for unrealized gains or losses attributed to the hedged risk and recognized in net income. Changes in the fair value of the hedged item attributed to the hedged risk, 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 the hedged item. When hedge accounting is discontinued, the cumulative gain or loss previously recognized in accumulated other

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

comprehensive income remains there until the forecasted 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 reflect changes in the level of commodity market prices, interest and foreign exchange rates.

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. In certain circumstances, BC Hydro's subsidiary Powerex uses valuation inputs that are not based on observable market data and internally developed valuation models which are based on models and techniques generally recognized as standard within the energy industry.

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.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

The excess of the net cumulative unamortized actuarial gain or loss over 10 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 (2009—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 at the present value of the estimated future costs 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 operating expenses, amortization, property, plant and equipment, intangible assets, regulatory assets, deferred contributions and other long-term liabilities have been reclassified to conform to the current year's presentation.

NOTE 2: ADOPTION OF NEW ACCOUNTING STANDARDS

Effective April 1, 2009, BC Hydro adopted the following changes to standards issued by the Canadian Institute of Chartered Accountants (CICA).

(a) Goodwill and Intangible Assets

BC Hydro adopted new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaced CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

As a result of adopting this new standard, the Company has retroactively revised the comparative statements for amounts that no longer qualify for capitalization. The effect of the change reduced opening retained earnings by \$10 million, which is the amount of the adjustment related to periods prior to April 1, 2009. To reflect the write-off of amounts previously capitalized in the prior period but which no longer meet the criteria for capitalization, intangible assets decreased by \$8 million and other long-term liabilities increased by \$2 million, with the corresponding amount being charged to income in the prior periods. An adjustment of \$1 million was also made to other long-term liabilities, with the corresponding amount being reflected in property, plant and equipment.

The Company also reclassified \$118 million of clearing costs from intangible assets to lines within property, plant and equipment.

(b) Accounting for Rate-Regulated Operations

Effective April 1, 2009, the Canadian Accounting Standards Board (AcSB) removed 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. The removal of the exemption requires the Company to now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. In applying Section 1100, the Company may consult other sources, including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Consequently, the Company has consulted and applied *Accounting Standard Codification (ACS) 980, "Regulated Operations"*, (previously Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*), as issued by the U.S. Financial Accounting Standards Board to its rate regulated operations and has determined that all regulatory assets and liabilities continue to qualify for recognition under Canadian GAAP. As a result, the removal of the temporary exemption under Section 1100 did not impact the Company's consolidated financial statements.

(c) Financial Instruments

For the year ended March 31, 2010, BC Hydro adopted the amendments to CICA Handbook Section 3862—*Financial Instruments—Disclosures*. The amendments require the classification and disclosure of fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments affected disclosure only and did not impact BC Hydro's accounting for financial instruments. These disclosures have been included in Note 13.

NOTE 3: FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. IFRS will replace Canada's current GAAP for those enterprises. In October 2009, the Canadian Public Sector Accounting Board (PSAB) confirmed the existing guidance whereby Government Business Enterprises (GBEs), which BC Hydro is classified as, adhere to standards for publicly accountable enterprises in the private sector. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and thus will be applicable for BC Hydro's fiscal 2012 year. The Company is currently evaluating the impact of the transition to IFRS on its consolidated financial statements.

NOTE 4: INVENTORIES

<i>(in millions)</i>	2010	2009
Materials and supplies	\$ 76	\$ 75
Natural gas trading inventories	38	103
Total	\$ 114	\$ 178

NOTE 5: REGULATION

RATE REGULATION

On March 13, 2009, the BCUC issued its decision on BC Hydro's F2009/F2010 Revenue Requirements Application (RRA). Results for the period ended March 31, 2010 reflect this decision and all other decisions and directives issued by the BCUC during the year which affect fiscal 2010 results.

REGULATORY ACCOUNTS

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2010, the impact of regulatory accounting has resulted in an increase to net income of \$696 million (2009 - \$438 million increase).

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

<i>(in millions)</i>	<i>(Revised)</i> 2009	Transfers	Addition (Reduction)	Amortization	Net Change	2010
Regulatory Assets						
Heritage Deferral Account	\$ 329	\$ —	\$ 25	\$ (29)	\$ (4)	\$ 325
Non-Heritage Deferral Account	74	—	52	(7)	45	119
BCTC Deferral Account	9	—	10	(1)	9	18
Trade Income Deferral Account—Asset	—	—	115	7	122	122
Demand-Side Management Programs	364	—	130	(52)	78	442
First Nation Negotiations, Litigation and Settlement Costs	389	—	16	(6)	10	399
Non-Current Pension Cost	—	—	86	—	86	86
Site C	35	—	25	—	25	60
Environmental Compliance	—	—	321	—	321	321
Other Regulatory Accounts	160	(1)	95	6	101	260
Total Regulatory Assets	\$ 1,360	\$ (1)	\$ 875	\$ (82)	\$ 793	\$ 2,152
Regulatory Liabilities						
Future Removal and Site Restoration Costs	172	—	—	(13)	(13)	159
Trade Income Deferral Account—Liability	80	—	(80)	—	(80)	—
Foreign Exchange Gains and Losses	57	—	34	10	44	101
Finance Charges	—	—	104	—	104	104
Other Regulatory Accounts	33	—	42	—	42	75
Total Regulatory Liabilities	\$ 342	\$ —	\$ 100	\$ (3)	\$ 97	\$ 439
Net Regulatory Asset	\$ 1,018	\$ (1)	\$ 775	\$ (79)	\$ 696	\$ 1,713

<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	2	95	(42)	53	364
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	\$ 8	\$ 504	\$ (85)	\$ 419	\$ 1,360
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	\$ 8	\$ 497	\$ (59)	\$ 438	\$ 1,018

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

HERITAGE DEFERRAL ACCOUNT (HDA)

Under a Special Directive issued by the Province, 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 \$4 million increase in net income (2009—\$251 million decrease).

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 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 \$45 million decrease in net income (2009—\$21 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 \$9 million decrease in net income (2009—\$12 million increase).

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 \$202 million decrease in net income (2009—\$23 million decrease).

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 10 years.

During the year ended March 31, 2010, BC Hydro has reclassified \$2 million from property, plant and equipment to the Demand-Side Management Program's regulatory account and has reclassified the comparative amounts at March 31, 2009 to conform with the presentation in the current year.

BRITISH COLUMBIA HYDRO AND POWER AUTHORITY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2010 AND 2009

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 are recorded as property, plant and equipment. In fiscal 2010, \$130 million of period costs were incurred and amortization of previously capitalized amounts totaled \$52 million (2009— \$95 million and \$42 million, respectively). Consequently, net income would have been \$78 million lower than would have been recorded in the absence of rate regulation (2009—\$53 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.

During the three months ended September 30, 2009, BC Hydro determined that as at April 1, 2009, \$10 million that had previously been included in the First Nations Negotiations, Litigation and Settlement Costs regulatory account should have been accounted for in the Capital Project Investigation regulatory account, which is included in Other Regulatory Accounts. The amount was reclassified as of September 30, 2009 and the reclassification has no impact on any other schedules or statements in interim reports or in the 2009 Annual Financial Report.

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 are recorded as property, plant and equipment. In fiscal 2010, \$16 million (2009—\$32 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled \$6 million (2009—\$6 million). Consequently, net income would have been \$10 million lower than would have been recorded in the absence of rate regulation (2009—\$26 million decrease).

NON-CURRENT PENSION COST

In its March 13, 2009 decision on the F2009/2010 RRA, the BCUC approved the establishment of the Non-Current Pension Cost regulatory account, in which variances that arise between forecast and actual non-current pension cost 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 \$86 million decrease in net income (2009—\$ nil).

SITE C

Established under a regulatory order, the BCUC approved the creation of a regulatory account in respect of Site C expenditures incurred in fiscal 2007 and fiscal 2008. In the F2009/2010 RRA Decision, the BCUC approved the extension of the Site C regulatory account to the end of fiscal 2010. 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 \$25 million decrease in net income (2009—\$26 million decrease).

ENVIRONMENTAL COMPLIANCE

On March 31, 2010, BC Hydro filed a separate application for approval to establish a regulatory asset regarding a liability provision for environmental compliance and remediation arising from the costs that will likely be incurred to comply with the Federal Polychlorinated Biphenyl (PCB) Regulations enacted under the *Canadian Environmental Protection Act* and the remediation of environmental contamination at one of the Company's properties. In the absence of rate regulation, GAAP would require the inclusion of the provision to be included in operating results in the year in which it is recognized, which would have resulted in a \$321 million decrease in net income. BC Hydro is awaiting approval from the BCUC for this regulatory account.

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FUTURE REMOVAL AND SITE RESTORATION COSTS

As part of its October 2004 decision, the 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 \$13 million in the current year (2009—\$20 million). Consequently, net income would be \$13 million lower than would have been recorded in the absence of rate regulation.

FOREIGN EXCHANGE GAINS AND LOSSES

Established under a regulatory order, foreign exchange gains and losses from the translation of specified foreign currency financial instruments 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 \$44 million increase in net income (2009—\$23 million decrease).

FINANCE CHARGES

In its March 13, 2009 decision on the F2009/2010 RRA, the BCUC approved the establishment of the finance charges regulatory account, in which variances that arise between forecast and actual finance charges 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 \$104 million increase in net income (2009—\$ nil).

OTHER REGULATORY ACCOUNTS

Other regulatory asset accounts with individual balances less than \$65 million include the following: Depreciation Study Adjustments, Contributions in Aid of Construction Amortization Variance, Capital Project Investigation Costs, Smart Metering and Infrastructure Project Costs (SMI), Storm Damage, GM Shrum Unit 3 Outage, Home Purchase Option Plan and Return on Equity (ROE) Adjustment.

In 2010, \$101 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2009—\$122 million decrease).

Other regulatory liability accounts with individual balances less than \$65 million include the following: Net Employment Costs, Amortization of Capital Additions and Taxes.

In 2010, \$42 million of costs deferred to these accounts would have increased net income in the absence of rate regulation (2009—\$33 million increase).

All of these regulatory accounts have been approved by the BCUC through regulatory order, including SMI program costs for which BC Hydro received approval of deferral of up to \$8.8 million in fiscal 2010 SMI costs on April 9, 2010.

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, equity for regulatory purposes comprises retained earnings and accumulated other comprehensive income (loss).

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, 2010, there were no changes in the approach to capital management.

The debt to equity ratio, based on equity as defined for regulatory purposes, at March 31, 2010 and March 31, 2009 was as follows:

<i>(in millions)</i>	2010	2009
Total long-term debt, net of sinking funds	\$ 10,705	\$ 9,325
Less: cash and cash equivalents	(9)	(190)
Net Debt	\$ 10,696	\$ 9,135
Retained earnings	2,621	2,221
Accumulated other comprehensive income (loss)	53	(42)
Total Equity	\$ 2,674	\$ 2,179
Net Debt to Equity Ratio for Regulatory Purposes	80 : 20	81 : 19

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. The Payment accrued as at March 31, 2010 is \$47 million (2009—\$ nil) and is capped due to the debt to equity ratio.

NOTE 7: AMORTIZATION

<i>(in millions)</i>	2010	2009
Amortization of property, plant and equipment in service	\$ 418	\$ 359
Amortization of intangible assets	42	41
Amortization of deferred contributions	(37)	(33)
Other	22	28
Total	\$ 445	\$ 395

NOTE 8: FINANCE CHARGES

<i>(in millions)</i>	2010	2009
Interest on long-term debt	\$ 502	\$ 504
Foreign exchange (gains) losses	(34)	33
Other	10	(15)
	478	522
Less: Assigned to unfinished construction	(59)	(50)
Total	\$ 419	\$ 472

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

<i>(in millions)</i>	2010				2009 <i>(Revised Note 2)</i>			
	Property, Plant and Equipment		Unfinished Construction	Net Book Value	Property, Plant and Equipment		Unfinished Construction	Net Book Value
	in Service	Accumulated Amortization			in Service	Accumulated Amortization		
Generation								
Hydraulic	\$ 6,953	\$ 2,089	\$ 520	\$ 5,384	\$ 5,958	\$ 2,067	\$ 354	\$ 4,245
Thermal	450	288	33	195	427	272	11	166
Diesel	56	28	2	30	49	27	5	27
	7,459	2,405	555	5,609	6,434	2,366	370	4,438
Lines	8,289	3,116	414	5,587	7,870	2,986	321	5,205
Substations	3,023	1,340	193	1,876	2,759	1,295	148	1,612
Other								
Land and buildings	516	205	82	393	445	197	49	297
Equipment	199	118	19	100	181	115	6	72
Computer hardware	84	52	73	105	72	45	58	85
Service vehicles	170	67	30	133	148	63	12	97
Sundry	21	10	8	19	21	10	13	24
	990	452	212	750	867	430	138	575
Total	\$ 19,761	\$ 7,313	\$ 1,374	\$ 13,822	\$ 17,930	\$ 7,077	\$ 977	\$ 11,830

On March 5, 2010, BC Hydro purchased a one-third interest in the Waneta dam and generating facility near Trail, B.C. from Teck Metals Ltd. for proceeds of \$825 million plus \$16 million in transaction costs (Waneta Acquisition). At March 31, 2010, BC Hydro has included its one-third interest in the Waneta dam of \$841 million in Generation assets.

NOTE 10: INTANGIBLE ASSETS

<i>(in millions)</i>	2010			2009 <i>(Revised Note 2)</i>		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	\$ 316	\$ 207	\$ 109	\$ 347	\$ 230	\$ 117
Internally developed software	46	38	8	—	—	—
Sundry	33	15	18	31	12	19
	395	260	135	378	242	136
Not Subject to Amortization						
Land rights	147	—	147	133	—	133
Total	\$ 542	\$ 260	\$ 282	\$ 511	\$ 242	\$ 269

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>	2010		2009	
	Carrying Value	Weighted Average Effective Rate ¹	Carrying Value	Weighted Average Effective Rate ¹
Money market funds ²	\$ —	— %	\$ 2	0.2 %
Province and BC Crown Corporation bonds	61	5.4 %	74	4.3 %
Federal and other provincial government securities	35	5.5 %	39	5.0 %
Total	\$ 96		\$ 115	

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.

BC Hydro's commercial paper borrowing program with the Province, which includes revolving borrowings, is limited to \$3,000 million. At March 31, 2010, the outstanding amount under this borrowing program was \$1,924 million (2009—\$1,691 million).

During fiscal 2010, BC Hydro issued bonds with a par value of \$2,070 million (2009—\$352 million), a weighted average effective interest rate of 4.6 per cent (2009—4.6 per cent) and a weighted average term to maturity of 23.1 years (2009—19.2 years).

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

	2010				2009			
	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:								
2010	\$ —	\$ —	\$ —	—	\$ 574	\$ 63	\$ 637	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	203	703	6.6	500	252	752	6.4
2015	325	—	325	5.5	—	—	—	—
1-5 years	1,625	203	1,828	6.1	1,874	315	2,189	6.2
6-10 years	1,325	203	1,528	4.7	675	252	927	5.1
11-15 years	1,536	—	1,536	9.2	1,701	—	1,701	8.8
16-20 years	500	508	1,008	5.8	10	630	640	6.6
21-25 years	800	—	800	5.5	1,300	—	1,300	5.4
26-30 years	—	305	305	7.4	—	378	378	7.4
Over 30 years	1,620	—	1,620	4.8	350	—	350	5.0
Bonds and debentures	7,406	1,219	8,625	6.1	5,910	1,575	7,485	6.6
Revolving borrowings	1,924	—	1,924	0.4	1,691	—	1,691	1.0
	9,330	1,219	10,549		7,601	1,575	9,176	
Adjustments to carrying value resulting from hedge accounting	96	22	118		147	27	174	
Unamortized premium, discount, and issue costs	146	(12)	134		106	(16)	90	
	\$ 9,572	\$ 1,229	\$ 10,801		\$ 7,854	\$ 1,586	\$ 9,440	
Less: Current portion			2,074				2,329	
Long-term debt			\$ 8,727				\$ 7,111	

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, 2010 in an asset position of \$28 million (2009—\$68 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>	2010	2009
Receive fixed, pay floating rate swaps		
Notional amount ¹	\$ 1,203	\$ 1,565
Weighted average receive rate	3.66%	4.48%
Weighted average pay rate	0.42%	1.03%
Weighted terms	3 years	3 years
Receive floating, pay fixed rate swaps		
Notional amount ¹	\$ 290	\$ 290
Weighted average receive rate	0.61%	0.96%
Weighted average pay rate	4.90%	4.90%
Weighted terms	3 years	4 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, 2010 in a liability position of \$149 million (2009—asset of \$14 million). Such contracts are primarily used to hedge foreign dollar principal and interest payments.

<i>(dollar amounts in millions)</i>	2010	2009
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	3 years	4 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>	2010	2009
Foreign Currency Forwards		
United States dollar – notional amount ¹	US \$864	US \$898
United States dollar – weighted average contract rate	1.19	1.19
Weighted remaining term	16 years	16 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 2010 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, sinking fund 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 U.S. dollar sinking funds classified as held-to-maturity and carried on the balance sheet at amortized cost of \$96 million. The maximum credit risk exposure for these U.S. dollar sinking funds as at March 31, 2010 is its fair value of \$95 million. 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.

(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 U.S. dollar.

The majority of BC Hydro's currency risk arises from long-term debt in the form of U.S. dollar denominated bonds. Energy commodity prices are also subject to currency risk as they are primarily denominated in U.S. 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/U.S. dollar exchange rate. In addition, all commodity derivatives and contracts priced in U.S. dollars are also affected by the Canadian/U.S. dollar exchange rate.

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 U.S. dollar exposure targets.

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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.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be exchanged in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair values can be determined by reference to last quoted prices in the most advantageous active market for that instrument. In the absence of an active market, fair values are determined based on valuation models or by reference to instruments with similar characteristics and risk profiles.

Fair values of financial instruments determined using valuation models require the use of assumptions. In determining these assumptions, external, readily observable market inputs are used when available. In limited circumstances, input parameters that are not based on observable market data are used.

The inputs used in determining fair value are characterized by using a hierarchy that prioritizes inputs based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

Level 1 are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.

Level 3 inputs are those that are not based on observable market data.

The following table presents the financial instruments measured at fair value for each hierarchy level as at March 31, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 9	\$ —	\$ —	\$ 9
Revolving borrowings	—	(1,924)	—	(1,924)
Derivatives designated as hedges	—	(121)	—	(121)
Derivatives not designated as hedges	6	10	8	24
	\$ 15	\$(2,035)	\$ 8	\$(2,012)

There were no transfers between Levels 1 and 2 during the year.

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The following table reconciles the changes in the balance of financial instruments carried at fair value on the balance sheet, classified as Level 3, for the year ended March 31, 2010:

	Derivatives not designated as hedges
Balance at March 31, 2009	\$ 46
Net loss recognized	(13)
New transactions	8
Existing transactions settled	(33)
Balance at March 31, 2010	\$ 8

A net loss of \$20 million recognized in net income during the year ended March 31, 2010 relates to Level 3 financial instruments held at March 31, 2010. The net loss is recognized in trade revenue and expense.

The Company believes that the use of reasonable alternative valuation input assumptions in the calculation of Level 3 fair values would not result in significantly different fair values.

The following table provides a comparison of carrying values and fair values for non-derivative financial instruments as at March 31, 2010:

<i>(in millions)</i>	2010		2009		Interest Income (Expense) recognized in Finance Charges 2010	Interest Income (Expense) recognized in Finance Charges 2009
	Carrying Value	Fair Value	Carrying Value	Fair Value		
Held for Trading:						
Cash and cash equivalents	\$ 9	\$ 9	\$ 190	\$ 190	\$ —	\$ 3
Revolving borrowings – CDN	(1,924)	(1,924)	(1,691)	(1,691)	(8)	(26)
Loans and Receivables:						
Accounts receivable and accrued revenue	650	650	713	713	—	—
Available for Sale:						
Sinking funds – US	—	—	2	2	—	—
Held to Maturity:						
Sinking funds – US	96	95	113	124	5	5
Other Financial Liabilities:						
Accounts payable and accrued liabilities	(1,101)	(1,101)	(1,272)	(1,272)	—	—
Long-term debt (including current portion due in one year)	(8,877)	(9,776)	(7,749)	(8,981)	(494)	(478)
Other	(62)	(62)	—	—	—	—

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For non-derivative financial assets and liabilities classified as held-for-trading, a \$3 million gain (2009—\$2 million loss) 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>	2010		2009	
	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)	\$ (154)	\$ (154)	\$ (1)	\$ (1)
Interest rate swaps (fair value hedges for debt)	33	33	83	83
	(121)	(121)	82	82
Non-Designated Hedges:				
Foreign currency contracts	—	—	3	3
Commodity derivatives	24	24	13	13
Embedded derivatives	—	—	(3)	(3)
	24	24	13	13
Total	\$ (97)	\$ (97)	\$ 95	\$ 95

Information related to the foreign currency and interest rate swaps contracts is presented in Note 12. Additional information related to the fair value of the commodity derivatives is as follows:

<i>As at March 31, 2010</i>	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
	Current assets	(96,555)	(15,167)	\$ 408	\$ 408
Long-term assets	(13,363)	(3,086)	62	62	102
Current liabilities	79,312	13,458	(385)	(385)	12
Long-term liabilities	12,786	2,600	(61)	(61)	33
Total			\$ 24	\$ 24	

<i>As at March 31, 2009</i>	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
	Current assets	(79,894)	(14,436)	\$ 792	\$ 792
Long-term assets	(16,055)	(6,226)	215	215	45
Current liabilities	65,927	15,455	(785)	(785)	12
Long-term liabilities	14,523	5,576	(209)	(209)	33
Total			\$ 13	\$ 13	

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Notional quantities in the above tables are presented on a net basis and do not necessarily represent the amounts to be exchanged by the parties to the instruments. Furthermore, the magnitude of the notional amounts does not necessarily correlate to the carrying value or fair value of the commodity derivatives.

The derivatives are represented on the balance sheet as follows:

	2010	2009
Current portion of derivative financial instrument assets	\$ 434	\$ 836
Current portion of derivative financial instrument liabilities	(393)	(877)
Derivative financial instrument assets, long-term	86	331
Derivative financial instrument liabilities, long-term	(224)	(195)
Total	\$ (97)	\$ 95

For the year ended March 31, 2010, an amount of less than \$1 million (2009—\$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, 2010, a loss of \$150 million (2009—gain of \$151 million) was recognized in other comprehensive income. For the year ended March 31, 2010, \$245 million (2009—\$249 million) was removed from other comprehensive income and reported in net income, offsetting foreign exchange gains (2009—losses) recorded in the year.

For derivatives not designated as hedging instruments, a gain of \$1 million (2009—\$2 million) was recognized in domestic revenue for the year ended March 31, 2010 with respect to economic hedges and embedded derivatives. For the year ended March 31, 2010, \$1 million (2009—\$1 million) was recognized in finance charges with respect to foreign currency contracts for cash management purposes. A net gain of \$113 million (2009—\$62 million) was recorded in trade revenue for the year ended March 31, 2010 with respect to commodity derivatives.

CREDIT RISK

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

<i>(in millions)</i>	2010	2009
Current	\$ 428	\$ 465
Past due (30-59 days)	18	20
Past due (60-89 days)	5	5
Past due (more than 90 days)	3	4
	454	494
Allowance for doubtful accounts	(9)	(9)
Total	\$ 445	\$ 485

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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. There was no change in the allowance for doubtful accounts during the year.

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.

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-Investment Grade	Total
	%	%	%	%
Accounts receivable	86	13	1	100
Derivative commodity assets	97	3	0	100

The outstanding amount of collateral received from customers at March 31, 2010 was \$30 million (2009—\$48 million).

LIQUIDITY RISK

The following table details remaining contractual maturities at March 31, 2010 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, 2010. In respect of the cash flows in U.S. dollars, the exchange rate as at March 31, 2010 has been used.

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	Carrying Value	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016 and thereafter
<i>(in millions)</i>							
Non-Derivative Financial Liabilities							
Total trade and other payables (excluding interest accruals)	\$ 933	\$ (933)	\$ —	\$ —	\$ —	\$ —	\$ —
Bank overdrafts	33	(33)	—	—	—	—	—
Long-term debt (including interest payments)	10,936	(2,611)	(982)	(700)	(1,175)	(761)	(12,219)
Other long-term liabilities	62	(4)	(4)	(4)	(4)	(4)	(160)
		(3,581)	(986)	(704)	(1,179)	(765)	(12,379)
Derivative Financial Liabilities							
Interest rate swaps used for hedging	20	(10)	(10)	(7)	(1)	—	—
Cross currency swaps used for hedging	87						
Cash outflow		(3)	(7)	(10)	(296)	—	—
Cash inflow		1	3	5	207	—	—
Forward foreign exchange contracts used for hedging	62						
Cash outflow		(17)	—	—	—	—	(923)
Cash inflow		17	—	—	—	—	785
Other forward foreign exchange contracts designated at fair value	—						
Cash outflow		(76)	—	—	—	—	—
Cash inflow		76	—	—	—	—	—
Financially settled commodity derivative liabilities designated at fair value	400	(332)	(46)	(5)	(5)	—	—
Physically settled commodity derivative liabilities designated at fair value	45	(130)	(24)	—	—	—	6
		(474)	(84)	(17)	(95)	—	(132)
Total		(4,055)	(1,070)	(721)	(1,274)	(765)	(12,511)
Financially settled commodity derivative assets designated at fair value	(338)	319	34	3	1	—	—
Physically settled commodity derivative assets designated at fair value	(131)	330	98	6	3	3	17
Net Total¹		\$ (3,406)	\$ (938)	\$ (712)	\$ (1,270)	\$ (762)	\$(12,494)

¹ BC Hydro believes that the liquidity risk associated with commodity derivative financial liabilities needs to be considered in conjunction with the profile of payments or receipts arising from commodity 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.

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MARKET RISKS

(a) Currency Risk

Sensitivity Analysis

A \$0.01 strengthening or weakening of the U.S. dollar against the Canadian dollar at March 31, 2010 would have no impact on net income and would have no material impact on other comprehensive income. The 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, 2010 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, 2010 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, 2010 would have no impact on net income and would have no material impact on other comprehensive income. The Finance Charges 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, 2010 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

Commodity price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity prices.

BC Hydro's subsidiary Powerex trades and delivers energy and associated products and services throughout North America. As a result, BC Hydro has exposure to movements in commodity prices for commodities it trades, including electricity, natural gas and associated derivative products. Prices for electricity and natural gas fluctuate in response to changes in supply and demand, market uncertainty, and other factors beyond BC Hydro's control.

BC Hydro manages these exposures through its Board-approved risk management policies, which limit components of and overall market risk exposures, pre-define approved products and mandate regular reporting of exposures.

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BC Hydro's risk management policy for trading activities defines various limits and controls, including Value at Risk ("VaR") limits, Stop-Loss/Gain limits, and various transaction specific limits which are monitored on a daily basis. VaR estimates the pre-tax forward trading loss that could result from changes in commodity prices, with a specific level of confidence, over a specific time period. Powerex uses an industry standard Monte Carlo VaR model to determine the potential change in value of its forward trading portfolio over a 10-day holding period, within a 95 per cent confidence level, resulting from normal market fluctuations.

VaR as an estimate of price risk has several limitations. The VaR model uses historical information to determine potential future volatility, assuming that price movements in the past will be indicative of future price movements. It cannot forecast unusual events such as extreme price movements. 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 estimate 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.

Powerex's VaR, calculated under this methodology, was approximately \$7 million at March 31, 2010 (2009—\$14 million).

NOTE 14: DEFERRED CONTRIBUTIONS

<i>(in millions)</i>	2010	2009
Contributions in aid of construction	\$ 970	\$ 898
Contributions arising from the Columbia River Treaty	109	118
Total	\$ 1,079	\$ 1,016

NOTE 15: OTHER LONG-TERM LIABILITIES

<i>(in millions)</i>	2010	2009
Environmental liabilities	\$ 329	\$ 14
Accrued pension benefit liability (Note 16)	87	84
Accrued other benefit plan liability (Note 16)	211	197
First Nations liabilities	308	326
Deferred revenue	389	382
Asset retirement obligations	58	5
Total	\$ 1,382	\$ 1,008

ENVIRONMENTAL LIABILITIES AND ASSET RETIREMENT OBLIGATIONS

On March 31, 2010, the Company booked a \$370 million provision related to the phase-out and destruction of PCB contaminated assets and the remediation of environmental contamination at one of the Company's properties at the present value of estimated future cash flows for costs likely to be incurred between fiscal 2011 and 2045. Of this total, \$321 million was recorded as an environmental liability and \$49 million was recorded as an asset retirement obligation. The undiscounted cash flow related to the Company's environmental liabilities is approximately \$625 million and was determined based on current cost estimates inflated to reflect an annual inflation rate of 2.1 per cent and then was discounted at rates ranging from 1.1 to 4.8 per cent. As described in Note 5, BC Hydro has applied for deferral of these costs.

The Company estimates the undiscounted amount of cash flows required to settle asset retirement obligations at \$110 million (2009—\$22 million), which will be incurred between fiscal 2011 and 2054. A range of discount rates between 3.0 to 5.9 per cent were used to calculate the net present value of the obligations.

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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.

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 fund the pension benefits earned in excess of the maximum pension benefits provided by the defined benefit statutory pension plan. 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 prepared as at 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.

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	
	2010	2009	2010	2009
Net expense	\$ 73	\$ 5	\$ 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	
	2010	2009	2010	2009
Accrued benefit obligation	\$ 2,538	\$ 2,183	\$ 238	\$ 188
Fair value of plan assets	2,174	1,902	—	—
Plan deficit	\$ (364)	\$ (281)	\$ (238)	\$ (188)
Unamortized net actuarial losses	616	574	14	(28)
Unamortized past service costs	4	5	—	—
Unamortized transition (asset) liability	(30)	(45)	13	19
Accrued benefit asset (liability)	\$ 226	\$ 253	\$ (211)	\$ (197)

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Represented by:

	2010	2009	2010	2009
Accrued benefit asset	\$ 313	\$ 337	\$ —	\$ —
Accrued benefit liability	(87)	(84)	(211)	(197)
	\$ 226	\$ 253	\$ (211)	\$ (197)

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, 2009. The other benefit plan obligations are measured as at March 31, 2010. No valuation allowance was required in fiscal 2010 and fiscal 2009. No benefit plans were fully funded in fiscal 2010 or 2009.

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

	Pension Benefit Plans		Other Benefit Plans	
	2010	2009	2010	2009
Discount rate				
Benefit cost	7.35%	5.5%	7.70%	5.85%
Accrued benefit obligation	6.14%	7.35%	5.69%	7.70%
Expected long-term rate of return on plan assets	7.3%	7.5%	n/a	n/a
Rate of compensation increase				
Benefit cost	3.8%	3.8%	n/a	n/a
Accrued benefit obligation	3.7%	3.8%	n/a	n/a
Health care cost trend rates				
Weighted average health care cost trend rate	n/a	n/a	5.9%	5.5%
Weighted average ultimate health care cost trend rate	n/a	n/a	3.8%	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	
	2010	2009	2010	2009
Employer contributions	\$ 40	\$ 36	\$ —	\$ —
Employee contributions	\$ 24	\$ 21	\$ —	\$ —
Benefits paid	\$ 134	\$ 127	\$ 10	\$ 10
Settlement payments	\$ 11	\$ 6	\$ —	\$ —

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

	Target Allocation	2010	2009
Equities	60%	61%	58%
Fixed income investments	30%	30%	30%
Real estate	10%	9%	12%

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>	2010	2009
Other Comprehensive Income (Loss)		
Unrealized (loss) gain on derivatives designated as cash flow hedges	\$ (150)	\$ 151
Reclassification to income on derivatives designated as cash flow hedges	245	(249)
Other Comprehensive Income (Loss)	\$ 95	\$ (98)

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>	2010	2009
Accumulated other comprehensive (loss) income, beginning of period	\$ (42)	\$ 56
Other comprehensive income (loss) for the period	95	(98)
Accumulated Other Comprehensive Income (Loss), End of Period	\$ 53	\$ (42)

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 amount of approximately \$17,137 million of which approximately \$1,401 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 \$3,008 million extending to 2025 and purchase commitments for energy and capacity services with a value of \$336 million extending to 2015.

The total combined payments for the next five years are approximately (in millions): 2011—\$1,125; 2012—\$1,076; 2013—\$1,042; 2014—\$1,045; 2015—\$1,003.

Powerex has energy sales commitments over the next five years with a total estimated value of \$1,460 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 \$446 million. Payments for the next five years are approximately (in millions): 2011—\$144; 2012—\$140; 2013 —\$137; 2014—\$7; 2015—\$5.

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. Powerex has obtained an indefinite stay of this remaining lawsuit pending resolution of related proceedings before the Federal Energy Regulatory Commission (FERC).

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.

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.

A FERC trial judge has determined that in the event Powerex and other energy providers improperly reported transactional data to FERC in 2000 and 2001, those reports did not hide an accumulation of market power which resulted in unreasonably high energy prices. If the FERC Commission issues a final order upholding the trial judge's initial decision it is expected that the California Parties will commence appeal proceedings.

At March 31, 2010, Powerex was owed US \$265 million (CDN \$269 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.

d) BC Hydro and its subsidiaries have outstanding letters of credit, related primarily to Powerex trading activities. At March 31, 2010, the letters of credit outstanding total CDN \$62 million and US \$94 million.

NOTE 19: GEOGRAPHIC INFORMATION

Revenues, based on location of the customer, are as follows:

<i>(in millions)</i>	2010	2009
British Columbia	\$ 3,102	\$ 2,824
Canada (excluding British Columbia)	171	373
United States	549	1,072
Total	\$ 3,822	\$ 4,269

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.

NOTE 20: RELATED PARTY TRANSACTIONS

As Crown Corporations of the Province, BC Hydro, BCTC and the Province are considered related parties. 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 and balances are summarized below:

<i>(in millions)</i>	2010	2009
Province of BC		
Accounts receivable	\$ 93	\$ 92
Accounts payable	114	53
Water rental fees	312	310
Cost of energy sales	167	229
Taxes	111	108
Finance charges	419	472
Payment to the Province	47	288
BCTC		
Accounts receivable	\$ 85	\$ 56
Accounts payable	61	49
Cost of energy sales	72	77
Operating costs	92	91
Other	59	53
Columbia Power Corporation		
Cost of energy sales	48	53

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, 2010, the aggregate exposure under this indemnity totaled approximately \$58 million (2009 revised—\$159 million). BC Hydro has not experienced any losses to date under this indemnity.

NOTE 21: SUBSEQUENT EVENT

CONSOLIDATION OF BC TRANSMISSION CORPORATION

On April 28, 2010, the Province tabled its *Clean Energy Act* in the B.C. Legislature. The Act will set the foundation for a new future of electricity self-sufficiency powered by unprecedented investments in clean, renewable energy across the province. As part of its initiatives, the Act calls for the consolidation of BC Hydro and BCTC into a single organization with one board of directors and executive, and the transfer of all BCTC assets, liabilities and employees to BC Hydro. The companies will be combined in the second quarter of fiscal 2011 with transition activities expected to continue through the balance of the fiscal year.