



Second Quarter Report

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2005



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1. Overview

BC Hydro's purpose is "Reliable power, at low cost, for generations." Through this purpose, BC Hydro is committed to maintaining a reliable power supply over the long term, relying upon the benefits of our heritage hydro system as a key resource. BC Hydro established 15 long-term goals to support that purpose.

The second quarter report reviews the highlights, outlines the achievements and addresses the challenges of the fiscal quarter ending September 30, 2005, as the utility moves towards its purpose and goals.

KEY HIGHLIGHTS

Financial

BC Hydro's financial performance this quarter significantly improved over the same period last year.

BC Hydro recorded net income of \$128 million this quarter, a \$36-million increase over the same period last year. In the second quarter, BC Hydro's income before transfers to regulatory accounts was \$189 million, compared to \$11 million in the second quarter last year. BC Hydro has established various regulatory accounts with its regulator, the BC Utilities Commission. Regulatory accounts allow BC Hydro to defer certain types of revenue and cost variances through transfers to and from the accounts and by adjusting net income. The deferral amounts are then included in rates of future periods. These financial results are a direct outcome of increased customer load, lower amortization and lower finance charges. However, BC Hydro charged customers a lower rate this quarter compared to last year because an interim rate increase was in place at that time. BC Hydro also paid higher transmission charges this quarter compared to the same quarter last year. These factors partially offset the other increases experienced this quarter.

BC Hydro recorded net income of \$133 million so far this fiscal year. At this point last year, that figure was \$144 million. BC Hydro's income before regulatory account transfer is \$173 million, significantly higher than the previous year. At this point last year, that figure was \$19 million. BC Hydro's income improvements so far this fiscal year are a result of increased customer load. Offsetting the results, however, has been a higher cost of energy supplied through Independent Power Producers and other long-term commitments, as well as higher transmission charges.

This fiscal year, BC Hydro forecasts an income before regulatory account transfers of approximately \$315 million. This \$14-million decrease from the first quarter forecast is mainly because BC Hydro will need to make more market energy purchases to meet higher domestic customer demand. In addition, higher operating costs have also contributed to the decrease. These higher costs are offset through lower finance charges, amortization and taxes.

BC Hydro's forecast for net income this fiscal year, after considering regulatory account transfers, is \$338 million compared to \$376 million reported in the first quarter. Based on this forecast, BC Hydro's payment to the Province of B.C. for this year is expected to be \$281 million.

Overview

Financial Highlights cont.

<i>(dollar amounts in millions)</i>	For the three months ended September 30			For the six months ended September 30		
	2005	2004	Change	2005	2004	Change
Income Before Regulatory Account Transfers	\$ 189	\$ 11	\$ 178	\$ 173	\$ 19	\$ 154
Net Income	\$ 128	\$ 92	\$ 36	\$ 133	\$ 144	\$ (11)
Accrued Payment to the Province	\$ 108	\$ 76	\$ 32	\$ 112	\$ 117	\$ (5)
Number of Domestic Customers	n/a	n/a	n/a	1,689,326	1,662,048	27,278
GWh Sold (Domestic)	11,992	11,594	398	23,993	23,295	698
Total Reservoir Storage (GWh)	n/a	n/a	n/a	28,657	26,544	2,113

<i>(dollar amounts in millions)</i>	September 30	March 31	Change
	2005	2005	
Total Assets	\$ 12,362	\$ 12,163	\$ 199
Total Equity	\$ 1,685	\$ 1,688	\$ (3)
Debt to Equity ¹	69:31	68:32	

1. Based on equity as defined for regulatory purposes

Performance Plan

BC Hydro established specific performance measures and targets to track our progress to meet annual targets set out in the BC Hydro Service Plan Fiscal Years 2005/2006 to 2007/2008. These measures and targets are disclosed to the shareholder, the provincial government and to the public, to help evaluate the utility's performance each quarter.

BC Hydro had a successful second quarter as reflected in its performance measures. Six of the seven corporate measures either met (2) or exceeded (4) their quarterly targets.

System Operations

BC Hydro's flexible hydroelectric system makes it possible to store water during high-runoff periods, which can be released during low-run-off periods. BC Hydro's system storage is currently about 1,400 GWh above average for this time of year. This is approximately 2,100 GWh higher than the system storage level during the same quarter last year, due to the near-normal runoff conditions experienced this year and significant net market purchases made over the past year.

BC Hydro makes market electricity purchases to meet domestic customer demand when it makes economic sense to do so. In fiscal 2006, BC Hydro forecasts it will choose to purchase 3,500 GWh of electricity – or six per cent of the total domestic energy supply – to meet that demand. Approximately 70 per cent of this has already been purchased in the first half of this fiscal year.

Overview

Resource Acquisition

2005 INTEGRATED ELECTRICITY PLAN

BC Hydro is developing the 2005 Integrated Electricity Plan (IEP) to be completed by the end of 2005. An IEP is a long-term re-source plan that outlines how we will propose to meet anticipated customer needs, using a combination of existing and new energy resources, and energy conservation programs such as Power Smart. During the second quarter, BC Hydro continued to engage the Provincial IEP Committee, which consists of First Nations, customers, stakeholders and BC Hydro representatives. Following the July meeting, BC Hydro completed the modelling of more than 20 resource portfolios to address the province's long term energy needs. The September meeting sought to analyze and further consolidate the portfolios, which resulted in a rationalization of four emerging resource strategies.

As follow-up from the BC Utilities Commission (BCUC) filing of the Resource Options Report in June, BC Hydro also engaged key intervenors at an initial meeting to discuss the terminology and options related to the content of the IEP's long term acquisition plan. BC Hydro is now planning for meetings and information sessions with regional First Nations and stakeholders, which will be held in the third quarter.

The 2005 IEP will be completed by the end of 2005 to support business planning and regulatory processes.

2005 RESOURCE EXPENDITURE AND ACQUISITION PLAN

The 2005 Resource Expenditure and Acquisition Plan (REAP) identifies the capital expenditures and demand-side management expenditures BC Hydro intends to make over the next two years, and the planned resource acquisition expenditures for the next four years. BC Hydro filed the REAP with the BCUC on March 7, 2005.

Originally, it was expected that there would be a hearing before the BCUC on the 2005 REAP. However, in late September, BC Hydro entered into a negotiated settlement process with intervenors to try and come up with an agreement that would avoid the need for a hearing, saving all parties involved time and money. By working together, we were successful in this process and filed the negotiated

settlement which was subsequently approved by the BCUC in the third quarter.

OPEN CALL FOR POWER

This quarter, BC Hydro filed with the BCUC its plans for the fiscal 2006 open call for power. The plan reflected results of extensive consultation with more than 200 Independent Power Producers (IPP), stakeholders and First Nations. The call was revised so that it targeted a minimum of 1,000 gigawatt-hours (GWh) per year (GWh) of new supply from a combination of large and small projects, with the provision to buy more electricity if bids are cost effective.

As part of the negotiated settlement for the 2005 REAP, BC Hydro reached agreement with interested parties on final terms of the fiscal 2006 energy call. This agreement clarifies that the call target will now be set at 2,400 GWh/year of firm energy (and associated non-firm energy) from large projects and 200 GWh/year of energy from small projects. The latest possible date for supplying power to BC Hydro is set at November 2010. The BCUC approved the fiscal 2006 call as part of the negotiated settlement on the REAP and the call will be issued near the end of the third quarter.

BC CLEAN ENERGY

BC Hydro has committed to meet the government's Clean Energy target by acquiring 50 per cent of its incremental load over a 10-year period with committed energy efficiency improvements and new acquisitions from its customer-based generation call (issued in 2002) and Green Power Generation call (issued in 2003).

In the current fiscal year, BC Hydro has received deliveries of approximately 428 GWh of clean energy from IPP and Resource Smart contributions. In the second quarter, the results are slightly lower than forecast because one IPP suffered a forced outage, resulting in a reduction in the supply of electricity delivered to BC Hydro during this period. The facility was subsequently repaired and normal output from the facility is expected in the third quarter. BC Hydro continues to work toward meeting its target over the 10-year period and continues to evaluate changes in supply and demand that impact the target.

Overview

Achievements

POWEREX TRADING PRACTICES

Powerex, BC Hydro's energy trading arm, received favourable rulings in two separate proceedings.

A US federal court judge dismissed a lawsuit by the State of California, which sought to void agreements under which Powerex supplied California's Department of Water Resources with emergency power during the state's 2000-2001 energy crisis. The judge ruled that jurisdiction over the claim resided with the US Federal Energy Regulatory Commission (FERC), not the California state courts. FERC already rejected these claims last year.

In addition, this quarter, FERC cleared Powerex of allegations that the company manipulated California's real-time market in 2004-2005. Following an extensive investigation of Powerex trading activities during the period in question, FERC found Powerex displayed an exceptional record as a reliable physical supplier of electricity. It also found that the company's trading success in California was the result of investments in systems and trading operations, adherence to market rules, and proficiency in obtaining and rapidly delivering energy where needed. This was a non-public investigation, but FERC released the results publicly to provide guidance to the industry on proper trading practices. This is the latest in a series of rulings from FERC which have uniformly rejected claims that Powerex manipulated California markets.

BC Hydro anticipates such favourable rulings will serve the company well as we continue to protect our interests in other legal and regulatory proceedings stemming from the California energy crisis.

NEW RATE STRUCTURE FOR LARGE INDUSTRIAL AND COMMERCIAL CUSTOMERS

BC Hydro received approval from the BCUC on a new transmission service rate structure for large industrial and commercial customers. Together, BC Hydro and the customers negotiated the terms of the rate structure using a Negotiated Settlement Process, which was designed following extensive stakeholder engagement. This process involved ongoing dialogue and input with individual industrial and commercial customers and the Joint Industry Electricity Steering Committee (JIESC). The new rate structure will take effect on April 1, 2006.

Large industrial and commercial customers – those taking their power supply at voltages of 69,000 volts and higher – will now have the option of choosing one of two new rates. The stepped rate encourages energy conservation by offering cost savings to industrial and commercial customers that reduce their annual energy consumption by up to 10 per cent, based on historical use. If a customer's consumption does not change, their electricity costs remain the same. The time-of-use rate option encourages customers to conserve in the winter months as well as to shift load from the peak periods to the off-peak periods during these months. The new rate structure will take effect in April 1, 2006.

The new rate structure enables BC Hydro to work towards its goal of fostering a conservation culture in the province by encouraging British Columbians to make a dramatic and permanent reduction in their electricity consumption.

POWER SMART

BC Hydro's Power Smart initiative was essentially on plan with cumulative savings of 1,761 GWh per year compared to the target of 1,760 GWh per year. Now in the fourth year, the 10-year Power Smart goal is to acquire 3,600 GWh.

BC Hydro also launched a retail Power Smart campaign in the second quarter. The campaign will help to further increase the use of compact fluorescent light bulbs (CFL), energy efficient light fixtures and light-emitting diode (LED) holiday lights, resulting in further energy savings.

First Power Smart manufacturer named

BC Hydro designated Canadian Autoparts Toyota Inc. a Power Smart Certified customer this quarter for the company's achievements in energy efficiency. While the company increased production by more than 14 per cent, it improved its energy use intensity, saving approximately four GWh or \$110,000. It pledges to reduce its energy consumption by a further five per cent next year.

Overview

AGREEMENT RATIFIED

On July 6, 2005 the Canadian Office & Professional Employees (COPE) membership ratified the Memorandum of Agreement (MOA) signed between BC Hydro and the COPE Local 378 on June 9, 2005.

About 45 per cent of COPE's members cast ballots and the MOA was approved by a majority of 94 per cent. The BC Hydro Board has also ratified the memorandum. This new agreement takes effect immediately and will expire on March 31, 2006.

The agreement brings certainty for both COPE and BC Hydro.

CANAL PLANT AGREEMENT

During the second quarter, BC Hydro and FortisBC, Teck Cominco, Brilliant Power Corporation, Brilliant Expansion Power Corporation and Waneta Expansion Power Corporation (the "Entitlement Parties") agreed to an extension of the Canal Plant Agreement following years of negotiations. The BCUC is currently reviewing this proposed agreement. If approved, it would bring ongoing certainty to the operations of BC Hydro's Kootenay Canal Plant and the Columbia River Treaty projects.

The agreement, originally signed in 1975 following construction of the Canal Plant, provides for coordinated operations between the Entitlement Parties to optimize generation of the Kootenay system. Originally set to expire on September 30, the agreement has now been extended for a minimum of 30 years.

The new Canal Plant Agreement, together with other associated agreements has been filed with the BCUC. The regulatory process on that filing is ongoing.

Challenges

SAFETY

BC Hydro experienced two serious employee injuries in the second quarter, including a fatal injury on Vancouver Island. These, plus a number of other concerning near miss incidents that also occurred this quarter, are under investigation.

Safety is a top priority for BC Hydro. BC Hydro conducted a Safety Trend Review that assessed all serious incidents that have occurred in recent years. With input from senior management as well as front line management and employees from across the company, this review has created a number of company-wide safety improvement initiatives, including the creation of consistent safety work practices across the company.

During the second quarter and beyond, all safety policies, procedures and standards are being simplified and streamlined for a more efficient and effective way to manage and reduce safety incidents. Front line managers will take a more active role through effectively communicating the policy, regulations and standards, taking the time to ensure all employees fully understand these, and carrying out regular and random site checks to ensure 100 per cent compliance and protect our front line employees.

VANCOUVER ISLAND ENERGY SUPPLY

Following the decision to terminate the energy purchase agreement with Duke Point Power Limited Partnership, during the second quarter, BC Hydro engaged in activities to address Vancouver Island energy needs.

BC Hydro continues to work with the British Columbia Transmission Corporation to improve the operational capacity and reliability of existing transmission assets for supplying Vancouver Island. BC Hydro is also assessing other supply and demand-side management options (such as time-of-use rates and Power Smart projects) that could be available through the fall 2005 open call for energy.

BC Hydro is in the process of reviewing its operating strategy for Vancouver Island with the BCUC, and will continue to work closely with the regulator on this strategy.

2. Performance Measures

BC Hydro Overall

Performance measurement, both financial and non-financial, is an integral part of BC Hydro's strategic management process. BC Hydro set out its corporate strategic goals and objectives in the BC Hydro Service Plan Fiscal Years 2005/2006 to 2007/2008.

The following section evaluates BC Hydro's second quarter performance and progress toward the annual targets set out in the Service Plan.

Legend (for all Performance Measures)

△ Significantly better than target

○ Meets target (within range)

▽ Significantly below target

△ NET INCOME

(Dollars in millions)

Annual Target in Service Plan - \$376 million

	3-Month Actual	3-Month Target
Q2 05/06	\$ 128	\$ 95
Q2 04/05	\$ 92	\$ 52

Net income is total revenue less total expenses after transfers to/from regulatory accounts.

Net income was \$33 million higher than plan for the three months ended September 30, 2005. The increase was primarily due to higher domestic consumption. Domestic load increases were serviced primarily by lower cost hydro generation, which reduced the level of energy purchases. Lower operating costs and finance charges also contributed to income.

Net income was \$128 million compared with \$92 million for the same period last year. The increase is due to higher customer load as well as lower amortization and finance charges.

○ RELIABILITY

Annual Targets in 2005 Service Plan - ASAI: 99.970%; CAIDI: 2.15 hours

Average System Availability Index (ASAI)
(Percentage)

	3-Month Actual	3-Month Target *
Q2 05/06	99.968	99.966
Q2 04/05	99.968	99.964

Customer Average Interruption Duration Index (CAIDI)
(Hours)

	3-Month Actual	3-Month Target *
Q2 05/06	1.85	2.19
Q2 04/05	1.85	2.13

* Target is based on 5-year average.

Reliability is defined as a combination of ASAI and CAIDI. ASAI refers to the percentage of time power is available. CAIDI describes the average number of hours per interruption. CAIDI is the ratio of total customer hours lost divided by total customer interruptions. These indices are electric utility industry standards.

ASAI and CAIDI numbers for the second quarter were the same as the second quarter last year, with higher customer hours lost being offset by the increase in customer interruptions and customer growth. These results were also better than the targets based on the five-year average due to the absence of major events. In the second

Performance Measures

quarter, the leading causes of customer hours lost included source outages* (28 per cent), trees (16 per cent), motor vehicle accidents (16 per cent) and distribution equipment failures (10 per cent).

* A source outage is defined as trouble or planned work on generation, transmission or substation equipment that results in an outage to the distribution system. An example of a source outage is the failure of a circuit breaker in a substation.

∇ DEMAND-SIDE MANAGEMENT

(GWh/year)

Annual Target in 2005 Service Plan - 586 GWh

	3-Month Actual	3-Month Target
Q2 05/06	328	435
Q2 04/05	115	100

Demand-Side Management (DSM) is defined as the rate at which annual gigawatt hours (GWh) are being saved as a result of economic demand-side management (conservation, energy efficiency and load displacement). The name of this measure has been changed from Conservation to Demand-Side Management to ensure consistency with regulatory and business operations.

At the end of the second quarter, DSM savings were below target due to the Canfor load displacement project coming online at a lower rate of savings than anticipated, delays in launching certain program offers due to the need for additional market research and testing and a slow down in new industrial savings in anticipation of the introduction of stepped rates. BC Hydro expects this to be corrected by the end of the fiscal year.

At the same time, DSM results in the second quarter of this year are considerably higher than the same period last year due to the Canfor load displacement project. While it came online with less than full savings, at 294 GWh/year, it still represents the largest single increment of savings in Power Smart history. The DSM year-end forecast remains on plan at 1,886 GWh/year.

△ CUSTOMER SATISFACTION INDEX

(Percentage)

Annual Target in 2005 Service Plan - 84%

	3-Month Actual	3-Month Target
Q2 05/06	89	84
Q2 04/05	89	84

Customer Satisfaction is a composite indicator. Thirty per cent of the measure comes from a survey using all customers as the population from which to draw a random sample. The other 70 per cent comes from transactional surveys using only customers who have had a service interaction with BC Hydro as the population from which to draw a sample. Satisfied customers are those who indicate they are either "satisfied" or "very satisfied." It is expected that the Customer Satisfaction Index will achieve the 84 per cent annual target.

○ ENVIRONMENTAL REGULATORY COMPLIANCE

(Number of Incidents)

Annual Target in 2005 Service Plan - 17

	3-Month Actual	3-Month Target
Q2 05/06	3	4
Q2 04/05	3	7

Environmental Regulatory Compliance (ERC) is defined as the number of externally reportable, preventable environmental incidents. An Environmental Incident is one that has caused, or has the potential to cause impacts to the environment. For this type of measure there is an inherent risk of unreported incidents, however BC Hydro reviewed its control measures to ensure that all applicable incidents were reported.

In the second quarter, the ERC was slightly lower than target but within normal quarter-to-quarter variability. Of the three incidents that took place this quarter, none were categorized as "severe". Performance in the second quarter this year is the equal to the

Performance Measures

same period last year. BC Hydro is on track to meet its annual target for this year based on year-to-date results.

△ ALL INJURY FREQUENCY

Annual Target in 2005 Service Plan - 2.3

	3-Month Actual	3-Month Target
Q2 05/06	2.1	2.4
Q2 04/05	3.8	2.8

All Injury Frequency is defined as the total number of employee injury incidents (Medical Aids and Disabling Injuries) occurring in the 12 months prior to the report date, relative to the number of worked hours in the same period. For this measurement, Medical Aid injuries are defined as those where a medical practitioner has rendered services beyond the level defined as "first aid" in relation to the injury incident, and the employee was not absent from work beyond time lost on the day of the injury. Disabling injuries are defined as those where the employee is absent from work beyond the day of injury. In the frequency actuals shown above, the frequency is expressed for the quarter (three months of incident volume and worked hour data) in isolation.

The quarterly performance in isolation is strong and the consistency quarter-over-quarter is encouraging. BC Hydro's second quarter performance was consistently strong and better than expected.

However, despite the continuing incident rate improvement, there have been a number of very serious electrical contact incidents, including one fatal incident this quarter. BC Hydro is investigating the incidents and continuing to review its safety policies and practices to improve safety across the organization.

△ APPROVED STRATEGIC WORKFORCE PLANNING POSITIONS FILLED

(Number)

Annual Target in 2005 Service Plan - 70

	3-Month Actual	3-Month Target
Q2 05/06	25	0
Q2 04/05	7	7

Approved Strategic Workforce Positions Filled is defined as the number of positions filled under BC Hydro's Strategic Workforce Planning (SWfP) initiative. SWfP is a systematic, fully integrated process that involves proactively planning to avoid future skill shortages or surpluses and ensures the supply of talent needed to support BC Hydro's business strategy.

BC Hydro's performance in the second quarter is above target due to a change in the predicted number of SWfP positions required since the release of the updated Service Plan. A recent increase in the number of employees retiring as well as conservative SWfP hiring practices, have resulted in a shortfall of skilled labour to fill vacancies in critical business areas. BC Hydro is mitigating this impact by increasing the planned SWfP hires to a total of 84 from the target of 70 in the Service Plan. In addition, six SWfP positions initiated in the first quarter were filled this quarter, contributing to the increased number of hires.

Based on current results, it is expected that the Approved SWfP Positions Filled will be 14 more hires compared to the target by the end of the year.

Performance Measures

GREENHOUSE GAS EMISSIONS

(CO₂ Equivalent)

BC Hydro Direct GHG Emissions	Q2 05/06	Q2 04/05
BC Hydro Thermal Facilities	71	106
Fugitive Sulphur Hexafluoride (SF ₆)	17	16
Buildings	1	0
Vehicles	4	4
Indirect GHG Emissions		
B.C.- based Independent Power Producers	233	295
Customer-based Generation and Load Displacement	72	N/A
Totals		
GHG Emissions	398	421
Total Domestic Sales (GWh)	11,992	11,594
Average GHG Intensity (t/GWh)	33	36

NOTES:

- All units in thousands of carbon dioxide equivalent tonnes (kt CO₂e) unless otherwise indicated.
- Total Domestic Sales (GWh) for the period are defined for purposes of this target and may differ from the actual GWh sold (Domestic) as reported elsewhere in this report.

Greenhouse Gas Emissions are defined as emissions of the six major classes of greenhouse gasses as identified by Environment Canada (CO₂, CH₄, N₂O, SF₆, PFCs, HFCs) attributable to electricity generated in B.C.

For the second quarter, GHG attributable to electricity supplied to customers in B.C. are estimated at 398,000 tonnes CO₂e, or 33 tonnes CO₂e per GWh. The emissions intensity of BC Hydro's electricity fluctuates seasonally and annually with the supply of water to our reservoirs and the status of the electricity market.

3. Financial

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position. This section should be read in conjunction with the Management Discussion and Analysis presented in the 2005 Annual Report, the 2005 Annual Consolidated Financial Statements of BC Hydro and the interim consolidated financial statements of BC Hydro for the three and six months ended September 30, 2004 and 2005.

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 materially from those contemplated in the forward-looking statements.

The prior year's comparatives include the accounts of British Columbia Transmission Corporation (BCTC), a Crown corporation of the Province. The accounts of BCTC were removed from the consolidated accounts of BC Hydro effective April 1, 2005, when BCTC was considered operationally and financially independent of BC Hydro.

Consolidated Results of Operations

Income before regulatory account transfers of \$189 million for the three months ended September 30, 2005 compares with income of \$11 million in the same period in the previous year. An increase in domestic energy sales volumes for all sectors was offset by lower tariff rates resulting in domestic revenues slightly above the same period in the prior year. The cost of energy to supply domestic load was \$74 million lower than in the prior year due to greater reliance on low cost hydro generation and substantially reduced net energy purchases. Lower electricity trade volumes at higher unit prices and margins resulted in trade margins that were \$96 million higher than in the same period in the previous year. Lower amortization and finance charges also contributed to the increase in income for the period ended September 30, 2005.

Net income after regulatory account transfers is \$128 million for the three months ended September 30, 2005, compared with \$92 million in the same period in the previous year. The increase in net income results from increased load as well as lower amortization and finance charges.

Income of \$173 million before regulatory account transfers for the six months ended September 30, 2005, compares with \$19 million in the same period in the previous year. An increase in domestic energy volumes in all sectors offset by lower tariff rates resulted in revenues that were slightly above the same period in the prior year. The cost of energy to supply the domestic load was \$45 million lower due to a greater reliance on low-cost hydro generation and lower net energy purchases at higher unit prices. These results were offset by higher finance charges in the period.

Net income after regulatory account transfers is \$133 million for the six months ended September 30, 2005, compared with \$144 million in the same six-month period in the previous year. The decrease is a result of higher operating costs and finance charges offset by lower amortization expense

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MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

For the three months ended September 30	in millions		gigawatt hours	
	2005	2004	2005	2004
Domestic:				
Residential	\$ 208	\$ 198	3,173	2,938
Light industrial and commercial	243	239	4,429	4,260
Large industrial	147	148	4,116	4,040
Other energy sales	24	31	274	356
Total Domestic	\$ 622	\$ 616	11,992	11,594
Trade	486	282	8,236	8,397
Total	\$ 1,108	\$ 898	20,228	19,991

For the six months ended September 30	in millions		gigawatt hours	
	2005	2004	2005	2004
Domestic:				
Residential	\$ 426	\$ 415	6,523	6,205
Light industrial and commercial	482	475	8,724	8,397
Large industrial	290	292	8,149	8,037
Other energy sales	57	66	597	656
Total Domestic	\$ 1,255	\$ 1,248	23,993	23,295
Trade	765	468	16,517	15,303
Total	\$ 2,020	\$ 1,716	40,510	38,598

Domestic Revenues

Domestic revenues of \$622 million for the three months ended September 30, 2005, were \$6 million higher than for the same period in the previous year. Total sales volumes increased by eight per cent as a result of an additional 24,808 residential customers compared with the same period in the prior year, as well as an increase in activity in the light industrial and commercial and large industrial sectors as a result of improving economic conditions. The increase in sales volumes was offset by a decrease in tariff rates, as the three months ended September 30, 2004 included the 7.23 per cent interim rate increase compared to the final approved rate increase of 4.85 per cent for the prior year. No rate increase was approved for the current fiscal year, resulting in tariff rates for the current quarter that are lower than the rates in effect for the same quarter last year, an impact of \$14 million quarter over quarter throughout all sectors.

Domestic revenues of \$1,255 million for the six months ended September 30, 2005 were \$7 million higher than the same period in the previous year. The primary reasons for the increase is a \$42 million increase related to increased consumption and the addition of new customers for all sectors offset by \$26 million resulting from the lower rates applied in the current year compared with the prior year, as noted above.

Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Trade Revenues

BC Hydro's electricity system is interconnected with systems in Alberta and the western United States. Interconnection 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 can be met.

Trade revenues for the three months ended September 30, 2005, were \$486 million compared with \$282 million in the same period in the prior year. The increase is due to higher average sales prices, which increased 25 per cent to \$84/MWh from \$67/MWh, compared with the same period in the prior year. Sales prices were kept high by the unseasonably warm weather in the Eastern U.S. and Southwest areas during the quarter, and by increases in oil and natural gas prices due to supply interruptions in the U.S. Gulf Coast. The increase is offset slightly by lower sales volumes which decreased two per cent compared with the same period last year. Revenues have also increased as a result of remarketed gas sales.

Trade revenues for the six months ended September 30, 2005 were \$765 million compared to \$468 million in the same period in the prior year. The increase is due to an eight per cent increase in sales volumes as well as a 13 percent increase in average sales prices (\$72/MWh compared with \$64/MWh in the same period last year). The increase in average sales prices is due to warmer weather and increasing overall energy prices due to supply interruptions as noted above. Revenues have also increased as a result of remarketed gas sales.

Energy Costs

(in millions)	For the three months		For the six months	
	September 30		September 30	
	2005	2004	2005	2004
Energy costs:				
Domestic	\$ 233	\$ 307	\$ 547	\$ 592
Trade	311	203	509	324
Total Energy Costs	\$ 544	\$ 510	\$ 1,056	\$ 916

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 current and forecast market prices of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

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MANAGEMENT DISCUSSION AND ANALYSIS

Energy costs are made up of the following sources of supply:

	For the three months ended September 30					
	(in millions)		(gigawatt hours)		(\$ per MWh)	
	2005	2004	2005	2004	2005	2004
Hydro	\$ 75	\$ 53	12,658	9,118	\$ 5.93	\$ 5.81
Purchases from Independent Power Producers and other long-term contracts	115	107	1,874	1,781	61.37	60.08
Other electricity purchases - Domestic	5	120	100	2,130	50.00	56.34
Other electricity purchases - Trade ¹	164	142	6,606	7,848	72.06	57.72
Thermal ²	103	47	97	291	144.33	85.91
Transmission charges and other expenses	82	41	16	19	–	–
Total	\$ 544	\$ 510	21,351	21,187	\$ 36.58⁴	\$ 37.30⁴

	For the six months ended September 30					
	(in millions)		(gigawatt hours)		(\$ per MWh)	
	2005	2004	2005	2004	2005	2004
Hydro	\$ 128	\$ 101	21,813	17,681	\$ 5.87	\$ 5.71
Purchases from Independent Power Producers and other long-term contracts	219	184	3,475	3,006	63.02	61.21
Other electricity purchases - Domestic	124	263	2,352	4,650	52.72	56.56
Other electricity purchases - Trade ¹	250	195	14,802	14,858	58.37	50.41
Thermal ³	186	93	191	384	141.36	98.96
Transmission charges and other expenses	149	80	31	41	–	–
Total	\$ 1,056	\$ 916	42,664	40,620	\$ 35.27⁴	\$ 34.60⁴

1. Other electricity purchases in dollars includes purchases for trade activities shown net of derivatives. \$ per MWh is calculated using gross cost.
2. Includes costs of remarketed gas of approximately \$89 million for the three months ended September 30, 2005, compared with \$22 million for the prior year.
3. Includes costs of remarketed gas of approximately \$159 million for the six months ended September 30, 2005, compared with \$55 million for the prior year.
4. Total cost per MWh includes other electricity purchases at gross cost.

For the three months ended September 30, 2005, total energy costs of \$544 million were \$34 million higher than in the same period in the previous year. Domestic energy costs of \$233 million for the three months ended September 30, 2005 were \$74 million lower than for the same period in the prior year. The decrease resulted from the greater use of low-cost hydro generation and lower net energy purchases at higher unit prices offset by higher transmission charges. Trade energy costs of \$311 million for the three months ended September 30, 2005 were \$108 million higher than for the same period in the prior year. The increase resulted from significantly higher unit prices for trade purchases and \$85 million of higher remarketed gas purchases and transmission charges. Lower purchase volumes offset these increases.

Financial

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended September 30, 2005, total energy costs of \$1,056 million were \$140 million higher than the same period in the previous year. Domestic energy costs were \$45 million lower compared with the same period in the prior year. The decrease was due to reduced net energy purchases at higher unit prices offset by \$34 million higher supply from IPPs at higher unit costs and \$40 million of additional transmission charges. Trade energy costs increased by \$185 million for the six month period ending September 30, 2005. The increase was primarily due to \$130 million increased cost of remarketed gas and transmission charges. The remaining increase resulted from energy purchases at higher unit prices.

For the three months ended September 30, 2005, imports for domestic use were 100 GWh compared with 2,130 GWh for the same period in the previous year and trade net exports were 1,630 GWh compared with 549 GWh for the same period in the previous year. For the six months ended September 30, 2005 imports for domestic use were 2,352 GWh compared with 4,650 GWh for the same period in the previous year and trade net exports were 1,715 GWh compared to 445 GWh for the same period in the previous year. 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.

At September 30, 2005, the combined storage in BC Hydro's reservoirs was 106 per cent of average (the basis period being from Fiscal 1986 through 2005) compared with 98 per cent of average in the prior year. Water inflows into BC Hydro's reservoirs were six per cent higher at September 30, 2005, compared with September 30, 2004 and are forecast to be 99 per cent of average for fiscal 2006.

Operating Costs

Operations costs for the three months ended September 30, 2005, of \$41 million are \$8 million lower than in the same period in the prior year. Operations costs for the six months ended September 30, 2005, of \$86 million are \$14 million lower than in the same period in the prior year. The decrease in both periods is due to the consolidation of BCTC costs in fiscal 2005 which are now excluded.

Maintenance costs for the three months ended September 30, 2005 of \$65 million are \$3 million higher than in the same period in the prior year. Maintenance costs for the six months ended September 30, 2005 of \$129 million are \$11 million higher than in the same period in the prior year. The increase in both periods is mainly due to a reclassification of BCTC charges as a result of the deconsolidation.

Administration costs for the three months ended September 30, 2005 of \$29 million are \$7 million higher than in the same period in the prior year. Administration costs for the six months ended September 30, 2005 of \$70 million are \$9 million higher than in the same period in the prior year. The increase is mainly due to an increase in environmental remediation and other legal provisions.

Amortization Expense

Amortization expense of \$105 million for the three months ended September 30, 2005, was \$3 million lower than for the same period in the previous year. Amortization expense of \$208 million for the six months ended September 30, 2005, was \$8 million lower than for the same period in the previous year. The decrease is mainly due to a reduction in the amortization rate of certain assets as directed by the BCUC which occurred in the second half of fiscal 2005 and BCTC amortization that is no longer consolidated. The decrease is offset by an increase in new assets in service.

Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Charges

Finance charges of \$99 million for the three months ended September 30, 2005, were \$2 million lower than for the same period in the previous year. The decrease in finance charges is primarily due to a lower average volume of debt offset by higher short-term interest rates.

Finance charges of \$226 million for the six months ended September 30, 2005, were \$11 million higher than for the same period in the previous year. The increase in finance charges is primarily due to higher U.S. short-term interest rates (\$4 million) and mark-to-market adjustments on debt-related financial instruments (\$11 million). This increase is partially offset by a lower average volume of debt (\$5 million).

Accounting Policies

There were no accounting policy changes during the period ended September 30, 2005.

Regulation

Regulatory Deferral Accounts

BC Hydro has established various regulatory accounts with approval of the BCUC. The impact of the regulatory accounts is to defer certain types of revenue and cost variances through transfers to/from the accounts by adjustment of net income. The deferral amounts are then included in rates of future periods.

As disclosed in the Management Discussion and Analysis in the 2005 Annual Report, during fiscal 2004, BC Hydro established the Heritage Deferral Account, the Non-Heritage Deferral Account and the Trade Income Deferral Account. These accounts are intended to result in assigning domestic ratepayers the benefit of BC Hydro's low-cost generation assets (the Heritage Resources) and other related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets.

As a result of the BCTC obtaining approval for its Revenue Requirements Application, effective April 1, 2005, BC Hydro also established the BCTC Transition Deferral Account, which is intended to capture the differences in the cost of transmission services included in BC Hydro's rates compared with the amounts charged by BCTC under its revenue requirements application.

During the three months ended September 30, 2005, \$64 million was transferred to these regulatory deferral accounts to reduce the balance, compared with \$81 million transferred from these regulatory deferral accounts in the second quarter of fiscal 2005 which increased the balance. The total balance in the regulatory deferral accounts for the six months ended September 30, 2005, was \$113 million. BC Hydro intends to apply to the BCUC to recover these amounts through future rates.

Regulatory Provision for Future Removal and Site Restoration Costs

As a result of the BCUC's October 2004 decision related to BC Hydro's Revenue Requirements Application, effective April 1, 2004, BC Hydro was required to establish a regulatory provision for future removal and site restoration costs not covered by the asset retirement obligation standards. The initial amount of the provision is \$251 million. Costs of dismantling capital assets will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation under Section 3110 of the CICA Handbook. During the three months ended September 30, 2005, \$3 million of costs were transferred against this provision. During the six months ended September 30, 2005, a total of \$7 million of costs were transferred against this provision.

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MANAGEMENT DISCUSSION AND ANALYSIS

Energy Procurement

Vancouver Island Generation Project

On June 17, 2005, BC Hydro announced the termination of the energy purchase agreement with Duke Point Power Limited Partnership, who had been selected to provide a new source of electricity supply on Vancouver Island from a gas-fired combined cycle plant to be located near Nanaimo. The project had been repeatedly delayed through various court appeals, resulting in management's assessment that the risks around timely completion of the project were too great to ensure the reliability of future electricity supply. BC Hydro is currently assessing various alternative sources of supply for Vancouver Island.

BC Hydro has fully provided for all costs of this project and believes the current provision is adequate with respect to any potential losses related to this project, including any related contingencies.

Powerex Legal Proceedings

At September 30, 2005, Powerex was owed US\$268 million (CDN\$311 million) by the California Power Exchange (Cal Px) and the California Independent System Operator (Cal ISO) related to Powerex's electricity trade activities in California during fiscal 2001. As a result of payment defaults by a number of California utilities in 2001, the Cal Px and Cal ISO were unable to pay these amounts to Powerex. In addition, certain California parties requested the Federal Energy Regulatory Commission (FERC) consider whether refunds should be made to the Cal Px, the Cal ISO and the California Department of Water Resources by various suppliers, including Powerex. The FERC is calculating the extent to which sellers' receivables may be offset by refunds to the Cal Px and Cal ISO markets, while FERC's refund orders themselves are before U.S. appellate courts.

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. Powerex will continue to vigorously defend its position that its electricity transactions in California have been conducted in accordance with the rules and approved tariffs of the California markets.

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 and BC Hydro. BC Hydro 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 may differ materially 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 collection process.

Liquidity and Capital Resources

Cash flow provided by operating activities for the three months ended September 30, 2005, was \$185 million, compared with cash used for operating activities of \$64 million for the same period in the previous year. Cash flow provided by operating activities for the six months ended September 30, 2005, was \$308 million, compared with \$150 million for the same period in the previous year. The increase in cash flow provided by operating activities was primarily due to a substantial reduction in net energy purchases.

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MANAGEMENT DISCUSSION AND ANALYSIS

During the six months ended September 30, 2005, BC Hydro issued \$400 million of new bonds. The funds from these issues were used to decrease revolving borrowings, fund the Payment to the Province and for capital expenditures. The net long-term debt balance at September 30, 2005, was \$6,778 million, compared with \$6,627 million at March 31, 2005.

Capital Expenditures

Capital expenditures, including demand-side management programs, were as follows:

(in millions)	For the three months ended September 30		For the six months ended September 30	
	2005	2004	2005	2004
Generation replacements and expansion	\$ 33	\$ 33	\$ 56	\$ 56
Transmission lines and substation replacements and expansion	33	34	64	53
Distribution improvements and expansion	65	59	123	113
General – computers, vehicles, etc.	23	10	36	21
Change in working capital related to capital asset expenditures ¹	2	(4)	3	2
Capital asset expenditures per Consolidated Statement of Cash Flows	\$156	\$132	\$282	\$245
Power Smart (Demand-side management)	42	13	49	40
Total capital expenditures per Consolidated Statement of Cash Flows	\$198	\$ 145	\$331	\$285

1. Adjustment from accrual to cash expenditures on the Consolidated Statement of Cash Flows.

The increase in Transmission lines, substation replacements and expansion for the six months ended September 30, 2005 is due to timing of construction project schedules and emergency expenditures. Distribution improvements and expansion for the three and six month periods ended September 30, 2005 have increased due to a higher volume of new customer construction. New IT projects and purchases have increased general expenditures for both the three and six month periods ended September 30, 2005. The increase in Power Smart expenditures for the three and six month periods ended September 30, 2005 is due to the completion of a large project last year and timing of incentive payments based on customer-driven project schedules.

Risk Management

BC Hydro faces risks specific to its business that could significantly impact its ability to achieve its short- and long-term goals. While risks cannot be eliminated, BC Hydro's strategies aim to minimize or mitigate them with a specific risk management process that is applied to day-to-day business activities as well as to specific projects and initiatives. BC Hydro's Chief Risk Officer is responsible for overseeing risk management activities of the company and ensuring strong oversight by the Risk Management Committee. BC Hydro's Board of Directors also play a key role in the risk management process, as they must understand the risks being taken by BC Hydro and ensure they are appropriately managed.

Financial

MANAGEMENT DISCUSSION AND ANALYSIS

During the second quarter, the degree of commodity risk BC Hydro faced increased substantially. Hurricanes in the US Gulf Coast led to a significant disruption in natural gas supply which has increased the level of pricing and volatility in gas and power markets across North America. While BC Hydro's reservoir storage provides some degree of flexibility to manage this risk in the short term, continuation of the current market environment would further increase uncertainty around BC Hydro's cost of energy. Management's assessment of risk is ongoing and other risks to BC Hydro have not changed materially from the Management Discussion and Analysis presented in the 2005 Annual Report.

Future 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 2005 Service Plan indicated that income before regulatory deferral account transfers for fiscal 2006 was expected to be \$395 million and net income was expected to be \$411 million. BC Hydro filed an updated Service Plan in September 2005 that forecasts income before regulatory account transfers of \$329 million and net income of \$376 million for fiscal 2006.

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 September 2005 Service Plan update assumes water inflows of 95 per cent of average, average market energy prices of US\$54/MWh, a consistent level of operating costs, short-term interest rates of 2.96 per cent and a U.S. dollar exchange rate of US\$0.82.

Forecast updates as of October 2005 indicate increased water inflows to 99 per cent of average and increases in market energy prices to US\$65/MWh for fiscal 2006. Customer load is forecast to increase by approximately 700 GWh which will increase domestic load revenues by \$25 million. Energy costs for domestic load is expected to increase by \$30 million as a result of increased market purchases and due to higher purchased electricity and gas prices. Operating costs are expected to increase by \$29 million (\$7 million of which is deferred related to Mountain Pine Beetle costs) related to various unplanned cost increases. Income from trading activities is expected to decrease by \$6 million. Decreases are expected in financing charges (\$14 million), amortization (\$12 million) and taxes (\$6 million). As a result, income before regulatory account transfers is forecast to be \$315 million.

Net income is forecast to be \$338 million, which is \$38 million below the Service Plan, mainly due to the energy cost variance related to higher domestic load than forecast in the fiscal 2005 and 2006 Revenue Requirement Application which is not transferred to the regulatory deferral accounts.

BC Hydro is expecting to file its Revenue Requirements Application for fiscal years 2007 and 2008 in late fiscal 2006.

Financial

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited) (in millions)	For the three months ended September 30		For the six months ended September 30	
	2005	2004	2005	2004
Revenues				
Domestic	\$ 622	\$ 616	\$ 1,255	\$ 1,248
Trade	486	282	765	468
	1,108	898	2,020	1,716
Expenses				
Domestic energy costs	233	307	547	592
Trade energy costs	311	203	509	324
Operations	41	49	86	100
Maintenance	65	62	129	118
Administration	29	22	70	61
Taxes	36	35	72	71
Amortization	105	108	208	216
	820	786	1,621	1,482
Operating Income	288	112	399	234
Finance charges	99	101	226	215
Income Before Regulatory Account Transfers	189	11	173	19
Transfers (to) from Regulatory Accounts (Note 3)				
Heritage Deferral Account	(48)	83	6	137
Non-Heritage Deferral Account	(82)	3	(71)	31
Trade Income Deferral Account	53	(5)	5	(43)
BCTC Transition Deferral Account	13	–	13	–
Regulatory provision for future removal and site restoration costs	3	–	7	–
	(61)	81	(40)	125
Net Income	\$128	\$92	\$ 133	\$ 144

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Unaudited) (in millions)	For the six months ended September 30	
	2005	2004
Retained earnings, beginning of period	\$ 1,688	\$ 1,875
Net Income	133	144
Deconsolidation of BCTC (Note 8)	(24)	–
Accrued Payment to the Province	(112)	(117)
Retained earnings, end of period	\$ 1,685	\$ 1,902

See accompanying notes to the interim consolidated financial statements.

Financial

CONSOLIDATED BALANCE SHEET

<i>(Unaudited)</i> <i>(in millions)</i>	as at September 30 2005	as at March 31 2005
ASSETS		
Capital Assets		
Capital assets in service	\$ 15,917	\$ 15,792
Less accumulated amortization	6,448	6,293
	9,469	9,499
Unfinished construction	523	483
	9,992	9,982
Current Assets		
Cash and cash equivalents	17	37
Accounts receivable and accrued revenue	396	398
Materials and supplies	96	91
Prepaid expenses	166	149
Mark-to-market gains	574	185
	1,249	860
Other Assets and Deferred Charges		
Sinking funds	766	948
Demand-side management programs	242	207
Regulatory accounts (Note 3)	113	155
Deferred debt costs	–	10
Foreign currency contracts	–	1
	1,121	1,321
	\$ 12,362	\$ 12,163
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	\$ 6,289	\$ 5,821
Sinking funds presented as assets	766	948
Long-Term Debt	7,055	6,769
Foreign Currency Contracts	161	87
Current Liabilities		
Current portion of long-term debt	506	843
Accounts payable and accrued liabilities	678	753
Accrued interest	108	116
Accrued Payment to the Province	112	339
Mark-to-market losses	595	183
	1,999	2,234
Deferred Credits and Other Liabilities		
Asset retirement obligations	16	15
Deferred debt costs	72	–
Regulatory provision for future removal and site restoration (Note 3)	231	238
Deferred revenue	295	297
Contributions in aid of construction	668	651
Contributions arising from the Columbia River Treaty	180	184
	1,462	1,385
Retained Earnings	1,685	1,688
	\$ 12,362	\$ 12,163

Commitments and Contingencies (Notes 5 and 7)

See accompanying notes to the interim consolidated financial statements.

Approved on behalf of the Board:

L.I. (Larry) Bell
Chair

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

Financial

CONSOLIDATED STATEMENT OF CASHFLOWS

<i>(Unaudited)</i> <i>(in millions)</i>	For the three months ended September 30		For the six months ended September 30	
	2005	2004	2005	2004
Operating Activities				
Net income	\$ 128	\$ 92	\$ 133	\$ 144
Regulatory account transfers	64	(81)	47	(125)
Transfer to regulatory provision for future removal and site restoration	(3)	–	(7)	–
Income before regulatory account transfers	189	11	173	19
Adjustments for non-cash items:				
Amortization of capital assets	105	108	208	216
Amortization of deferred debt costs	3	4	7	8
Deferred revenue	–	(1)	(2)	(4)
Unrealized (gains) losses on mark-to-market	4	(11)	23	28
Sinking fund income	(10)	(11)	(20)	(23)
Employee benefit plan expenses	7	–	13	19
Other non-cash items	(1)	1	–	(1)
	297	101	402	262
Working capital changes	(112)	(165)	(94)	(112)
Cash provided by (used for) operating activities	185	(64)	308	150
Investing Activities				
Capital asset expenditures	(156)	(132)	(282)	(245)
Contributions in aid of construction	18	19	36	35
Demand-side management programs	(42)	(13)	(49)	(40)
Dismantling costs	(3)	–	(7)	–
Cash used for investing activities	(183)	(126)	(302)	(250)
Financing Activities				
Bonds:				
– Issued	400	10	400	540
– Retired	(313)	(71)	(516)	(506)
Revolving borrowings	(372)	4	164	82
Sinking funds	35	22	194	52
Deferred debt costs	90	–	90	(5)
Settlement of derivative contracts	–	12	–	7
Cash provided by (used for) financing activities	(160)	(23)	332	170
Payment to the Province	–	–	(338)	(73)
Decrease in cash and cash equivalents	(158)	(213)	–	(3)
Cash and cash equivalents, beginning of period (Note 8)	175	257	17	47
Cash and cash equivalents, end of period	\$ 17	\$ 44	\$ 17	\$ 44
Supplemental disclosure of cash flow information				
Interest paid	\$ 136	\$ 142	\$ 253	\$ 260

See accompanying notes to the interim consolidated financial statements.

Financial

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2005

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 this act, BC Hydro's mandate is to generate, manufacture, distribute and sell power, to upgrade its power sites, and to purchase power from or sell power to a firm or person. BC Hydro's purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation by the BCUC, which, among other things, approves the rates BC Hydro charges for its services.

Note 1: Accounting Policies

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP) for preparation of interim financial statements, and do not conform in all respects to the disclosure requirements for annual financial statements. BC Hydro follows certain accounting practices that reflect the effects of regulation, and differ from the accounting practices for enterprises that do not operate in a rate-regulated environment. These interim consolidated financial statements and the notes should be read in conjunction with the Annual Consolidated Financial Statements and accompanying notes in BC Hydro's 2005 Annual Report.

These interim consolidated financial statements follow the same accounting policies as those described in BC Hydro's 2005 Annual Report.

The prior year's comparatives include the accounts of BCTC, a Crown corporation of the Province. The accounts of BCTC were removed from the consolidated accounts of BC Hydro effective April 1, 2005, when BCTC was considered operationally and financially independent of BC Hydro (see Note 8).

Certain figures for the previous period have been reclassified to conform to presentation in the current period.

Note 2: Seasonality of Operating Results

Due to the seasonal nature of BC Hydro's operations, the interim consolidated statement of operations is not indicative of operations on an annual basis. Seasonal impacts of weather, including its impact on water inflows, energy consumption within the region, and market prices of energy, can have a significant impact on BC Hydro's operating results.

Note 3: Regulation

BC Hydro is regulated by the BCUC, and they are both subject to general or special directives and directions issued by order of the Province. 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, calculation of its revenue requirements, rates charged to customers and the annual Payment to the Province. BC Hydro's regulatory accounting practices are consistent with these regulatory requirements.

Regulatory Accounts

The regulatory accounts include the Heritage Deferral Account, the Non-Heritage Deferral Account and the Trade Income Deferral Account. These accounts are intended to result in assigning domestic ratepayers the benefit of BC Hydro's low-cost generation assets (the Heritage Resources) and other related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets.

During the first quarter of fiscal 2006, consistent with BCUC directive, BC Hydro established the BCTC Transition Deferral Account. Balances in this account arise as a result of the BCUC's approval of BCTC's transmission services Revenue Requirement Application. Amounts are deferred with respect to differences in the cost of transmission services included in BC Hydro's rates compared with the amounts charged by BCTC under its revenue requirements application. BC Hydro intends to apply to the BCUC to recover these amounts through future rates.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2005

The balances included in the regulatory accounts are as follows:

<i>(in millions)</i>	September 30	March 31
	2005	2005
Heritage Deferral Account	\$149	\$138
Non-Heritage Asset Deferral Account	65	131
Trade Income Deferral Account	(114)	(114)
BCTC Transition Deferral Account	13	–
	\$113	\$155

The deferral accounts include interest of \$11 million, calculated on the month-end balance of the account at BC Hydro's average cost of borrowing.

Regulatory Provision for Future Removal and Site Restoration Costs

As part of its October 2004 decision related to BC Hydro's Revenue Requirements Application, the BCUC ordered the establishment of a regulatory provision for future removal and site restoration (FRSR) costs. This account was established by a one-time transfer of \$251 million from retained earnings. The account will be applied to mitigate the impact of asset dismantling and disposal costs that are not otherwise related to an asset retirement obligation. At September 30, 2005, the balance of the regulatory provision for FRSR costs was \$231 million (March 31, 2005 – \$238 million).

Note 4: Employee Future Benefits

BC Hydro's cost for employee future benefits for the three months ended September 30, 2005, was \$17 million (2004 – \$19 million). The cost for employee future benefits for the six months ended September 30, 2005, was \$34 million (2004 – \$37 million).

Note 5: Commitments and Contingencies

There are no material changes to the commitments and contingencies disclosed in the notes to BC Hydro's 2005 Annual Consolidated Financial Statements.

Financial

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2005

NOTE 6: SEGMENTED INFORMATION

Three months ended September 30, 2005 (in millions)

	Generation	Transmission	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	–	3	612	486	30	(23) ³	1,108
Inter-segment revenues	265	143	61	(10)	62	(521)	–
Net income (loss)	44	34	30	(3)	16	7 ³	128

Three months ended September 30, 2004 (in millions)

	Generation	Transmission ⁴	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	–	3	607	282	10	(4) ³	898
Inter-segment revenues	376	155	43	171	100	(845)	–
Net income (loss)	48	25	10	43	9	(43) ³	92

Six months ended September 30, 2005 (in millions)

	Generation	Transmission	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	7	6	1,230	765	81	(69) ³	2,020
Inter-segment revenues	630	286	133	155	165	(1,369)	–
Net income (loss)	85	67	(28)	67	5	(63) ³	133
Total assets	4,560	2,716	3,840	1,338 ¹	861 ²	(953)	12,362

Six months ended September 30, 2004 (in millions)

	Generation	Transmission ⁴	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	(4)	7	1,222	477	24	(10) ³	1,716
Inter-segment revenues	770	310	87	318	195	(1,680)	–
Net income (loss)	98	54	(11)	88	2	(87) ³	144
Total assets	4,563	3,070	3,670	802 ¹	563 ²	(730)	11,938

1. Includes inter-segment receivables of \$107 million (\$114 million for the six months ended September 30, 2004).

2. Mainly consists of capital assets such as office buildings, vehicles and computer equipment.

3. These adjustments mainly relate to the difference between BC Hydro's management reporting, used for risk management and performance measurement purposes, and Canadian GAAP. For management reporting purposes, energy purchases bought for future resale are expensed when the energy is sold. The energy purchased for future resale is also marked to market each month. For GAAP reporting purposes, energy purchases bought for future resale are expensed in the period of purchase.

4. Includes the accounts of BCTC, which were removed from the consolidated accounts of BC Hydro effective April 1, 2005.



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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2005

Note 7: Vancouver Island Generation Project

As disclosed in BC Hydro's 2005 Annual Report, on June 17, 2005, BC Hydro announced the termination of the energy purchase agreement with Duke Point Power Limited Partnership (DPP). DPP had been selected through an evaluation process to provide a new source of electricity supply on Vancouver Island from a gas-fired combined cycle plant to be located near Nanaimo. The project had been repeatedly delayed through various court appeals, resulting in management's assessment that the risks around timely completion of the project were too great to ensure the reliability of future electricity supply.

As at the date of termination, the total amount spent by BC Hydro on the Vancouver Island Generation Project totalled approximately \$70 million and the carrying value of these assets after provisions was nil.

Financial

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2005

Note 8: British Columbia Transmission Corporation

The prior year's consolidated financial statements include the accounts of BCTC, a Crown corporation of the province. The accounts of BCTC were removed from the consolidated accounts of BC Hydro effective April 1, 2005, when BCTC was considered operationally and financially independent of BC Hydro. BC Hydro will continue to own the transmission system assets and will be responsible for funding all future additions and sustaining investments in these assets based on the directions from BCTC in its capacity as asset manager.

The comparative amounts in the consolidated financial statements of BC Hydro include the following balances related to consolidation of BCTC:

Consolidated Balance Sheet, as at March 31, 2005:

(in millions)

Cash and cash equivalents	\$ 20
Accounts receivable and prepaid expenses	10
Capital assets in service, net of depreciation of \$22	53
Unfinished construction	9
Total Assets	\$ 92
Accounts payable and accrued liabilities	\$ 28
Loan payable to BC Hydro	7
Long-term debt	30
Deferred credits and other liabilities	3
Total Liabilities and Deferred Credits	\$ 68
Total Retained Earnings	24
Total Liabilities and Equity	\$ 92

Consolidated Statement of Operations:

<i>(in millions)</i>	For the three months ended September 30, 2004	For the six months ended September 30, 2004
Domestic revenue (virtually all charged to BC Hydro)	\$ 22	\$42
Operating costs	16	31
Amortization	4	8
Finance Charges	1	1
Total expense	21	40
Net income for the period	\$ 1	\$ 2

The deconsolidation of BCTC from the consolidated accounts of BC Hydro is reflected at carrying values. The impact of deconsolidation of BCTC, totalling \$24 million, on BC Hydro's consolidated retained earnings represents a payment of cash to the province totalling \$20 million that was provided to BCTC during fiscal 2004, plus undistributed earnings of BCTC of \$4 million since their date of incorporation.