British Columbia Hydro and Power Authority

2020/21

THIRD QUARTER REPORT

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) reports on British Columbia Hydro and Power Authority's (BC Hydro or the Company) consolidated results and financial position for the three and nine months ended December 31, 2020 and should be read in conjunction with the MD&A presented in the 2019/20 Annual Service Plan Report, the 2019/20 Audited Consolidated Financial Statements and related notes of the Company, and the Unaudited Condensed Consolidated Interim Financial Statements and related notes of the Company for the three and nine months ended December 31, 2020.

All financial information is expressed in Canadian dollars unless otherwise specified.

This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of the Company. 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.

Highlights

- Net income for the three and nine months ended December 31, 2020 was $299 million and $309 million, respectively, $31 million and $16 million higher than the same periods in the prior fiscal year.

- The BC Utilities Commission (BCUC) issued its decision (Decision) on BC Hydro's Fiscal 2020 to Fiscal 2021 Revenue Requirements Application (F20-F21 RRA) on October 2, 2020. The Decision resulted in a Fiscal 2021 bill decrease of 1.62 per cent compared to the interim bill decrease of 1.01 per cent. The larger bill decrease resulted in a $21 million decrease in domestic revenues for the nine months ended December 31, 2020.

- COVID-19 had a large impact on BC Hydro's financial results. The most significant impact was seen in domestic revenues for the three and nine months ended December 31, 2020, where there were decreases of $16 million (or 1 per cent) and $154 million (or 4 per cent), respectively, compared to the same periods in the prior fiscal year. The decrease in revenue was due to a combination of BC Hydro's COVID-19 relief programs and lower domestic customer demand for electricity primarily due to COVID-19, as well as lower average rates. Variances in revenues compared to plan are deferred to regulatory accounts and will be recovered from ratepayers in the future. There continues to be a high degree of uncertainty with respect to the future impacts of COVID-19 and the financial impacts to BC Hydro. The impacts will depend on the near-term impacts of the economic downturn caused by COVID-19, the speed and nature of the mid-to-long-term recovery, and lasting effects.

- Capital expenditures, before contributions in aid of construction, for the three and nine months ended December 31, 2020 were $831 million and $2.38 billion, respectively, $37 million and $125 million, respectively, higher than the same periods in prior fiscal year. The increase in capital expenditures for the three and nine months ended December 31, 2020 compared to the same period in the prior year was primarily due to the Site C Project. BC Hydro continues to invest significantly in capital projects/programs to upgrade its existing assets and build new infrastructure, including the Site C Project, Peace Region Electricity Supply (PRES), LNG

Canada Load Interconnection, Bridge River 2 Upgrade Units 7 and 8, Transmission Wood Structure and Framing Replacement, and Distribution Wood Poles Replacements.

Consolidated Results of Operations

(in millions)	*For the three months ended December 31* **2020**	2019	Change	*For the nine months ended December 31* **2020**	2019	Change
Total Revenues	**$ 1,763**	$ 1,849	$ (86)	**$ 4,512**	$ 4,533	$ (21)
Net Income	**$ 299**	$ 268	$ 31	**$ 309**	$ 293	$ 16
Capital Expenditures	**$ 831**	$ 794	$ 37	**$ 2,383**	$ 2,258	$ 125
GWh Sold (Domestic)	**13,904**	14,062	(158)	**36,427**	37,323	(896)

(in millions)	***As at December 31, 2020***	*As at March 31, 2020*	Change
Total Assets and Regulatory Balances	**$ 40,892**	$ 39,068	$ 1,824
Shareholder's Equity	**$ 5,968**	$ 5,654	$ 314
Retained Earnings	**$ 5,947**	$ 5,638	$ 309
Debt to Equity	**81 : 19**	81 : 19	n/a
Number of Domestic Customer Accounts	**2,109,231**	2,082,226	27,005

Revenues

For the three and nine months ended December 31, 2020, total revenues of $1.76 billion and $4.51 billion, respectively, were $86 million (or 5 per cent) and $21 million (or 0 per cent), respectively, lower than the same period in the prior fiscal year. The decrease over the prior fiscal year for the three months ended December 31, 2020 was due to lower trade revenues of $70 million and lower domestic revenues of $16 million. The decrease over the prior fiscal year for the nine months ended December 31, 2020 was due to lower domestic revenues of $154 million (mostly as a result of COVID-19), partially offset by higher trade revenues of $133 million.

for the three months ended December 31	*(in millions)* **2020**	2019	*(gigawatt hours)* **2020**	2019	*($ per MWh)* [1] **2020**	2019
Revenues						
Residential	**$ 652**	$ 636	**5,441**	5,229	**$ 119.83**	$ 121.63
Light industrial and commercial	**481**	502	**4,733**	4,840	**101.63**	103.72
Large industrial	**199**	218	**3,221**	3,492	**61.78**	62.43
Other sales	**116**	108	**509**	501	**-**	-
Domestic Revenues	**1,448**	1,464	**13,904**	14,062	**104.14**	104.11
Trade Revenues	**315**	385	**8,896**	7,656	**42.46**	51.77
Revenues	**$ 1,763**	$ 1,849	**22,800**	21,718	**$ 77.32**	$ 85.14

[1]The Trade $ per MWh represents the gross $ per MWh of physical transactions and does not include financial transactions.

for the nine months ended December 31	*(in millions)* **2020**	2019	*(gigawatt hours)* **2020**	2019	*($ per MWh)* [1] **2020**	2019
Revenues						
Residential	**$ 1,492**	$ 1,458	**13,037**	12,204	**$ 114.44**	$ 119.47
Light industrial and commercial	**1,324**	1,430	**13,106**	13,741	**101.02**	104.07
Large industrial	**543**	625	**9,131**	10,064	**59.47**	62.10
Other sales	**319**	319	**1,153**	1,314	**-**	-
Domestic Revenues	**3,678**	3,832	**36,427**	37,323	**100.97**	102.67
Trade Revenues	**834**	701	**23,792**	19,368	**39.58**	46.43
Revenues	**$ 4,512**	$ 4,533	**60,219**	56,691	**$ 74.93**	$ 79.96

[1]The Trade $ per MWh represents the gross $ per MWh of physical transactions and does not include financial transactions.

Domestic Revenues

For the three months ended December 31, 2020, domestic revenues were $1.45 billion, a decrease of $16 million (or 1 per cent) compared to the same period in the prior fiscal year. The decrease over the prior fiscal year was due to lower average rates that reflect the 1.62 per cent decrease as a result of the Decision and lower customer sales, most notably as a result of COVID-19.

For the nine months ended December 31, 2020, domestic revenues were $3.68 billion, a decrease of $154 million (or 4 per cent) compared to the same period in the prior fiscal year. The decrease over the prior fiscal year was mainly due to a combination of COVID-19 relief programs and lower customer sales due to COVID-19, as well as lower average rates that reflect the rate decreases described above. Customer sales volumes (excluding Other Sales) were 735 GWh (or 2 per cent) lower than the same period in the prior fiscal year. This includes lower light industrial and commercial sales due to business closures and reduced operations because of COVID-19. Large industrial sales were also lower, mainly in the pulp and paper sector caused by curtailments driven by fiber supply shortages and operational issues, as well as lower production in the oil and gas sector driven by weak market conditions, and production slowdowns related to COVID-19 and customer maintenance outages. These lower sales were partially offset by higher residential sales, as customers stayed home or worked from home due to COVID-19 restrictions.

Trade Revenues

Total trade revenues for the three months ended December 31, 2020 were $315 million, $70 million (or 18 per cent) lower than the same period in the prior fiscal year primarily due to lower average sales prices.

Total trade revenues for the nine months ended December 31, 2020 were $834 million, $133 million (or 19 per cent) higher than the same period in the prior fiscal year primarily due to higher volume of sales.

Operating Expenses

For the three and nine months ended December 31, 2020, total operating expenses of $1.23 billion and $3.68 billion, respectively, were $128 million (or 9 per cent) and $107 million (or 3 per cent), respectively, lower than the same period in the prior fiscal year. The decrease over the prior fiscal year for the three months ended December 31, 2020 was primarily due to lower trade energy costs of $118 million, and lower grants, taxes and other costs of $52 million, partially offset by higher domestic energy costs of $42 million. The decrease over the prior fiscal year for the nine months ended December 31, 2020 was primarily due to lower trade energy costs of $138 million.

Energy Costs

Energy costs are comprised of electricity and gas purchases for domestic and trade customers, water rentals and transmission and other charges. 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.

Total energy costs for the three months ended December 31, 2020 were $602 million, $76 million (or 11 per cent) lower than the same period in the prior fiscal year. The decrease was primarily due to lower trade energy costs of $118 million, partially offset by higher domestic energy costs of $42 million.

Total energy costs for the nine months ended December 31, 2020 were $1.74 billion, $117 million (or 6 per cent) lower than the same period in the prior fiscal year. The decrease was primarily due to lower trade energy costs of $138 million, partially offset by higher domestic energy costs of $21 million.

	(in millions)		*(gigawatt hours)*		*($ per MWh)* [2]	
for the three months ended December 31	**2020**	2019	**2020**	2019	**2020**	2019
Energy Costs						
Water rental payments (hydro generation)[1]	**$ 70**	$ 68	**14,064**	12,625	**$ 4.98**	$ 5.39
Purchases from Independent Power Producers	**391**	327	**3,945**	3,217	**99.11**	101.65
Gas and transportation for thermal generation	**1**	1	**-**	-	**-**	-
Transmission charges and other expenses	**10**	13	**32**	31	**-**	-
Non-Treaty storage and Co-ordination agreements	**(9)**	12	**-**	-	**-**	-
Domestic Energy Costs	**463**	421	**18,041**	15,873	**25.66**	26.52
Trade Energy Costs	**139**	257	**6,489**	7,329	**30.82**	39.63
Energy Costs	**$ 602**	$ 678	**24,530**	23,202	**$ 24.54**	$ 29.22

[1]Water rental payments are based on the previous calendar year's generation volumes. The volumes are actual hydro generation during the period. The $ per MWh is a simple average calculation and does not reflect actual water rental rates during the period.
[2]The Trade $ per MWh represents the gross $ per MWh of physical transactions and does not include financial transactions.

	(in millions)		*(gigawatt hours)*		*($ per MWh)* [2]	
for the nine months ended December 31	**2020**	2019	**2020**	2019	**2020**	2019
Energy Costs						
Water rental payments (hydro generation)[1]	**$ 209**	$ 226	**34,795**	26,586	**$ 6.01**	$ 8.50
Purchases from Independent Power Producers	**1,113**	1,019	**11,889**	11,824	**93.62**	86.18
Gas and transportation for thermal generation	**3**	4	**-**	-	**-**	-
Transmission charges and other expenses	**25**	30	**72**	72	**-**	-
Non-Treaty storage and Co-ordination agreements	**(26)**	24	**-**	-	**-**	-
Domestic Energy Costs	**1,324**	1,303	**46,756**	38,482	**28.32**	33.86
Trade Energy Costs	**412**	550	**17,404**	22,100	**24.46**	28.48
Energy Costs	**$ 1,736**	$ 1,853	**64,160**	60,582	**$ 27.06**	$ 30.59

[1]Water rental payments are based on the previous calendar year's generation volumes. The volumes are actual hydro generation during the period. The $ per MWh is a simple average calculation and does not reflect actual water rental rates during the period.
[2]The Trade $ per MWh represents the gross $ per MWh of physical transactions and does not include financial transactions.

Domestic Energy Costs

Domestic energy costs for the three months ended December 31, 2020 were $463 million, $42 million (or 10 per cent) higher than the same period in the prior fiscal year. The increase was primarily due to higher costs from Independent Power Producers (IPPs) largely due to higher deliveries from hydro and wind IPPs. This was partially offset by lower Non-Treaty Storage and Co-ordination agreements costs due to higher net water releases in the current year compared to net storage in the prior year. Under the Non-Treaty Storage and Co-ordination agreements, storage of water at the Kinbasket Reservoir (Arrow Lakes) results in costs while releases of water downstream to the United States results in recoveries to BC Hydro.

Domestic energy costs for the nine months ended December 31, 2020 were $1.32 billion, $21 million (or 2 per cent) higher than the same period in the prior fiscal year. The increase in costs was primarily due to the same reasons noted above. In addition, water rental payments were lower as payments were based on the prior calendar year's hydro generation volumes, which were driven by lower water inflows and dry weather in the prior calendar year.

Trade Energy Costs

Total trade energy costs for the three and nine months ended December 31, 2020 were $139 million and $412 million, respectively, $118 million (or 46 per cent) and $138 million (or 25 per cent), respectively, lower than the same period in the prior fiscal year. The decrease in trade energy costs was primarily driven by lower volumes and average purchase prices.

Water Inflows and Reservoir Storage

Water inflows (energy equivalent) to the system for the nine months ended December 31, 2020 were above average and higher than the same period in the prior fiscal year. The above average water inflows during the nine months ending December 31, 2020 were due to above average snowmelt in both the Kinbasket (Columbia River basin) and Williston (Peace River basin) Reservoirs, above average precipitation to the Kinbasket basin in June and October, and above average precipitation to the Williston basin across the summer.

System energy storage is tracking above the ten-year historic average due to above average inflows. System energy storage at December 31, 2020 was higher than at December 31, 2019.

Personnel Expenses

Personnel expenses include salaries and wages, benefits and post-employment benefits. Personnel expenses for the three and nine months ended December 31, 2020 were $177 million and $530 million, respectively, $3 million (or 2 per cent) and $22 million (or 4 per cent), respectively, higher than the same period in the prior fiscal year primarily due to compensation increases, and impacts caused by COVID-19, including less time off taken and lower capitalization of personnel expenses as some employees were unable to charge their time to capital projects.

Materials and External Services

Materials and External Services primarily includes materials, supplies, and contractor fees. Materials and external services for the three and nine months ended December 31, 2020 were $139 million and $408 million, respectively, comparable to the $146 million and $426 million, respectively in the prior fiscal year.

Amortization and Depreciation

Amortization and depreciation expense includes the depreciation of property, plant and equipment, amortization of intangible assets, and depreciation of right-of-use assets. Amortization and depreciation expense for the three and nine months ended December 31, 2020 was $253 million and $752 million, respectively, $5 million (or 2 per cent) and $16 million (or 2 per cent), respectively, higher than the same period in the prior fiscal year primarily due to additional property, plant and equipment placed in service.

Grants, Taxes and Other Costs

The Company is a Crown corporation and therefore no Canadian provincial or federal income tax is payable. However, the Company pays provincial and local government taxes and grants in lieu of property taxes to municipalities, regional districts, and rural area jurisdictions. In addition, Powerex, a subsidiary of BC Hydro, pays taxes relating to trading activity in the United States.

Other costs, net of recoveries primarily includes gains and losses on the disposal of assets, certain cost recoveries related to operating costs, and dismantling costs.

Total grants, taxes and other costs for the three months ended December 31, 2020 were $73 million, $52 million (or 42 per cent) lower than the same period in the prior fiscal year primarily due to a decrease in environmental provision expenses related to the remediation of polychlorinated biphenyl (PCBs), and lower project and asset write-offs.

Total grants, taxes and other costs for the nine months ended December 31, 2020 were $311 million, $11 million (or 3 per cent) lower than the same period in the prior fiscal year primarily due to lower dismantling costs related to the decommissioning of assets, and lower project and asset write-offs, partially offset by an increase in environmental provision expenses related to the remediation of asbestos.

Capitalized Costs

Capitalized costs consist of costs directly attributable to capital expenditures that are transferred from operating costs to Property, Plant & Equipment. Capitalized costs for the three and nine months ended December 31, 2020 were $19 million and $53 million, respectively, comparable to the $18 million and $54 million, respectively, in the prior fiscal year.

Finance Charges

Finance charges for the three months ended December 31, 2020 were $82 million, an increase of $206 million (or 166 per cent) compared to the same period in the prior fiscal year. The increase was primarily due to significantly lower unrealized gains on future debt hedges used to economically hedge the interest rates on future debt issuances as compared to the prior year.

Finance charges for the nine months ended December 31, 2020 were $553 million, a decrease of $180 million (or 25 per cent) compared to the same period in the prior fiscal year. The decrease was primarily due to unrealized gains on future debt hedges used to economically hedge the interest rates on future debt issuances in the current year as compared to unrealized losses in the prior year and higher interest and capital projects under construction which were capitalized.

Regulatory Transfers

In accordance with IFRS 14, *Regulatory Deferral Accounts*, the Company separately presents regulatory balances and related net movements on the Condensed Consolidated Interim Statements of Financial Position and the Condensed Consolidated Interim Statements of Comprehensive Income.

The Company has established various regulatory accounts through rate regulation and with the approval of the BCUC. The use of regulatory accounts is common amongst regulated utility industries throughout North America. BC Hydro uses various regulatory accounts, in compliance with BCUC orders, including to better match costs and benefits for different generations of customers, and to defer to future periods differences between forecast and actual costs or revenues. Deferred amounts are included in customer rates in future periods, subject to approval by the BCUC and have the effect of adjusting net income.

Net regulatory account transfers are comprised of the following:

	For the three months ended December 31		*For the nine months ended December 31*	
(in millions)	**2020**	2019	**2020**	2019
Cost of Energy Variance Accounts				
Heritage Deferral	**$ 22**	$ (46)	**$ 149**	$ (23)
Non-Heritage Deferral	**74**	2	**(75)**	59
Load Variance	**18**	-	**(12)**	-
Biomass Energy Program Variance	**(3)**	-	**(12)**	-
Trade Income Deferral	**(166)**	(73)	**(87)**	(61)
	(55)	(117)	**(37)**	(25)
Forecast Variance Accounts				
Non-Current Pension Costs	**(20)**	(140)	**553**	4
Debt Management	**(106)**	(337)	**(35)**	86
Storm Restoration	**(1)**	(2)	**(15)**	(11)
Real Property Sales	**-**	3	**(10)**	4
Other	**(21)**	(7)	**(4)**	(14)
	(148)	(483)	**489**	69
Capital-Like Accounts				
Demand-Side Management	**16**	18	**41**	46
Site C	**-**	-	**(1)**	-
IFRS Property, Plant & Equipment	**6**	11	**17**	34
	22	29	**57**	80
Non-Cash Accounts				
Environmental Provisions & Costs	**2**	40	**80**	49
First Nations Provisions & Costs	**5**	6	**16**	16
CIA Amortization	**(1)**	(2)	**(4)**	(4)
	6	44	**92**	61
Amortization of regulatory accounts	**(35)**	5	**(108)**	17
Interest on regulatory accounts	**6**	4	**14**	12
Net increase (decrease) in regulatory accounts	**$ (204)**	$ (518)	**$ 507**	$ 214

The Decision resulted in opening net regulatory transfers of $353 million from the Non-Heritage Deferral Regulatory Account to a new Load Variance regulatory asset account for $354 million and to a new Biomass Energy Program Variance regulatory liability account for $1 million. These opening regulatory transfers were not included in the above table.

For the nine months ended December 31, 2020, there was a net addition of $507 million to the Company's regulatory accounts compared to a net addition of $214 million in the same period in the prior fiscal year. The net regulatory asset balance as at December 31, 2020 was $5.51 billion compared to $5.01 billion as at March 31, 2020.

Net additions to the regulatory accounts during the nine months ended December 31, 2020 included $553 million of additions to the Non-Current Pension Costs Regulatory Account primarily due to a decrease in the discount rate used to measure the pension liability.

BC Hydro has or has applied for regulatory mechanisms to collect 27 of 30 regulatory accounts in use or with balances at December 31, 2020 in rates over various periods, which represent approximately 90 per cent of the net regulatory asset balance.

Impact of COVID-19

In April 2020, BC Hydro announced COVID-19 relief programs for residential and commercial customers with billing relief amounts and incremental costs related to those programs to be deferred to two existing regulatory accounts in accordance with Order in Council No. 159/2020 issued on April 2, 2020. COVID-19 relief provided to residential customers is deferred to the Customer Crisis Fund Regulatory Account and COVID-19 relief provided to commercial customers is deferred to the Mining Customer Payment Plan Regulatory Account. For the nine months ended December 31, 2020, transfers into these regulatory accounts were $46 million and are included in the Forecast Variance Accounts – Other balance. These programs ended on June 30, 2020.

In addition, BC Hydro announced three new tariff supplements as part of its COVID-19 relief programs, enabling certain industrial customers to temporarily defer payment of a portion of their electricity bills, to be repaid in the future with interest. In accordance with Order in Council No. 159/2020, any impaired amounts owed by customers participating in the industrial COVID-19 relief programs are deferred to the Mining Customer Payment Plan Regulatory Account. The program ended on September 30, 2020.

BC Hydro is also experiencing lower revenues caused by lower customer demand, especially in the commercial and industrial sectors, as a result of the COVID-19 pandemic. Pursuant to existing regulatory orders, these revenue variances are deferred to the Load Variance Regulatory Account.

Liquidity and Capital Resources

Cash flow provided by operating activities for the nine months ended December 31, 2020 was $935 million, compared to $1.02 billion in the same period in the prior fiscal year. The decrease was mainly due to lower domestic revenues and slower collection of accounts receivables, partially offset by higher trade margin.

The long-term debt balance net of sinking funds as at December 31, 2020 was $25.03 billion compared to $23.47 billion as at March 31, 2020. The increase was mainly to fund capital expenditures.

Capital Expenditures

Capital expenditures include property, plant and equipment and intangible assets. The capital expenditures, before contributions in aid of construction, were as follows:

(in millions)	*For the three months ended December 31* **2020**	2019	*For the nine months ended December 31* **2020**	2019
Transmission lines and substation replacements and expansion	**$ 94**	$ 103	**$ 276**	$ 299
Generation replacements and expansion	**82**	80	**213**	227
Distribution system improvements and expansion	**140**	141	**406**	387
General, including technology, vehicles and buildings	**52**	53	**171**	158
Site C Project	**463**	417	**1,317**	1,187
Total Capital Expenditures	**$ 831**	$ 794	**$ 2,383**	$ 2,258

Total capital expenditures presented in this table are different from the amount of property, plant and equipment and intangible asset expenditures in the Consolidated Interim Statements of Cash Flows because the expenditures above include accruals.

The increase in capital expenditures of $125 million for the nine months ended December 31, 2020 compared to the same period in the prior fiscal year was primarily due to higher Site C Project expenditures.

Transmission lines and substation replacements and expansion include capital expenditures on transmission overhead lines, cables, substations, telecommunication systems, and transmission power equipment. Key capital expenditures include the following projects/programs: PRES, LNG Canada Load Interconnection, Transmission Wood Structure and Framing Replacement, Mount Lehman Substation Upgrade, and Barnard Substation Feeder Section Replacement.

Generation replacements and expansion include capital expenditures on generating facilities and related major equipment for dam safety such as turbines, generators, governors, exciters, transformers, and circuit breakers. Key capital expenditures include the following projects: Bridge River 2 Upgrade Units 7 and 8, Mica Replace Units 1 to 4 Generator Transformers, Mica – Reactor Replacement, John Hart Dam Seismic Upgrade, Puntledge Recoat Interior and Exterior of Steel Penstock, and Revelstoke – 600V Circuit Breaker Upgrades.

Distribution system improvements and expansion include capital expenditures on customer driven work, end of life asset replacements, and system expansion and improvements.

General includes capital expenditures on the Supply Chain Applications technology project, various building development programs, vehicles, and other technology projects.

Site C Project includes capital expenditures relating to main civil works, generating station and spillway, highway realignment, reservoir clearing, transmission lines and substation, site preparation and infrastructure, project support services (including engineering), as well as social, land, fish and wildlife programs.

Rate Regulation

In the process of regulating and setting rates for BC Hydro, the BCUC must ensure that the rates are sufficient to allow BC Hydro to provide reliable electricity service, meet its financial obligations, comply with government policy, and earn an annual rate of return.

Fiscal 2022 Revenue Requirements Application

On December 22, 2020, BC Hydro filed a one-year revenue requirements application with the BCUC, seeking a rate increase of 1.16 per cent for fiscal 2022. In particular, the Application seeks additional operating funding for reliability investments and other cost pressures. On January 5, 2020, the BCUC issued Order No. G-1-21, approving our requested rate increase on an interim basis. A final decision on the Application is expected in the spring of 2021.

Fiscal 2020 to Fiscal 2021 Revenue Requirements Application

On October 2, 2020, the BCUC issued its decision on BC Hydro's F20-F21 RRA. The BCUC approved BC Hydro's net bill increase of 1.76 per cent in fiscal 2020, and issued a series of compliance directives, which resulted in a fiscal 2021 rate decrease of 1.62 per cent, which was greater than the previously-approved interim rate decrease of 1.01 per cent. BC Hydro commenced charging customers the new rate on January 1, 2021 and provided a one-time on-bill credit for the difference between the interim and final rates.

Risk Management

BC Hydro is exposed to numerous risks, which can result in safety, environmental, financial, reliability and reputational impacts. This section of the MD&A discusses risks that may impact financial performance.

The impact of many financial risks associated with uncontrollable external influences on BC Hydro's net income is mitigated through the use of BCUC-approved regulatory accounts. Regulatory accounts assist in matching costs and benefits for different generations of customers and to defer for future recovery in rates the differences between planned and actual costs or revenues that arise due to uncontrollable events. BC Hydro's approach to the recovery of its regulatory accounts is included in the Fiscal 2022 Revenue Requirements Application.

Significant Financial Risks

The largest sources of variability in BC Hydro's financial performance are typically domestic and trade revenue, domestic and trade cost of energy, and finance charges. These are influenced by several elements, which generally fall into the following five categories: hydro generation, customer load, electricity/gas trade margins, deliveries from electricity purchase agreement contracts, and interest rates. Neither a high nor a low value of any of these individual drivers is intrinsically positive or negative for BC Hydro's financial results. It is the specific combination of these drivers in any given year which has an impact. In addition, the Site C Project faces significant financial risks. On February 26, 2021, Government announced the Site C Project is proceeding and the cost is estimated at $16 billion, with a one year delay to 2025 for the project in-service date. BC Hydro continues to review the updated cost estimate, along with risks, further to recommended actions in the Milburn Report.

While meeting domestic demand, environmental regulations and treaty obligations, BC Hydro attempts to operate the system to take maximum advantage of market energy prices – buying from the markets when prices are low and selling when prices are high. In doing so, BC Hydro seeks to optimize the combined effects of these elements and reduce the net cost of energy for our customers.

Demand for Electricity

Domestic load volumes for both the three and nine months ended December 31, 2020 were approximately 1 and 2 per cent lower compared the same periods in the prior fiscal year, respectively. Compared to plan, load volumes were 5 per cent and 6 per cent lower for the three and nine months ended December 31, 2020, respectively. Much of this decline is due to the effects of COVID-19. While there is significant uncertainty associated with the pandemic's impacts on electricity demand, the recent decrease in demand is expected to slowly recover. The impacts will depend on the near-term impacts of the economic downturn caused by COVID-19, the speed and nature of the mid-to-long-term recovery, and lasting effects.

This section should be read in conjunction with the risks disclosed in the Risk Management section in the Management's Discussion and Analysis presented in the 2019/20 Annual Service Plan Report for the year ended March 31, 2020. In addition, information on risks and opportunities that could significantly impact BC Hydro meeting its objectives is outlined at www.bchydro.com/serviceplan.

Future Outlook

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each year. BC Hydro's Service Plan filed in February 2020 included allowed net income for 2020/21 at $712 million which is consistent with the amount required by Order in Council No. 051.

The Company'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, interest rates, and foreign exchange rates. The impact to net income of these non-controllable factors is largely mitigated through the use of regulatory accounts.

BC Hydro filed an updated forecast with the Province in February 2021 which will be incorporated into the March 2021 Service Plan and which forecasts net income of $691 million for 2020/21 and net income of $712 million for 2021/22.

The COVID-19 pandemic continues to adversely impact global activity and has contributed to significant volatility in financial markets. The pandemic could have a sustained adverse impact on economic and market conditions and could adversely impact BC Hydro's future performance if it were to cause a prolonged decrease in customer load, volatility in electricity/gas trade margins, interest rate volatility, difficulty accessing debt, project delays and project cost escalations.

While BC Hydro engages in emergency preparedness (including business continuity planning) to mitigate risks, the persisting uncertainty of this situation limits the ability to predict the ultimate adverse impact of COVID-19 on BC Hydro's performance, financial condition, results of operations and cash flows.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income

	For the three months ended December 31		*For the nine months ended December 31*	
	2020	2019	**2020**	2019
(in millions)		(Note 13)		(Note 13)
Revenues (Note 3)				
Domestic	**$ 1,448**	$ 1,464	**$ 3,678**	$ 3,832
Trade	**315**	385	**834**	701
Revenues	**1,763**	1,849	**4,512**	4,533
Expenses				
Operating expenses (Note 4)	**1,225**	1,353	**3,684**	3,791
Finance charges (income) (Note 5)	**82**	(124)	**553**	733
Net Income Before Movement in Regulatory Balances	**456**	620	**275**	9
Net movement in regulatory balances (Note 9)	**(157)**	(352)	**34**	284
Net Income	**299**	268	**309**	293
Other Comprehensive Income				
Items Reclassified Subsequently to Net Income				
Effective portion of changes in fair value of derivatives designated as cash flow hedges (Note 14)	**(32)**	9	**(57)**	16
Reclassification to income of derivatives designated as cash flow hedges (Note 14)	**36**	9	**75**	37
Foreign currency translation losses	**(7)**	(3)	**(13)**	(5)
Items That Will Not Be Reclassified Subsequently to Net Income				
Actuarial gain (loss) on post employment benefits	**47**	166	**(473)**	70
Other Comprehensive Income (Loss) before movement in regulatory balances	**44**	181	**(468)**	118
Net movements in regulatory balances (Note 9)	**(47)**	(166)	**473**	(70)
Other Comprehensive Income (Loss)	**(3)**	15	**5**	48
Total Comprehensive Income	**$ 296**	$ 283	**$ 314**	$ 341

See accompanying Notes to the Unaudited Condensed Consolidated Interim Financial Statements.

Unaudited Condensed Consolidated Interim Statements of Financial Position

(in millions)		***As at December 31* 2020**		*As at March 31* 2020
Assets				
Current Assets				
Cash and cash equivalents	**$**	**87**	$	115
Restricted cash		**9**		15
Accounts receivable and accrued revenue		**754**		770
Inventories (Note 7)		**226**		193
Prepaid expenses		**51**		140
Current portion of derivative financial instrument assets (Note 14)		**46**		106
		1,173		1,339
Non-Current Assets				
Property, plant and equipment (Note 8)		**31,107**		29,413
Right-of-use assets		**1,340**		1,405
Intangible assets (Note 8)		**675**		678
Derivative financial instrument assets (Note 14)		**43**		92
Other non-current assets (Note 10)		**630**		655
		33,795		32,243
Total Assets	**$**	**34,968**	$	33,582
Regulatory Balances (Note 9)		**5,924**		5,486
Total Assets and Regulatory Balances	**$**	**40,892**	$	39,068
Liabilities and Equity				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**1,295**	$	1,626
Current portion of long-term debt (Note 11)		**3,534**		3,843
Current portion of unearned revenues and contributions in aid		**89**		93
Current portion of derivative financial instrument liabilities (Note 14)		**367**		358
		5,285		5,920
Non-Current Liabilities				
Long-term debt (Note 11)		**21,702**		19,843
Lease liabilities		**1,363**		1,425
Derivative financial instrument liabilities (Note 14)		**352**		708
Unearned revenues and contributions in aid		**2,231**		2,095
Post-employment benefits (Note 13)		**2,126**		1,560
Other non-current liabilities (Note 15)		**1,453**		1,382
		29,227		27,013
Total Liabilities		**34,512**		32,933
Regulatory Balances (Note 9)		**412**		481
Total Liabilities and Regulatory Balances		**34,924**		33,414
Shareholder's Equity				
Contributed surplus		**60**		60
Retained earnings		**5,947**		5,638
Accumulated other comprehensive loss		**(39)**		(44)
		5,968		5,654
Total Liabilities, Regulatory Balances, and Shareholder's Equity	**$**	**40,892**	$	39,068

Commitments (Note 8)

See accompanying Notes to the Unaudited Condensed Consolidated Interim Financial Statements.

Unaudited Condensed Consolidated Interim Statements of Changes in Equity

(in millions)	Cumulative Translation Reserve	Unrealized Income (Losses) on Cash Flow Hedges	Total Accumulated Other Comprehensive Income (Loss)	Contributed Surplus	Retained Earnings	Total
Balance as at April 1, 2019	$ (2)	$ (45)	$ (47)	$ 60	$ 4,933	$ 4,946
Comprehensive Income (Loss)	(5)	53	48	-	293	341
Balance as at December 31, 2019	$ (7)	$ 8	$ 1	$ 60	$ 5,226	$ 5,287
Balance as at April 1, 2020	$ -	$ (44)	$ (44)	$ 60	$ 5,638	$ 5,654
Comprehensive Income (Loss)	(13)	18	5	-	309	314
Balance as at December 31, 2020	$ (13)	$ (26)	$ (39)	$ 60	$ 5,947	$ 5,968

See accompanying Notes to the Unaudited Condensed Consolidated Interim Financial Statements.

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the nine months ended December 31 (in millions)	**2020**	2019
Operating Activities		
Net income	**$ 309**	$ 293
Regulatory account transfers (Note 9)	**(507)**	(214)
Adjustments for non-cash items:		
Amortization and depreciation expense (Note 6)	**752**	736
Unrealized losses on derivative financial instruments (Note 14)	**76**	107
Post-employment benefit plan expenses	**95**	99
Interest accrual	**635**	651
Other items	**73**	107
	1,433	1,779
Changes in working capital and other assets and liabilities (Note 16)	**355**	69
Interest paid	**(853)**	(833)
Cash provided by operating activities	**935**	1,015
Investing Activities		
Property, plant and equipment and intangible asset expenditures	**(2,178)**	(2,023)
Cash used in investing activities	**(2,178)**	(2,023)
Financing Activities		
Long-term debt issued (Note 11)	**2,502**	1,608
Long-term debt retired (Note 11)	**(1,100)**	(175)
Receipt of revolving borrowings	**6,598**	8,269
Repayment of revolving borrowings	**(6,328)**	(8,515)
Payment to the Province (Note 12)	**-**	(59)
Payment of principal portion of lease liability	**(69)**	(68)
Settlement of hedging derivatives	**(369)**	(51)
Other items	**(19)**	(15)
Cash provided by financing activities	**1,215**	994
Decrease in cash and cash equivalents	**(28)**	(14)
Cash and cash equivalents, beginning of period	**115**	84
Cash and cash equivalents, end of period	**$ 87**	$ 70

Supplemental Disclosure of Cash Flow Information (Note 16)

See accompanying Notes to the Unaudited Condensed Consolidated Interim Financial Statements.

Note 1: Reporting Entity

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, conserve and supply power. BC Hydro owns and operates electric generation, transmission and distribution facilities in the province of British Columbia. The head office of the Company is 333 Dunsmuir Street, Vancouver, British Columbia.

The condensed consolidated interim financial statements (interim financial statements) of BC Hydro include the accounts of BC Hydro and its principal wholly-owned operating subsidiaries Powerex Corp. (Powerex), Powertech Labs Inc. (Powertech), and Columbia Hydro Constructors Ltd. (Columbia), (collectively with BC Hydro, the Company). All intercompany transactions and balances are eliminated on consolidation.

Note 2: Basis of Presentation

Basis of Accounting

These interim financial statements have been prepared by management in accordance with principles of IAS 34, *Interim Financial Reporting* and were prepared using the same accounting policies as described in BC Hydro's 2019/20 Annual Service Plan Report. These interim financial statements should be read in conjunction with the Annual Consolidated Financial Statements and accompanying notes in BC Hydro's 2019/20 Annual Service Plan Report.

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

These interim financial statements were approved on behalf of the Board of Directors on February 9, 2021.

Note 3: Revenue

The Company disaggregates revenue by revenue type and customer class, which are considered to be the most relevant revenue information for management to consider in allocating resources and evaluating performance.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2020

(in millions)	*For the three months ended December 31* **2020**	2019	*For the nine months ended December 31* **2020**	2019
Domestic				
Residential	**$ 652**	$ 636	**$ 1,492**	$ 1,458
Light industrial and commercial	**481**	502	**1,324**	1,430
Large industrial	**199**	218	**543**	625
Other sales	**116**	108	**319**	319
Total Domestic	**1,448**	1,464	**3,678**	3,832
Total Trade[1]	**315**	385	**834**	701
Total Revenue	**$ 1,763**	$ 1,849	**$ 4,512**	$ 4,533

[1] Includes non-IFRS 15 revenues of $199 million and $436 million for the three and nine months ended December 31, 2020, respectively (2019 - $172 million and $299 million, respectively).

Note 4: Operating Expenses

(in millions)	*For the three months ended December 31* **2020**	2019	*For the nine months ended December 31* **2020**	2019
Electricity and gas purchases	**$ 481**	$ 559	**$ 1,367**	$ 1,478
Water rentals	**70**	68	**209**	226
Transmission charges	**51**	51	**160**	149
Personnel expenses	**177**	174	**530**	508
Materials and external services	**139**	146	**408**	426
Amortization and depreciation (Note 6)	**253**	248	**752**	736
Grants, taxes and other costs	**73**	125	**311**	322
Less: Capitalized costs	**(19)**	(18)	**(53)**	(54)
	$ 1,225	$ 1,353	**$ 3,684**	$ 3,791

Note 5: Finance Charges

(in millions)	*For the three months ended December 31* **2020**	2019	*For the nine months ended December 31* **2020**	2019
Interest on long-term debt	**$ 203**	$ 219	**$ 635**	$ 651
Interest on lease liabilities	**12**	12	**36**	38
Interest on defined benefit plan obligations	**16**	16	**48**	47
Mark-to-market losses (gains) on derivative financial instruments	**(107)**	(339)	**(37)**	81
Capitalized interest	**(57)**	(47)	**(169)**	(125)
Other	**15**	15	**40**	41
	$ 82	$ (124)	**$ 553**	$ 733

Note 6: Amortization and Depreciation

(in millions)	*For the three months ended December 31* **2020**	2019	*For the nine months ended December 31* **2020**	2019
Depreciation of property, plant and equipment	**$ 208**	$ 204	**$ 620**	$ 607
Depreciation of right-of-use assets	**24**	24	**71**	70
Amortization of intangible assets	**21**	20	**61**	59
	$ 253	$ 248	**$ 752**	$ 736

Note 7: Inventories

(in millions)	***As at December 31*** **2020**	*As at March 31* 2020
Materials and supplies	**$ 181**	$ 171
Natural gas trading inventories	**45**	22
	$ 226	$ 193

Note 8: Property, Plant and Equipment and Intangible Assets

Property, plant and equipment and intangible asset additions, before contributions in aid of construction, for the three and nine months ended December 31, 2020 were $831 million and $2.38 billion, respectively (2019 - $794 million and $2.26 billion, respectively).

As of December 31, 2020, the Company had contractual commitments to spend $2.43 billion on major property, plant and equipment projects (for individual projects greater than $50 million).

Note 9: Rate Regulation

The BC Utilities Commission (BCUC) issued its decision (Decision) on BC Hydro's Fiscal 2020 to Fiscal 2021 Revenue Requirements Application on October 2, 2020. In its Decision, the BCUC approved the Fiscal 2020 net bill increase of 1.76%, the continuation of our existing regulatory accounts and the amortization periods associated with them. The BCUC directed seven adjustments which resulted in a Fiscal 2021 net bill decrease of 1.62% rather than the 1.01% decrease requested in the amended application. The financial impact of the Decision has been incorporated in these financial statements. In addition, the BCUC approved the closure of four regulatory accounts and directed the establishment of two new regulatory accounts – the Load Variance and Biomass Energy Program Variance accounts. The two new regulatory accounts separate components from existing regulatory accounts.

The BCUC Decision also resulted in BC Hydro seeking approval of two additional regulatory accounts - the Project Write-off Costs and Electric Vehicle Costs accounts. The Project Write-off Costs account was approved by the BCUC on December 17, 2020 and BC Hydro is seeking approval for the Electric Vehicle Costs account in the Fiscal 2022 Revenue Requirements Application. As a result, the number of regulatory accounts in use or with balances has increased by four, though the BCUC Decision also results in the closure of four regulatory accounts. The financial impact of the new regulatory account request has been incorporated in these financial statements in accordance with the Company's rate regulation accounting policy, whereby BC Hydro defers amounts in advance of a final Decision on the application by the BCUC based on management's estimate on the probability of acceptance and recovery in future rates.

The Project Write-off Costs and Electric Vehicle Costs accounts are included within Other Regulatory Accounts – assets, and the Biomass Energy Program Variance account is included within Other Regulatory Accounts – liabilities in the table below.

Regulatory Accounts

The Company has established various regulatory accounts through rate regulation and with the approval of the BCUC. In the absence of rate regulation, these amounts would be reflected in total comprehensive income. The net movement in regulatory balances related to total comprehensive income is as follows:

	For the three months ended December 31		*For the nine months ended December 31*	
(in millions)	**2020**	2019	**2020**	2019
Net increase (decrease) in regulatory balances related to net income	**$ (157)**	$ (352)	**$ 34**	$ 284
Net increase (decrease) in regulatory balances related to OCI	**(47)**	(166)	**473**	(70)
	$ (204)	$ (518)	**$ 507**	$ 214

For each regulatory account, the amount reflected in the Net Change column in the following table represents the impact on comprehensive income for the applicable year. Under rate regulated accounting, a net decrease in a regulatory asset or a net increase in a regulatory liability results in a decrease to comprehensive income.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2020

(in millions)	*As at April 1 2020*	*Opening Balance Transfer* [3]	*Addition (Reduction)*	*Interest* [1]	*Amortization*	*Net Change* [2]	***As at December 31 2020***
Regulatory Assets							
Heritage Deferral	$ -	$ -	$ -	$ -	$ 9	$ 9	**$ 9**
Non-Heritage Deferral	205	-	(159)	4	(50)	(205)	**-**
Load Variance	-	354	(12)	6	(164)	184	**184**
Demand-Side Management	907	-	41	-	(80)	(39)	**868**
Debt Management	953	-	(35)	-	9	(26)	**927**
First Nations Provisions & Costs	495	-	16	2	(25)	(7)	**488**
Non-Current Pension Costs	210	-	553	-	(33)	520	**730**
Site C	508	-	(1)	13	-	12	**520**
CIA Amortization	78	-	(4)	-	-	(4)	**74**
Environmental Provisions & Costs	260	-	80	(1)	(14)	65	**325**
Smart Metering & Infrastructure	195	-	-	5	(21)	(16)	**179**
IFRS Pension	459	-	-	-	(29)	(29)	**430**
IFRS Property, Plant & Equipment	1,079	-	17	-	(23)	(6)	**1,073**
Storm Restoration Costs	21	-	(8)	-	(13)	(21)	**-**
Real Property Sales	56	-	(10)	1	-	(9)	**47**
Other Regulatory Accounts	60	-	27	1	(18)	10	**70**
Total Regulatory Assets	5,486	354	505	31	(452)	438	**5,924**
Regulatory Liabilities							
Heritage Deferral	300	-	(149)	3	(154)	(300)	**-**
Non-Heritage Deferral	-	353	(84)	12	(139)	142	**142**
Trade Income Deferral	174	-	87	2	(78)	11	**185**
Storm Restoration Costs	-	-	7	-	9	16	**16**
Other Regulatory Accounts	7	1	43	-	18	62	**69**
Total Regulatory Liabilities	481	354	(96)	17	(344)	(69)	**412**
Net Regulatory Asset	$ 5,005	$ -	$ 601	$ 14	$ (108)	$ 507	**$ 5,512**

[1]As permitted by the BCUC, interest charges were accrued to certain regulatory balances at a rate of 3.5 per cent for the nine months ended December 31, 2020 (2019 – 3.8 per cent) at the Company's weighted average cost of debt.

[2] Net Change is comprised of a net increase to net income of $34 million (2019 – $284 million) and a net decrease to other comprehensive loss of $473 million (2019 – net decrease of $70 million to other comprehensive income).

[3]The amounts in the Opening Balance Transfer column are transfers from the Non-Heritage Deferral account to a new Load Variance account and Biomass Energy Program Variance account as directed by the BCUC Decision.

There were no significant changes to the remaining recovery/reversal periods for the nine months ended December 31, 2020. Refer to Note 15 – Rate Regulation in the Company's 2019/20 Annual Service Plan Report.

COVID-19 Customer Relief Programs

In April 2020, BC Hydro announced COVID-19 relief programs for residential and commercial customers with billing relief amounts and incremental costs related to those programs to be deferred to two existing regulatory accounts in accordance with Order in Council No. 159/2020 issued on April 2, 2020. COVID-19 relief provided to residential customers is deferred to the Customer Crisis Fund Regulatory Account and COVID-19 relief provided to commercial customers is deferred to the Mining Customer Payment Plan Regulatory Account. For the nine months ended December 31, 2020, total transfers into these regulatory accounts were $46 million and are included in the Other Regulatory Accounts (asset).

In addition, BC Hydro announced three new tariff supplements as part of its COVID-19 relief programs, enabling certain industrial customers to temporarily defer payment of a portion of their electricity bills, to be repaid in the future with interest. In accordance with Order in Council No. 159/2020, any impaired amounts owed by customers participating in the industrial COVID-19 relief programs are deferred to the Mining Customer Payment Plan Regulatory Account, which is included in the Other regulatory Accounts (asset) in the table above.

Note 10: Other Non-Current Assets

(in millions)	***As at December 31*** **2020**	*As at March 31* 2020
Non-current receivables	**$ 131**	$ 147
Sinking funds	**203**	217
Non-current Site C prepaid expenses	**272**	282
Other	**24**	9
	$ 630	$ 655

Included in the non-current receivables balance are $121 million of receivables (March 31, 2020 - $129 million) attributable to other contributions receivable from a vendor to aid in the construction of a transmission system.

Note 11: Long-Term Debt and Debt Management

The Company's debt comprises bonds and revolving borrowings obtained under an agreement with the Province.

The Company has a commercial paper borrowing program with the Province which is limited to $4.50 billion and is included in revolving borrowings. At December 31, 2020, the outstanding amount under the borrowing program was $3.01 billion (March 31, 2020 - $2.74 billion).

For the three months ended December 31, 2020, the Company did not issue any bonds (2019 – net proceeds of $422 million, a par value of $425 million, a weighted average effective interest rate of 2.3 per cent and a weighted average term to maturity of 10.6 years). For the nine months ended December 31, 2020, the Company issued bonds for net proceeds of $2.50 billion (2019 - $1.61 billion) and a par value of $2.20 billion (2019 - $1.50 billion), a weighted average effective interest rate of 1.6 per cent (2019 - 2.3 per cent) and a weighted average term to maturity of 18.1 years (2019 - 20.5 years).

For the three months ended December 31, 2020, the Company redeemed bonds with a par value of $500 million (2019 – $nil no bond maturities). For the nine months ended December 31, 2020, the Company redeemed bonds with a par value of $1.10 billion (2019 - $175 million).

Note 12: Capital Management

Orders in Council from the Province establish the basis for determining the Company's equity for regulatory purposes, as well as the annual dividend payment to the Province (see below). Capital requirements are consequently managed through the retention of equity subsequent to the dividend payment to the Province. For this purpose, the applicable Order in Council defines debt as revolving borrowings and interest-bearing borrowings less investments held in sinking funds and cash and cash equivalents. Equity comprises retained earnings, accumulated other comprehensive loss, and contributed surplus. The Company monitors its capital structure on the basis of its debt to equity ratio.

During the nine months ended December 31, 2020, there were no changes in the approach to capital management.

The debt to equity ratio at December 31, 2020, and March 31, 2020 was as follows:

(in millions)	***As at December 31*** **2020**	*As at March 31* 2020
Total debt, net of sinking funds	**$ 25,033**	$ 23,469
Less: Cash and cash equivalents	**(87)**	(115)
Net Debt	**$ 24,946**	$ 23,354
Retained earnings	**$ 5,947**	$ 5,638
Contributed surplus	**60**	60
Accumulated other comprehensive loss	**(39)**	(44)
Total Equity	**$ 5,968**	$ 5,654
Net Debt to Equity Ratio	**81 : 19**	81 : 19

Dividend Payment to the Province

In accordance with Order in Council No. 095/2014 from the Province, for the year ended March 31, 2018 and subsequent years, the payment to the Province was reduced by $100 million per year based on the payment in the immediate preceding fiscal year until it reached zero and will remain at zero until BC Hydro achieves a 60:40 debt to equity ratio.

As a result of the Order in Council, there was no dividend payment to the Province for the year ended March 31, 2020. In addition, BC Hydro does not expect to make a dividend payment for the year ended March 31, 2021.

Note 13: Post-Employment Benefits

The expense recognized for the Company's defined benefit plans prior to any capitalization of employment costs attributable to property, plant and equipment and intangible asset additions for the three and nine months ended December 31, 2020 was $47 million and $140 million, respectively (2019 - $48 million and $144 million, respectively).

Company contributions to the registered defined benefit pension plans for the three and nine months ended December 31, 2020 were $12 million and $37 million, respectively (2019 - $12 million and $34 million, respectively).

BC Hydro did not recognize plan remeasurements due to market fluctuations from changes in the market rate of return on plan assets and liability discount rate at the end of the comparative quarter. The comparatives have been restated to reflect this amount.

The plan remeasurements used a discount rate of 2.67 per cent as at December 31, 2020 (December 31, 2019 – 3.16 per cent) and a rate of return on plan assets of 17.35 per cent for the nine months ended December 31, 2020 (2019 – 6.70 per cent).

The following table summarizes the impact of the adjustments to the comparative period:

Reconciliation of Consolidated Statement of Comprehensive Income

	For the three months ended December 31			*For the nine months ended December 31*		
(in millions)	2019 Pre-adjustment	Adjustment	2019 Post-adjustment	2019 Pre-adjustment	Adjustment	2019 Post-adjustment
Revenues						
Domestic	$ 1,464	$ -	$ 1,464	$ 3,832	$ -	$ 3,832
Trade	385	-	385	701	-	701
Revenues	1,849	-	1,849	4,533	-	4,533
Expenses						
Operating expenses	1,353	-	1,353	3,791	-	3,791
Finance charges (income)	(124)	-	(124)	733	-	733
Net Income Before Movement in Regulatory Balances	620	-	620	9	-	9
Net movement in regulatory balances	(352)	-	(352)	284	-	284
Net Income	268	-	268	293	-	293
Other Comprehensive Income						
Items Reclassified Subsequently to Net Income						
Effective portion of changes in fair value of derivatives designated as cash flow hedges	9	-	9	16	-	16
Reclassification to income of derivatives designated as cash flow hedges	9	-	9	37	-	37
Foreign currency translation losses	(3)	-	(3)	(5)	-	(5)
Items That Will Not Be Reclassified Subsequently to Net Income						
Actuarial gain on post employment benefits	-	166	166	70	-	70
Other Comprehensive Income before movement in regulatory balances	**15**	**166**	**181**	**118**	**-**	**118**
Net movements in regulatory balances	-	(166)	(166)	(70)	-	(70)
Other Comprehensive Income	15	-	15	48	-	48
Total Comprehensive Income	$ 283	$ -	$ 283	$ 341	$ -	$ 341

There were no changes to the Consolidated Statement of Cash Flows due to the adjustment above.

Note 14: Financial Instruments

Categories of Financial Instruments

The following table provides a comparison of carrying values and fair values for non-derivative financial instruments as at December 31, 2020, and March 31, 2020:

	December 31, 2020		March 31, 2020	
(in millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Fair Value Through Profit or Loss (FVTPL):				
Cash equivalents - short-term investments	**$ 69**	**$ 69**	$ 78	$ 78
Amortized Cost:				
Cash	**18**	**18**	37	37
Restricted cash	**9**	**9**	15	15
Accounts receivable and accrued revenue	**754**	**754**	770	770
Non-current receivables	**131**	**152**	147	159
Sinking funds	**203**	**239**	217	262
Accounts payable and accrued liabilities	**(1,295)**	**(1,295)**	(1,626)	(1,626)
Revolving borrowings	**(3,008)**	**(3,008)**	(2,743)	(2,743)
Long-term debt (including current portion due in one year)	**(22,228)**	**(27,052)**	(20,943)	(24,318)
First Nations liabilities (non-current portion)	**(400)**	**(1,266)**	(398)	(542)
Lease liabilities (non-current portion)	**(1,363)**	**(1,363)**	(1,425)	(1,425)
Other liabilities	**(426)**	**(455)**	(430)	(448)

When the carrying value differs from fair value, the fair values of non-derivative financial instruments would be classified as Level 2 of the fair value hierarchy. The carrying value of cash equivalents, restricted cash, accounts receivable and accrued revenue, accounts payable and accrued liabilities, and revolving borrowings approximates fair value due to the short duration of these financial instruments.

Hedges

The following foreign currency contracts under hedge accounting were in place at December 31, 2020 in a net asset position of $33 million (March 31, 2020 – net asset $88 million). Such contracts are used to hedge the principal on US$ denominated long-term debt and the principal and coupon payments on Euro€ denominated long-term debt for which hedge accounting has been applied. The hedging instruments are effective in offsetting changes in the cash flows of the hedged item attributed to the hedged risk. The main source of hedge ineffectiveness in these hedges is credit risk.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2020

($ amounts in millions)	**December 31, 2020**	March 31, 2020
Cross- Currency Hedging Swaps		
EURO€ to CAD$ - notional amount[1]	**€ 402**	€ 402
EURO€ to CAD$ - weighted average contract rate	**1.47**	1.47
Weighted remaining term	**7 years**	8 years
Foreign Currency Hedging Forwards		
US$ to CAD$ - notional amount[1]	**US$ 573**	US$ 573
US$ to CAD$ - weighted average contract rate	**1.25**	1.25
Weighted remaining term	**9 years**	10 years

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

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

(in millions)	**December 31, 2020 Fair Value**	March 31, 2020 Fair Value
Designated Derivative Instruments Used to Hedge Risk Associated with Long-term Debt:		
Foreign currency contract assets (cash flow hedges for US$ denominated long-term debt)	**$ 17**	$ 74
Foreign currency contract liabilities (cash flow hedges for US$ denominated long-term debt)	**(3)**	-
Foreign currency contract assets (cash flow hedges for EURO€ denominated long-term debt)	**19**	14
	33	88
Non-Designated Derivative Instruments:		
Interest rate contract liabilities	**(607)**	(1,011)
Foreign currency contract (liabilities) assets	**(68)**	55
Commodity derivative assets	**53**	54
Commodity derivative liabilities	**(41)**	(54)
	(663)	(956)
Net liability	**$ (630)**	$ (868)

The carrying value of derivative instruments designated and not designated as hedges was the same as the fair value.

The derivatives are represented on the statement of financial position as follows:

(in millions)	**December 31, 2020**	March 31, 2020
Current portion of derivative financial instrument assets	**$ 46**	$ 106
Current portion of derivative financial instrument liabilities	**(367)**	(358)
Derivative financial instrument assets, non-current	**43**	92
Derivative financial instrument liabilities, non-current	**(352)**	(708)
Net liability	**$ (630)**	$ (868)

Designated cash flow hedges for the three and nine months ended December 31, 2020 had losses of $31 million and $55 million, respectively (2019 – gains of $9 million and $18 million, respectively). The effective portion was recognized in other comprehensive income and the ineffective portion was recognized in finance charges. For the three and nine months ended December 31, 2020, $36 million and $75 million, respectively (2019 - $9 million and $37 million, respectively) was reclassified from other comprehensive income and reported in net income, offsetting net foreign exchange gains (2019 - gains) recorded in the period.

For outstanding interest rate contracts not designated as hedges with an aggregate notional principal of $3.23 billion (March 31, 2020 – $5.03 billion), used to economically hedge the interest rates on future debt issuances, there was a $106 million increase and a $90 million increase, respectively (2019 - $330 million increase and $51 million decrease, respectively) in the fair value of these contracts for the three and nine months ended December 31, 2020. For interest rate contracts associated with debt issued, there was a $nil and $55 million decrease, respectively (2019 - $7 million increase and $35 million decrease, respectively) in the fair value of contracts that settled during the three and nine months ended December 31, 2020. The net increase for the nine months ended December 31, 2020 of $35 million in the fair value of these interest rate contracts was transferred to the Debt Management Regulatory Account which had a net asset balance of $927 million as at December 31, 2020.

Foreign currency contracts for cash management purposes not designated as hedges, for the three and nine months ended December 31, 2020, had a loss of $1 million and $2 million, respectively (2019 – loss of $nil and $nil, respectively) recognized in finance charges. Foreign currency contracts associated with US$ revolving borrowings not designated as hedges, for the three and nine months ended December 31, 2020, had losses of $79 million and $149 million, respectively (2019 – losses of $30 million and $33 million, respectively) recognized in finance charges. These economic hedges offset $80 million and $151 million of foreign exchange revaluation gains, respectively (2019 – gains of $32 million and $36 million, respectively) recorded in finance charges with respect to US$ revolving borrowings for the three and nine months ended December 31, 2020.

For commodity derivatives not designated as hedges, net gains of $178 million and $412 million, respectively (2019 - gains of $160 million and $293 million, respectively) was recorded in trade revenue for the three and nine months ended December 31, 2020.

Inception Gains and Losses

Changes in deferred inception gains and losses are as follows:

(in millions)	*For the three months ended December 31* **2020**	2019	*For the nine months ended December 31* **2020**	2019
Deferred inception gains, beginning of the period	**$ 5**	$ 7	**$ 7**	$ 15
New transactions	**34**	3	**43**	14
Amortization	**(4)**	(4)	**(15)**	(23)
Foreign currency translation gain	**(1)**	-	**(1)**	-
Deferred inception gains, end of the period	**$ 34**	$ 6	**$ 34**	$ 6

In some instances, a difference may arise between the fair value of a financial instrument at initial recognition, as defined by its transaction price, and the fair value calculated by a valuation technique or model (inception gain or loss). In addition, the Company's inception gain or loss on a contract may arise as a result of embedded derivatives which are recorded at fair value, with the remainder of the contract recorded on an accrual basis. In these circumstances, the unrealized inception gain or loss is not recognized in income immediately, but is deferred and amortized into income over the full term of the underlying financial instrument.

Credit Risk

As a result of the COVID-19 pandemic and material disruptions to businesses and the economy, the Company's credit risk due to customers not paying their electricity bills when due has increased.

Domestic Electricity Receivables

A customer application and a credit check are required prior to initiation of services. For customers with no BC Hydro credit history, the Company ensures accounts are secured either by a credit bureau check, a cash security deposit, or a credit reference letter.

The value of the current domestic and trade accounts receivable, by age and the related provision for doubtful accounts are presented in the following table:

Current Domestic and Trade Accounts Receivable Net of Allowance for Doubtful Accounts

(in millions)	**December 31, 2020**	March 31, 2020
Current	**$ 300**	$ 368
Past due (30-59 days)	**26**	35
Past due (60-89 days)	**7**	11
Past due (More than 90 days)	**11**	4
	344	418
Less: Allowance for doubtful accounts	**(8)**	(6)
	$ 336	$ 412

At the end of each period, a review for doubtful accounts is performed. It is an assessment of the expected lifetime credit losses of accounts receivable at the statement of financial position date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions including consideration of the impacts of COVID-19, and historical information. At December 31, 2020 there was a high degree of uncertainty and judgment regarding the impact of COVID-19 on credit risk and expected lifetime credit losses.

Fair Value Hierarchy

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped based on the lowest level of input that is significant to that fair value measurement.

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

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

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

  The Company determines Level 2 fair values for debt securities and derivatives using discounted cash flow techniques, which use contractual cash flows and market-related discount rates.

  Level 2 fair values for commodity derivatives are determined using inputs other than unadjusted quoted prices that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Level 2 includes bilateral and over-the-counter contracts valued using interpolation from observable forward curves or broker quotes from active markets for similar instruments and other publicly available data, and options valued using industry-standard and accepted models incorporating only observable data inputs.

- Level 3 - inputs are those that are not based on observable market data. Level 3 fair values for commodity derivatives are determined using inputs that are based on significant unobservable inputs.

Level 3 includes instruments valued using observable prices adjusted for unobservable basis differentials such as delivery location and product quality, instruments which are valued by extrapolation of observable market information into periods for which observable market information is not yet available, and instruments valued using internally developed or non-standard valuation models.

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The following tables present the financial instruments measured at fair value for each hierarchy level as at December 31, 2020 and March 31, 2020:

As at December 31, 2020 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial assets carried at fair value:				
Short-term investments	$ 69	$ -	$ -	$ 69
Derivatives designated as hedges	-	36	-	36
Derivatives not designated as hedges	29	12	12	53
	$ 98	$ 48	$ 12	$ 158

As at December 31, 2020 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial liabilities carried at fair value:				
Derivatives designated as hedges	$ -	$ (3)	$ -	$ (3)
Derivatives not designated as hedges	(18)	(688)	(10)	(716)
	$ (18)	$ (691)	$ (10)	$ (719)

As at March 31, 2020 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial assets carried at fair value:				
Short-term investments	$ 78	$ -	$ -	$ 78
Derivatives designated as hedges	-	88	-	88
Derivatives not designated as hedges	45	60	5	110
	$ 123	$ 148	$ 5	$ 276

As at March 31, 2020 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial liabilities carried at fair value:				
Derivatives not designated as hedges	$ (33)	$ (1,016)	$ (17)	(1,066)
	$ (33)	$ (1,016)	$ (17)	$ (1,066)

The Company's policy is to recognize level transfers at the end of each period during which the change occurred. $nil was transferred between Level 1 and 2 during the period (2019 – $nil).

The following table reconciles the changes in the balance of financial instruments carried at fair value on the statement of financial position, classified as Level 3, for the nine months ended December 31, 2020 and 2019:

(in millions)	
Balance as at April 1, 2020	**$ (12)**
Net gains recognized	25
New transactions	(15)
Existing transactions settled	4
Balance as at December 31, 2020	**$ 2**

(in millions)		
Balance as at April 1, 2019	**$**	**(7)**
Net gains recognized		34
New transactions		(14)
Existing transactions settled		(17)
Balance as at December 31, 2019	**$**	**(4)**

$Nil was transferred between Level 3 and 2 during the period (2019 – $nil).

During the three and nine months ended December 31, 2020, unrealized gains of $18 million and $33 million, respectively (2019 - $7 million and $20 million unrealized gains, respectively) were recognized on Level 3 derivative commodity instruments still on hand. These gains were recognized in trade revenues.

Methodologies and procedures regarding commodity trading Level 3 fair value measurements are determined by the Company's risk management group. Level 3 fair values are calculated within the Company's risk management policies for trading activities based on underlying contractual data as well as observable and non-observable inputs. To ensure reasonability, Level 3 fair value measurements are reviewed and validated by risk management and finance departments on a regular basis.

The key unobservable inputs in the valuation of certain Level 3 financial instruments includes components of forward commodity prices and delivery or receipt volumes. A sensitivity analysis was prepared using the Company's assessment of a reasonably possible change in various components of forward prices and volumes of 10 percent. Forward commodity prices used in determining Level 3 base fair value at December 31, 2020 range between $0.34-$260.32 per MWh and a 10 percent increase/decrease in certain components of these prices would decrease/increase fair value by $12 million. A 10 percent change in estimated volumes used in determining Level 3 fair value would increase/decrease fair value by $9 million.

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Note 15: Other Non-Current Liabilities

(in millions)		***As at December 31*** **2020**		*As at March 31* 2020
Provisions				
Environmental liabilities	**$**	**363**	$	309
Decommissioning obligations		**99**		77
Other		**49**		29
		511		415
First Nations liabilities		**414**		412
Other contributions		**231**		234
Other liabilities		**426**		430
		1,582		1,491
Less: Current portion, included in accounts payable and accrued liabilities		**(129)**		(109)
	$	**1,453**	$	1,382

Note 16: Supplemental Disclosure of Cash Flow Information

Change in Working Capital and Other Assets and Liabilities:

(in millions)		*For the nine months ended December 31* **2020**		2019
Restricted Cash	**$**	**6**	$	102
Accounts receivable and accrued revenue		**15**		179
Inventories		**(38)**		(40)
Prepaid expenses		**72**		85
Other non-current assets		**4**		(34)
Accounts payable and accrued liabilities		**(368)**		(332)
Unearned revenues and contributions in aid		**135**		164
Post-employment benefits		**470**		(76)
Other non-current liabilities		**59**		21
	$	**355**	$	69

Non-Cash Investing Transactions:

(in millions)		*For the nine months ended December 31* **2020**		2019
Contributions in kind received for property, plant and equipment	**$**	**42**	$	38

Note 17: Seasonality of Operating Results

Due to the seasonal nature of the Company's operations, the condensed consolidated interim statement of comprehensive income 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 the Company's operating results.