British Columbia Hydro and Power Authority

2023/24

SECOND QUARTER REPORT

FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023

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 six months ended September 30, 2023 and should be read in conjunction with the MD&A presented in the 2022/23 Annual Service Plan Report, the 2022/23 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 six months ended September 30, 2023.

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 six months ended September 30, 2023 was $72 million and $68 million, respectively, $32 million and $24 million lower than the same periods in the prior fiscal year.

- The net regulatory account balance as at September 30, 2023 was an asset position (i.e., net amount to be recovered from ratepayers) of $987 million, $480 million lower than March 31, 2023.

- Domestic sales volumes for the three and six months ended September 30, 2023 were 196 GWh (or 2 per cent) and 361 GWh (or 1 per cent), respectively, higher than the same periods in the prior fiscal year. The higher sales volumes were primarily due to increased business activity, partially offset by lower sales volumes due to weather. Domestic sales revenues were slightly higher compared to the same period in the prior fiscal year as a result of the higher sales volumes and a 2.20 per cent bill increase that was approved by the British Columbia Utilities Commission (BCUC) effective April 1, 2023. Total revenues, which include domestic and trade revenues, for the three and six months ended September 30, 2023 were $1.06 billion (42 per cent) and $1.53 billion (34 per cent), respectively, lower than the same periods in the prior fiscal year due to fluctuations in trade revenues due to market conditions.

- Water inflows to the system for the six months ended September 30, 2023 were significantly below average and lower than the same period in the prior fiscal year. The below average water inflows were due to below average 2022/23 snowpack and persistently dry conditions across BC Hydro's basins over the summer and start of fall. As a result of the lower water inflows, BC Hydro purchased more energy from the market to meet domestic load requirements. The increased market purchases reduced Trade Gross Margin.

- Capital expenditures, before contributions in aid of construction, for the three and six months ended September 30, 2023 were $1.27 billion and $2.37 billion, respectively, a $282 million and $487 million increase, respectively, compared to the same period in the prior fiscal year. The increase in capital expenditures for the three and six months ended September 30, 2023, compared to the same periods in the prior year was primarily due to Site C Project expenditures and Distribution system improvements and expansion expenditures.

Consolidated Results of Operations

($ in millions)	*For the three months ended September 30* **2023**	2022	Change	*For the six months ended September 30* **2023**	2022	Change
Total Revenues	**$ 1,485**	$ 2,541	$ (1,056)	**$ 2,938**	$ 4,471	$ (1,533)
Net Income	**$ 72**	$ 104	$ (32)	**$ 68**	$ 92	$ (24)
Capital Expenditures	**$ 1,271**	$ 989	$ 282	**$ 2,370**	$ 1,883	$ 487
GWh Sold (Domestic)	**12,300**	12,104	196	**24,704**	24,343	361

($ in millions)	***As at September 30, 2023***	*As at March 31, 2023*	Change
Total Assets and Regulatory Balances	**$ 47,747**	$ 45,786	$ 1,961
Shareholder's Equity	**$ 7,445**	$ 7,356	$ 89
Retained Earnings	**$ 7,422**	$ 7,354	$ 68
Debt to Equity	**79 : 21**	78 : 22	n/a
Number of Domestic Customer Accounts	**2,204,777**	2,188,693	16,084

Revenues

For the three and six months ended September 30, 2023, total revenues of $1.49 billion and $2.94 billion, respectively, were $1.06 billion (or 42 per cent) and $1.53 billion (or 34 per cent), respectively, lower than the same periods in the prior fiscal year. The decrease for the three and six months ended September 30, 2023 was primarily due to lower trade revenues of $1.09 billion and $1.61 billion, respectively.

for the three months ended September 30	*($ in millions)* **2023**	2022	*(gigawatt hours)* **2023**	2022	*($ per MWh)* [1] **2023**	2022
Revenues						
Residential	**$ 446**	$ 435	**3,765**	3,765	**$ 118.46**	$ 115.54
Light industrial and commercial	**480**	474	**4,603**	4,676	**104.28**	101.37
Large industrial	**216**	205	**3,378**	3,313	**63.94**	61.88
Other sales	**119**	113	**554**	350	**-**	-
Domestic Revenues	**1,261**	1,227	**12,300**	12,104	**102.52**	101.37
Trade Revenues	**224**	1,314	**6,125**	10,267	**116.50**	133.74
Revenues	**$ 1,485**	$ 2,541	**18,425**	22,371	**$ 80.60**	$ 113.58

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

for the six months ended September 30	*($ in millions)* **2023**	2022	*(gigawatt hours)* **2023**	2022	*($ per MWh)* [1] **2023**	2022
Revenues						
Residential	**$ 928**	$ 914	**7,817**	7,877	**$ 118.72**	$ 116.03
Light industrial and commercial	**969**	933	**9,272**	9,198	**104.51**	101.44
Large industrial	**429**	406	**6,751**	6,591	**63.55**	61.60
Other sales	**231**	227	**864**	677	**-**	-
Domestic Revenues	**2,557**	2,480	**24,704**	24,343	**103.51**	101.88
Trade Revenues	**381**	1,991	**12,286**	19,628	**88.58**	111.37
Revenues	**$ 2,938**	$ 4,471	**36,990**	43,971	**$ 79.43**	$ 101.68

[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 and six months ended September 30, 2023, domestic revenues were $1.26 billion and $2.56 billion, respectively, $34 million (or 3 per cent) and $77 million (or 3 per cent), respectively, higher compared to the same periods in the prior fiscal year. The increase was due to an increase in domestic sales volumes and higher average rates that reflect the 2.20 per cent bill increase approved by the BCUC effective April 1, 2023.

Domestic sales volumes for the three and six months ended September 30, 2023 were 196 GWh (or 2 per cent) and 361 GWh (or 1 per cent) higher than the same periods in the prior fiscal year.

Trade Revenues

Total trade revenues for the three and six months ended September 30, 2023 were $224 million and $381 million, respectively, a decrease of $1.09 billion (or 83 per cent) and $1.61 billion (or 81 per cent), respectively, compared to the same periods in the prior fiscal year. In accordance with IFRS 9, *Financial Instruments*, certain trade energy costs are reclassified to trade revenue and netted against revenues which reduces trade revenues. As a result of drought conditions in B.C. there were additional trade energy purchases in the current periods compared to the previous periods which resulted in a larger reduction in trade revenues compared to the prior period. In addition, trade revenues were lower due to lower sales volumes.

Operating Expenses

For the three and six months ended September 30, 2023, total operating expenses of $1.32 billion and $2.70 billion, respectively, were $278 million (or 17 per cent) and $406 million (or 13 per cent), respectively, lower than the same periods in the prior fiscal year. The decrease for the three months ended September 30, 2023 was primarily due to lower trade energy costs of $294 million and lower grants, taxes and other costs of $15 million, partially offset by higher materials and external services costs of $26 million and higher personnel expenses of $15 million. The decrease for the six months ended September 30, 2023 was primarily due to lower trade energy costs of $485 million, partially offset by higher materials and external services costs of $50 million and higher personnel expenses of $29 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 September 30, 2023 were $585 million, $306 million (or 34 per cent) lower than the same period in the prior fiscal year. The decrease was primarily due to lower trade energy costs of $294 million (or 64 per cent).

Total energy costs for the six months ended September 30, 2023 were $1.21 billion, $495 million (or 29 per cent) lower than the same period in the prior fiscal year. The decrease was primarily due to lower trade energy costs of $485 million (or 60 per cent).

for the three months ended September 30	($ in millions) [2] 2023	2022	(gigawatt hours) [2] 2023	2022	($ per MWh) [2] 2023	2022
Energy Costs						
Water rental payments (hydro generation)[1]	**$ 98**	$ 89	**6,017**	11,272	**$ 16.29**	$ 7.90
Purchases from Independent Power Producers	**343**	426	**3,578**	4,743	**95.86**	89.82
Gas and transportation for thermal generation	**1**	1	**-**	-	**-**	-
Transmission charges and other expenses	**12**	13	**19**	20	**-**	-
Non-Treaty storage and Co-ordination Agreements	**(33)**	(96)	**-**	-	**-**	-
Domestic Energy Costs	**421**	433	**9,614**	16,035	**43.79**	27.00
Trade Energy Costs	**164**	458	**10,121**	7,072	**72.40**	69.08
Energy Costs	**$ 585**	$ 891	**19,735**	23,107	**$ 29.64**	$ 38.56

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

[2]The Trade Energy Costs includes physical and financial transactions whereas the trade volumes only include physical transactions. The Trade $ per MWh represents the gross $ per MWh of physical transactions.

for the six months ended September 30	($ in millions) [2] 2023	2022	(gigawatt hours) [2] 2023	2022	($ per MWh) [2] 2023	2022
Energy Costs						
Water rental payments (hydro generation)[1]	**$ 194**	$ 175	**13,368**	21,233	**$ 14.51**	$ 8.24
Purchases from Independent Power Producers	**698**	787	**7,997**	9,227	**87.28**	85.29
Gas and transportation for thermal generation	**3**	2	-	-	**-**	-
Transmission charges and other expenses	**23**	26	**45**	45	**-**	-
Non-Treaty storage and Co-ordination Agreements	**(33)**	(95)	**-**	-	**-**	-
Domestic Energy Costs	**885**	895	**21,410**	30,505	**41.34**	29.34
Trade Energy Costs	**325**	810	**17,681**	15,688	**62.87**	59.39
Energy Costs	**$ 1,210**	$ 1,705	**39,091**	46,193	**$ 30.95**	$ 36.91

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

[2]The Trade Energy Costs includes physical and financial transactions whereas the trade volumes only include physical transactions. The Trade $ per MWh represents the gross $ per MWh of physical transactions.

Domestic Energy Costs

Domestic energy costs for the three and six months ended September 30, 2023 were $421 million and $885 million, respectively, $12 million (or 3 per cent) and $10 million (or 1 per cent) respectively, lower than the same periods in the prior fiscal year. The decrease in costs was primarily due to lower purchases from Independent Power Producers (IPP) due to operational changes for one IPP which resulted in lower deliveries to BC Hydro, higher outages, and lower deliveries from hydro IPPs in the current year. The decrease in costs was partially offset by higher Non-Treaty Storage and Coordination agreements costs due to fewer net water releases in the current year compared to the prior year, and higher water rental costs due to higher generation volumes in calendar 2022 compared to calendar 2021 as the payments are based on the previous calendar year's volumes.

Trade Energy Costs

Total trade energy costs for the three and six months ended September 30, 2023 were $164 million and $325 million, respectively, a decrease of $294 million (or 64 per cent) and $485 million (or 60 per cent), respectively, compared to the same periods in the prior fiscal year. In accordance with IFRS 9, *Financial Instruments*, certain trade energy costs are reclassified to trade revenue and netted against revenues. Excluding the impact of the reclassification, trade energy costs increased compared to the same periods in the prior fiscal year primarily due to additional energy purchases as a result drought conditions.

Water Inflows and Reservoir Storage

Water inflows (energy equivalent) to the system for the six months ended September 30, 2023 were significantly below average and lower than the same period in the prior fiscal year. The below average water inflows during the six months ending September 30, 2023 were due to below average 2022/23 snowpack and persistently dry conditions across BC Hydro's basins over the summer and start of fall.

System energy storage is tracking below the ten-year historic average due to below average inflows across the second half of fiscal 2023 through second quarter of fiscal 2024. System energy storage at September 30, 2023 was lower than at September 30, 2022.

Personnel Expenses

Personnel expenses include salaries and wages, benefits and post-employment benefits. Personnel expenses for the three and six months ended September 30, 2023 were $189 million and $395 million, respectively, $15 million (or 9 per cent) and $29 million (or 8 per cent) higher than the same periods in the prior fiscal year due to higher labour costs including compensation increases commensurate to the public sector mandate and higher headcount.

Materials and External Services

Materials and External Services primarily include materials, supplies, and contractor fees. Materials and external services for the three and six months ended September 30, 2023 were $199 million and $397 million, respectively, $26 million (or 15 per cent) and $50 million (or 14 per cent), respectively, higher than the same periods in the prior fiscal year primarily due to BC Hydro providing rebates for electric vehicles (amounts are deferred to the Electric Vehicle Rebate Regulatory Account and are offset by revenue from low carbon fuel credits), inflationary pressures from vegetation management and fuel, and higher costs incurred for technology projects.

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 months and six months ended September 30, 2023 were $266 million and $530 million, respectively, comparable to the $261 million and $520 million in the same periods in the prior fiscal year.

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 September 30, 2023 were $109 million, a decrease of $15 million (or 12 per cent) compared to the same period in the prior fiscal year primarily due to a decrease in environmental provisions related to the remediation of polychlorinated biphenyl (PCB) compared to an increase to the same period in the prior fiscal year, lower taxes , partially offset by an increase in environmental provisions related to the remediation of asbestos compared to a decrease to the same period in the prior fiscal year.

Total grants, taxes and other costs for the six months ended September 30, 2023 were $214 million, comparable to the $209 million in the same period in the prior fiscal year.

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 six months ended September 30, 2023 were $24 million and $45 million, respectively, comparable to the $21 million and $40 million, respectively, in the same periods in the prior fiscal year.

Finance Charges (Income)

Finance income for the three months ended September 30, 2023 was $68 million, a change of $306 million (or 129 per cent) compared to finance charges of $238 million in the same period in the prior fiscal year. The change was primarily due to realized and unrealized gains on future debt hedges used to economically hedge the interest rates on future debt issuances in the current period as compared to realized and unrealized losses in the same period in the prior fiscal year.

Finance charges for the six months ended September 30, 2023 were $17 million, a decrease of $96 million (or 85 per cent) compared to the same period in the prior fiscal year. The decrease was primarily due to higher interest during construction, realized and unrealized gains on future debt hedges used to economically hedge the interest rates on future debt issuances and lower foreign exchange losses on US bank balances. The decrease was partially offset by higher interest rates on short-term borrowings.

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:

($ in millions)	For the three months ended September 30 **2023**	2022	For the six months ended September 30 **2023**	2022
Regulatory Additions (Reductions):				
Cost of Energy Variance Accounts				
Heritage Deferral Account	**$ 26**	$ (45)	**$ 47**	$ (36)
Non-Heritage Deferral Account	**164**	(210)	**463**	(210)
Biomass Energy Program Variance	**(2)**	(5)	**(6)**	(5)
Low Carbon Fuel Credits Variance	**(6)**	32	**(13)**	(21)
Other	**3**	(15)	**(16)**	(48)
	185	(243)	**475**	(320)
Other Cash Variance Accounts				
Trade Income Deferral Account	**(54)**	(419)	**(235)**	(574)
Total Finance Charges	**14**	(1)	**23**	(1)
Remediation	**16**	14	**32**	27
Inflationary Pressures	**17**	-	**27**	-
Electrical Vehicle Rebate	**(59)**	-	**(59)**	-
Other	**5**	(8)	**(3)**	(18)
	(61)	(414)	**(215)**	(566)
Non-Cash Variance Accounts				
Non-Current Pension Costs	**(306)**	105	**(269)**	(153)
Debt Management	**(249)**	40	**(324)**	(271)
Other	**(8)**	-	**(17)**	(4)
	(563)	145	**(610)**	(428)
Benefit Matching Accounts				
Demand-Side Management	**17**	17	**41**	33
First Nation Costs	**-**	-	**15**	14
Site C	**2**	2	**4**	3
CIA Amortization	**(2)**	(2)	**(3)**	(3)
Other	**3**	3	**10**	3
	20	20	**67**	50
Non-Cash Accounts				
Environmental Provisions	**(1)**	11	**(16)**	(15)
First Nations Provisions	**5**	4	**(5)**	5
	4	15	**(21)**	(10)
Amortization of regulatory accounts	**(81)**	(67)	**(164)**	(133)
Interest on regulatory accounts	**(5)**	(2)	**(12)**	(1)
Net decrease in regulatory accounts	**$ (501)**	$ (546)	**$ (480)**	$ (1,408)

For the six months ended September 30, 2023, there was a net reduction of $480 million to the Company's regulatory accounts compared to a net reduction of $1.41 billion in the same period in the prior fiscal year. The net regulatory asset balance (i.e., net amount to be recovered from ratepayers) as at September 30, 2023 was $987 million compared to $1.47 billion as at March 31, 2023.

Changes to the net regulatory asset balance during the six months ended September 30, 2023 included a $324 million reduction to the Debt Management Regulatory Account primarily due to a net increase in the fair value of interest rate hedges resulting from an increase in forward interest rates, a $269 million reduction to the Non-Current Pension Costs Account primarily due to actuarial gains on the post-employment benefit plan liabilities as a result of an increase in the liability discount rate compared to the expected rate, a $235 million reduction to the Trade Income Deferral Account due to higher trade income than planned, a $164 million reduction due to Amortization (which is the regulatory mechanism to recover the regulatory account balances in rates) and a $59 million reduction to the Electrical Vehicle Rebate Account. The net reductions were partially offset by a $463 million addition to Non-Heritage Deferral Account, a $47 million addition to Heritage Deferral Account, a $41 million addition to Demand-Side Management Account, and net additions of $32 million in the remaining regulatory accounts.

BC Hydro has or has applied for regulatory mechanisms to collect 33 of 37 regulatory accounts with balances at September 30, 2023 in rates over various periods.

Liquidity and Capital Resources

Cash flow provided by operating activities for the six months ended September 30, 2023 was $222 million, compared to $1.22 billion in the same period in the prior fiscal year. The decrease was mainly due to higher energy purchases from the market due to the drought conditions in B.C. whereas in the same period in the prior year BC Hydro was a net exporter of energy.

The long-term debt balance net of sinking funds as at September 30, 2023 was $28.39 billion compared to $26.78 billion as at March 31, 2023. The increase was mainly a result of an increase in revolving borrowings of $866 million and an increase in net long-term bond issuances (net of redemptions) for net proceeds of $762 million. The increase was primarily to fund capital expenditures and to manage working capital.

Capital Expenditures

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

	For the three months ended September 30		*For the six months ended September 30*	
(in millions)	**2023**	2022	**2023**	2022
Transmission lines and substation replacements and expansion	**$ 151**	$ 132	**$ 283**	$ 235
Generation replacements and expansion	**126**	89	**225**	169
Distribution system improvements and expansion	**202**	150	**377**	293
General, including technology, vehicles and buildings	**83**	70	**133**	109
Site C Project	**709**	548	**1,352**	1,077
Total Capital Expenditures	**$ 1,271**	$ 989	**$ 2,370**	$ 1,883

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

The increase in capital expenditures of $282 million and $487 million, respectively, for the three and six months ended September 30, 2023 compared to the same periods in the prior fiscal year was primarily due to Site C Project expenditures and Distribution system improvements and expansion expenditures.

Transmission lines and substation replacements and expansion included capital expenditures on transmission overhead lines, cables, substations, telecommunication systems, and transmission power equipment. Key capital expenditures included the following projects/programs: Transmission Wood Structure and Framing Replacements, Peace to Kelly Lake Stations Sustainment, Natal – 60-138 kV

Switchyard Upgrade, Various Sites – Transmission Corrective Capital Restorations, and Treaty Creek Terminal – Transmission Load Interconnection (KSM).

Generation replacements and expansion included capital expenditures on dam safety projects as well as on generating facilities and related major equipment such as turbines, generators, governors, exciters, transformers, and circuit breakers. Key capital expenditures included the following projects: John Hart Dam Seismic Upgrade, Bridge River 1 – Penstock Concrete Foundation Refurbishment, Lake Buntzen 1 Coquitlam Tunnel Gates Refurbishment, Wahleach Refurbish Generator, and Ash River Extend Life of Steel Penstock.

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

General included capital expenditures on various building development programs, other technology projects, and vehicles.

Site C incurred capital expenditures across the project, primarily for work areas such as right bank foundation enhancements, generating station and spillways, main civil works, turbines and generators, worker accommodations, project management and support services and interest during construction.

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.

Regulatory Applications

On April 21, 2023, the BCUC issued an initial decision on BC Hydro’s F2023 – F2025 RRA and subsequently on June 19, 2023, the BCUC issued its final decision (Decision). The Decision included a series of directives and the net impact of these directives was a revised bill decrease for fiscal 2023 of 1.23 per cent and a revised bill increase for fiscal 2024 of 2.20 per cent instead of the BCUC-approved interim bill change of a 1.39 per cent decrease and a 2.00 per cent increase for fiscal 2023 and fiscal 2024, respectively. BC Hydro submitted a Compliance Filing on July 19, 2023 in response to the directives included in the Decision. As a result of the BCUC’s Decision, BC Hydro commenced charging customers the new rate on September 1, 2023 and has commenced issuing a one-time on-bill adjustment for the amount customers were underbilled for the period of April 1, 2022 to August 31, 2023. The financial impact of the Decision has been incorporated in the financial statements.

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 F2023 – F2025 RRA.

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 six categories: hydro generation, customer demand, electricity/gas trade margins, deliveries from electricity purchase agreement contracts, interest rates, and discount rates for post-employment benefit plans. 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.

While meeting domestic customer 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 so doing, BC Hydro seeks to optimize the combined effects of these elements and reduce the net cost of energy for our customers.

The Site C Project continues to manage significant potential risks including the attraction and retention of sufficient skilled labour, inflationary pressures on costs along with interest rate increases, additional work due to unknown conditions or variations to specifications, and weather-related risks. The Site C Project Assurance Board (which is comprised of independent members and some of the current BC Hydro board members) is tasked with ensuring that the Site C Project is completed on time and on budget, and that risks are appropriately identified, managed and reported on an ongoing basis. As of September 30, 2023, the total Project forecast remains at the $16 billion estimate and is expected to achieve the in-service date of 2025.

Hydro Generation

Water inflows to the system for the six months ended September 30, 2023 were significantly below average and lower than the same period in the prior fiscal year. The below average water inflows were due to below average 2022/23 snowpack and persistently dry conditions across BC Hydro's basins over the summer and start of fall. Hydro generation can vary significantly depending on many factors including load, water inflows, and market conditions. Lower water inflows can significantly reduce hydro generation and can have a material impact on BC Hydro's cost of energy in the current and future years.

Demand for Electricity

Domestic load volumes for the six months ended September 30, 2023 were approximately 1 per cent higher than the same period in the prior fiscal year. Recent economic concerns related to inflation, increased interest rates, and market conditions for large industrial customers may continue to impact electricity demand.

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 2022/23 Annual Service Plan Report for the year ended March 31, 2023. 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 2023 forecast net income for 2023/24 at $712 million which is consistent with the amount required by Order in Council No. 123. In addition, net income for the period 2024/25 – 2025/26 is forecast to be $712 million annually.

The Company's earnings can fluctuate significantly due to the factors discussed in the preceding section, many of which are non-controllable. The impact to net income of these non-controllable factors is largely mitigated through the use of regulatory accounts. The Service Plan for 2023/24 assumes average water inflows (100 per cent of average), domestic sales of 55,636 GWh, average market energy prices of US $83.41/MWh, short-term interest rates of 3.86 per cent, and a Canadian to US dollar exchange rate of US $0.7645.

BC Hydro continues to forecast net income for 2023/24 at $712 million but there are risks to achieving this forecast.

With recent increases in inflation and interest rates, economic concerns have grown. A potential recession could adversely impact BC Hydro's future performance if it were to cause a decrease in customer load, volatility in electricity/gas trade margins, interest rate volatility, difficulty accessing debt, project delays and project cost escalations. In addition, geopolitical factors have caused negative disruptions to supply chains which are resulting in project delays and project cost escalations, with the risk of further delays and cost escalations.

These economic concerns limit the ability to predict the ultimate adverse impact of the economy on BC Hydro's performance, financial condition, results of operations and cash flows.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income

(in millions)	*For the three months ended September 30* **2023**	2022	*For the six months ended September 30* **2023**	2022
Revenues (Note 3)				
Domestic	**$ 1,261**	$ 1,227	**$ 2,557**	$ 2,480
Trade	**224**	1,314	**381**	1,991
Revenues	**1,485**	2,541	**2,938**	4,471
Expenses				
Operating expenses (Note 4)	**1,324**	1,602	**2,701**	3,107
Finance charges (income) (Note 5)	**(68)**	238	**17**	113
Net Income Before Movement in Regulatory Balances	**229**	701	**220**	1,251
Net movement in regulatory balances (Note 9)	**(157)**	(597)	**(152)**	(1,159)
Net Income	**72**	104	**68**	92
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)	**18**	(5)	**14**	(3)
Reclassification to income of derivatives designated as cash flow hedges (Note 14)	**(15)**	(57)	**8**	(65)
Foreign currency translation gains	**13**	57	**9**	77
Items That Will Not Be Reclassified Subsequently to Net Income				
Actuarial gain (loss) on post employment benefits	**331**	(80)	**318**	202
Other Comprehensive Income (Loss) before movement in regulatory balances	**347**	(85)	**349**	211
Net movements in regulatory balances (Note 9)	**(344)**	51	**(328)**	(249)
Other Comprehensive Income (Loss)	**3**	(34)	**21**	(38)
Total Comprehensive Income	**$ 75**	$ 70	**$ 89**	$ 54

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

Unaudited Condensed Consolidated Interim Statements of Financial Position

(in millions)		As at September 30 2023		As at March 31 2023
Assets				
Current Assets				
Cash and cash equivalents	**$**	**89**	$	148
Restricted cash		**9**		-
Accounts receivable and accrued revenue		**879**		894
Inventories (Note 7)		**477**		387
Prepaid expenses		**251**		186
Current portion of derivative financial instrument assets (Note 14)		**381**		494
		2,086		2,109
Non-Current Assets				
Property, plant and equipment (Note 8)		**38,777**		36,926
Right-of-use assets		**1,264**		1,305
Intangible assets (Note 8)		**638**		639
Derivative financial instrument assets (Note 14)		**336**		319
Other non-current assets (Note 10)		**451**		542
		41,466		39,731
Total Assets		**43,552**		41,840
Regulatory Balances (Note 9)		**4,195**		3,946
Total Assets and Regulatory Balances	**$**	**47,747**	$	45,786
Liabilities and Equities				
Current Liabilities				
Accounts payable and accrued liabilities	**$**	**1,955**	$	1,953
Current portion of long-term debt (Note 11)		**3,734**		2,958
Current portion of unearned revenues and contributions in aid		**107**		108
Current portion of derivative financial instrument liabilities (Note 14)		**363**		474
		6,159		5,493
Non-Current Liabilities				
Long-term debt (Note 11)		**24,896**		24,057
Lease liabilities		**1,340**		1,376
Derivative financial instrument liabilities (Note 14)		**186**		325
Unearned revenues and contributions in aid		**2,740**		2,615
Post-employment benefits (Note 13)		**446**		731
Other non-current liabilities (Note 15)		**1,327**		1,354
		30,935		30,458
Total Liabilities		**37,094**		35,951
Regulatory Balances (Note 9)		**3,208**		2,479
Total Liabilities and Regulatory Balances		**40,302**		38,430
Shareholder's Equity				
Contributed surplus		**60**		60
Retained earnings		**7,422**		7,354
Accumulated other comprehensive loss		**(37)**		(58)
		7,445		7,356
Total Liabilities, Regulatory Balances, and Shareholder's Equity	**$**	**47,747**	$	45,786

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 Loss	Contributed Surplus	Retained Earnings	Total
Balance as at April 1, 2022	$ (13)	$ 5	$ (8)	$ 60	$ 6,994	$ 7,046
Comprehensive Income (Loss)	30	(68)	(38)	-	92	54
Balance as at September 30, 2022	$ 17	$ (63)	$ (46)	$ 60	$ 7,086	$ 7,100
Balance as at April 1, 2023	$ 10	$ (68)	$ (58)	$ 60	$ 7,354	$ 7,356
Comprehensive Income (Loss)	(1)	22	21	-	68	89
Balance as at September 30, 2023	$ 9	$ (46)	$ (37)	$ 60	$ 7,422	$ 7,445

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

Unaudited Condensed Consolidated Interim Statements of Cash Flows

For the six months ended September 30 (in millions)	**2023**	2022
Operating Activities		
Net income	**$ 68**	$ 92
Regulatory account transfers (Note 9)	**152**	1,159
Adjustments for non-cash items:		
Amortization and depreciation expense (Note 6)	**530**	520
Gains on derivative financial instruments	**(288)**	(330)
Post-employment benefit plan expenses	**38**	47
Interest accrual	**487**	420
Other items	**27**	24
	1,014	1,932
Changes in working capital and other assets and liabilities (Note 16)	**(292)**	(267)
Interest paid	**(500)**	(442)
Cash provided by operating activities	**222**	1,223
Investing Activities		
Property, plant and equipment and intangible asset expenditures	**(1,988)**	(1,707)
Cash used in investing activities	**(1,988)**	(1,707)
Financing Activities		
Long-term debt issued (Note 11)	**862**	1,498
Long-term debt retired (Note 11)	**(100)**	(300)
Receipt of revolving borrowings	**5,102**	3,287
Repayment of revolving borrowings	**(4,247)**	(4,101)
Payment of principal portion of lease liability	**(35)**	(34)
Settlement of hedging derivatives	**147**	205
Other items	**(22)**	(6)
Cash provided by financing activities	**1,707**	549
Increase (decrease) in cash and cash equivalents	**(59)**	65
Cash and cash equivalents, beginning of period	**148**	99
Cash and cash equivalents, end of period	**$ 89**	$ 164

See Note 16 for Cash flow supplement

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), and Powertech Labs Inc. (Powertech), (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 the principles of IAS 34, *Interim Financial Reporting,* and except as described below, were prepared using the same accounting policies as described in BC Hydro's 2022/23 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 2022/23 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 November 9, 2023.

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.

(in millions)	*For the three months ended September 30* **2023**	2022	*For the six months ended September 30* **2023**	2022
Domestic				
Residential	**$ 446**	$ 435	**$ 928**	$ 914
Light industrial and commercial	**480**	474	**969**	933
Large industrial	**216**	205	**429**	406
Other sales	**119**	113	**231**	227
Total Domestic	**1,261**	1,227	**2,557**	2,480
Total Trade[1]	**224**	1,314	**381**	1,991
Total Revenue	**$ 1,485**	2,541	**$ 2,938**	$ 4,471

[1] Includes a reduction in revenue recognized under IFRS 9, *Financial Instruments* of $134 million and $198 million for the three and six months ended September 30, 2023, respectively (2022 - revenue recognized of $695 million and $996 million, respectively).

Note 4: Operating Expenses

(in millions)	*For the three months ended September 30* **2023**	2022	*For the six months ended September 30* **2023**	2022
Electricity and gas purchases	**$ 400**	$ 704	**$ 858**	$ 1,357
Water rentals	**98**	89	**194**	175
Transmission charges	**87**	98	**158**	173
Personnel expenses	**189**	174	**395**	366
Materials and external services	**199**	173	**397**	347
Amortization and depreciation (Note 6)	**266**	261	**530**	520
Grants, taxes and other costs	**109**	124	**214**	209
Capitalized costs	**(24)**	(21)	**(45)**	(40)
	$ 1,324	$ 1,602	**$ 2,701**	$ 3,107

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
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Note 5: Finance Charges (Income)

(in millions)	*For the three months ended September 30* **2023**	2022	*For the six months ended September 30* **2023**	2022
Interest on long-term debt	**$ 251**	$ 216	**$ 487**	$ 420
Interest on lease liabilities	**11**	12	**23**	23
Interest on defined benefit plan obligations	**10**	11	**20**	22
Mark-to-market losses (gains) on derivative financial instruments	**(249)**	41	**(325)**	(269)
Capitalized interest	**(115)**	(85)	**(221)**	(159)
Other	**24**	43	**33**	76
	$ (68)	$ 238	**$ 17**	$ 113

Note 6: Amortization and Depreciation

(in millions)	*For the three months ended September 30* **2023**	2022	*For the six months ended September 30* **2023**	2022
Depreciation of property, plant and equipment	**$ 227**	$ 221	**$ 450**	$ 439
Depreciation of right-of-use assets	**20**	20	**41**	41
Amortization of intangible assets	**19**	20	**39**	40
	$ 266	$ 261	**$ 530**	$ 520

Note 7: Inventories

(in millions)	***As at September 30* 2023**	*As at March 31* 2023
Materials and Supplies and Environmental Products	**$ 216**	$ 208
Natural Gas and Certain Carbon Products	**261**	179
	$ 477	$ 387

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 six months ended September 30, 2023 were $1.27 billion and $2.37 billion, respectively (2022 - $989 million and $1.88 billion, respectively).

As of September 30, 2023, the Company had contractual commitments to spend $1.58 billion on major property, plant and equipment projects (for individual projects greater than $20 million).

Note 9: Rate Regulation

Regulatory Accounts

The Company has established various regulatory accounts through rate regulation or with the expected approval of the British Columbia Utilities Commission (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 September 30		*For the six months ended September 30*	
(in millions)	**2023**	2022	**2023**	2022
Net decrease in regulatory balances related to net income	**$ (157)**	$ (597)	**$ (152)**	$ (1,159)
Net increase (decrease) in regulatory balances related to OCI	**(344)**	51	**(328)**	(249)
	$ (501)	$ (546)	**$ (480)**	$ (1,408)

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
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(in millions)	*As at April 1 2023*	*Addition (Reduction)*	*Interest[1]*	*Amortization*	*Net Change*	***As at September 30 2023***
Regulatory Assets						
Heritage Deferral	$ -	$ 15	$ -	$ -	$ 15	**$ 15**
Non-Heritage Deferral	-	353	2	2	357	**357**
Demand-Side Management	858	41	-	(58)	(17)	**841**
Debt Management	67	(65)	-	(2)	(67)	**-**
First Nations Provisions & Costs	485	11	-	(17)	(6)	**479**
Site C	566	4	10	-	14	**580**
CIA Amortization	63	(3)	-	-	(3)	**60**
Environmental Provisions & Costs	216	16	-	(19)	(3)	**213**
Smart Metering & Infrastructure	130	-	2	(13)	(11)	**119**
IFRS Pension	344	-	-	(19)	(19)	**325**
IFRS Property, Plant & Equipment	1,007	-	-	(16)	(16)	**991**
Total Finance Charges	45	23	-	(6)	17	**62**
Other Regulatory Accounts	165	9	2	(23)	(12)	**153**
Total Regulatory Assets	3,946	404	16	(171)	249	**4,195**
Regulatory Liabilities						
Heritage Deferral	32	(32)	-	-	(32)	**-**
Non-Heritage Deferral	110	(110)	-	-	(110)	**-**
Trade Income Deferral Account	1,190	235	24	(20)	239	**1,429**
Biomass Energy Program	75	6	1	(1)	6	**81**
Inflationary Pressures	58	(27)	1	-	(26)	**32**
Low Carbon Fuel Credits Variance	48	13	1	(1)	13	**61**
Non-Current Pension Costs	854	269	-	15	284	**1,138**
PEB Current Pension Costs	38	17	-	(4)	13	**51**
Debt Management	-	259	-	7	266	**266**
Electric Vehicle Rebate	-	59	-	-	59	**59**
Other Regulatory Accounts	74	19	1	(3)	17	**91**
Total Regulatory Liabilities	2,479	708	28	(7)	729	**3,208**
Net Regulatory Asset	$ 1,467	$ (304)	$ (12)	$ (164)	$ (480)	**$ 987**

[1]As permitted by the BCUC, interest charges were accrued to certain regulatory balances at the Company's weighed average cost of debt of 3.6 per cent per annum for the six months ended September 30, 2023 (2022 – 3.2 per cent).

On April 21, 2023, the BCUC issued its initial decision on BC Hydro's Fiscal 2023 to Fiscal 2025 Revenue Requirements Application and subsequently on June 19, 2023, the BCUC issued its final decision (Decision). The Decision resulted in a revised bill decrease for fiscal 2023 of 1.23 compared to the interim bill impact of a 1.39 per cent decrease and a revised bill increase for fiscal 2024 of 2.20 per cent compared to the interim bill impact of 2.00 per cent. The financial impact of the Decision has been incorporated in these financial statements.

There were no significant changes to the remaining recovery/reversal periods for the six months ended September 30, 2023. Refer to Note 15 – Rate Regulation in the Company's 2022/23 Annual Service Plan Report.

Note 10: Other Non-Current Assets

(in millions)	***As at September 30* 2023**	*As at March 31* 2023
Non-current receivables	**$ 115**	$ 134
Sinking funds	**243**	237
Non-current Site C prepaid expenses	**81**	159
Other	**12**	12
	$ 451	$ 542

Included in the non-current receivables balance are $105 million of receivables (March 31, 2023 - $116 million) attributable to other contributions receivable from a supplier to aid in the construction of an expansion of an existing 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 $5.50 billion. At September 30, 2023, the outstanding amount under the borrowing program was $3.62 billion (March 31, 2023 - $2.76 billion) and is included in revolving borrowings.

For the three months ended September 30, 2023, the Company issued bonds for net proceeds of $377 million (2022 - $656 million) and a par value of $400 million (2022 - $750 million), a weighted average effective interest rate of 4.6 per cent (2022 - 3.9 per cent) and a weighted average term to maturity of 25.1 years (2022 - 17.8 years). For the six months ended September 30, 2023, the Company issued bonds for net proceeds of $862 million (2022 - $1.50 billion) and a par value of $900 million (2022 - $1.73 billion), a weighted average effective interest rate of 4.4 per cent (2022 - 4.0 per cent) and a weighted average term to maturity of 20.1 years (2022 - 18.6 years).

For the three months ended September 30, 2023, the Company redeemed bonds at maturity with a par value of $100 million (2022 – $200 million). For the six months ended September 30, 2023, the Company redeemed bonds at maturity with a par value of $100 million (2022 – $300 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 payment to the Province (see below). Capital requirements are consequently managed through the retention of equity subsequent to the 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 six months ended September 30, 2023, there were no changes in the approach to capital management.

The debt to equity ratio at September 30, 2023, and March 31, 2023 was as follows:

(in millions)	***As at September 30* 2023**	*As at March 31* 2023
Total debt, net of sinking funds	**$ 28,387**	$ 26,778
Less: Cash and cash equivalents	**(89)**	(148)
Net Debt	**$ 28,298**	$ 26,630
Retained earnings	**$ 7,422**	$ 7,354
Contributed surplus	**60**	60
Accumulated other comprehensive loss	**(37)**	(58)
Total Equity	**$ 7,445**	$ 7,356
Net Debt to Equity Ratio	**79 : 21**	78 : 22

Dividend Payment to the Province

In accordance with Order in Council No. 095/2014 from the Province, the payment to the Province will remain at zero until BC Hydro achieves a 60:40 debt to equity ratio.
As BC Hydro has not achieved a debt to equity ratio of 60:40 there was no payment for the year ended March 31, 2023 and BC Hydro does not expect to make a payment for the year ending March 31, 2024.

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 six months ended September 30, 2023 was $36 million and $71 million, respectively (2022 - $39 million and $78 million, respectively).

Company contributions to the registered defined benefit pension plans for the three and six months ended September 30, 2023 were $14 million and $27 million (2022 - $14 million and $27 million, respectively).

The plan remeasurements used a discount rate of 5.66 per cent per annum as at September 30, 2023 (September 30, 2022 - 5.18 per cent) and a rate of return on plan assets of positive 0.68 per cent as at September 30, 2023 (September 30, 2022 - negative 4.40 per cent).

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 September 30, 2023, and March 31, 2023:

(in millions)	**September 30, 2023** Carrying Value	**September 30, 2023** Fair Value	March 31, 2023 Carrying Value	March 31, 2023 Fair Value
Fair Value Through Profit or Loss (FVTPL):				
Cash equivalents - short-term investments	**$ 8**	**$ 8**	$ 70	$ 70
Amortized Cost:				
Cash	**81**	**81**	78	78
Restricted cash	**9**	**9**	-	-
Accounts receivable and accrued revenue	**879**	**879**	894	894
Non-current receivables	**115**	**111**	134	135
Sinking funds	**243**	**237**	237	239
Accounts payable and accrued liabilities	**(1,955)**	**(1,955)**	(1,953)	(1,953)
Revolving borrowings	**(3,624)**	**(3,624)**	(2,758)	(2,758)
Long-term debt (including current portion due in one year)	**(25,006)**	**(21,577)**	(24,257)	(22,800)
First Nations liabilities (non-current portion)	**(430)**	**(443)**	(435)	(467)
Lease liabilities (non-current portion)	**(1,340)**	**(1,340)**	(1,376)	(1,376)
Other liabilities (non-current portion)	**(410)**	**(388)**	(409)	(397)

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 September 30, 2023 in a net asset position of $9 million (March 31, 2023 – net liability position of $5 million). Such contracts are used to hedge the principal on US$ 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.

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($ amounts in millions)	**September 30, 2023**	March 31, 2023
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	**4 years**	5 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	**7 years**	7 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)	**September 30, 2023 Fair Value**	March 31, 2023 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)	**$ 34**	$ 29
Foreign currency contract liabilities (cash flow hedges for EURO€ denominated long-term debt)	**(25)**	(34)
	9	(5)
Non-Designated Derivative Instruments:		
Interest rate contract assets	**351**	199
Interest rate contract liabilities	**-**	(24)
Foreign currency contract (liabilities) assets	**14**	(3)
Commodity derivative assets	**317**	585
Commodity derivative liabilities	**(523)**	(738)
	159	19
Net asset	**$ 168**	$ 14

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)	**September 30, 2023**	March 31, 2023
Current portion of derivative financial instrument assets	**$ 381**	$ 494
Current portion of derivative financial instrument liabilities	**(363)**	(474)
Derivative financial instrument assets, non-current	**336**	319
Derivative financial instrument liabilities, non-current	**(186)**	(325)
Net asset	**$ 168**	$ 14

For designated cash flow hedges for the three and six months ended September 30, 2023, there was gains of $18 million and $14 million, respectively (2022 - losses of $5 million and $3 million, respectively). The effective portion was recognized in other comprehensive income. For the three and six months ended September 30, 2023, $15 million and $8 million, respectively (2022 - $57 million and $65 million, respectively) was reclassified from other comprehensive income and reported in net income, offsetting net foreign exchange losses and net foreign exchange gains, respectively (2022 – net foreign exchange losses, respectively) recorded in the period.

For outstanding interest rate contracts not designated as hedges with an aggregate notional principal of $2.88 billion (March 31, 2023 – $2.88 billion), used to economically hedge the interest rates on future debt issuances, there was a $218 million increase and a $253 million increase, respectively (2022 - $32 million decrease and $139 million increase, respectively) in the fair value of these contracts for the three and six months ended September 30, 2023. For interest rate contracts associated with debt issued, there was a $30 million increase and a $71 million increase, respectively (2022 - $8 million decrease and a $132 million increase, respectively) in the fair value of contracts that settled during the three and six months ended September 30, 2023. The net increase for the six months ended September 30, 2023 of $324 million (2022 - $271 million increase) in the fair value of these interest rate contracts was transferred to the Debt Management Regulatory Account which had a net liability balance of $266 million as at September 30, 2023.

Foreign currency contracts for cash management purposes not designated as hedges, for the three and six months ended September 30, 2023, had a loss of $nil and $1 million, respectively (2022 – a loss of $1 million and $1 million, respectively) recognized in finance charges. Foreign currency contracts associated with U.S. revolving borrowings not designated as hedges, for the three and six months ended September 30, 2023, had gains of $22 million and $12 million, respectively (2022 - gains of $84 million and $106 million, respectively) recognized in finance charges. These economic hedges offset $21 million and $10 million, respectively of foreign exchange revaluation losses (2022 - losses of $84 million and $107 million, respectively) recorded in finance charges with respect to US$ revolving borrowings for the three and six months ended September 30, 2023.

For commodity derivatives not designated as hedges, net gains of $247 million and $164 million, respectively (2022 – net gains of $718 million and $1.04 billion, respectively) was recorded in trade revenue for the three and six months ended September 30, 2023.

Inception Gains and Losses

Changes in deferred inception gains and losses are as follows:

	For the three months ended September 30		For the six months ended September 30	
(in millions)	**2023**	2022	**2023**	2022
Deferred inception losses, beginning of the period	**$ (33)**	$ (22)	**$ (15)**	$ (26)
New transactions	**13**	17	**-**	39
Amortization	**(14)**	(10)	**(19)**	(27)
Foreign currency translation gain	**(1)**	(1)	**(1)**	(2)
Deferred inception losses, end of the period	**$ (35)**	$ (16)	**$ (35)**	$ (16)

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

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)	**September 30, 2023**	March 31, 2023
Current	**$ 476**	$ 495
Past due (30-59 days)	**22**	26
Past due (60-89 days)	**5**	6
Past due (More than 90 days)	**5**	2
	508	529
Less: Allowance for doubtful accounts	**(9)**	(8)
	$ 499	$ 521

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.

The following tables present the financial instruments measured at fair value for each hierarchy level as at September 30, 2023 and March 31, 2023:

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED SEPTEMBER 30, 2023

As at September 30, 2023 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial assets carried at fair value:				
Short-term investments	$ 8	$ -	$ -	$ 8
Derivatives designated as hedges	-	34	-	34
Derivatives not designated as hedges	206	399	78	683
	$ 214	$ 433	$ 78	$ 725

As at September 30, 2023 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial liabilities carried at fair value:				
Derivatives designated as hedges	$ -	$ (25)	$ -	$ (25)
Derivatives not designated as hedges	(164)	(187)	(173)	(524)
	$ (164)	$ (212)	$ (173)	$ (549)

As at March 31, 2023 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial assets carried at fair value:				
Short-term investments	$ 70	$ -	$ -	$ 70
Derivatives designated as hedges	-	29	-	29
Derivatives not designated as hedges	409	218	157	784
	$ 479	$ 247	$ 157	$ 883

As at March 31, 2023 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial liabilities carried at fair value:				
Derivatives designated as hedges	$ -	$ (34)	$ -	$ (34)
Derivatives not designated as hedges	(195)	(158)	(412)	(765)
	$ (195)	$ (192)	$ (412)	$ (799)

The Company's policy is to recognize level transfers at the end of each period during which the change occurred. During the six months ended September 30, 2023, there were $nil transfers (2022 – $6 million of commodity derivatives were transferred from Level 2 to Level 1).

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 six months ended September 30, 2023 and 2022:

(in millions)	
Balance as at April 1, 2023	**$ (255)**
Net gains recognized	124
Existing transactions settled	36
Balance as at September 30, 2023	**$ (95)**

(in millions)		
Balance as at April 1, 2022	**$**	**(83)**
Net gains recognized		(102)
New transactions		(25)
Existing transactions settled		109
Balance as at September 30, 2022	**$**	**(101)**

There were no transfers between Level 3 and 2 during the period (2022 – no transfers).

During the three and six months ended September 30, 2023, unrealized gains of $67 million and $80 million, respectively (2022 – unrealized losses of $238 million and $251 million, respectively) were recognized on Level 3 derivative commodity instruments still on hand. These gains and losses 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 per cent. Forward commodity prices used in determining Level 3 base fair value at September 30, 2023 range between $0 - $543 per MwH and a 10 per cent increase/decrease in certain components of these prices would decrease/increase fair value by $32 million. A 10 per cent change in estimated volumes used in determining Level 3 fair value would increase/decrease fair value by $14 million.

Note 15: Other Non-Current Liabilities

(in millions)	***As at September 30* 2023**	*As at March 31* 2023
Provisions		
Environmental liabilities	**$ 257**	$ 270
Decommissioning obligations	**60**	70
Other	**67**	39
	384	379
First Nations liabilities	**447**	452
Other contributions	**219**	221
Other liabilities	**432**	432
	1,482	1,484
Less: Current portion, included in accounts payable and accrued liabilities	**(155)**	(130)
	$ 1,327	$ 1,354

Note 16: Supplemental Disclosure of Cash Flow Information

Change in Working Capital and Other Assets and Liabilities:

For the six months ended September 30 (in millions)	**2023**	2022
Restricted Cash	**$ (9)**	$ -
Accounts receivable and accrued revenue	**46**	(71)
Inventories	**(87)**	(148)
Prepaid expenses	**(79)**	(59)
Other non-current assets	**87**	(23)
Accounts payable and accrued liabilities	**(342)**	(45)
Unearned revenues and contributions in aid	**124**	94
Post-employment benefits	**(5)**	(5)
Other non-current liabilities	**(27)**	(10)
	$ (292)	$ (267)

Non-Cash Investing Transactions:

For the six months ended September 30 (in millions)	**2023**	2022
Contributions in kind received for property, plant and equipment	**$ 33**	$ 30

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.