



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position for the year ended March 31, 2007 (fiscal 2007). This discussion should be read in conjunction with the consolidated financial statements of the Company and related notes. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

For fiscal 2007, BC Hydro's results benefited from higher customer rates, increased consumption, higher energy trading income, lower energy costs, and lower amortization expense. Water inflows were 10 per cent lower than the prior year (and 12 per cent lower than average) resulting in lower hydro generation than in the prior year, however required energy purchases were made at a lower unit cost per megawatt hour (MWh) resulting in a reduction in the total cost of energy compared to the prior year.

HIGHLIGHTS

- Net income for the year ended March 31, 2007 was \$407 million, an increase of \$141 million from the prior year. This resulted in a return on equity of 13.44 per cent compared to 9.26 per cent for fiscal 2006.
- On November 10, 2006, the British Columbia Utilities Commission (Commission) approved the Negotiated Settlement Agreement (NSA) with respect to the F2007/2008 Revenue Requirements Application (F07/08 RRA). The Commission approved a rate increase of 1.54 per cent effective July 1, 2006 and a further 2.1 per cent effective February 1, 2007, for a total increase of 3.64 per cent. Included in the February 1, 2007 rate increase is a two per cent rate rider for the purpose of recovering a portion of the current balances in the energy deferral accounts.
- During the months from October to January, BC Hydro incurred \$37 million in storm restoration costs related to several major storms that occurred throughout British Columbia. BC Hydro is applying to the Commission for recovery through future rates of the major storm costs incurred in excess of forecast.
- Property, plant and equipment and intangible asset expenditures of \$807 million are 32 per cent higher (\$197 million) than the prior year primarily due to building new and improving existing substation equipment, seismic upgrades, stator replacements and refurbishment of the generation facilities, and increased volume of new customer construction.

<i>(dollar amounts in millions)</i>	2007	2006	Change
Total Assets	\$ 12,845	\$ 12,484	\$ 361
Retained Earnings	\$ 1,783	\$ 1,707	\$ 76
Net Income	\$ 407	\$ 266	\$ 141
Payment to the Province	\$ 331	\$ 223	\$ 108
Return on Equity ¹	13.44%	9.26%	4.18%
Debt to Equity ¹	70:30	70:30	–
Number of Domestic Customers	1,736,741	1,704,671	32,070
GWh Sold (Domestic)	52,911	52,440	471
Property, Plant and Equipment and Intangible Asset Expenditures	\$ 807	\$ 610	\$ 197

¹ Based on equity as defined for regulatory purposes



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS

Income before regulatory accounts of \$379 million for the year ended March 31, 2007 compares with \$25 million in the previous year. The primary reasons for the increase in income before regulatory accounts is the increase in gross margin on sales of \$257 million due to lower domestic and trade energy costs, lower operating costs of \$89 million, and lower amortization expense of \$28 million, offset by an increase in finance charges of \$18 million.

Net income after regulatory account transfers was \$407 million for the year ended March 31, 2007 compared with \$266 million in the previous year. BC Hydro's net income increased significantly from fiscal 2006 mainly due to increased domestic revenue, increased income from energy trading activities, and lower amortization expense.

Revenues

	In millions		in gigawatt hours	
	2007	2006	2007	2006
Domestic:				
Residential	\$ 1,070	\$ 1,046	16,651	16,261
Light industrial and commercial	1,025	989	18,268	17,913
Large industrial	556	584	15,989	16,428
Other energy sales	140	108	2,003	1,838
	\$ 2,791	\$ 2,727	52,911	52,440
Trade:				
Electricity	\$ 904	\$ 1,076	33,372	29,906
Gas	502	508	7,964	6,641
	\$ 1,406	\$ 1,584	41,336	36,547
Total	\$ 4,197	\$ 4,311	94,247	88,987

Total revenues for the year of \$4,197 million decreased 2.6 per cent over fiscal 2006 mainly due to decreased electricity trade revenue due to a lower average sales price. Volumes in 2007 of 94,247 GWh were 5.9 per cent higher than fiscal 2006 due to strong residential and light industrial customer demand and higher trade volumes.

Domestic Revenues

Total domestic revenues of \$2,791 million for the year ended March 31, 2007 were \$64 million or 2.3 per cent higher than the previous year. Average sales prices were higher than last year due to a 1.54 per cent rate increase from July 1, 2006 to January 31, 2007 and an additional 2.1 per cent increase effective February 1, 2007. Consumption was higher in the residential and light industrial and commercial sectors, offset by lower large industrial consumption. There was a 2.3 per cent increase in residential revenue due to 3.8 per cent cooler average temperatures during the year and the addition of 28,741 customers. Light industrial and commercial revenues increased 3.6 per cent from the higher rates and 3,306 additional customers. Revenue for large industrial customers decreased 4.8 per cent from fiscal 2006 due to reduced consumption as a result of lower economic activity in certain sectors and some industrial customers lowered their consumption to receive the benefit of a lower stepped rate provided to industrial customers who maintain or reduce their prior year consumption amounts. Other energy sales increased 29.6 per cent due to lower mark-to-market losses on forward energy contracts in fiscal 2007 compared to fiscal 2006.

Trade Revenues

The interconnection of BC Hydro's electricity system with systems in Alberta and the western United States facilitates sales and purchases of electricity outside of British Columbia. Energy trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro. Trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS (continued)

Total trade revenues for the year ended March 31, 2007 were \$1,406 million, a decrease of 11.2 per cent compared to \$1,584 million in the prior year. Total trade sales volumes were 41,336 GWh, an increase of 13.1 per cent compared to 36,547 GWh in the prior year. The decrease in trade revenues is primarily due to a decrease in electricity trade revenue as average sales prices for electricity were 18.6 per cent lower than the prior year at an average gross price of \$64.17/MWh (2006 – \$78.86/MWh). This decrease was partially offset by an 11.6 per cent increase in electricity volumes which totaled 33,372 GWh (2006 – 29,906 GWh). In addition, gas trade revenues marginally decreased as a result of a 19.9 per cent increase in gas sales volumes which totaled 7,964 GWh (2006 – 6,641 GWh) offset by a 17.6 per cent decrease in the average gross sales prices for gas which decreased to \$62.33/MWh (2006 – \$75.71/MWh).

The decrease in energy market prices in the current year was primarily driven by lower natural gas prices due to higher levels of North American gas storage inventories. This storage accumulated as a result of milder weather in the spring and summer months of 2006 and due to minimal supply interruptions compared to the previous year when there were several hurricanes.

Energy Costs

Energy costs are influenced primarily by the volume of energy consumed and the mix of sources of supply. The mix of sources of supply is influenced by variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

Energy costs are comprised of the following sources of supply:

	(\$ in millions)		(gigawatt hours)		(\$per MWh)	
	2007	2006	2007	2006	2007	2006
Hydro generation	\$ 259	\$ 272	44,886	46,219	\$ 5.82	\$ 5.81
Purchases from Independent Power						
Producers and other long-term contracts	363	449	6,041	6,741	60.09	66.61
Other electricity purchases – Domestic	248	350	5,698	5,853	43.52	59.80
Gas for thermal generation	78	53	1,060	375	73.58	141.33
Transmission charges and other expenses	22	79	112	109	–	–
Allocation from (to) trade energy	67	(68)	656	(1,321)	64.32	71.75
Total Domestic	\$ 1,037	\$ 1,135	58,453	57,976	\$ 17.74	\$ 19.57
Other electricity purchases – Trade ¹	\$ 438	\$ 565	33,815	28,405	\$ 50.34	\$ 65.21
Remarketed gas	480	494	8,320	6,912	57.67	71.54
Transmission charges and other expenses	229	226	–	–	–	–
Allocation (to) from domestic energy	(67)	68	(656)	1,321	64.32	71.75
Total Trade	\$ 1,080	\$ 1,353	41,479	36,638	\$ 56.52	\$ 72.07
Total Energy Costs	\$ 2,117	\$ 2,488	99,932	94,614	\$ 33.84 ²	\$ 39.90 ²

¹ Other electricity purchases in dollars include purchases for trade activities shown net of derivatives. Gigawatt hours and \$ per MWh are shown at gross cost.

² Total cost per MWh includes other electricity purchases at gross cost.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS (continued)

For the year ended March 31, 2007 total energy costs of \$2,117 million were \$371 million or 14.9 per cent lower than the previous year. The decrease is the result of a lower volume of purchases from IPPs, lower average purchase costs for domestic electricity purchases, lower transmission charges, and lower average costs for electricity and gas trade purchases. Total volume of energy supplied was 99,932 GWh, 5.6 per cent more than the prior year, with an average purchase price of \$33.84/MWh, a 15.2 per cent decline over fiscal 2006. Domestic energy costs were \$98 million lower than fiscal 2006, a decrease of 8.6 per cent. The change is a result of less hydro generation due to lower water inflows, reduced high cost purchases from Island Cogeneration due to an extended outage, and 9.4 per cent lower average unit costs. Thermal energy sources provided an additional 685 GWh's over last year due to increased production from Burrard Generating Station to meet demand during peak periods, offset by lower natural gas prices at \$73.58 per MWh versus \$141.33 per MWh last year.

Trade energy costs decreased \$273 million, or 20.2 per cent, primarily as a result of lower electricity costs. The average gross trade electricity purchase price decreased 22.8 per cent to \$50.34/MWh (2006 – \$65.21/MWh). This decrease was partially offset by an increase in Powerex's electricity trade purchase volumes which increased 5,410 GWh, or 19.0 per cent. The difference between the electricity trade sales volumes and electricity trade purchase volumes of 443 GWh relates to energy that Powerex sold to BC Hydro in the current fiscal year that Powerex will repurchase from BC Hydro in future years. Gas trading costs decreased slightly as the average gross trade gas purchase price decreased 19.4 per cent to \$57.67/MWh (2006 – \$71.54/MWh). The decrease in the average gross trade gas purchase price was partially offset by a 20.4 per cent increase in gas trading volumes to 8,320 GWh (2006 – 6,912 GWh).

Water inflows into BC Hydro's reservoirs were 10 per cent lower during the year ended March 31, 2007 compared to the prior year. This resulted in a decrease in the volume of low-cost hydro generation, one factor influencing the level of electricity imports. The decision to import energy instead of utilizing hydro generation is based on many factors, such as the forecast market price of energy in future periods relative to the current period, current reservoir levels and future demand requirements. Operating constraints related to legal and regulatory obligations such as minimum reservoir levels and stream flow requirements also affect the decision to import energy.

Despite lower inflows, reservoirs have been managed such that the combined storage in BC Hydro reservoirs at March 31, 2007, was 103 per cent of average compared with 124 per cent of average at March 31, 2006 (average storage levels relate to the average from 1986 to 2006), with the Williston Reservoir on the Peace River system at 97 per cent of average (2006 – 128 per cent) and the Kinbasket Reservoir on the Columbia River system at 110 per cent of average (2006 – 115 per cent). The lower reservoir level this year positions BC Hydro well to absorb the higher expected system runoff in fiscal 2008 due to the current snowpack conditions.

Operations costs

Operations costs for the year ended March 31, 2007 were \$107 million lower than the previous year. The decrease from fiscal 2006 was primarily due to a \$44 million decrease in demand-side management program expenditures in fiscal 2007 and the \$88 million provision made in the prior year for First Nation settlement costs. These were partially offset by a \$17 million increase in provisions for California litigation matters.

Expenditures on demand-side management programs (Power Smart) were lower in fiscal 2007 as incentive payments were reduced due to the implementation of stepped rates for industrial customers. Stepped rates provide a two-tier rate plan to Industrial customers to encourage them to reduce their consumption by charging them a lower rate for consumption levels below a target based on historical usage. Several industrial customers took advantage of stepped rates instead of Power Smart initiatives to reduce their costs in fiscal 2007.

Maintenance costs

Maintenance costs for the year ended March 31, 2007 were \$45 million higher than the previous year. The increase was primarily due to the \$37 million of storm restoration costs incurred during several major storms which took place during the winter months and additional corrective maintenance and rewedging costs incurred for the generation assets.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

CONSOLIDATED RESULTS OF OPERATIONS (continued)

General and administrative costs

Total general and administrative costs were \$27 million lower for year ended March 31, 2007 compared to the prior year. The reduction is primarily a combination of lower employee related costs, non-current service pension expense, and environmental remediation costs compared to fiscal 2006.

Amortization Expense

Amortization expense for the year ended March 31, 2007 was \$28 million lower than the previous year. This reduction is the result of the write-down of certain assets at the Burrard Generating Station of \$23 million in fiscal 2006 and reduced depreciation expense of \$13 million arising from a revision in estimated asset service lives based on a depreciation study undertaken by the Company.

Finance Charges

Finance charges for the year ended March 31, 2007 were \$18 million higher than the previous year. This was primarily a result of the higher U.S. short-term interest rates on debt refinancing (\$36 million), lower U.S. dollar sinking fund income (\$15 million) and a higher average volume of debt (\$15 million). This is partially offset by the favourable variances in foreign exchange due to a stronger Canadian dollar in fiscal 2007 (\$29 million), and higher interest capitalized during construction (\$14 million).

Return on Equity and Payment to the Province

(dollar amounts in millions)

	2007	2006
Actual return on equity ¹	13.44%	9.26%
Allowed return on equity	13.10% ²	13.51%
Payment to the Province	\$ 331	\$ 223

¹ Based on equity as defined for regulatory purposes.

² BC Hydro's allowed rate of return was approved by the Commission in its rate decision of November 10, 2006. The allowed return on equity has been calculated to equal, on a pre-income tax basis, that of the most comparable investor-owned utility.

BC Hydro is required to make an annual Payment to the Province equal to 85 per cent of its distributable surplus.

Liquidity and Capital Resources

Cash flow provided by operating activities for the year ended March 31, 2007 was \$557 million, compared with \$637 million for the prior year. The primary reason that cash flow provided by operating activities decreased in fiscal 2007 is due to solvency payments made to the BC Hydro Pension Benefit Plan of \$111 million and other decreases in working capital of \$129 million, offset by increased income over fiscal 2006.

BC Hydro is subject to an overall borrowing limit of \$8,800 million, net of sinking funds. At March 31, 2007 BC Hydro had an unused borrowing capacity totalling \$1,876 million. During fiscal 2007, BC Hydro issued \$300 million of new bonds and increased revolving borrowing by \$407 million. The funds from these issues, cash flows from operations and sinking funds were used to redeem \$526 million of bonds, fund the Payment to the Province and fund property, plant and equipment expenditures. Long-term debt, net of sinking funds and cash and cash equivalents, was \$6,916 million at March 31, 2007, compared to \$6,627 million as at the end of the prior year.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

Property, Plant and Equipment and Intangible Asset Expenditures

Property, plant and equipment and intangible asset expenditures were as follows:

<i>(in millions)</i>	2007	2006	Increase
Generation replacements and expansion	\$ 180	\$ 130	\$ 50
Transmission lines and substation replacements and expansion	247	161	86
Distribution improvements and expansion	295	249	46
General – including computers and vehicles	85	70	15
Total property, plant and equipment and intangible asset expenditures	\$ 807	\$ 610	\$ 197

For the year ended March 31, 2007, the increase in generation replacements and expansion is due to work on station refurbishments, stator replacements, turbine overhauls, and seismic upgrades. The increase in transmission expenditures is due to construction of four new substations to meet customer load growth and several reinforcement projects. The increase in distribution improvements and expansion is due to a higher volume of customer construction and connections and increased system growth improvement work.

Mark-to-Market Gains and Losses

BC Hydro uses mark-to-market accounting on its contracted commitments for foreign exchange transactions and Powerex trading transactions that meet the definition of a derivative and are not designated as effective hedges. Mark-to-market gains are recorded as assets and losses are recorded as liabilities on the balance sheet. As at March 31, 2007, BC Hydro recorded a net gain of \$18 million (\$61 million gain less \$43 million loss) compared to a net loss of \$24 million in last year from mark-to-market transactions.

Comparison with Service Plan

Each year, BC Hydro's Service Plan is prepared for presentation to the British Columbia Legislature under the *Budget Transparency and Accountability Act*. The plan outlines BC Hydro's goals, objectives and key strategies, along with the results it expects to achieve for the following three-year period.

In BC Hydro's February 2006 Service Plan, fiscal 2007 net income was forecast to be \$50 million.

Actual income before regulatory account transfers for the year ended March 31, 2007 was \$379 million which was \$361 million higher than the February 2006 Service Plan forecast of \$18 million. This is primarily due to lower than forecasted cost of energy due to lower energy purchase costs and lower volume of IPP purchases during fiscal 2007 and the rate increase approved by the Commission which was not included in the Service Plan forecast.

Trade revenues were \$688 million lower than the February 2006 Service Plan due to a 30 per cent lower average trade sales price. This is offset by lower trade energy costs due to 39 per cent lower average trade energy prices.

Operations costs increased \$78 million from the February 2006 Service Plan due to increased legal costs and a change in the presentation of demand-side management program expenditures and First Nations costs on the income statement. Maintenance costs increased \$43 million from the 2006 Service Plan mainly due to unplanned storm restoration costs incurred during the winter months. Administration costs decreased \$27 million due to the lower non-current service pension costs and lower employee related expenses.

Amortization expense is \$48 million lower than the February 2006 Service Plan due to delays in projects during the year, resulting in fewer assets in service.

The impact to net income of these variances is partially transferred to regulatory accounts. As a result, the actual net income of \$407 million was \$357 million more than the February 2006 Service Plan.



MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2007

Comparison with Service Plan (continued)

The table below provides an overview of BC Hydro's financial performance relative to its 2007 to 2009 Service Plan Update (February 2006). The results and forecasts form the basis upon which key performance targets are set.

<i>in millions</i>	-----Actual-----			Service Plan	
	2005	2006	2007	Forecast 2007	Variance 2007
Revenues					
Domestic					
Residential	\$ 1,016	\$ 1,046	\$ 1,070	\$ 1,071	\$ (1)
Light Industrial and Commercial	967	989	1,025	1,016	9
Large Industrial	573	584	557	574	(18)
Other energy sales	88	93	99	90	9
Miscellaneous	60	16	41	56	(15)
Total Domestic	2,704	2,727	2,791	2,807	(16)
Trade	1,021	1,584	1,406	2,094	(688)
Total	3,725	4,311	4,197	4,901	(704)
Expenses					
Energy costs	1,959	2,488	2,117	3,195	1,078
Operating costs	717	805	716	622	(94)
Taxes	143	147	149	152	3
Amortization	410	411	383	431	48
	3,229	3,851	3,365	4,400	1,035
Operating Income	496	460	832	501	331
Finance charges	318	435	453	483	30
Payment from Alcan Inc.	137	-	-	-	-
Income Before Regulatory Account Transfers	315	25	379	18	361
Regulatory Account Transfers	87	241	28	32	(4)
Net Income	\$ 402	\$ 266	\$ 407	\$ 50	\$ 357



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

Accounting Policies

Regulatory Accounting

BC Hydro applies various accounting policies that differ from Canadian generally accepted accounting principles for enterprises that do not operate in a rate-regulated environment. Generally, these policies result in deferral and amortization of certain 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 and approval of the Commission.

Accounting Pronouncements

Financial Instruments, Hedges and Comprehensive Income

In 2005, the CICA released Handbook sections 3855, 3865 and 1530, respectively entitled Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income.

Section 3855 specifies when a financial instrument should be accounted for on the balance sheet and at what amount – in some cases at fair value, while in other cases at a value based on cost. It also specifies how gains and losses on financial instruments should be presented.

Section 3865 replaces the guidance for hedging relationships that previously was included in Accounting Guideline 13, in particular the guidance for the designation and documentation of hedging relationships. These new recommendations specify how hedge accounting is applied and the required disclosures to be made by an entity applying hedge accounting.

Section 1530 establishes standards for the presentation and disclosure of comprehensive income. Comprehensive income for a reporting period includes, in addition to net income, the entire change in net assets attributable to transactions and other events from non-owner sources. Comprehensive income and its components will have to be presented in a financial statement with the same prominence as the other financial statements.

These sections will apply to the Company's fiscal 2008 interim and annual financial statements. The Company is currently examining the impact on its consolidated financial statements of applying these new standards.

Accounting for Rate Regulated Operations

In March 2007, the Canadian Accounting Standards Board ("AcSB") issued an Exposure Draft on rate regulated operations which, if adopted, will be effective beginning on or after January 1, 2009. The Exposure Draft proposes: (i) the temporary exemption in Section 1100, Generally Accepted Accounting Principles, of the CICA Handbook providing relief to entities subject to rate regulation from the requirement to apply the Section to the recognition and measurement of assets and liabilities arising from rate regulation be removed; (ii) withdraw from the Handbook all other recognition and measurement guidance relating specifically to rate-regulated operations; and (iii) retain Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation, as is. The AcSB has also observed that relying on U.S. Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation ("FAS 71"), as another source of Canadian GAAP in the absence of CICA Handbook guidance addressing the specific circumstances of entities subject to rate regulation, is consistent with Section 1100 when the qualifying criteria of FAS 71 are met. The Company is currently assessing the implications of the Exposure Draft on future financial reporting.

Employee Future Benefits

In March 2007, the AcSB issued an Exposure Draft on employee future benefits which, if adopted, will be effective for fiscal years ending on or after December 31, 2007. The Exposure Draft proposes balance sheet recognition of the funded status of defined benefit plans. Currently, the Company is only required to disclose the funded status in the Notes to the financial statements. The Company is currently assessing the implications of this Exposure Draft on its future financial reporting.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

Regulation Updates

Rate Hearings

In regulating and setting rates for BC Hydro, the Commission must ensure that the rates are sufficient to allow BC Hydro to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve an annual rate of return on equity based on forecast consolidated net income. The annual rate of return on equity is equal to the pre-income tax annual rate of return allowed by the Commission to the most comparable investor-owned energy utility regulated under the *Utilities Commission Act*. The allowed annual rate of return on equity calculated for fiscal 2007 was 13.10 per cent (2006 – 13.51 per cent). The actual rate of return in 2006 was 13.44 per cent.

On November 10, 2006, a Negotiated Settlement Agreement (NSA) was approved by the Commission with respect to the F07/08 RRA. The Commission approved rate increases of 1.54 per cent for July 1, 2006 to January 31, 2007 and a further 2.1 per cent, effective February 1, 2007 onward, for a total increase of 3.64 per cent.

Included in the February 1, 2007 rate increase is a rate rider of two per cent for the purpose of recovering a portion of the current balances in the Heritage Deferral Account, Non Heritage Deferral Account, Trade Income Deferral Account and BCTC Deferral Account. The rate rider has an indefinite term. Recovery of deferral accounts in fiscal 2007 was \$50 million.

As part of the NSA, the Commission approved the following regulatory accounts:

- Large Hydro Investigation Costs
- Depreciation Study Adjustments
- Contributions in Aid Amortization Variance

Major Storm Restoration Costs

During the period from October 2006 to January 2007, BC Hydro incurred significant costs in repairing the distribution system and restoring power to customers after several severe storms swept through the Province of British Columbia. The Company has categorized five of these storms as major and is currently applying to the Commission to recover maintenance expenses associated with these storms through future rates. The recoverability of these expenses is subject to final approval of the application by the Commission.

Powerex Legal Proceedings

Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. These proceedings are at various stages. A number of issues and findings are presently on appeal and none have been the subject of final judicial action. The U.S. Court of Appeals for the Ninth Circuit, in its *Lockyer* decision of July 31, 2006, told the U.S. Federal Energy Regulatory Commission (FERC) that it should reconsider its remedial powers thereby opening up the possibility that refunds will have to be paid for the periods from May to October 2000. On August 2, 2006, the Ninth Circuit ruled on certain issues in the FERC refund proceedings. One of those related to whether refunds should be paid for bilateral sales [those that did not go through the California Independent System Operator (CISO)]. In its decision, the Ninth Circuit upheld FERC's decision that refunds should not be paid for bilateral sales but also said that FERC was wrong to conclude that it did not have power to award refunds retroactively. The precise effect of these decisions on Powerex cannot be determined at this time.

At March 31, 2007, Powerex was owed U.S. \$268 million (CDN \$309 million) by the markets operated by the California Power Exchange (Cal Px) and the CISO related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities, the Cal Px and CISO were unable to pay these amounts to Powerex. That receivable will be offset against any refunds that Powerex is required to pay.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

Powerex Legal Proceedings (continued)

On March 26, 2004, FERC approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. This settlement is still subject to rehearing at FERC, has not been the subject of a final FERC order and FERC's final order when issued may subsequently be appealed to the courts.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a U.S. Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the *Foreign Sovereign Immunities Act*. The Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex requested its appeal of the decision be heard by the Supreme Court of the United States. The Supreme Court heard the case on April 16, 2007 and a decision from them is pending.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be 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.

Risk Management

BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions. The key risks BC Hydro faces are divided into five categories for management purposes: employee, public and dam safety; reliability; financial performance; organization risk; and environmental.

Employee, Public and Dam Safety

Safety risks to the public exist due to the multiple uses of water for electricity generation, recreation and waterways. Risks can also result from potential contact with transmission and distribution equipment located in communities. To manage the public safety risk, BC Hydro relies on design, construction and operating standards and practices, signage, consultation with other agencies and stakeholder groups, and public education. BC Hydro also prepares emergency response plans to limit injury and loss of life and to restore electric service.

Many of BC Hydro's employees face the risk of serious injury or death by the nature of their jobs in dealing with electrical hazards. In order to mitigate these inherent risks, BC Hydro has a comprehensive safety management system that includes employee involvement, communication, training, resources, policies and safety practice regulations.

The large dams represent a catastrophic loss risk (low probability but high consequence) to BC Hydro in terms of life safety, financial, environmental and reputation. This dam failure risk is managed through a comprehensive dam safety management system involving dam safety professionals and experts. The system incorporates dam surveillance and monitoring, periodic independent reviews of dam performance, dam investigations and analysis. Dam upgrades may be required due to changes in knowledge, standards or extreme event parameters (for earthquake, floods, landslides). BC Hydro follows the B.C. Dam Safety Regulation, participates in the Canadian Dam Association and the International Commission on Large Dams, and engages panels of international experts for independent advice on the management and control of these risks.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

Risk Management (continued)

Reliability

The most significant risk to the reliability of BC Hydro's system is the impact of weather. With BC Hydro's large service territory there is significant exposure to trees, terrain and diverse weather patterns. BC Hydro mitigates the likelihood and consequence of such impacts through effective design, construction, operations, maintenance and response. BC Hydro manages these risks by balancing customers' expectations and cost considerations. Reliability risks could also result from either a lack of available generation supply or the associated transmission capacity to meet customer demand. BC Hydro manages these risks through long-term planning, asset maintenance programs, reliance on a diverse supply of energy options, and through cooperative support arrangements with neighbouring utilities.

BC Hydro must meet government permitting requirements to operate its facilities and build new infrastructure, which can have an impact on project lead times. Delays in obtaining appropriate permits and consent could adversely impact reliability.

Financial Performance

In meeting its financial performance targets, BC Hydro faces many risks including energy costs, energy demand, interest and foreign exchange rates, pension obligations, and energy trading. Of these, risks associated with energy costs – specifically water inflows and energy market prices – are the largest.

Increasing costs due to aging infrastructure, the need for new supply and the need to manage environmental impacts create challenges for BC Hydro in maintaining the low electricity cost advantage the province enjoys. How BC Hydro manages tradeoffs between these competing objectives will be important to its financial performance and its ability to make the required infrastructure investment. External long-term costs of environmental and social impacts need to be factored into decision-making today to ensure the right business decisions are made for the long-term.

Energy Cost

Energy cost risk is the most significant financial risk to BC Hydro. It can result when BC Hydro is required to purchase electricity from the markets due to increased electricity demand in B.C. or lower-than-expected water inflow levels. It can also result from changing market prices for electricity and natural gas. Over the past five years, BC Hydro has experienced below average water inflows and has increasingly relied on volatile energy trading markets in order to meet domestic demand. BC Hydro manages energy cost risk through its flexible hydroelectric system, which allows water to be stored in large reservoirs and used when it is most economic, and by hedging the cost of imported electricity.

Energy Demand

Energy demand is increasing as B.C.'s population increases and its economy grows. However, this demand increase can be volatile particularly from larger customers whose consumption is often driven by export markets and world commodity prices. BC Hydro is fully exposed to price risk on all customer demand in excess of its planned load, as customer rates are based on average costs (including heritage energy costs), which are significantly below the price of market purchases.

Interest Rates and Foreign Exchange Rates

Changes in interest and foreign exchange rates can significantly impact BC Hydro's finance charges. BC Hydro debt-management strategies include limiting the allowable percentage range of variable interest rate debt, and closely monitoring settlement and counterparty credit risks associated with both derivative and foreign exchange currency agreements. Interest and foreign exchange rate changes can also influence the performance and cost of BC Hydro's employee benefit and pension plans.

At March 31, 2007, \$2,666 million or 37.6 per cent of net debt was subject to interest rate reset within the next fiscal year. Interest rate risk is managed through Board approved policies, which require the debt portfolio to be managed using an appropriate blend of fixed and floating rate debt, as well as by managing the term to maturity of its debt portfolio to manage exposure to interest rate movements in the future. BC Hydro utilizes financial instruments, including interest rate swaps and options, to adjust the balance of fixed and floating rate debt, and to reduce its overall cost of borrowing.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

Risk Management (continued)

BC Hydro is exposed to exchange rate risk through the cost of U.S. dollar electricity purchases and surplus sales, gains from U.S. trading activity, U.S. dollar capital equipment purchases and U.S. dollar debt servicing. Foreign exchange risk is managed through Board approved policies. Both foreign exchange and interest rate risk are monitored and reported on a monthly basis.

Energy Trading

BC Hydro's energy trading subsidiary, Powerex, is exposed to the risk of variable market prices and counterparties who might not meet their obligations. Powerex manages these risks by operating through defined limits that are regularly reviewed by both the Powerex and BC Hydro Boards of Directors. Powerex primarily focuses on near to mid-term trading positions, backing forward commitments with the physical supply capability of the BC Hydro System, the Canadian Entitlement, and other supply contracts, while operating within Board approved market and credit limits. Longer-term positions are reviewed in the context of the overall energy trading portfolio.

Powerex is exposed to the risk of litigation, such as the potential liabilities from the California power crisis. The conduct of Powerex employees is governed by its Trading Code of Conduct and Compliance policies and procedures. Powerex also adheres to the Electric Power Supply Association's Code of Ethics and Sound Trading Practices for Electric Power Suppliers to guide its trading activities.

Regulatory Risk

BC Hydro is permitted to earn an allowed return on equity. Tariff rates are set based upon BC Hydro's cost and equity forecast. Many risks (difference between forecast and actual costs) associated with uncontrollable costs are covered through regulatory deferral accounts. The major cost components susceptible to variation included in the regulatory deferral accounts are water inflows, energy prices including thermal fuel costs, major unplanned capital costs and trade income. BC Hydro's risk includes those associated with capital assets, domestic load volumes and prices, maintenance, operations and administration costs, and debt related costs.

Organizational Risk

An aging population is changing the dynamics for attracting skilled people at the same time many employees are retiring or are eligible to retire. In BC Hydro, an increasing number of employees are becoming eligible for retirement. Furthermore, short-term economic growth is outstripping resource capacity with a consequent pressure on labour availability and cost. This shortage of capable labour and the potential loss of institutional knowledge poses a risk to BC Hydro's ability to deliver on projects and capital plans.

Environmental and Social Performance

BC Hydro's environmental responsibility policy states that BC Hydro will meet or exceed environmental regulations defined by legislation, regulation, government directives and guidelines, as well as its commitments and agreements. Even if there is no environmental or social regulation, BC Hydro can face risks. These risks are managed through voluntary activities, such as the Water Use Plans. Voluntary action is taken with a view to managing long-term risk and for cost controls.

Areas where BC Hydro is exposed to the risk of non-compliance with environmental regulations include the release of hazardous materials into the environment, endangerment of wildlife and their habitats, or damage to heritage sites where there is evidence of historic human occupation. These risks are managed through environmental management systems and risk mitigation strategies.

BC Hydro's Board approved a corporate social responsibility policy in May 2004. The organization is building practices in this area to manage emerging risks associated with suppliers, employees, stakeholders and First Nations.

First Nation past grievances, land claims, service reliability and regulatory processes pose risks to BC Hydro. BC Hydro manages these risks through a comprehensive Aboriginal Relations program. The long-term goal of further building business relationships with First Nations is intended to go beyond addressing the impact of BC Hydro facilities on First Nations and reducing the associated financial, legal and operating risks, to having a more proactive, mutually beneficial approach to working together.



MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2007

OUTLOOK

BC Hydro's Service Plan is required to be filed in February of each year under the Budget Transparency and Accountability Act. BC Hydro's February 2007 Service Plan forecast income before regulatory deferral account transfers for fiscal 2008 is \$324 million and forecast net income is \$365 million. The Service Plan includes the final rate increases approved by the Commission in the NSA.

BC Hydro's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, market prices for electricity and natural gas, weather temperatures, interest rates and foreign exchange rates. The February 2007 forecast for fiscal 2008 assumes a customer load increase of 1.88 per cent, 100 per cent of normal total system water inflows, average market electricity purchase prices of U.S. \$60/MWh, short term interest rates of 4.24 per cent and a U.S. dollar exchange rate of U.S. \$0.87.

The 2008 first quarter forecast update increased forecast total system inflows to 109 per cent of normal and average energy prices to U.S. \$61/MWh for fiscal 2008. As a result, cost of energy for domestic load is expected to decrease by \$175 million, however this positive variance will flow into the energy deferral accounts. As a result, income before regulatory transfers is now forecast to be \$477 million and net income is forecast to be unchanged at \$365 million.

The estimated rate increases for fiscal 2009 to 2011 have decreased from 5.86 per cent, 3.74 per cent and 7.81 per cent respectively in the Service Plan to 3.88 per cent, 5.71 per cent and 6.14 per cent in this forecast update. On a cumulative basis, the rate increase is 16.55 per cent by the end of fiscal 2011 compared to 18.40 per cent in the Service Plan. The forecast rate increases are indicative only and have not been approved by the Commission. The forecast rate increases are subject to change given the volatility around several assumptions including water inflows and market prices for energy.

EARNINGS SENSITIVITY

The following table shows the effect on earnings of changes in some key variables. The analysis is based on business conditions and production volumes forecast for fiscal 2008. Each separate item in the sensitivity analysis assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitude of changes.

Factor	Change	Approximate change in earnings before regulatory deferral account transfers		
		(in millions)	5 year high	5 year low
Hydro generation ¹	1,000 GWh	\$ 60	47,665 GWh	41,601 GWh
Electricity trade margins	\$1/MWh	35	n/a	n/a
Interest rates	+/- 1%	29	4.33% ²	2.39% ²
Exchange rates (CDN/U.S.)	\$ 0.01	3	\$ 0.88 ³	\$ 0.65 ³
Weather	1°C change in average temperature	1	1.3°C ⁴	-0.2°C ⁴
Pension costs	1% change in the expected return of 7.2% on pension assets ⁵	3	15.00%	-4.10%

¹ Assumes change in hydro generation is offset by corresponding change in energy imports (i.e. increase in hydro generation is offset by decrease in energy imports).

² Interest rates are the average Canadian short-term interest rates (3 month Canadian Dollar Offered Rate).

³ Exchange rates are the average Canadian Dollar noon rates for F2003 to F2007.

⁴ Weather high and low numbers represents the variance in degrees Celsius from the normal temperatures over the winter months November to March from 2002/03 to 2006/07. (-0.2 degrees lower than normal to 1.3 degrees higher than normal - normal is the 10-year rolling average).

⁵ The impact of this change affects earnings in the subsequent year.



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, consistently applied and appropriate in the circumstances. 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 11, 2007. The consolidated financial statements have also been reviewed by the Audit and 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 and 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 and Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit and 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 and 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 and Risk Management Committee, with and without the presence of management.

R.G. (Bob) Elton
President
and Chief Executive Officer

A. (Alister) Cowan
Executive Vice-President Finance
and Chief Financial Officer

Vancouver, Canada
May 11, 2007



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, 2007 and the consolidated statements of operations, 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

*Vancouver, Canada
May 11, 2007*

**CONSOLIDATED STATEMENT OF OPERATIONS**

for the years ended March 31 (<i>in millions</i>)	2007	2006
Revenues		
Domestic	\$ 2,791	\$ 2,727
Trade	1,406	1,584
	4,197	4,311
Expenses		
Energy costs:		
Domestic	1,037	1,135
Trade	1,080	1,353
Operations	266	373
Maintenance	312	267
General & administration	138	165
Amortization (Note 3)	383	411
Taxes	149	147
	3,365	3,851
Operating Income	832	460
Finance charges (Note 4)	(453)	(435)
Income Before Regulatory Accounts	379	25
Net change in regulatory accounts (Note 2)	28	241
Net Income	\$ 407	\$ 266

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended March 31 (<i>in millions</i>)	2007	2006
Retained earnings, beginning of year	\$ 1,707	\$ 1,688
Removal of British Columbia Transmission Corporation from consolidated accounts (Note 15)	–	(24)
Net income	407	266
Payment to the Province (Note 2)	(331)	(223)
Retained Earnings, end of year	\$ 1,783	\$ 1,707

See accompanying notes to consolidated financial statements.



CONSOLIDATED BALANCE SHEET

as at March 31 (<i>in millions</i>)	2007	2006
ASSETS		
Property, Plant and Equipment, net (Note 5)	\$ 9,998	\$ 9,610
Current Assets		
Cash and cash equivalents	8	23
Accounts receivable and accrued revenue	512	446
Materials and supplies	137	135
Prepaid expenses	110	93
Mark-to-market gains	61	57
	828	754
Other Assets and Deferred Charges		
Intangible assets, net (Note 6)	424	413
Sinking funds (Note 7)	733	846
Regulatory assets (Note 2)	862	861
	2,019	2,120
	\$ 12,845	\$ 12,484
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	\$ 5,502	\$ 5,696
Sinking funds presented as assets	733	846
Long-Term Debt (Note 8)	6,235	6,542
Current Liabilities		
Current portion of long-term debt (Note 8)	1,422	954
Accounts payable and accrued liabilities	1,267	1,089
Mark-to-market losses	43	81
	2,732	2,124
Other Liabilities		
Regulatory liabilities (Note 2)	413	440
Deferred contributions (Note 10)	913	856
Debt issue and related costs	145	125
Other long-term liabilities (Note 11)	459	538
Foreign currency contracts (Notes 8 and 9)	165	152
	2,095	2,111
Retained Earnings	1,783	1,707
	\$ 12,845	\$ 12,484

Commitments and Contingencies (Note 13)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

L.I. (Larry) Bell
Chair

W.C. (Wanda) Costuros
Chair, Audit & Risk Management Committee



CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended March 31 (<i>in millions</i>)	2007	2006
Operating Activities		
Net income	\$ 407	\$ 266
Regulatory account transfers	(121)	(212)
Adjustments for non-cash items:		
Amortization of regulatory accounts	93	59
Amortization of property, plant and equipment	346	377
Amortization of intangible assets	37	34
Foreign exchange translation (gains) losses	(2)	18
Amortization of debt issue and related costs	(7)	(9)
Deferred revenue	20	15
Unrealized mark-to-market (gains) losses	(41)	26
Sinking fund income	(39)	(54)
Employee benefit plan expenses	29	35
Other non-cash items	12	19
	734	574
Working capital changes	(177)	63
Cash provided by operating activities	557	637
Investing Activities		
Property, plant and equipment and intangible assets	(780)	(607)
Deferred contributions	85	68
Dismantling costs	(16)	(11)
Proceeds from property sales	7	2
Cash used for investing activities	(704)	(548)
Financing Activities		
Bonds issued	300	400
Bonds retired	(526)	(616)
Revolving borrowings	407	188
Sinking fund withdrawals	147	194
Debt issue and related costs	27	90
Payment to the Province	(223)	(339)
Cash provided by (used for) financing activities	132	(83)
(Decrease) increase in cash and cash equivalents	(15)	6
Cash and cash equivalents, beginning of year	23	17
Cash and cash equivalents, end of year	\$ 8	\$ 23
Supplemental disclosure of cash flow information		
Interest paid	\$ 512	\$ 498

See accompanying notes to consolidated financial statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

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 2) by the British Columbia Utilities Commission (the Commission) 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.

Consolidation

The consolidated financial statements include the accounts of BC Hydro and its principal wholly-owned operating subsidiaries Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd. All intercompany transactions and balances are eliminated upon consolidation.

Use of Estimates

Management of BC Hydro has made a number of estimates and assumptions relating to the reporting of assets and liabilities and to the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with Canadian generally accepted accounting principles (GAAP). Actual results could differ from these estimates.

Regulatory Accounting

BC Hydro is regulated by the Commission, and they are both 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 Commission. 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 Commission.

BC Hydro applies various accounting policies that differ from Canadian GAAP for enterprises that do not operate in a rate-regulated environment (see Note 2). 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 by approval of the Commission.

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.

Trade revenues and energy costs include the effects of using commodity derivatives. The impacts on trading transactions of realized and unrealized gains and losses resulting from changes in fair value are reflected on a net basis.

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



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 significant level of capacity.

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

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

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

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. These assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be fully recoverable. The expected useful lives, in years, are as follows:

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



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash and cash equivalents include cash and units of a money market fund that are valued at the lower of cost or market.

Materials and Supplies

Materials and supplies are valued at the lower of average cost and net realizable value.

Derivative Financial Instruments

BC Hydro uses derivative financial instruments to manage interest rate and foreign exchange risks related to debt, and exposure to electricity and gas market prices.

Derivatives that are designated as hedges are deemed to be effective in offsetting the designated risk and are accounted for on a basis consistent with the underlying financial exposure. Payments and receipts under interest rate and cross-currency swap contracts are recognized as adjustments to finance charges. Gains and losses on terminated interest rate and cross-currency swaps, options and forward rate agreements that are accounted for as hedges are deferred and amortized on a straight-line basis over the original remaining term of the related contract.

If a derivative is not designated as a hedge or, if a derivative is no longer designated as a hedge or the hedging relationship is terminated, then the derivative is recorded at fair value from the date the hedging relationship ceases. The change in fair value is recorded as an adjustment of finance charges.

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

Fair Value

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

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

Sinking Funds

Sinking funds are held as individual portfolios or units in a pooled bond fund. Securities included in an individual portfolio are recorded at cost, adjusted by amortization of any discounts or premiums arising on purchase, on a yield basis over the estimated term to settlement of the security. Realized gains and losses are included in sinking fund income. Unrealized gains and losses are not recognized.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Revenue

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

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

Deferred Contributions

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

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

Asset Retirement Obligations

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. A liability is recorded 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 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 health care costs. For the purpose of calculating the return on plan assets the assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

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

The excess of the net cumulative unamortized actuarial gain or loss over 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 (2006 – 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.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

Environmental Expenditures and Liabilities

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

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

Taxes

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

Comparative Figures

Certain amounts in the prior year's statements have been reclassified to conform to the current year's presentation.

NOTE 2: REGULATION

Rate Regulation

On November 10, 2006, the Commission approved the Negotiated Settlement Agreement (NSA) filed with respect to the F2007/2008 Revenue Requirements Application. The Commission approved rate increases of 1.54 per cent for July 1, 2006 to January 31, 2007 and a further 2.10 per cent effective February 1, 2007, for a combined increase of 3.64 per cent, based on an allowed rate of return of 13.10 per cent.

Included in the February 1, 2007 rate increase is a rate rider of two per cent for the purpose of recovering a portion of the current balances in the Heritage Deferral Account (HDA), Non Heritage Deferral Account (NHDA), Trade Income Deferral Account (TIDA) and BCTC Deferral Account (BCTC DA). The amortization of these accounts will be based on a percentage of the rate rider derived from their balance relative to the total for the group. The rate rider has an indefinite term. Recovery of deferral accounts as approved by the Commission in the NSA and from the rate rider in fiscal 2007 was \$50 million.

As part of the NSA, the following regulatory accounts were approved:

- Large Hydro Investigation Costs
- Contributions in Aid (CIA) Amortization Variance
- Depreciation Study Adjustments



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 2: REGULATION (continued)

Regulatory Accounts

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2007, the impact of regulatory accounting has resulted in an increase to net income of \$28 million (2006 – \$241 million).

<i>(in millions)</i>	2006	Additions/Reductions	Amortization	Net change	2007
Regulatory Assets					
Heritage Deferral Account	\$ 241	\$ (9)	\$ (54)	\$ (63)	\$ 178
Non-Heritage Deferral Account	205	49	(45)	4	209
BCTC Deferral Account	25	(13)	1	(12)	13
Demand-Side Management Programs	269	46	(33)	13	282
First Nation Negotiation, Litigation and Settlement Costs Account	119	11	(4)	7	126
Other Regulatory Accounts	2	73	(21)	52	54
Total Regulatory Assets	\$ 861	\$ 157	\$ (156)	\$ 1	862
Regulatory Liabilities					
Future Removal and Site Restoration Costs	\$ 226	\$ –	\$ (16)	\$ (16)	\$ 210
Trade Income Deferral Account	214	36	(47)	(11)	203
Total Regulatory Liabilities	\$ 440	\$ 36	\$ (63)	\$ (27)	\$ 413
Net	\$ 421	\$ 121	\$ (93)	\$ 28	\$ 449

Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission 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 the 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 \$63 million increase in net income (2006 – \$103 million decrease).

Non-Heritage Deferral Account

Under a Special Directive issued by the Province, the Commission approved the establishment of the NHDA, which is intended to mitigate the impact of certain cost variances between the forecasted costs in the 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 these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$4 million decrease in net income (2006 – \$74 million).

BCTC Deferral Account

Under a Special Directive issued by the Province, variances that arise between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a \$12 million increase in net income (2006 – \$25 million decrease).

During fiscal 2007, BC Hydro recorded a \$24 million refund from BCTC for point-to-point services received in cost of energy.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 2: REGULATION (continued)

Demand-Side Management Programs

Established under a regulatory order from the Commission, 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.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2007, \$46 million of period costs were incurred and amortization of previously capitalized amounts totaled \$33 million (2006 – \$90 million and \$28 million, respectively). Consequently, net income would have been \$13 million lower than would have been recorded in the absence of rate regulation (2006 – \$62 million).

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 amortized on a straight-line basis over a period of 10 years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria would be recorded as property, plant and equipment. In 2007, \$11 million (2006 – \$96 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled \$4 million (2006 – \$4 million). Consequently, net income would have been \$7 million lower than would have been recorded in the absence of rate regulation (2006 – \$92 million).

Other Regulatory Accounts

Included in other regulatory accounts are the following regulatory assets and liabilities: Foreign Exchange Gains and Losses Arising from the Translation of Specified Foreign Currency Financial Instruments, Large Hydro Investigation Costs, Depreciation Study Adjustments; CIA Amortization Variance, and Major Storm Restoration Costs. All of these accounts have been approved by the Commission through regulatory order, except for the Major Storm Restoration Costs account which BC Hydro is applying to the Commission for approval. Recoverability of the storm restoration costs is subject to approval of the Commission.

In 2007, \$52 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2006 – \$4 million).

Future Removal and Site Restoration Costs

As part of its October 2004 decision, the Commission 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 would be anticipated that a liability would not be recognized. The amortization of previously capitalized amounts totaled \$16 million in the current year (2006 - \$11 million). Consequently, net income would be \$16 million lower than would have been recorded in the absence of rate regulation.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

NOTE 2: REGULATION (continued)

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 Canadian 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 \$11 million decrease in net income (2006 – \$99 million increase).

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

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.

NOTE 3: AMORTIZATION

<i>(in millions)</i>	2007	2006
Amortization of property, plant and equipment in service	\$ 354	\$ 372
Amortization of intangible assets	37	34
Amortization of deferred contributions	(29)	(44)
Property, plant and equipment written-off	7	49
Dismantling costs	16	11
Salvage proceeds	(2)	(11)
	\$ 383	\$ 411

During the year ended March 31, 2006, BC Hydro recorded a write-down of thermal generation assets to reflect a reduction in their future use. The write-down, totalling \$23 million, is included in property, plant and equipment written-off.

NOTE 4: FINANCE CHARGES

<i>(in millions)</i>	2007	2006
Interest on long-term debt	\$ 515	\$ 493
Sinking fund income	(39)	(54)
Other	1	6
	477	445
Less: Assigned to unfinished construction	(24)	(10)
	\$ 453	\$ 435



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

<i>(in millions)</i>	2007				2006			
	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value
Generation								
Hydraulic	\$ 5,555	\$ 1,885	\$ 199	\$ 3,869	\$ 5,443	\$ 1,749	\$ 102	\$ 3,796
Thermal	457	272	6	191	454	257	5	202
	6,012	2,157	205	4,060	5,897	2,006	107	3,998
Lines	6,685	2,674	261	4,272	6,459	2,687	261	4,033
Substations	2,421	1,206	47	1,262	2,256	1,147	71	1,180
Other								
Land and buildings	390	182	9	217	391	179	1	213
Equipment	224	153	7	78	305	228	3	80
Computer hardware	64	34	1	31	69	53	17	33
Service vehicles	108	56	9	61	102	60	5	47
Sundry	28	15	4	17	32	15	9	26
	814	440	30	404	899	535	35	399
Total	\$15,932	\$ 6,477	\$ 543	\$ 9,998	\$ 15,511	\$ 6,375	\$ 474	\$ 9,610

NOTE 6: INTANGIBLE ASSETS

<i>(in millions)</i>	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	\$ 359	\$ 206	\$ 153	\$ 315	\$ 165	\$ 150
Clearing	177	56	121	174	55	119
Sundry	37	9	28	37	6	31
	573	271	302	526	226	300
Not Subject to Amortization						
Land Rights	122	–	122	113	–	113
Total	\$ 695	\$ 271	\$ 424	\$ 639	\$ 226	\$ 413



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 7: 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>(dollar amounts in millions)</i>	2007		2006	
	Carrying Value	Weighted Average Effective Rate ¹	Carrying Value	Weighted Average Effective Rate ¹
Money market funds ²	\$ 60	4.3 %	\$ 48	3.7 %
Province and BC Crown Corporation bonds	324	4.6 %	331	4.8 %
Federal and other provincial government securities	349	4.7	467	4.8 %
	\$ 733		\$ 846	

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 8: 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.

Under the *Hydro and Power Authority Act*, BC Hydro is subject to a borrowing limit of \$8,800 million after deduction of sinking funds. As at March 31, 2007, BC Hydro's total debt under the borrowing limit was \$6,924 million (2006 – \$6,650 million). The authorized commercial paper borrowing program, which includes revolving borrowings, is limited to \$1,400 million under the Fiscal Agency Agreement between BC Hydro and the Province. At March 31, 2007, the outstanding amount under the borrowing limit was \$1,073 million (2006 – \$880 million).

During fiscal 2007, BC Hydro issued bonds totalling \$300 million (2006 – \$400 million) with a weighted average effective interest rate of 5.0 per cent (2006 – 4.8 per cent) and a weighted average term to maturity of 22.9 years (2006 – 25.8 years).

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

(dollar amounts in millions)	2007				2006			
	Canadian	Foreign	Total	Weighted Average Interest Rate ¹	Canadian	Foreign	Total	Weighted Average Interest Rate ¹
Maturing in fiscal:								
2007	\$ –	\$ –	\$ –	–	\$ 314	\$ 210	\$ 524	5.3 %
2008	9	577	586	5.9	9	584	593	5.5
2009	94	–	94	10.1	94	–	94	10.0
2010	574	58	632	6.5	574	58	632	6.5
2011	150	–	150	6.5	150	–	150	6.5
2012	450	–	450	6.1	–	–	–	–
Total								
1 – 5 years	1,277	635	1,912	6.4	1,141	852	1,993	6.1
6 – 10 years	975	231	1,206	6.1	1,425	233	1,658	6.1
11 – 15 years	1,271	–	1,271	9.0	975	–	975	8.7
16 – 20 years	410	576	986	7.6	706	584	1,290	8.3
21 – 25 years	1,100	–	1,100	5.4	–	–	–	–
26 – 30 years	–	346	346	7.4	800	–	800	5.5
Over 30 years	–	–	–	–	–	350	350	7.4
Bonds and debentures	5,033	1,788	6,821	6.9	5,047	2,019	7,066	6.8
Revolving borrowings	826	10	836	4.2	412	18	430	3.8
	\$ 5,859	\$ 1,798	7,657		\$ 5,459	\$ 2,037	7,496	
Less: Current portion			1,422				954	
Long-term debt			\$ 6,235				\$ 6,542	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 8: LONG-TERM DEBT AND DEBT MANAGEMENT (continued)

The following interest rate contracts were in place at March 31, 2007 and 2006 at a nil carrying value. Floating rates are based on the effective rates at the balance sheet date and vary over time.

<i>(dollar amounts in millions)</i>	2007	2006
Receive fixed, pay floating rate swaps		
Notional amount ¹	\$ 1,592	\$ 1,792
Weighted average receive rate	4.42%	4.57%
Weighted average pay rate	4.54%	3.93%
Weighted terms	5 years	6 years
Receive floating, pay fixed rate swaps		
Notional amount ¹	\$ 540	\$ 290
Weighted average receive rate	4.44%	3.94%
Weighted average pay rate	4.81%	4.90%
Weighted terms	3 years	7 years
Receive floating, pay floating rate swaps		
Notional amount ¹	\$ 175	\$ 175
Average receive rate	5.38%	4.95%
Average pay rate	5.30%	4.58%
Remaining term	1 year	1 year

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

The net carrying value of foreign exchange forward contracts in place at March 31, 2007 was \$nil (2006 – (\$5) million).

The following foreign currency contracts with a net carrying value of (\$165) million (2006 – (\$152) million) were in place at March 31, 2007 and 2006. Such contracts are used to hedge foreign dollar principal and interest payments.

<i>(dollar amounts in millions)</i>	2007	2006
Cross-Currency Swaps		
BC Hydro receives foreign currency:		
United States dollar – notional amount ¹	US \$1,249	US \$1,334
United States dollar – weighted average exchange rate	1.29	1.29
Remaining term	12 years	12 years

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

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

<i>(in millions)</i>	2007						2006
	-----In Canadian Dollars-----						
	In	At the closing	Foreign	Sinking	Net Principal Outstanding		Net Principal
	Currency	exchange rates	Currency	Funds	Before	After	Outstanding
	Units	at the balance	Contracts		Hedging	Hedging	After
		sheet date (CS)					Hedging
Canadian	\$ 5,859	\$ 5,859	\$ –	\$ (509)	\$ 5,350	\$ 6,791	\$ 6,439
US	1,560	1,798	165	(224)	1,739	298	363
		\$ 7,657	\$ 165	\$ (733)	\$ 7,089	\$ 7,089	\$ 6,802



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 9: FINANCIAL INSTRUMENTS

Fair Value

At March 31, 2007 and 2006, BC Hydro's financial instruments included cash and cash equivalents, accounts receivable, sinking funds, accounts payable, long-term debt and interest rate, foreign exchange and commodity derivative financial instruments. Some of these derivative financial instruments are held with the Province, which enters into such agreements with third parties on BC Hydro's behalf.

BC Hydro's financial instruments not shown in the following table have fair values that approximate carrying amounts (bracketed amounts represent liabilities):

<i>(in millions)</i>	2007		2006	
	Carrying Value ¹	Fair Value ²	Carrying Value ¹	Fair Value ²
Bonds and debentures	\$ (6,821)	\$ (8,075)	\$ (7,066)	\$ (8,294)
Revolving borrowings ³	(836)	(836)	(430)	(430)
Long-term debt before current portion	\$ (7,657)	\$ (8,911)	\$ (7,496)	\$ (8,724)
Sinking funds	\$ 733	\$ 740	\$ 846	\$ 844
Derivative financial instruments				
Net foreign currency contracts	\$ (165)	\$ (153)	\$ (152)	\$ (147)
Interest rate swaps	–	(7)	–	(12)
Foreign exchange forward contracts	–	1	(5)	(5)
Commodity derivatives	17	1	(20)	(41)

¹ Carrying value represents the amount which is recorded in BC Hydro's financial statements.

² Market rates and prices used in determining fair value are as of the balance sheet date.

³ As the interest rates on revolving borrowings are reset on a regular basis, fair value approximates carrying value.

Credit Risk Management

BC Hydro is directly exposed to counterparty credit risk as a result of the sale of electricity and related services to its domestic customers and purchase of electricity from independent power producers. BC Hydro is also exposed to credit risk as a result of the trade activities of Powerex. Powerex's principal counterparties are utilities, energy marketers, independent power producers, industrials, power pools, and municipalities in the western United States, western Canada, as well as parts of the eastern United States and eastern Canada. With respect to Powerex's sales and purchases, credit risk is managed by authorizing transactions with only credit-worthy counterparties within the guidelines of the Company's risk management policies, and by monitoring the credit risk and credit standing of counterparties on a regular basis.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 10: DEFERRED CONTRIBUTIONS

<i>(in millions)</i>	2007	2006
Contributions in aid of construction	\$ 747	\$ 681
Contributions arising from the Columbia River Treaty	166	175
	\$ 913	\$ 856

NOTE 11: OTHER LONG-TERM LIABILITIES

<i>(in millions)</i>	2007	2006
Environmental liabilities	\$ 19	\$ 33
Pension and other benefit plan liabilities	4	89
Contingent liabilities	88	88
Deferred revenue	332	313
Asset retirement obligations	16	15
	\$ 459	\$ 538

For asset retirement obligations, BC Hydro estimates the undiscounted amount of cash flows required to settle the asset retirement obligation is approximately \$22 million, which will be incurred between 2009 and 2018. A discount rate of 5.9 per cent was used to calculate the carrying value of the asset retirement obligations.

NOTE 12: EMPLOYEE FUTURE BENEFIT PLANS

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which provide pension benefits in excess of statutory limits. 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, 2003. A more recent valuation for funding purposes occurred on December 31, 2006.

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	
	2007	2006	2007	2006
Net expense	\$ 25	\$ 34	\$ 44	\$ 40



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 12: EMPLOYEE FUTURE BENEFIT PLANS (continued)

In fiscal 2004, the transfer of approximately 260 employees to BCTC resulted in the curtailment of an insignificant portion of the BC Hydro defined benefit pension plan and other post-retirement benefit plans. The curtailment and related settlement of a portion of the plans was accounted for in fiscal 2006.

(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	
	2007	2006	2007	2006
Accrued benefit obligation	\$ 2,535	\$ 2,396	\$ 335	\$ 332
Fair value of plan assets	2,500	2,142	–	–
Plan deficit	\$ (35)	\$ (254)	\$ (335)	\$ (332)
Unamortized net actuarial losses	269	380	134	159
Unamortized past service costs	7	8	–	–
Unamortized transition (asset) liability	(75)	(89)	33	40
Accrued benefit asset (liability)	\$ 166	\$ 45	\$ (168)	\$ (133)

The pension plan assets and obligations are measured as at December 31, 2006. The other benefit plan obligations are measured as at March 31, 2007. No valuation allowance was required in fiscal 2007 and fiscal 2006. None of the above benefit plans were fully funded in fiscal 2006. Only the statutory pension plan was fully funded in fiscal 2007.

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

	Pension Benefit Plans		Other Benefit Plans	
	2007	2006	2007	2006
Discount rate				
– benefit cost	5.5%	6.0%	5.5%	6.0%
– accrued benefit obligation	5.5%	5.5%	5.5%	5.5%
Expected long-term rate of return on plan assets	7.2%	7.0%	n/a	n/a
Rate of compensation increase				
– benefit cost	3.8%	3.5%	n/a	n/a
– accrued benefit obligation	3.8%	3.5%	n/a	n/a
Health care cost trend rate:				
– Weighted average health care cost trend rate	n/a	n/a	7.5%	7.5%
– Weighted average ultimate health care cost trend rate	n/a	n/a	4.2%	4.2%
– Year in which ultimate health care cost trend rate will be achieved	n/a	n/a	2012	2011

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 12: EMPLOYEE FUTURE BENEFIT PLANS (continued)

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

<i>(in millions)</i>	Pension Benefit Plans		Other Benefit Plans	
	2007	2006	2007	2006
Employer contributions	\$ 143	\$ 34	\$ –	\$ –
Employee contributions	15	15	–	–
Benefits paid	116	109	10	10
Settlement payments	9	82	–	–

The actuarial valuation as at December 31, 2003 that was completed in June 2005, revealed a specific funding requirement of approximately \$166 million. BC Hydro is required to make these payments with interest over a five year period ending December 31, 2008. These amounts represent funding commitments to fulfill certain requirements specified by the BC Pension Benefits Standards Act related to the unlikely event that BC Hydro ceases to operate, and are designated as contributions to the BC Hydro pension plan. Amounts contributed are in addition to existing funding commitments and do not materially impact operating results in the period in which the payments are made.

BC Hydro subsequently applied for and received an extension to October 2006 from the Financial Institutions Commission of BC ("FICOM") for making the funding payment due in July 2005 and thereafter to allow time to pursue an alternative to the required funding. In October 2006, FICOM was of the opinion that no decision on the proposed use of letters of credit as a mechanism for funding solvency deficiencies in pension plans was likely to be forthcoming in the near term and denied any further extensions. In November 2006, BC Hydro made a \$102.2 million contribution to the plan representing all required solvency payments and accrued interest for the period from January 1, 2004 to September 30, 2006. Subsequently, an additional required quarterly solvency payment of \$9.1 million was made during the fiscal year.

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

	Target Allocation	2007	2006
Equities	60%	61%	60%
Fixed income investments	30%	28%	30%
Real estate	10%	11%	10%

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 13: COMMITMENTS AND CONTINGENCIES

Energy Commitments

BC Hydro (excluding Powerex) has long-term energy purchase contracts to meet a portion of its expected future domestic electricity requirements. The minimum obligations to purchase energy under these contracts have a total value of approximately \$22,760 million of which approximately \$2,416 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 a minimum payment obligation of \$5,506 million extending to 2025 and purchase commitments for energy and capacity services with a value of \$137 million extending to 2013.

The total combined payments for the next five years are approximately (in millions): 2008 – \$1,711; 2009 – \$998; 2010 – \$995; 2011 – \$1,168; 2012 – \$1,270.

Powerex has energy sales commitments over the next five years with a total value of \$1,786 million.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 13: COMMITMENTS AND CONTINGENCIES (continued)

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 \$692 million. Payments for the next five years are approximately (in millions): 2008 – \$141; 2009 – \$138; 2010 – \$137; 2011 – \$136; 2012 – \$133.

Capital Expenditure Commitments

During fiscal 2007 BC Hydro entered into a contract for \$123 million relating to the Vancouver Island Transmission Reinforcement (VITR) project to install a new submarine cable to Vancouver Island. The payments for this project are approximately \$21 million in 2008 and another \$102 million in 2009.

Legal Contingencies

- (a) California Power Markets: Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. These proceedings are at various stages. A number of issues and findings are presently on appeal and none have been the subject of final judicial action. The U.S. Court of Appeals for the Ninth Circuit, in its Lockyer decision of July 31, 2006, told the U.S. Federal Energy Regulatory Commission (FERC) that it should reconsider its remedial powers thereby opening up the possibility that refunds will have to be paid for the periods from May to October 2000. On August 2, 2006, the Ninth Circuit ruled on certain issues in the FERC refund proceedings. One of those related to whether refunds should be paid for bilateral sales (those that did not go through the CISO). In its decision, the Ninth Circuit upheld FERC's decision that refunds should not be paid for bilateral sales but also said that FERC was wrong to conclude that it did not have power to award refunds retroactively. The precise effect of these decisions on Powerex cannot be determined at this time.

At March 31, 2007, Powerex was owed US \$268 million (CDN \$309 million) by the markets operated by the California Power Exchange (Cal Px) and the California Independent System Operation (CISO) related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities, the Cal Px and CISO were unable to pay these amounts to Powerex. That receivable will be offset against any refunds that Powerex is required to pay.

On March 26, 2004, FERC approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. This settlement is still subject to rehearing at FERC, has not been the subject of a final FERC order and FERC's final order when issued may subsequently be appealed to the courts.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a US Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act. The Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex requested its appeal to be heard by the Supreme Court of the United States. The Supreme Court heard the case on April 16, 2007 and a decision from them is pending.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be 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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006**

NOTE 13: COMMITMENTS AND CONTINGENCIES (continued)

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

NOTE 14: GEOGRAPHIC INFORMATION

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

<i>(in millions)</i>	2007	2005
British Columbia	\$ 2,791	\$ 2,728
Canada (excluding British Columbia)	511	486
United States	895	1,097
	\$ 4,197	\$ 4,311

Substantially all of BC Hydro's assets are located in the Province of British Columbia.

NOTE 15: BRITISH COLUMBIA TRANSMISSION CORPORATION

Effective April 1, 2005 BC Hydro removed BCTC from its consolidated accounts when BCTC was considered operationally and financially independent of BC Hydro, resulting in a \$24 million adjustment to opening retained earnings.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2007 AND 2006

NOTE 16: RELATED PARTY TRANSACTIONS

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

<i>(in millions)</i>	2007	2006
Province of B.C.		
Accounts receivable	\$ 76	\$ 73
Accounts payable	368	257
Water rental fees	259	272
Cost of energy sales	223	320
Taxes	98	99
Finance charges	453	435
Payment to the Province	331	223
BCTC		
Accounts receivable	\$ 62	\$ 13
Accounts payable	45	34
Cost of energy	60	72
Operating costs	87	90
Other	30	33

BC Hydro's debt is either held or guaranteed by the Province (see Note 8). 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, 2007, the aggregate exposure under this indemnity totaled approximately \$177 million (2006 – \$175 million). BC Hydro has not experienced any losses to date under this indemnity.



FINANCIAL STATISTICS

for the years ended or as at March 31 (in millions)	2007 ¹	2006 ¹	2005 ¹	2004	2003
Revenues	\$ 4,197	\$ 4,311	\$ 3,725	\$ 3,424	\$ 3,107
Expenses					
Energy costs	2,117	2,488	1,959	1,580	1,126
Operating costs ²	716	805	717	621	573
Amortization	383	411	410	526	417
Taxes	149	147	143	147	145
Finance charges	453	435	318	452	457
Payment from Alcan Inc.	–	–	(137)	–	–
Restructuring costs	–	–	–	8	37
Income Before Regulatory Account	3,818	4,286	3,410	3,334	2,755
Transfers	379	25	315	90	352
Regulatory Transfers	28	241	87	–	–
Rate Stabilization Account	–	–	–	21	66
Net Income	\$ 407	\$ 266	\$ 402	\$ 111	\$ 418
Property, Plant and Equipment and Intangible Assets					
At cost	\$ 17,233	\$ 16,699	\$ 16,197	\$ 15,841	\$ 15,609
Less: Accumulated depreciation	6,811	6,676	6,264	5,941	5,816
Net Book Value	\$ 10,422	\$ 10,023	\$ 9,933	\$ 9,900	\$ 9,793
Property, Plant and Equipment and Intangible Asset Expenditures					
Sustaining	\$ 428	\$ 363	\$ 331	\$ 375	\$ 367
Expansion	379	247	197	199	329
Total property, plant and equipment and intangible asset expenditures ³	807	610	528	574	696
Less: Contributions in aid of construction	85	68	66	56	62
Net Property, Plant and Equipment and Intangible Asset Expenditures	\$ 722	\$ 542	\$ 462	\$ 518	\$ 634
Net Long-Term Debt ⁴	\$ 6,916	\$ 6,627	\$ 6,583	\$ 6,853	\$ 6,849

¹ The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilities subject to rate regulation. Prior years have not been restated.

² Maintenance, operations and administrative costs.

³ Total property, plant and equipment and intangible asset expenditures include non-cash items.

⁴ Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.



KEY FINANCIAL AND OPERATING COMPARATIVES

FINANCIAL COMPARATIVES

<i>(dollar amounts in millions unless otherwise stated)</i>	2007 ¹	2006 ¹	2005 ¹	2004	2003
Revenues	\$ 4,197	\$ 4,311	\$ 3,725	\$ 3,424	\$ 3,107
Net income	\$ 407	\$ 266	\$ 402	\$ 111	\$ 418
Property, Plant and Equipment and Intangible Assets	\$ 10,422	\$ 10,023	\$ 9,933	\$ 9,900	\$ 9,793
Net long-term debt ²	\$ 6,916	\$ 6,627	\$ 6,583	\$ 6,853	\$ 6,849
Rate Stabilization Account	\$ –	\$ –	\$ –	\$ 21	\$ 66
Retained earnings	\$ 1,783	\$ 1,707	\$ 1,688	\$ 1,876	\$ 1,609
Property, Plant and Equipment and Intangible Assets Expenditures	\$ 807	\$ 610	\$ 528	\$ 574	\$ 694
Debt to equity	70:30	70:30	70:30	70:30	72:28
Return on equity (%)	13.44	9.26	14.24	3.74	15.47
Interest coverage	1.78	1.06	1.56	1.22	1.75

OPERATING COMPARATIVES

<i>(dollar amounts in millions unless otherwise stated)</i>	2007 ¹	2006 ¹	2005	2004	2003
Number of customers	1,736,987	1,704,892	1,675,258	1,650,655	1,629,186
Generating capacity (MW):					
Hydroelectric	10,232	10,219	10,218	10,207	10,009
Thermal	1,091	1,094	1,093	1,093	1,099
Peak one-hour demand (MW)	10,113	9,317	9,437	9,619	8,481
Average annual kWh use per residential customer	10,906	10,846	10,722	10,761	10,476
Average number of customers per employee	373	399	378	372	266
Domestic sales (GWh)	52,911	52,440	51,205	50,151	48,677
Trade sales (GWh)	41,336	36,547	32,346	28,373	31,182
Total electricity sold per employee (GWh)	18.70	19.45	18.41	17.82	13.14

¹ The results reflect the impact of Accounting Guideline 19, Disclosure by Entities Subject to Rate Regulation, regarding the recognition and measurement of assets and liabilities subject to rate regulation. Prior years have not been restated.

² Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.



OPERATING STATISTICS

for the years ended or as at March 31	2007	2006	2005	2004	2003
Generating Capacity (megawatts)					
Hydroelectric ¹	10,232	10,219	10,218	10,207	10,009
Thermal	1,091	1,094	1,093	1,093	1,099
Total	11,323	11,313	11,311	11,300	11,108
Peak One-Hour Demand Integrated System (megawatts)	10,113	9,317	9,437	9,619	8,481
Customers					
Residential	1,540,176	1,511,435	1,484,339	1,462,079	1,442,597
Light industrial and commercial	193,070	189,764	187,313	185,065	183,188
Large industrial	146	146	138	136	133
Other	3,349	3,326	3,265	3,202	3,092
Trade	246	221	203	173	176
Total	1,736,987	1,704,892	1,675,258	1,650,655	1,629,186
Electricity Sold (gigawatt-hours)					
Residential	16,651	16,261	15,814	15,646	15,024
Light industrial and commercial	18,268	17,913	17,459	17,175	16,757
Large industrial	15,989	16,428	16,177	15,505	15,179
Other	2,003	1,838	1,755	1,825	1,717
Domestic	52,911	52,440	51,205	50,151	48,677
Trade	41,336	36,547	32,346	28,373	31,182
Total	94,247	88,987	83,551	78,524	79,859
Domestic Change Over Previous Year (%)	0.9	2.4	2.1	3.0	1.8
Revenues (in millions)					
Residential	\$ 1,070	\$ 1,046	\$ 1,016	\$ 960	\$ 923
Light industrial and commercial	1,025	989	967	912	893
Large industrial	556	584	573	525	516
Other energy sales	99	92	88	89	88
Domestic electric	2,750	2,711	2,644	2,486	2,420
Miscellaneous	41	16	60	67	55
Domestic	2,791	2,727	2,704	2,553	2,475
Trade	1,406	1,584	1,021	871	632
Total	\$ 4,197	\$ 4,311	\$ 3,725	\$ 3,424	\$ 3,107



OPERATING STATISTICS (continued)

for the years ended or as at March 31	2007	2006	2005	2004	2003
Average Revenue (per kilowatt-hour)					
Residential	6.4¢	6.4¢	6.4¢	6.1¢	6.1¢
Light industrial and commercial	5.6	5.5	5.5	5.3	5.3
Large industrial	3.5	3.6	3.5	3.4	3.4
Other	4.9	5.0	5.0	4.9	5.1
Trade ²	6.9	7.8	9.7	6.8	6.2
Average Annual Kilowatt-Hour Use Per Residential Customer	10,906	10,846	10,722	10,761	10,476
Lines In Service					
Distribution (kilometres) ³	55,224	55,224	55,254	54,617	55,734
Transmission (circuit kilometres)	18,336	18,234	18,286	18,300	18,284
Number of Employees ⁴	4,546	4,203	4,396	4,406	6,013

¹ Maximum sustained generating capacity.

² The method used to calculate the trade revenue per kilowatt hour is based on gross trade revenues.

³ The method used to track the distance of the 3-phase underground power lines was changed in Fiscal 2004.

⁴ Includes full-time and part-time employees of BC Hydro and its subsidiaries. For the years ended 2003 and 2004 this also includes the employees of British Columbia Transmission Corporation. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services of British Columbia.



TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

for the years ended March 31	2007			2006		2005		2004	
	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Gigawatt-Hours	%	Gigawatt-Hours	%	Gigawatt-Hours	%
Requirements									
Domestic	11,323	52,911	57.8	52,440	59.8	51,205	59.8	50,151	60.1
Electricity trade		33,372	36.4	29,906	34.1	29,706	34.7	28,373	34.0
		86,283	94.2	82,346	93.9	80,911	94.5	78,524	94.1
Line loss and system use		5,329	5.8	5,356	6.1	4,660	5.5	4,969	5.9
		91,612	100.0	87,702	100.0	85,571	100.0	83,493	100.0
Sources Of Supply									
Hydroelectric generation									
Gordon M. Shrum	2,730	12,470	13.6	14,628	16.7	11,738	13.7	14,567	17.4
Revelstoke	1,980	7,740	8.4	7,915	9.0	7,283	8.5	7,552	9.0
Mica	1,805	7,036	7.7	7,006	8.0	5,993	7.0	6,389	7.7
Kootenay Canal	580	3,286	3.6	3,300	3.8	3,339	3.9	2,507	3.0
Peace Canyon	694	3,054	3.3	3,580	4.1	2,981	3.5	3,604	4.3
Seven Mile	805	3,573	3.9	3,082	3.5	3,039	3.6	2,867	3.4
Bridge River	476	2,609	2.8	2,736	3.1	2,597	3.0	2,555	3.1
Other	1,162	4,708	5.1	4,603	5.3	4,631	5.4	4,499	5.4
	10,232	44,476	48.5	46,850	53.4	41,601	48.6	44,540	53.3
Thermal generation									
Burrard	950	727	0.8	39	0.0	456	0.5	136	0.2
Other	141	333	0.4	336	0.4	325	0.4	312	0.4
Purchases under long-term commitments		10,306	11.2	11,275	12.9	10,992	12.9	10,681	12.8
Purchases under short-term commitments		35,360	38.6	29,831	34.0	32,637	38.1	29,042	34.8
Exchange net		410	0.4	(629)	(0.7)	(440)	(0.5)	(1,218)	(1.5)
	11,323	91,612	100.0	87,702	100.0	85,571	100.0	83,493	100.0