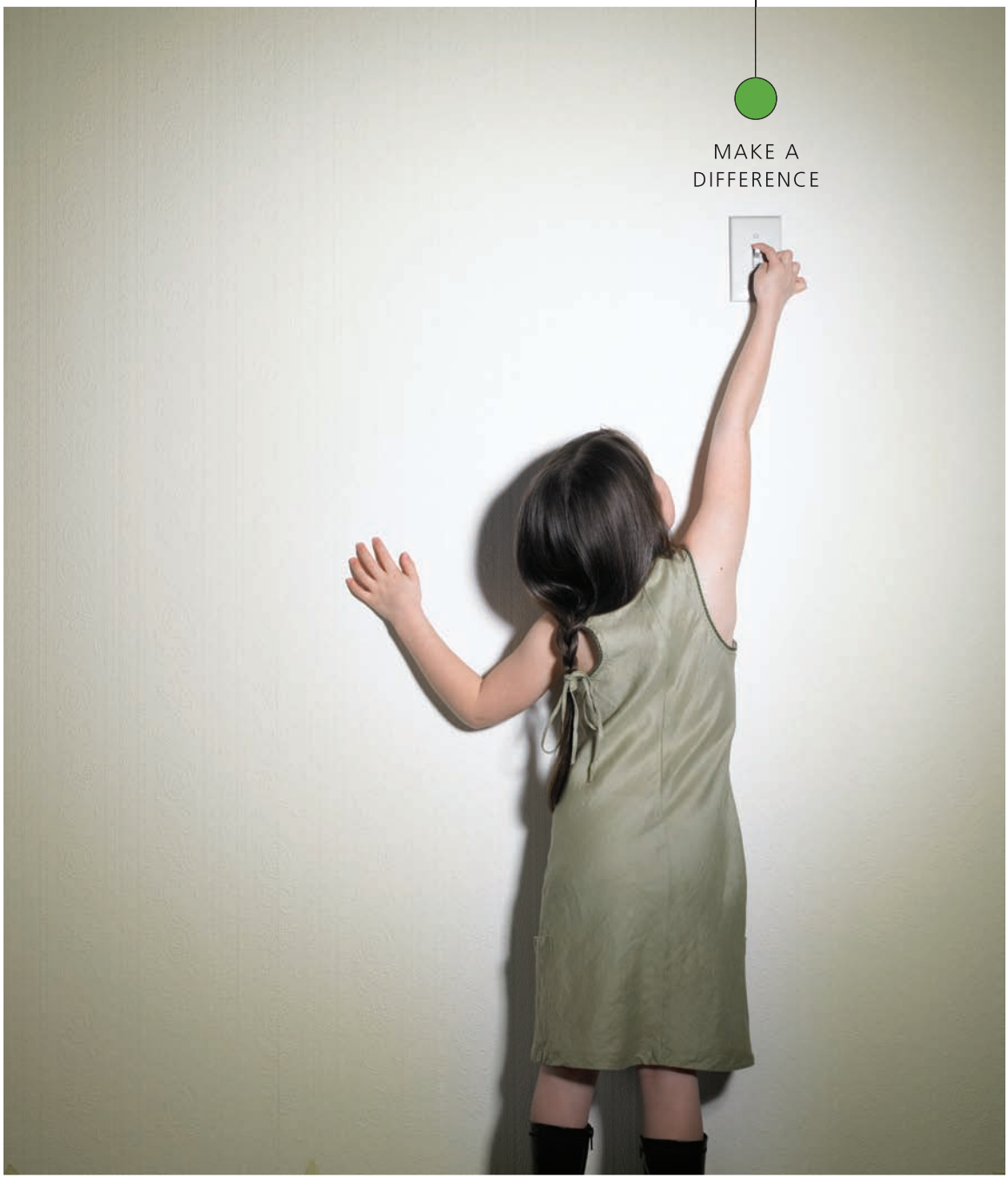

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MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position for the three months ended June 30, 2007 (fiscal 2008). This section should be read in conjunction with the Management Discussion and Analysis presented in the 2007 Annual Report, 2007 Annual Consolidated Financial Statements of BC Hydro, and the interim consolidated financial statements of BC Hydro for the three months ended June 30, 2007 and 2006. 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.

BC Hydro's results for the first quarter of fiscal 2008 benefited from water inflows being 19 per cent higher than the prior year (and 121 per cent of average) resulting in higher hydro generation than in the prior year, reducing the required energy purchases resulting in a reduction in the total cost of energy compared to the prior year. Differences to planned amounts are deferred for the benefit of customers.

Highlights

- Net income for the quarter ended June 30, 2007 was $5 million, an increase of $5 million from the breakeven results in the prior year.
- BC Hydro experienced higher than average system inflows (121 per cent of average) in the first quarter of fiscal 2008, resulting in a 24 per cent increase in hydro generation over prior year to maintain reservoirs at safe levels. BC Hydro benefited from this increase by reducing the volume of energy purchased to meet domestic requirements, lowering the overall cost of energy.
- During the quarter BC Hydro received approval from the British Columbia Utilities Commission (BCUC) to establish the F2007 Unplanned Major Storm Restoration Costs regulatory asset which will include costs for the storm restoration work that occurred during the winter months of fiscal 2007 and also a portion of non-capital system reinforcement costs, to be incurred in fiscal 2008.
- Property, plant and equipment expenditures of $217 million are 38 per cent higher ($60 million) than the prior year primarily due to capacity and system improvements on generation assets, seismic upgrades, stator replacements and replacement and reinforcement work underway on the Vancouver Island transmission connection.

	For the three months ended June 30		
($ in millions)	2007	2006	Change
Income Before Regulatory Accounts	$133	$106	$ 27
Net Income	$ 5	$ -	$ 5
Accrued Payment to the Province	$ -	$ -	$ -
Number of Domestic Customers	1,743,978	1,712,590	31,388
GWh Sold (Domestic)	12,391	12,191	200
Total Reservoir Storage (GWh)	26,310	27,481	(1,171)

($ in millions)	June 30, 2007	March 31, 2007	Change
Total Assets	$12,835	$12,861	$ 26
Retained Earnings	$ 1,796	$ 1,783	$ 13
Debt to Equity[1]	71:29	70:30	-

[1] *Based on equity as defined for regulatory purposes*

Consolidated Results of Operations

BC Hydro's income before regulatory account transfers was $133 million for the three months ended June 30, 2007 compared to $106 million in the same period in fiscal 2007. The increase was a result of higher domestic gross margin and lower amortization expense, partially offset by lower trade gross margin and higher finance charges.

The net income for the first quarter was $5 million compared with breakeven results in the same period in the previous year.

Revenues

	For the three months ended June 30			
	($ in millions)		*(gigawatt hours)*	
	2007	2006	2007	2006
Domestic:				
Residential	$ 253	$226	3,754	3,497
Light industrial and commercial	256	244	4,485	4,408
Large industrial	130	131	3,855	3,987
Other energy sales	27	14	297	299
Total Domestic	666	615	12,391	12,191
Trade:				
Electricity	348	256	11,784	10,999
Gas	144	118	2,330	2,206
Total Trade	492	374	14,114	13,205
Total	$1,158	$989	26,505	25,396

Total revenue during the first quarter of fiscal 2008 was $1,158 million, an increase of 17 per cent over the same period last year. Domestic revenues increased overall due to an increase in consumption driven primarily by customer growth in the residential and light industrial and commercial sectors, along with an increase in customer rates. Trade revenues were higher as a result of higher average commodity prices and higher trade volumes.

Domestic Revenues

Total domestic revenues of $666 million for the first quarter were $51 million or 8 per cent higher than for the same period in the previous year. Total sales volumes increased by 2 per cent as a result of 31,388 new customers (8 large industrial) added to the system and an increase in average consumption in the residential and light industrial and commercial sectors due to colder weather. This was partially offset by declines in revenue in the large industrial sector resulting from lower sales volume to the pulp and paper industry.

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 requirements can be met.

Total trade revenues for the first quarter were $492 million, an increase of 32 per cent compared to $374 million in the prior year. Trade sales volumes of 14,114 GWh increased by 7 per cent from 13,205 GWh in the first quarter of the prior year both from electricity and gas trading activities. The volume of electricity traded during the quarter was 11,784 GWh compared to 10,999 GWh in the first quarter of fiscal 2007 and average sales prices for electricity were 16 per cent higher at a gross price of $57/MWh (fiscal 2007 - $49/MWh). The volume of gas sales increased to 2,330 GWh

during the first quarter from 2,206 GWh in the prior year with a 15 per cent higher average sales price at a gross price of $61/MWh (fiscal 2007 - $53/MWh).

Electricity market prices were higher in the first quarter of fiscal 2008 compared to the same period last year as a result of lower inflows in the Pacific Northwest as the melting of the snow pack occurred slower than expected in contrast to the prior year when high precipitation levels resulted in increased water levels. In addition, electricity market prices in the Southwest were higher in the first quarter of fiscal 2008 compared to the same period last year primarily as a result increased demand. Gas market prices were also higher compared to the same period last year as higher levels of gas storage throughout North America in the prior year increased supply which resulted in lower prices.

Energy Costs

Energy costs are influenced primarily by the volume of energy consumed by customers, the mix of sources of supply and market prices of energy. 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.

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

	For the three months ended June 30					
	($ in millions)		*(gigawatt hours)*		*($ per MWh)*	
	2007	2006	2007	2006	2007	2006
Hydro generation	$ 68	$ 53	11,531	9,117	$ 6.16	$ 5.81
Purchases from Independent Power Producers and other long-term contracts	114	98	1,727	1,636	66.01	59.90
Other electricity purchases						
Domestic	20	65	385	2,262	51.95	28.74
Gas for thermal generation	12	10	105	86	114.29	104.65
Transmission charges and other expenses	7	17	26	25	-	-
Allocation to trade energy	(23)	(4)	(404)	(77)	56.41	45.99
Total Domestic	$198	$239	13,370	13,049	$14.81	$18.24
Other electricity purchases – trade[1]	$201	$ 60	11,329	10,848	$49.85	$35.95
Remarketed gas	139	110	2,412	2,290	57.63	48.47
Transmission charges and other	69	69	-	-	-	-
Allocation from domestic energy	23	4	404	77	56.41	45.99
Total Trade	$432	$243	14,145	13,215	$56.25	$43.41
Total Energy Costs	$630	$482	27,515	26,264	$36.12[2]	$30.90

[1] *Other electricity purchases in dollars include purchases for trade activities shown net of derivatives. Gigawatt hours (GWh) and $ per Megawatt hour (MWh) are shown at gross cost.*

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

For the first quarter of fiscal 2008 total energy costs of $630 million were $148 million or 31 per cent higher than the first quarter last year. This is primarily the result of increased energy trade volume at a higher average cost.

Domestic Energy Costs

Domestic energy costs of $198 million were $41 million or 17 per cent lower than the first quarter of fiscal 2007. The primary reason for the decrease was the reduction of higher average cost energy purchases as BC Hydro increased hydro generation to mitigate the impact of higher water inflows and rising storage levels. This was partially offset by increased higher cost purchases from independent power producers due to higher output from Island Cogen Generating Station arising from system improvements made in fiscal 2007 and also from other run of the river producers who are experiencing higher water inflows.

Trade Energy Costs

Trade energy costs of $432 million for the first quarter of fiscal 2008 increased by $189 million, or 78 per cent, compared to the same period last year. This was a result of higher average commodity prices and a greater volume of energy purchases. Electricity purchases of 11,329 GWh were 4 per cent higher than prior year level at 47 per cent higher average prices. Total gas purchases of 2,412 GWh increased 122 GWh or 5 per cent from the previous year at an average gas price 24 per cent higher than last year.

Water Inflows

Water inflows into BC Hydro's reservoirs were 19 per cent higher during the first quarter in fiscal 2008 compared to the prior year. As a result of these increased water inflows and higher market prices, BC Hydro increased hydro generation 24 per cent over the prior year, with a resulting decrease in domestic energy purchases. The decision to utilize hydro generation instead of import energy is based on many factors, such as the forecast water inflows, current reservoir levels, forecast market price of energy in future periods relative to the current period, 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.

With higher current and expected inflows, the BC Hydro reservoirs have been managed such that the combined storage in BC Hydro reservoirs at June 30, 2007, was 111 per cent of average compared with 115 per cent of average at June 30, 2006 (average storage levels relate to the average from 1986 to 2007), with the Williston Reservoir on the Peace River system at 111 per cent of average (fiscal 2007 – 110 per cent) and the Kinbasket Reservoir on the Columbia River system at 111 per cent of average (fiscal 2007 – 122 per cent).

Operating Costs

Operations costs in the first quarter are $68 million, or $11 million higher than in the same period last year due to increased demand-side management costs.

Maintenance costs in the first quarter of $60 million are $6 million higher than in the same period in the prior year due to increased asset restoration and dam safety costs.

Administration costs of $26 million for the first quarter are $16 million lower than the prior year primarily due to decreased labour related costs and lower non-current service pension costs resulting from improved returns on pension plan assets.

Amortization Expense

Amortization expense of $90 million for the first quarter was $23 million lower than for the same period in the previous year. A one-time adjustment to reduce net book values by $24 million was recorded in the first quarter of fiscal 2007 as a result of the implementation of the recommendations in a depreciation study undertaken by BC Hydro. This impact was partially offset by an increase in assets in service in the first quarter of fiscal 2008 compared to the prior year.

Finance Charges

Finance charges of $112 million for the first quarter were $13 million higher than for the same period in the previous year. The increase is due to higher short-term interest rates, mark-to-market losses on derivatives not designated as hedges, and lower U.S. sinking fund income as a result of realized capital losses in the current year compared to the prior year. These unfavourable variances were partially offset by higher interest capitalized during construction.

Accounting Policies

On April 1, 2007, BC Hydro adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and Handbook Section 3865, Hedges. The Company adopted these standards retroactively with an adjustment of opening accumulated other comprehensive income and retained earnings; accordingly, comparative amounts for prior periods have not been restated.

Upon adoption of Section 1530 a new category, accumulated other comprehensive income (AOCI), was added to shareholder's equity. Comprehensive income consists of net income and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and changes in the fair value of the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of income are met.

Section 3855 establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard.

Section 3865 expands the guidelines provided in Accounting Guideline 13, Hedging Relationships, by specifying the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Refer to note 2 in the interim consolidated financial statements for more detailed discussion and analysis regarding the adoption of these new standards.

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. Powerex, along with a number of other suppliers, asked the U.S. Supreme Court to hear its appeal of that decision. On June 18, 2007, the Supreme Court denied that application.

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 June 30, 2007, Powerex was owed US $268 million (CDN $285 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.

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 (FSIA). 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 appealed that decision to the Supreme Court of the United States which heard the case on April 16, 2007. On June 18, 2007, the Supreme Court determined it did not have jurisdiction and therefore did not grant Powerex the FSIA order requested. However, the Supreme Court also determined that the Ninth Circuit did not have jurisdiction and therefore that court's decision that Powerex was not an instrumentality of a foreign sovereign, will be set aside.

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.

Regulation

Regulatory Accounts

BC Hydro has established various regulatory accounts with approval of the BCUC. Regulatory accounts allow BC Hydro to defer certain types of revenue and cost variances through transfers to and from the accounts which have the effect of adjusting net income. The deferral amounts are then included in rates of future periods, subject to approval by the BCUC.

In the first quarter of fiscal 2008, BC Hydro transferred, on a net basis, $128 million from regulatory accounts, compared with $106 million transferred to regulatory deferral accounts in the first quarter of fiscal 2007. The net balance in the regulatory asset and liability accounts as at June 30, 2007, was $304 million compared to $449 million at March 31, 2007.

The reduction in the regulatory energy asset accounts arises from the lower cost of energy supplied during the quarter. The Heritage Deferral Account and Non-Heritage Deferral Account regulatory accounts are designed to defer the variance between the actual cost incurred by BC Hydro for energy supplied and the forecast energy cost in the most recent revenue requirements application. As a result of the significantly higher inflows expected in the current year (109 per cent of average), hydro generation was higher than forecast by 2,121 GWh resulting in lower market purchases required for domestic consumption. The average cost of hydro generation is $6.16 MWh compared to the average cost of $51.95 MWh for market purchases in the quarter. These factors resulted in the actual domestic energy cost being significantly lower than the forecast cost by $102 million. This has resulted in a reduction in the regulatory energy asset accounts.

Integrated Energy Plan/Long Term Acquisition Plan

At the end of fiscal 2007 the BCUC approved the specific Long Term Acquisition Plan funding requests. The reasons for this decision and the remaining orders and comments sought in the Integrated Energy Plan/Long Term Acquisition Plan application were issued on May 11, 2007 by the BCUC. The BCUC did not accept BC Hydro's planning assumptions for the ongoing operations of Burrard Thermal Generating Plant resulting in a finding that the load resource balance in the application is overstated, and could impact the timing and sizing of the 2007 and 2009 energy calls and the need for Energy Purchase Agreements awarded under those calls. Until the uncertainty is resolved by BC Hydro to the satisfaction of the BCUC, the full capability of Burrard will remain in the resource stack.

Special Direction

Special Direction #10 was issued by the Province to the BCUC on June 26, 2007 instructing the BCUC to apply the self-sufficiency criterion in considering BC Hydro's applications to plan and acquire energy and capacity resources. This criterion requires that BC Hydro become capable of meeting its load obligations solely from electricity generation facilities within British Columbia by 2016 and to exceed this threshold by at least 3,000 GWh/year by 2026. The Special Direction also specifies certain factors that the BCUC must be guided by in determining whether the contracts resulting from the bio-energy call are in the public interest. The BCUC must set rates to allow BC Hydro to recover prudently incurred costs in achieving both initiatives as well as costs related to the provision of electricity service to remote communities.

Rate Design

BC Hydro filed its first Rate Design Application (RDA) since 1991 on March 15, 2007. The primary purpose of the RDA is to update BC Hydro's rates and terms and conditions with the main focus on fairness, efficiency and simplicity. The RDA also sets the foundation for future rate design proposals that will address the opportunities to use rate structures to contribute to the implementation of the 2007 Energy Plan. After an intensive information request process which took place during the first quarter of fiscal 2008, an oral hearing on the application commenced on July 9 and ended on July 19, 2007. This hearing was Phase 1 which dealt with all rate related issues except those pertaining to Zone 2 rates which will be addressed in Phases 2 and 3 to be heard this fall.

Winter 2007 Storm Report and Related Cost Deferral Applications

BC Hydro responded to a request by the BCUC to provide an assessment of the impacts related to the storms experienced during the winter of 2007 and recommendations to mitigate outages and improve on service to restore power in the future by filing its Winter Storm Report on May 31, 2007. The Report was accompanied by two separate deferral applications: one for $32.9 million to recover the storm costs related to the major events that occurred during fiscal 2007 and the second one for the non-capital system reinforcement costs of $8.2 million to be incurred in fiscal 2008. The BCUC approved the establishment of the F2007 Unplanned Major Storm Restoration Costs regulatory asset which will include costs related to both applications, but left the prudency of the costs incurred to be reviewed in the next revenue requirements proceeding.

Revelstoke 5 Project

A Certificate of Public Convenience and Necessity (CPCN) application for the addition of a new turbine at the Revelstoke facility with a total expected cost around $300 million was filed with the BCUC on April 13, 2007. A written proceeding was established to review the application and a decision approving this project was issued by the BCUC on July 12, 2007.

Liquidity and Capital Resources

Cash flow provided by operating activities for the first quarter was $186 million, compared with $90 million for the same period last year. The increase was primarily due to an increase in net income, a decrease in unrealized gains on mark-to-market, and changes in working capital.

The net long-term debt balance at June 30, 2007 was $7,364 million, compared with $6,916 million at March 31, 2007. The increase was a result of five long term bond issues totaling $830 million, offset by $533 million of U.S. bond maturities, and an increase in revolving borrowings of $125 million. The increase was also due to the withdrawal of $139 million in sinking funds.

Property, Plant and Equipment Expenditures

Property, plant and equipment expenditures were as follows:

	For the three months ended June 30	
($ in millions)	2007	2006
Generation replacements and expansion	$ 60	$ 32
Transmission lines and substation replacements & expansion	60	46
Distribution improvements and expansion	83	68
General, including computers and vehicles	14	11
Property, plant and equipment expenditures	$217	$157

The increase in generation asset expenditures for the three month period ended June 30, 2007 is due to several significant improvement projects including the Coquitlam Dam seismic upgrade, capacity expansion at the Aberfeldie Dam, GM Shrum stator replacements, and the Peace Canyon Turbine Overhaul. The increase in transmission activity is primarily due to replacement and reinforcement work on the Vancouver Island transmission connection to meet growing customer demand. The increase in distribution improvements and expansion is due to increased system improvement work, feeder and submarine cable replacements, and customer driven connection work.

Risk Management

BC Hydro faces risks specific to its business that could significantly impact its ability to achieve its short- and long-term financial, social and environmental goals. The goal of risk management is not to eliminate risks, but rather to mitigate them to acceptable levels which are commensurate with potential benefits to be derived. 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 the identification and assessment of significant risks and ensuring strong oversight of significant risks by the Risk Management Committee. BC Hydro's Board of Directors also plays a key role in the risk management process, as the board must understand the risks being taken by BC Hydro and ensure these are appropriately managed.

During the first quarter of fiscal 2008 commodity prices continued to be elevated, driven in part by low spring water inflows during the later winter months in the northwestern United States followed by unusually high temperatures in the spring season for the same regions. Unusually high spring water inflows in the Peace River and Columbia River basins in British Columbia have created a better balance between the generating capability of BC Hydro's heritage assets and provincial power demand. This improved balance is expected to persist over the remainder of the fiscal year and provides BC Hydro with the operating flexibility to better mitigate the impacts of volatile commodity prices during that period. Conversely, the high water levels exposed BC Hydro to an increased risk of spill through most of the first quarter, which to some extent impaired management's ability to optimize the value of the water in the reservoirs. While BC Hydro's reservoir storage will continue to provide some degree of flexibility to manage risk associated with energy purchase cost over the short term, the current market environment continues to increase uncertainty around the cost of energy BC Hydro imports to meet domestic demand. This situation has been accentuated by the increasing gap between the domestic demand for energy resulting from the strong economic environment in British Columbia and BC Hydro's capacity to generate energy.

BC Hydro is also exposed to financial risk, such as changes in interest rates or foreign exchange risks. During the first quarter those financial risks were relatively stable. Management's assessment of risk is ongoing. Other risks to BC Hydro have not changed materially from the Management Discussion and Analysis in the 2007 Annual Report.

Future Outlook

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each February. BC Hydro's Service Plan filed in February 2007 indicated that income before regulatory account transfers for this year was forecast at $324 million and net income forecast at $365 million. BC Hydro prepared an updated forecast in July 2007 that forecasts income before regulatory accounts of $479 million and net income of $365 million for fiscal 2008.

BC Hydro's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, customer load, market prices for electricity and natural gas, weather temperatures, interest rates and foreign exchange rates. The July forecast update assumes water inflows return to normal levels, resulting in an annual rate of 109 per cent of average, customer load of 54,039 GWh, average market energy prices of US$59.05/MWh, a consistent level of operating costs, short-term interest rates of 4.24 per cent and a U.S. dollar exchange rate of US$0.8710.

The estimated rate increases (excluding the rate rider) for fiscal 2009 to 2011 has changed from 5.86 per cent, 3.74 per cent and 7.81 per cent respectively in the Service Plan to 4.86 per cent, 7.30 per cent and 5.47 per cent in this forecast update. On a cumulative basis for fiscal 2009 to 2011, the rate increase is 18.65 per cent compared to 20.77 per cent in the Service Plan. The forecast rate increases are indicative only and have not been approved by the BCUC. The forecast rate increases are subject to change given the volatility around several assumptions including water inflows and market prices for energy.

CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)

($ in millions)	For the three months ended June 30 2007	2006
Revenues		
Domestic	$ 666	$ 615
Trade	492	374
	$ 1,158	$ 989
Expenses		
Energy costs:		
Domestic	198	239
Trade	432	243
Operations	68	57
Maintenance	60	54
Administration	26	42
Taxes	39	36
Amortization	90	113
	913	784
Operating Income	245	205
Finance charges	(112)	(99)
Income Before Regulatory Account Transfers	133	106
Net change in regulatory accounts (note 4)	(128)	(106)
Net Income	$ 5	$ -

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

($ in millions)	For the three months ended June 30 2007
Net Income	$ 5
Other Comprehensive Income (note 6)	27
Comprehensive Income	$32

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(Unaudited) *($ in millions)*	As at June 30 2007	As at March 31 2007
ASSETS		
Property, Plant and Equipment, net	$ 10,126	$ 9,998
Current Assets		
Cash and cash equivalents	128	8
Accounts receivable and accrued revenue	472	512
Materials and supplies	185	137
Prepaid expenses	45	110
Mark-to-market gains	121	61
	951	828
Other Assets and Deferred Charges		
Intangible assets, net	418	424
Sinking funds	572	733
Regulatory assets (note 4)	768	878
	1,758	2,035
	$ 12,835	$ 12,861
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	$ 6,445	$ 5,502
Sinking funds presented as assets	572	733
Long-Term Debt	7,017	6,235
Current Liabilities		
Current portion of long-term debt	1,046	1,422
Accounts payable and accrued liabilities	865	1,267
Mark-to-market losses	257	43
	2,168	2,732
Other Liabilities		
Regulatory liabilities (note 4)	464	429
Deferred contributions	929	913
Debt issue and related costs (note 2)	-	145
Other long-term liabilities	461	459
Foreign currency contracts (note 2)	-	165
	1,854	2,111
Shareholder's Equity (note 6)	1,796	1,783
	$ 12,835	$ 12,861

Commitments and Contingencies (note 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

CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)	For the three months ended June 30	
($ in millions)	2007	2006
Operating Activities		
Net income	$ 5	$ -
Regulatory account transfers	107	94
Adjustments for non-cash items:		
Amortization of regulatory accounts	21	12
Amortization expense	90	113
Foreign exchange translation gains	(12)	(7)
Amortization of debt issue and related costs	(1)	(3)
Unrealized gains on mark-to-market	(20)	(41)
Sinking fund income	(4)	(9)
Employee benefit plan expenses	7	7
Other non-cash items	8	2
	201	168
Working capital changes	(15)	(78)
Cash provided by operating activities	186	90
Investing Activities		
Property, plant and equipment expenditures	(223)	(147)
Deferred contributions	24	29
Proceeds from property sales	-	(5)
Other items	(6)	(1)
Cash used for investing activities	(205)	(124)
Financing Activities		
Bonds:		
Issued	830	245
Retired	(533)	-
Revolving borrowings	125	-
Sinking fund withdrawals	139	-
Settlement of derivative instruments	(91)	-
Payment to the Province	(331)	(223)
Cash provided by financing activities	139	22
Increase (decrease) in cash and cash equivalents	120	(12)
Cash and cash equivalents, beginning of period	8	23
Cash and cash equivalents, end of period	$ 128	$ 11
Supplemental disclosure of cash flow information		
Interest paid	$ 133	$ 132

See accompanying notes to the interim consolidated financial statements

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2007

Description

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 4) by the British Columbia Utilities Commission (BCUC) which, among other things, approves the rates BC Hydro charges for its services.

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

Note 1: Accounting Policies

The 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 2007 Annual Report.

Except for as noted below in note 2, these interim consolidated financial statements follow the same accounting policies as those described in BC Hydro's 2007 Annual Report. Certain figures for the previous period have been reclassified to conform to presentation in the current period.

Note 2: Adoption of New Accounting Policy

On April 1, 2007, BC Hydro adopted four new accounting standards that were issued by the Canadian Institute of Chartered Accountants ("CICA"): Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, Handbook Section 3861, Financial Instruments – Disclosure and Presentation, and Handbook Section 3865, Hedges. BC Hydro adopted these standards retroactively with an adjustment of opening retained earnings and accumulated other comprehensive income; accordingly, comparative amounts for prior periods have not been restated.

Comprehensive Income

As a result of adopting these standards a new category, accumulated other comprehensive income (AOCI), was added to shareholder's equity. Comprehensive income consists of net income and other comprehensive income (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and changes in the fair value of available for sale securities and the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of operations are met.

Financial Instruments – Recognition and Measurement

Section 3855 establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in income. Financial assets classified as "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets and liabilities classified as held-to-maturity are measured at amortized cost using the effective interest method of amortization. All derivatives, including embedded derivatives that are not closely related to the host contract and must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheet. BC Hydro has selected April 1, 2007 as the transition date for recognizing embedded derivatives and, therefore, recognizes as separate assets and liabilities only those derivatives embedded in hybrid instruments issued, acquired, or substantially modified on or after April 1, 2007. All regular-way purchases or sales of financial assets are accounted for on a settlement date basis.

Hedges

Section 3865 expands the guidelines provided in Accounting Guideline 13, Hedging Relationships, by specifying the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

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

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

Impact upon Adoption

The transition adjustments attributable to the re-measurement of financial assets and financial liabilities at fair value were recognized in retained earnings as at April 1, 2007. Adjustments arising from re-measuring financial assets classified as available-for-sale or from the effective portion of derivatives designated as cash flow hedges at fair value were recognized in opening AOCI as at April 1, 2007.

The transition amounts that were recorded in the opening retained earnings or in the opening accumulated other comprehensive income balance on April 1, 2007 were as follows:

($ in millions)	Opening Retained Earnings	Opening Accumulated Other Comprehensive Income
Change in accounting policy from the straight line method to the effective interest method for amortization	$(6)	$ -
Opening ineffective portion of fair value hedges	7	-
Fair value adjustment upon reclassification of Sinking Funds to available-for-sale	-	1
Opening fair value adjustment of cash flow hedges	-	(21)
Transition Adjustments	$ 1	$(20)

With the adoption of Section 3855, $145 million of transaction costs, premiums and discounts have been reclassified to long-term debt from debt issue and related costs to reflect the adopted policy of capitalizing long-term debt transaction costs, premiums and discounts within long-term debt. The costs capitalized within long-term debt will be amortized using the effective interest method. BC Hydro's policy is to recognize transaction costs associated with financial assets and liabilities, that are classified as other than held for trading, as an adjustment to the cost of those financial assets and liabilities recorded in the balance sheet. These transaction costs are amortized into earnings using the effective interest rate method over the life of the related financial instrument. Previously, BC Hydro deferred these costs within other assets and amortized them straight-line over the life of the related long-term debt.

The following table provides a comparison of carrying values for non-derivative financial instruments as at June 30, 2007, and March 31, 2007:

	June 30, 2007		March 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held for Trading:				
Revolving Borrowings – CDN	$ (962)	$ (962)	$ (826)	$ (826)
Revolving Borrowings – US	-	-	(10)	(10)
Available for Sale:				
Sinking Funds – CDN	$ 484	$ 484	$ 509	$ 512
Sinking Funds – US	-	-	129	127
Held to Maturity:				
Sinking Funds – US	$ 88	$ 88	$ 95	$ 97
Long Term Debt	$(7,101)	$(7,952)	$(6,821)	$(8,075)

For assets classified as held-for-trading, no amount has been recognized in net income for the period relating to changes in fair value. For available-for-sale financial assets, $13 million has been recorded in other comprehensive income and $2 million was removed from accumulated other comprehensive income and reported in net income for the period.

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

	June 30, 2007		March 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Designated Hedges:				
Foreign currency contracts	$(159)	$(159)	$(165)	$(167)
Interest rate swaps	(18)	(18)	-	8
Commodity derivatives	-	-	-	(13)
Non-designated Hedges				
Foreign currency contracts	(4)	(4)	-	-
Commodity derivatives	28	25	17	14

In the first quarter of fiscal 2008, there was no net gain or loss recognized in operations related to the ineffective portion of designated cash flow hedges and fair value hedges. For designated cash flow hedges, a loss of $74 million was recognized in other comprehensive income and a gain of $112 million was removed from accumulated other comprehensive income and reported in net income, offsetting foreign exchange gains recorded during the period.

For derivatives not designated as hedging instruments, a total of $7 million was recognized in trade and other revenue and a nominal amount was recognized in finance charges during the three months ended June 30, 2007. Charges recorded using the effective interest rate method were not materially different from the straight-line depreciation method for the three months ended June 30, 2007.

Note 3: 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 4: Regulation

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

BC Hydro applies various accounting policies that differ from GAAP for enterprises that do not operate in a rate-regulated environment. 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 BCUC.

BC Hydro requested and received regulatory approval for the establishment of the F2007 Unplanned Major Storm Restoration Costs regulatory account, which is included in Other Regulatory Accounts. BC Hydro also received BCUC approval to include in this account certain expenditures incurred in fiscal 2008 related to improving outage communication and system resiliency.

Regulatory Accounts

The following regulatory assets and liabilities have been established through rate regulation. For the three months ended June 30, 2007, the impact of regulatory accounting has resulted in a decrease to net income of $128 million (2006 – $106 million decrease).

($ in millions)	April1, 2007	Accounting Policy Change	Addition/ Reduction	Amortization	Net Change	June 30, 2007
Regulatory Assets						
Heritage Deferral Account	$ 178	–	$ (61)	$ (14)	$ (75)	$ 103
Non-Heritage Deferral Account	209	–	(35)	(12)	(47)	162
BCTC Deferral Account	13	–	1	–	1	14
Demand-Side Management Programs	282	–	12	(9)	3	285
First Nation Negotiations, Litigation and Settlement Costs	126	–	4	(1)	3	129
Other Regulatory Accounts	70	–	3	2	5	75
Total Regulatory Assets	$ 878	$ –	$ (76)	$ (34)	$ (110)	$ 768
Regulatory Liabilities						
Future Removal and Site Restoration Costs	$ 210	–	$ –	$ (4)	$ (4)	$ 206
Trade Income Deferral Account	203	–	18	(12)	6	209
Foreign Exchange Gains and Losses	16	17	12	4	16	49
Total Regulatory Liabilities	$ 429	$ 17	$ 30	$ (12)	$ 18	$ 464
Net	$ 449	$ (17)	$ (106)	$ (22)	$ (128)	$ 304

With the adoption of Section 3855 certain financial instruments that had previously been deferred as part of the Foreign Exchange Gains and Losses regulatory account have been reclassified to mark-to-market gains.

Note 5: Employee Future Benefits

BC Hydro's cost for employee future benefits for the quarter ended June 30, 2007 was $11 million (2006 – $17 million).

Note 6: Shareholder's Equity

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

($ in millions)	For the three months ended June 30 2007
Other Comprehensive Income	
Unrealized loss on sinking fund balances	(13)
Reclassification to income of gain on sinking funds	2
Unrealized loss on derivatives designated as cash flow hedges	(74)
Reclassification to income of gains on derivatives designated as cash flow hedge	112
Other Comprehensive Income	27

STATEMENT OF SHAREHOLDER'S EQUITY

($ in millions)	For the three months ended June 30 2007	2006
Retained earnings, beginning of period	$ 1,783	1,707
Change in accounting policy (note 2)	1	-
Net income	5	-
Retained earnings, end of period	$ 1,789	$ 1,707
Accumulated other comprehensive income, beginning of period	-	-
Transition adjustment upon change in accounting policy (note 2)	(20)	-
Other comprehensive income for the period	27	-
Accumulated other comprehensive income, end of period	7	-
Shareholder's Equity	$ 1,796	$ 1,707

Note 7: Commitments and Contingencies

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. Powerex, along with a number of other suppliers, asked the U.S. Supreme Court to hear its appeal of that decision. On June 18, 2007, the Supreme Court denied that application.

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 June 30, 2007, Powerex was owed US $268 million (CDN $285 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.

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 (FSIA). 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 appealed that decision to the Supreme Court of the United States which heard the case on April 16, 2007. On June 18, 2007, the Supreme Court determined it did not have jurisdiction and therefore did not grant Powerex the FSIA order requested. However, the Supreme Court also determined that the Ninth Circuit did not have jurisdiction and therefore that court's decision that Powerex was not an instrumentality of a foreign sovereign, will be set aside.

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.

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