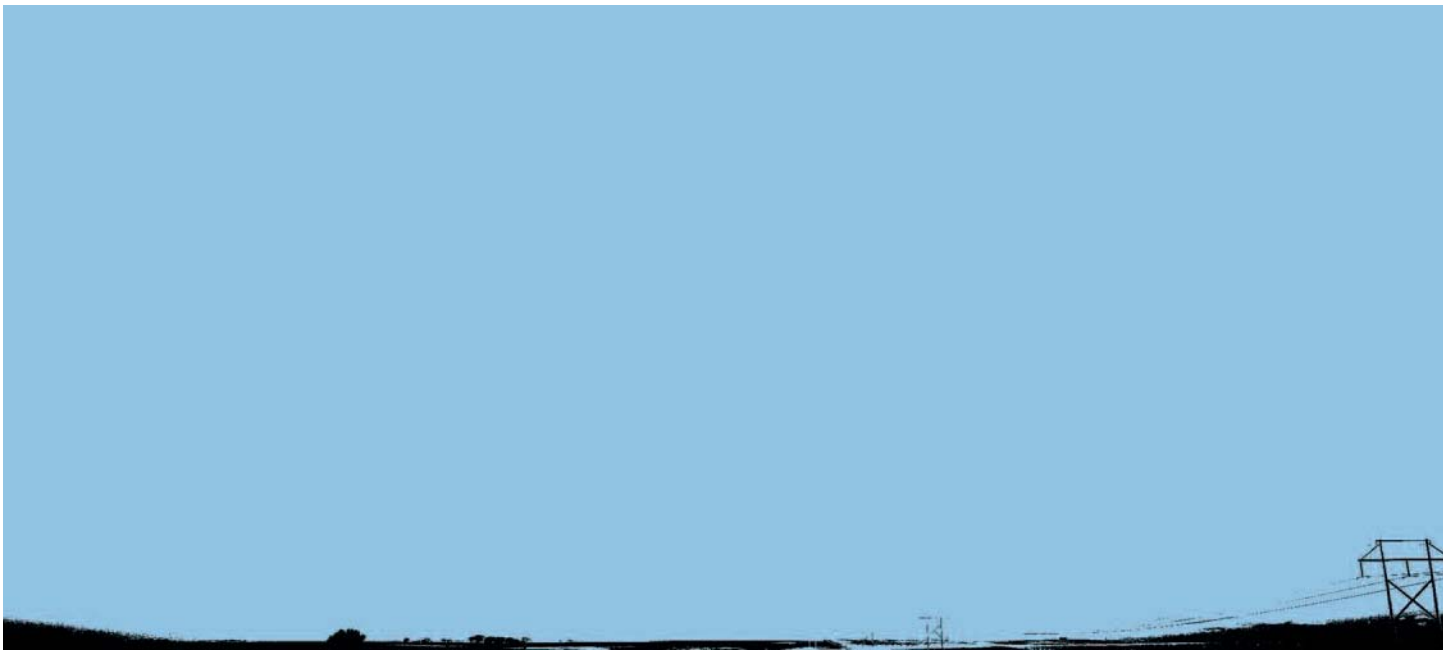

First Quarter Report

FOR THE THREE MONTHS ENDED JUNE 30, 2005

BC hydro

LG05-71

Contents

1. Overview

KEY HIGHLIGHTS

Financial

Net income for the three months ended June 30, 2005, is $5 million compared with $52 million in the previous year. The loss before regulatory account transfers for the three months ended June 30, 2005, is $15 million, compared with income of $8 million for the same period last year. Increased prices on energy purchases to meet domestic load, combined with lower tariff rates than in the first quarter last year when interim tariff rates were in effect, and higher financing costs were partially offset by higher trade income as a result of increased trading volumes at higher margins. The impact of increased prices on energy purchases and higher trade income were transferred to the regulatory deferral accounts and therefore did not impact net income.

BC Hydro's forecast income before regulatory account transfers for fiscal 2006 is approximately $329 million, down $44 million from the forecast disclosed in the 2005 Annual Report. The decrease in the forecast income is largely due to increased market energy purchases replacing hydro generation, thermal generation and purchases from Independent Power Producers and higher transmission costs and finance charges. After taking the regulatory account transfers into consideration, the current forecast net income for fiscal 2006 is $376 million, compared with $396 million in the forecast in the 2005 Annual Report. Based on this forecast, the fiscal 2006 Payment to the Province would be $302 million.

	For the three months ended June 30		
(dollar amounts in millions)	**2005**	2004	Change
(Loss) Income Before Regulatory Account Transfers	**$ (15)**	$ 8	$ (23)
Net Income	**$ 5**	$ 52	$ (47)
Accrued Payment to the Province	**$ 4**	$ 41	$ (37)
Number of Domestic Customers	**1,682,533**	1,663,945	18,588
GWh Sold (Domestic)	**12,001**	11,701	300
Total Reservoir Storage (GWh)	**27,795**	21,494	6,301
(dollar amounts in millions)	**June 30, 2005**	March 31, 2005	Change
Total Assets	**$ 12,092**	$ 12,163	$ (71)
Total Equity	**$ 1,665**	$ 1,688	$ (23)
Debt to Equity [1]	**70:30**	68:32	

[1] Based on equity as defined for regulatory purposes

Overview

Performance Plan

BC Hydro had a successful first quarter as reflected in its performance measures. Four of the six corporate measures either met or exceeded their quarterly targets. For more information on BC Hydro's performance results, see "Performance Measures – BC Hydro Overall."

System Operations

BC Hydro's system storage is currently about 4,200 GWh above average for this time of year, due to above-normal system inflows during the past winter and early spring and periods of substantial market electricity purchases. Domestic electricity purchases for fiscal 2006 are forecast at 2,600 GWh, of which almost 90 per cent were purchased in the April to June period. Although system inflows (measured from February to September 2005) so far this year have been 107 per cent of normal, the remaining forecast of system runoff is only 86 per cent of normal due to low snowpack. The overall system runoff forecast continues to show below-normal conditions at approximately 95 per cent of normal.

Resource Acquisition

2005 INTEGRATED ELECTRICITY PLAN

BC Hydro met its first regulatory milestone in the 2005 Integrated Electricity Plan (IEP) process with the filing of the 2005 Resource Options Report (ROR) with the B.C. Utilities Commission on June 13, 2005. The ROR represents the scope of resource types available to generate electricity in B.C. and the attributes that describe them, such as costs, volume and environmental impacts. This information is used to create the generic resource blocks that form the foundation for building energy portfolios to meet customer demand over a 20-year time horizon. To develop the ROR, BC Hydro integrated information from many sources and forums. Three technical workshops were held with industry and interested parties, special studies were undertaken to update and validate information inputs, and feedback from regional, First Nations, and Provincial IEP Committee workshops was incorporated. Subsequently, there was an agreement among all parties that there would be no regulatory review of the ROR. BC Hydro has committed to a review in early 2006 of the 2006 Resource Expenditure and Acquisition Plan, and for one time only, the 2005 IEP and approval of the long-term acquisition plan that will be part of the IEP. In addition, BC Hydro has committed to meeting with intervenors on the contents of the long-term acquisition plan. The 2005 IEP will be completed by the end of 2005 to support business planning and regulatory processes.

OPEN CALLS FOR FIRM ENERGY

BC Hydro has been working with suppliers, stakeholders and First Nations to design a fall 2005 open call for energy. The call – part of the 2005 Resource Expenditure and Acquisition Plan – has been revised so that the likely outcome is a minimum of 1,800 GWh per year of new supply. This supply is expected to come from a combination of large projects (800 GWh/year of firm energy and up to 800 GWh of associated non-firm energy) and small projects (200 GWh/year). In addition, BC Hydro has allowed for the option of accepting even more energy to help address implications of the loss of associated energy from the Duke Point project. The final design of the call reflects input from over 200 attendees at regional dialogue sessions and over 1,000 comments on the original call design proposal.

BC CLEAN ENERGY

The BC Clean Energy target of 50 per cent of incremental load for fiscal 2006 is being met with committed efficiency improvements and acquisitions pursuant to calls for Customer-Based Generation and Green Power issued in 2002; 215 GWh of clean energy has been delivered to BC Hydro for the three months ended June 30. Results for the quarter were slightly below the 236 GWh target, due to extensions to the in-service dates of several projects.

Overview

Achievements

STEPPED RATE AGREEMENT

An agreement has been reached on a mandatory stepped rate design for large industrial customers that will be in place for the next three years at least. A negotiated settlement was reached with the parties in late June and approval of the agreement by the B.C. Utilities Commission is pending. A stepped rate is a key part of the province's Energy Plan that requires individual customers to pay for their energy in two parts. The last 10 per cent of their energy consumption is at a price representative of long run costs of energy supply to encourage efficiency. The balance of their consumption is charged at a much lower rate so that customers share in the lower costs of our heritage assets and economic development is supported. Every customer must have their individual "base line" energy determined each year, so that charges for the last 10 per cent of consumption are fairly applied.

POWER SMART

BC Hydro's Power Smart initiative exceeded the cumulative energy savings target of 1,375 GWh for the first quarter with a total of 1,381 GWh. Now in the fourth year, the 10-year Power Smart goal is to acquire over 3,600 GWh, providing for 35 to 40 per cent of new load growth over the same 10-year period.

A Power Smart program has been launched for large, new construction projects. The High Performance Building Program provides tools and financial incentives to help developers and owners make new buildings energy efficient and environmentally friendly. The program targets new developments that are at least 50,000 square feet or electricity intense, such as arenas, refrigerated warehouses or grocery stores.

LABOUR RELATIONS

In May the International Brotherhood of Electrical Workers (IBEW) membership ratified the Memorandum of Agreement signed between BC Hydro and IBEW Local 258 on April 13, 2005. The new agreement, which took effect immediately, was ratified by the Board of Directors on May 26, 2005 and expires on March 31, 2006.

On June 9, 2005, BC Hydro and Canadian Office & Professional Employees (COPE) Local 378 signed a Memorandum of Agreement (MOA) to extend the current collective agreement by one year. The MOA was subsequently ratified by COPE members and BC Hydro's Board of Directors. The new agreement took effect immediately and will expire on March 31, 2006.

CUSTOMER ADDITIONS

Net new customer additions for the first quarter totalled 7,475, an increase of 604 or nine per cent over plan. The increase was higher than expected, due primarily to the number of multi-residential and commercial towers added in the Lower Mainland and increased customer additions on Vancouver Island. The upward trend is expected to continue for the remainder of the fiscal year due to the general strength of the economy.

FIRST NATIONS

BC Hydro took over operating responsibility for the existing diesel generating stations at Kwadacha and Tsay Keh Dene in northeastern B.C. in the first quarter. This initiative involved comprehensive dialogue, negotiations and participation with key stakeholders, including the First Nations communities, Indian and Northern Affairs Canada and the communities' previous service provider. As part of its new responsibility, BC Hydro completed Operational Environmental Reviews of the stations and found some operating practices that did not conform to BC Hydro standards for environmental protection. Operating procedures were subsequently changed and improved operator training is underway.

Overview

Challenges

DUKE POINT POWER 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.

ELECTRICAL THEFT

Marijuana grow operations are escalating in B.C. BC Hydro responded to more than 5,000 requests from law enforcement agencies last year for information about electrical consumption through the Freedom of Information office. Through this channel, BC Hydro works with law enforcement agencies that have made requests to assist in active criminal investigations. This is a process that protects customers' confidential information and ensures privacy, while assisting police when a crime, like a marijuana grow operation and theft of electricity, may have been committed. A key challenge for BC Hydro is protecting confidential customer information while doing our best to aid law enforcement agencies.

ELECTRIC AND MAGNETIC FIELDS

The issue of electric and magnetic fields (EMF) and their potential impact on human health is continuously monitored. BC Hydro is working with British Columbia Transmission Corporation in the planning for transmission and substation projects in the Lower Mainland where the EMF issue has been cited in recent media reports. BC Hydro is accountable for the transmission assets – and any impacts they may have – and is committed to the health, safety and welfare of our employees and the public and dedicated to the safe use of electricity. BC Hydro designs and operates its electrical system within current electrical safety and established health guidelines. To assist those with concerns about EMF exposure, EMF measurement kits are available to the public through BC Hydro's district offices.

2. Performance Measures

BC HYDRO OVERALL

Performance measurement, both financial and non-financial, is an integral part of BC Hydro's strategic management process. Performance measures and targets that align with the company's strategic goals and objectives are set out in the BC Hydro Service Plan (Fiscal Years 2005/2006 to 2007/2008). This section of the report provides an overview of BC Hydro's first quarter performance towards meeting BC Hydro Service Plan annual targets. First quarter results cover the period April 1 to June 30, 2005.

With the exception of Income Before Regulatory Transfers, BC Hydro overall performance measures are considered to meet the target if the result is within a 10 per cent range for the reporting period.

Legend (for all Performance Measures)

△ **Significantly better than target** ○ **Meets target (within range)** ▽ **Significantly below target**

INCOME (LOSS) BEFORE REGULATORY ACCOUNT TRANSFERS ○

(in millions)

Annual Target in Service Plan – $395 million

	3-Month Actual	3-Month Target
Q1 05/06	**$(15)**	**$(15)**
Q1 04/05	$8	$36

Income (loss) is defined as total revenue less total expenses before regulatory account transfers.

Income (loss) before regulatory account transfers was on plan for the three months ended June 30, 2005. Higher trade income as a result of increased trading volumes and higher margins was offset by higher domestic energy costs as a result of increased market energy purchases. Finance charges were also higher than plan. The loss before regulatory account transfers was $15 million compared with income of $8 million for Q1 04/05. The decrease is a result of increased prices on energy purchases to meet domestic load, combined with lower tariff rates compared with the first quarter last year when interim tariff rates were in effect and higher finance charges. Partially offsetting this decrease was higher trade income as a result of increased trading volumes at higher margins.

RELIABILITY ▽

Average System Availability Index (ASAI)

(Percentage)

Annual target in Service Plan – 99.970

	3-Month Actual	3-Month Target *
Q1 05/06	**99.960**	**99.973**
Q1 04/05	99.977	99.974

Customer Average Interruption Duration Index (CAIDI)

(Hours)

Annual target in Service Plan – 2.15 hours

	3-Month Actual	3-Month Target *
Q1 05/06	**2.36**	**2.11**
Q1 04/05	2.05	2.04

** Target is based on five-year average.*

Reliability is defined as a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). ASAI refers to the percentage of time power is available. CAIDI describes the average number of hours per interruption. These indices are electric utility industry standards.

Performance Measures

First quarter 05/06 performance results are lower than target, based on a five-year average, due to significantly higher customer hours lost caused by source outages,** adverse weather, motor vehicle accidents and tree-related outages. First quarter 05/06 ASAI and CAIDI compares unfavourably with the first quarter last year due to a 74 per cent increase in customer hours lost in the first quarter of 05/06. Leading causes of customer interruptions during the quarter included source outages (352 per cent higher), adverse weather (139 per cent higher), motor vehicle accidents (60 per cent higher) and tree-related outages (54 per cent higher).

*** 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 Δ

(GWh/year)

Annual Target in 2005 Service Plan – 586 GWh

	3-Month Actual	3-Month Target
Q1 05/06	**23**	**20**
Q1 04/05	206	166

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 align with BC Hydro's other DSM reporting and filings.

First quarter 05/06 performance results are above target as a result of above plan savings from the Refrigerator Buy-Back program. First quarter savings last year were considerably higher than for the same period this year due to the Weyerhaeuser load displacement project coming online in April 2004. Customer Care and Power Smart expects to achieve the year-end DSM target.

ENVIRONMENTAL REGULATORY COMPLIANCE Δ

(Number of incidents)

Annual Target in 2005 Service Plan – 17 incidents

	3-Month Actual	3-Month Target
Q1 05/06	**3**	**4**
Q1 04/05	6	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 for causing impacts to the environment. For this type of measure there is an inherent risk of unreported incidents. BC Hydro reviewed its controls to ensure that all applicable incidents are reported.

First quarter 05/06 results are slightly lower than the target and are within normal quarter-to-quarter variability. Of the three incidents (two equipment failure and one human error), none was categorized as "severe." BC Hydro recorded three fewer ERC incidents (two fewer human errors and one less equipment failure) when comparing results with the first quarter of last year. Based on first quarter 05/06 results, BC Hydro is on track to meet the fiscal 2006 ERC measure annual target.

ALL INJURY FREQUENCY Δ

Annual Target in 2005 Service Plan – 2.3

	3-Month Actual	3-Month Target
Q1 05/06	**2.1**	**2.5**
Q1 04/05	1.4	2.9

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

Performance Measures

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.

First quarter 05/06 performance results (at over 15 per cent better than target) place us on track to meet the year-end target.

APPROVED STRATEGIC WORKFORCE PLANNING POSITIONS FILLED ∇

(Number)

Annual Target in 2005 Service Plan – 70

	3-Month Actual	3-Month Target
Q1 05/06	**56**	**66**
Q1 04/05	40	18

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 business strategy.

First quarter 05/06 performance results are below target as a result of four hiring delays, two positions no longer required, two offers declined and two positions with no suitable candidates. Hiring is based on a number of factors, including the actual or predicted retirements and business needs. The Lines of Business change SWfP hiring numbers or timing based on these factors. Retirement uptake either above or below the predictions will have an effect on BC Hydro's SWfP hiring.

Performance Measures

GREENHOUSE GAS EMISSIONS

(CO_2 Equivalent)

BC Hydro Direct GHG Emissions	Q1 F05/06	Q1 F04/05
BC Hydro Thermal Facilities	58	60
Fugitive Sulphur Hexafluoride (SF_6)	17	20
Buildings	1	1
Vehicles	4	4
Indirect GHG Emissions		
B.C.-based Independent Power Producers	260	260
Customer-based Generation and Load Displacement	73	N/A
Totals		
GHG Emissions	413	345
Total Domestic Sales (GWh)	12,001	11,701
Average GHG Intensity (t/GWh)	35	28

Notes:

- **All units in thousands of carbon dioxide equivalent tonnes (kt CO_2e) 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 (CO_2, CH_4, N_2O, SF_6, PFCs, HFCs) attributable to electricity generated in B.C.

An increase in customer-based generation/load shedding has contributed to higher total emissions and higher average GHG intensity for the first quarter 05/06 compared with the first quarter last year.

3. Financial

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position. This discussion 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 months ended June 30, 2005 and 2004. 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.

Consolidated Results of Operations

The loss before regulatory account transfers of $(15) million for the three months ended June 30, 2005 compares with income of $8 million in the same period in the previous year. An increase in domestic energy sales volumes was offset by lower tariff rates resulting in domestic revenues consistent with the same period in the prior year. The cost of energy to supply domestic load was $30 million higher than the prior year due to greater reliance on purchases at higher unit prices. Higher electricity trade volumes at higher unit prices and margins resulted in trade margins that were $20 million higher than the same period in the previous year. Higher operating costs and finance charges also contributed to the loss for the period ended June 30, 2005.

Net income after regulatory account transfers is $5 million for the three months ended June 30, 2005 compared to $52 million in the same period in the previous year. The decrease in net income results from the impact of the lower approved rate increase, the increased cost of purchased energy to meet higher domestic load, higher finance charges and higher operating costs.

Revenues

For the three months ended June 30	in millions		gigawatt hours	
	2005	2004	**2005**	2004
Domestic:				
Residential	**$ 218**	$ 217	**3,350**	3,267
Light industrial and commercial	**239**	236	**4,295**	4,137
Large industrial	**143**	144	**4,033**	3,997
Other energy sales	**33**	35	**323**	300
Total Domestic	**$ 633**	$ 632	**12,001**	11,701
Trade	**279**	186	**8,281**	6,906
Total	**$ 912**	$ 818	**20,282**	18,607

Domestic Revenues

Domestic revenues of $633 million for the three months ended June 30, 2005 were $1 million higher than the same period in the previous year. Total sales volumes increased by three per cent as a result of an additional 18,996 residential customers compared to the same period in the prior year as well as an increase in activity in the light industrial and commercial sector 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 June 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 $13 million quarter over quarter.

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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 June 30, 2005 were $279 million compared to $186 million in the same period in the prior year. The increase is due to higher sales volumes and higher average sales prices. Sales volumes increased 20 per cent compared with the same period last year. Average sales prices increased two per cent to $61/MWh from $60/MWh for the same period in the prior year. Increasing gas prices and transmission restrictions into the California market resulted in increased power prices.

Energy Costs

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

Energy costs are comprised of the following sources of supply:

	For the three months ended June 30					
	(in millions)		(gigawatt hours)		($ per MWh)	
	2005	2004	**2005**	2004	**2005**	2004
Hydro	**$ 53**	$ 48	**9,155**	8,563	**$ 5.79**	$ 5.61
Purchases from Independent Power Producers and other long-term contracts	**104**	77	**1,601**	1,225	**64.96**	62.85
Other electricity purchases[1]	**204**	196	**10,448**	9,530	**48.43**	46.05
Thermal[2]	**83**	46	**94**	93	**138.30**	139.78
Transmission charges and other expenses	**68**	39	**15**	22	–	–
Total	**$ 512**	$ 406	**21,313**	19,433	**$ 38.19[3]**	$ 33.40[3]

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 $70 million for the three months ended June 30, 2005 compared with $33 million for the prior year.
3. Total cost per MWh includes other electricity purchases at gross cost.

For the three months ended June 30, 2005 energy costs of $512 million were $106 million higher than the same period in the previous year. Approximately $30 million of the increase in energy costs is due to higher volumes of electricity purchases from Independent Power Producers and other long-term commitments at higher unit prices to meet an increase in domestic load requirements. An increase in the cost of remarketed gas and increased transmission charges also contributed an additional $65 million to the increase in the cost of energy during this period.

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MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ended June 30, 2005 imports were 2,252 GWh compared to 2,520 GWh for the same period for 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 June 30, 2005 the combined storage in BC Hydro's reservoirs was 119 per cent of average compared to 91 per cent of average in the prior year. While the current snowpack is below normal levels, faster than normal run-off in the quarter resulted in water inflows into BC Hydro's reservoirs which were 16 per cent higher at June 30, 2005 compared to June 30, 2004 allowing BC Hydro to rebuild reservoir levels.

Operating Costs

Operating costs for the three months ended June 30, 2005 of $149 million are $3 million higher than the same period in the prior year. The increase is mainly due to an increase in the environmental provision for the remediation of contaminated sites.

Amortization Expense

Amortization expense of $103 million for the three months ended June 30, 2005 was $5 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 offset by an increase in regulatory capital assets in service.

Finance Charges

Finance charges of $127 million for the three months ended June 30, 2005 were $13 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).

Accounting Policies

There were no accounting policy changes during the period ended June 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.

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MANAGEMENT DISCUSSION AND ANALYSIS

As a result of the British Columbia Transmission Corporation 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 period $16 million was transferred to these regulatory deferral accounts, compared to $44 million in the first quarter of fiscal 2005. The total balance in the regulatory deferral accounts for the three months ended June 30, 2005 was $174 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 period $4 million of costs were transferred to this provision.

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 June 30, 2005, Powerex was owed US$268 million (CDN$328 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.

Financial

MANAGEMENT DISCUSSION AND ANALYSIS

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 June 30, 2005 was $123 million, compared with $214 million for the same period in the previous year. The primary reasons for the decrease in cash flow provided by operating activities are the decrease in net income and changes in working capital.

During the three months ended June 30, 2005, revolving borrowings increased by $536 million. The funds from revolving borrowings and cash flows from operations have been used to redeem $203 million of bonds, fund the Payment to the Province and for capital expenditures. The net long-term debt balance at June 30, 2005 was $6,974 million, compared to $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 June 30	
	2005	2004
Generation replacements and expansion	**$ 23**	$ 23
Transmission lines and substation replacements and expansion	**31**	19
Distribution improvements and expansion	**58**	54
General – computers, vehicles, etc.	**13**	11
Change in working capital related to capital asset expenditures[1]	**1**	6
Capital asset expenditures per Consolidated Statement of Cash Flows	**126**	113
Power Smart (Demand-side management)	**7**	27
Total capital expenditures per Consolidated Statement of Cash Flows	**$133**	$ 140

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

The increase in Transmission lines, substation improvements and expansion is due to timing of construction project schedules for the three months ended June 30, 2005 compared to the same period in the previous year and earlier initiation of sustaining capital work design and equipment purchases. The increase in Distribution improvements and expansion is due to a higher volume of new customer construction. The decrease in Power Smart expenditures is due to the completion of a large project last year and timing of incentive payments based on customer-driven project schedules.

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MANAGEMENT DISCUSSION AND ANALYSIS

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 plays 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.

Management's assessment of risk is ongoing and the 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'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 Service Plan assumes a customer load increase of 0.57 per cent, water inflows of 98 per cent of normal, average market energy prices of US$47/MWh, a consistent level of operating costs, short-term interest rates of 3.65 per cent and a U.S. dollar exchange rate of US$0.83.

Forecast updates as of July 2005 indicate reductions in forecast water inflows to 95 per cent of average and increases in market energy prices to US$54/MWh for fiscal 2006. Cost of energy for domestic load is expected to increase by $56 million due to higher purchased electricity and gas prices. Higher income is expected from commodity trading activities while financing costs are expected to increase. As a result, income before regulatory deferral account transfers is forecast to be $329 million. Net income is forecast to be $376 million which is $35 million below the Service Plan due to the increased financing costs and higher energy costs since the energy cost variance related to higher domestic loads than forecast in the fiscal 2005 and 2006 Revenue Requirements Application is not transferred to the regulatory deferral accounts.

On July 6, 2005, BC Hydro and the Canadian Office & Professional Employees (COPE) Local 378 ratified a new one-year collective agreement. The new agreement took effect immediately and will expire on March 31, 2006.

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

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CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)	*For the three months ended June 30*	
(in millions)	**2005**	2004
Revenues		
Domestic	**$ 633**	$ 632
Trade	**279**	186
	912	818
Expenses		
Energy costs	**512**	406
Operations	**45**	51
Maintenance	**63**	56
Administration	**41**	39
Taxes	**36**	36
Amortization	**103**	108
	800	696
Operating Income	**112**	122
Finance charges	**127**	114
(Loss) Income Before Regulatory Account Transfers	**(15)**	8
Transfers from (to) Regulatory Accounts (Note 3)		
Heritage Deferral Account	**54**	54
Non-Heritage Deferral Account	**11**	28
Trade Income Deferral Account	**(48)**	(38)
BCTC Transition Deferral Account	**(1)**	–
Regulatory provision for future removal and site restoration costs	**4**	–
	20	44
Net Income	**$ 5**	$ 52

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Unaudited)	*For the three months ended June 30*	
(in millions)	**2005**	2004
Retained earnings, beginning of period	**$1,688**	$1,875
Net Income	**5**	52
Deconsolidation of BCTC (Note 8)	**(24)**	–
Accrued Payment to the Province	**(4)**	(41)
Retained earnings, end of period	**$1,665**	$1,886

See accompanying notes to the interim consolidated financial statements.

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CONSOLIDATED BALANCE SHEET

(Unaudited) *(in millions)*	**as at June 30 2005**	as at March 31 2005
ASSETS		
Capital Assets		
Capital assets in service	**$ 15,835**	$ 15,792
Less accumulated amortization	**6,351**	6,293
	9,484	9,499
Unfinished construction	**461**	483
	9,945	9,982
Current Assets		
Cash and cash equivalents	**175**	37
Accounts receivable and accrued revenue	**391**	398
Materials and supplies	**96**	91
Prepaid expenses	**119**	149
Mark-to-market gains	**135**	185
	916	860
Other Assets and Deferred Charges		
Sinking funds	**809**	948
Demand-side management programs	**207**	207
Regulatory accounts (Note 3)	**174**	155
Deferred debt costs	**40**	10
Foreign currency contracts	**1**	1
	1,231	1,321
	$ 12,092	$ 12,163
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	**$ 5,958**	$ 5,821
Sinking funds presented as assets	**809**	948
Long-Term Debt	**6,767**	6,769
Foreign Currency Contracts	**87**	87
Current Liabilities		
Current portion of long-term debt	**1,191**	843
Accounts payable and accrued liabilities	**719**	753
Accrued interest	**122**	116
Accrued Payment to the Province	**4**	339
Mark-to-market losses	**152**	183
	2,188	2,234
Deferred Credits and Other Liabilities		
Asset retirement obligations	**16**	15
Regulatory provision for future removal and site restoration (Note 3)	**234**	238
Deferred revenue	**295**	297
Contributions in aid of construction	**658**	651
Contributions arising from the Columbia River Treaty	**182**	184
	1,385	1,385
Retained Earnings	**1,665**	1,688
	$ 12,092	$ 12,163

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

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CONSOLIDATED STATEMENT OF CASHFLOWS

(Unaudited)	*For the three months ended June 30*	
(in millions)	**2005**	2004
Operating Activities		
Net income	**$ 5**	$ 52
Adjustments for non-cash items:		
Regulatory account transfers	**(16)**	(44)
Transfer to regulatory provision for future removal and site restoration	**(4)**	–
Amortization of capital assets	**103**	108
Amortization of deferred debt costs	**4**	4
Deferred revenue	**(2)**	(3)
Unrealized losses on mark-to-market	**20**	40
Sinking fund income	**(11)**	(12)
Employee benefit plan expenses	**6**	19
Other non-cash items	**–**	(2)
	105	162
Working capital changes	**18**	52
Cash provided by operating activities	**123**	214
Investing Activities		
Capital asset expenditures	**(126)**	(113)
Contributions in aid of construction	**18**	16
Demand-side management programs	**(7)**	(27)
Dismantling costs	**(4)**	–
Cash used for investing activities	**(119)**	(124)
Financing Activities		
Bonds:		
– Issued	**–**	530
– Retired	**(203)**	(435)
Revolving borrowings	**536**	78
Sinking funds	**160**	30
Deferred debt costs	**–**	(5)
Settlement of derivative contracts	**–**	(5)
Cash provided by financing activities	**493**	193
Payment to the Province	**(339)**	(73)
Increase in cash and cash equivalents	**158**	210
Cash and cash equivalents, beginning of period (Note 8)	**17**	47
Cash and cash equivalents, end of period	**$ 175**	$ 257
Supplemental disclosure of cash flow information		
Interest paid	**$ 116**	$ 118

See accompanying notes to the interim consolidated financial statements.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 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 the Hydro and Power Authority Act, BC Hydro's mandate is to generate, manufacture, distribute and sell power, 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 British Columbia Utilities Commission (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 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 (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 to 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.

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

The balances included in the regulatory accounts are as follows:

(in millions)	**June 30 2005**	March 31 2005
Heritage Deferral Account	**$ 196**	$ 138
Non-Heritage Asset Deferral Account	**145**	131
Trade Income Deferral Account	**(166)**	(114)
BCTC Transition Deferral Account	**(1)**	-
	$ 174	$ 155

The deferral accounts include interest of $9 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 June 30, 2005, the balance of the regulatory provision for FRSR costs was $234 million (March 31, 2005 – $238 million).

Note 4: Employee Future Benefits

BC Hydro's cost for employee future benefits for the three months ended June 30, 2005 was $17 million (2004 – $19 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.

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

Note 6: Segmented Information

Three months ended June 30, 2005 *(in millions)*

	Generation	Transmission	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	$	$	$	$	$	$	$
External revenues	6	3	618	279	43	(37)	912
Inter-segment revenues	365	143	72	165	79	(824)	–
Net income (loss)	44	33	(59)	70	(13)	(70)	5
Total assets	4,550	2,871	3,933	990[1]	754[2]	(1,006)	12,092

Three months ended June 30, 2004 *(in millions)*

	Generation	Transmission[4]	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	$	$	$	$	$	$	$
External revenues	5	4	615	186	14	(6)[3]	818
Inter-segment revenues	385	155	44	156	95	(835)	–
Net income (loss)	50	29	(21)	45	(7)	(44)[3]	52
Total assets	4,778	3,189	3,497	724[1]	574[2]	(619)	12,143

1. Includes inter-segment receivables of $447 million ($482 million for the three months ended June 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.

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.

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

Note 8: British Columbia Transmission Corporation

The prior year's consolidated financial statements 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. 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, for the three months ended June 30, 2004:

(in millions)	
Domestic revenue (virtually all charged to BC Hydro)	$ 20
Operating costs	15
Amortization	4
Total expense	19
Net income for the period	$ 1

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.