British Columbia Hydro and Power Authority

2023/24

THIRD QUARTER REPORT

FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 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 nine months ended December 31, 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 nine months ended December 31, 2023. Certain comparative figures have been restated as described in Note 2 of the Unaudited Condensed Consolidated Interim Financial Statements.

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, 2023 was $276 million and $344 million, respectively, $26 million and $2 million higher than the same periods in the prior fiscal year.

- Water inflows to the system for the nine months ended December 31, 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 dry conditions across BC Hydro's basins over the summer and in subsequent months. As a result of the lower water inflows, BC Hydro exported less energy and purchased more energy from the market to meet domestic load requirements. This resulted in a reduction in domestic revenues and an increase in energy costs for the nine months ended December 31, 2023 compared to the same period in the prior fiscal year.

- Capital expenditures, before contributions in aid of construction, for the three and nine months ended December 31, 2023 were $1.05 billion and $3.42 billion, respectively, a $57 million and $544 million increase, respectively, compared to the same periods in the prior fiscal year. The increase in capital expenditures of $544 million for the nine months ended December 31, 2023, compared to the same period in the prior fiscal 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 December 31* **2023**	2022	Change	*For the nine months ended December 31* **2023**	2022	Change
Total Revenues	**$ 1,901**	$ 1,939	$ (38)	**$ 5,398**	$ 6,459	$ (1,061)
Net Income	**$ 276**	$ 250	$ 26	**$ 344**	$ 342	$ 2
Capital Expenditures	**$ 1,046**	$ 989	$ 57	**$ 3,416**	$ 2,872	$ 544
GWh Sold (Domestic)	**14,644**	15,583	(939)	**39,861**	44,759	(4,898)

($ in millions)	***As at December 31, 2023***	*As at March 31, 2023*	Change
Total Assets and Regulatory Balances	**$ 48,486**	$ 45,786	$ 2,700
Shareholder's Equity	**$ 7,715**	$ 7,356	$ 359
Retained Earnings	**$ 7,698**	$ 7,354	$ 344
Debt to Equity	**79 : 21**	78 : 22	n/a
Number of Domestic Customer Accounts	**2,213,626**	2,188,693	24,933

Revenues

For the three and nine months ended December 31, 2023, total revenues of $1.90 billion and $5.40 billion, respectively, were $38 million (or 2 per cent) and $1.06 billion (or 16 per cent), respectively, lower than the same periods in the prior fiscal year. The decrease for the three months ended December 31, 2023 was primarily due to lower trade revenues of $229 million, partially offset by higher domestic revenues of $191 million. The decrease for the nine months ended December 31, 2023 was primarily due to lower trade revenues of $828 million and lower domestic revenues of $233 million.

for the three months ended December 31	*($ in millions)* **2023**	2022	*(gigawatt hours)* **2023**	2022
Revenues				
Residential	**$ 641**	$ 516	**5,267**	5,764
Light industrial and commercial	**503**	394	**4,825**	5,049
Large industrial	**230**	219	**3,640**	3,531
Other sales	**155**	209	**912**	1,239
Domestic Revenues	**1,529**	1,338	**14,644**	15,583
Trade Revenues[1]	**372**	601	**5,064**	5,889
Revenues	**$ 1,901**	$ 1,939	**19,708**	21,472

[1]In accordance with IFRS 9, Financial Instruments, certain energy costs are reclassified to trade revenue and netted against revenues which reduces trade revenues.

for the nine months ended December 31	($ in millions) 2023	2022	(gigawatt hours) 2023	2022
Revenues				
Residential	**$ 1,569**	$ 1,430	**13,084**	13,641
Light industrial and commercial	**1,472**	1,327	**14,097**	14,247
Large industrial	**659**	625	**10,391**	10,122
Other sales	**429**	980	**2,289**	6,749
Domestic Revenues	**4,129**	4,362	**39,861**	44,759
Trade Revenues[1]	**1,269**	2,097	**16,837**	20,684
Revenues	**$ 5,398**	$ 6,459	**56,698**	65,443

[1]In accordance with IFRS 9, Financial Instruments, certain energy costs are reclassified to trade revenue and netted against revenues which reduces trade revenues.

Domestic Revenues

Domestic revenues for the three months ended December 31, 2023 were $1.53 billion, $191 million (or 14 per cent), higher compared to the same period in the prior fiscal year. The increase was primarily due to lower revenues in the prior fiscal year due to $315 million of cost-of-living credits issued to residential and commercial customers. In addition, higher average rates in the current year reflect the 2.20 per cent bill increase approved by the BCUC effective April 1, 2023. This was partially offset by lower sales volumes including lower electricity exports (a component of Other sales).

Domestic revenues for the nine months ended December 31, 2023 were $4.13 billion, $233 million (or 5 per cent), lower compared to the same period in the prior fiscal year. The decrease was primarily due to the lower electricity exports (a component of Other sales) in the current year as a result of low water inflows because of the below average 2022/23 snowpack and persistently dry conditions across BC Hydro's basins over the summer and in subsequent months. The decrease in revenues was partially offset by lower revenues in the prior fiscal year due to cost-of-living credits issued and higher average rates in the current year as described in the paragraph above.

Domestic sales volumes for the three and nine months ended December 31, 2023 were 939 GWh (or 6 per cent) and 4,898 GWh (11 per cent) lower than the same periods in the prior fiscal year. Excluding electricity exports, domestic sales volumes for the three and nine months ended December 31, 2023 were 395 GWh (or 3 per cent) and 34 GWh (or less than 1 per cent) lower than the same periods in the prior fiscal year.

Trade Revenues

Total trade revenues for the three and nine months ended December 31, 2023 were $372 million and $1.27 billion, respectively, a decrease of $229 million (or 38 per cent) and $828 million (or 39 per cent), respectively, compared to the same periods in the prior fiscal year. Trade revenues were lower due to lower sales volumes and lower average sales prices.

Operating Expenses

For the three and nine months ended December 31, 2023, total operating expenses of $1.83 billion and $5.09 billion, respectively, were $131 million (or 8 per cent) and $235 million (or 5 per cent), respectively, higher than the same periods in the prior fiscal year. The increase for the three months ended December 31, 2023 was primarily due to higher materials and external services costs of $49 million, higher energy costs of $33 million, higher grants, taxes and other costs of $32 million and higher personnel expenses of $16 million. The increase for the nine months ended December 31, 2023 was primarily due to higher materials and external services costs of $99 million, higher energy costs of $48 million, higher personnel expenses of $45 million, and higher grants, and taxes and other costs of $37 million.

Energy Costs

Energy costs are comprised of electricity and gas purchases, water rentals and transmission 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.

	($ in millions)		*(gigawatt hours)*	
for the three months ended December 31	**2023**	2022	**2023**	2022
Energy Costs				
Purchases from Independent Power Producers	**$ 358**	$ 352	**3,220**	3,512
Market purchases[1]	**421**	547	**8,922**	7,020
Non-Treaty storage and Co-ordination Agreements	**56**	(72)	**-**	-
Other expenses	**12**	13	**33**	35
Electricity and gas purchases	**847**	840	**12,175**	10,567
Water rental payments (hydro generation)[2]	**96**	88	**8,683**	12,510
Transmission charges	**90**	72	**-**	-
Energy Costs	**$ 1,033**	$ 1,000	**20,858**	23,077

[1]Market purchases are comprised of the cost of importing energy to meet domestic load requirements and energy costs associated with BC Hydro's energy trading subsidiary, Powerex. Market purchases include physical and financial transaction costs whereas the volumes only include physical transactions.

[2]Water rental payments are based on the previous calendar year's actual hydro generation volumes.

	($ in millions)		*(gigawatt hours)*	
for the nine months ended December 31	**2023**	2022	**2023**	2022
Energy Costs				
Purchases from Independent Power Producers	**$ 1,056**	$ 1,139	**11,217**	12,739
Market purchases[1]	**1,154**	1,239	**26,603**	22,708
Non-Treaty storage and Co-ordination Agreements	**23**	(167)	**-**	-
Other expenses	**31**	35	**78**	80
Electricity and gas purchases	**2,264**	2,246	**37,898**	35,527
Water rental payments (hydro generation)[2]	**290**	263	**22,051**	33,743
Transmission charges	**248**	245	**-**	-
Energy Costs	**$ 2,802**	$ 2,754	**59,949**	69,270

[1]Market purchases are comprised of the cost of importing energy to meet domestic load requirements and energy costs associated with BC Hydro's energy trading subsidiary, Powerex. Market purchases include physical and financial transaction costs whereas the volumes only include physical transactions.

[2]Water rental payments are based on the previous calendar year's actual hydro generation volumes.

Energy Costs

Energy costs for the three and nine months ended December 31, 2023 were $1.03 billion and $2.80 billion respectively, $33 million (or 3 per cent) and $48 million (or 2 per cent) respectively, higher than the same periods in the prior fiscal year.

Electricity and gas purchases for the three and nine months ended December 31, 2023 were $847 million and $2.26 billion, respectively, $7 million (or 1 per cent) and $18 million (or 1 per cent) higher than the same periods in the prior fiscal year. The increases in the three and nine month periods were primarily due to higher Non-treaty Storage and Coordination agreements costs due to fewer net water releases in the current year compared to the prior year. This was partially offset by lower net market purchases due to lower energy costs from trading activities as a result of lower purchase volumes and prices, partially offset by higher electricity imports to meet domestic load requirements. The higher electricity imports were due to low water inflows as a result of a below average 2022/23 snowpack and persistently dry conditions across BC Hydro's basins over the summer and in subsequent months.

Water rental payments for the three and nine months ended December 31, 2023 were $96 million and $290 million, respectively, $8 million (or 9 per cent) and $27 million (or 10 per cent) higher than the same periods in the prior fiscal year primarily due higher water rental rates compared to the same periods in the prior fiscal year.

Transmission charges for the three and nine months ended December 31, 2023 were $90 million and $248 million, respectively, comparable to the $72 million and $245 million, respectively, in the same periods in the prior fiscal year.

Water Inflows and Reservoir Storage

Water inflows (energy equivalent) to the system for the nine months ended December 31, 2023 were significantly below average and lower than the same period in the prior fiscal year. The below average water inflows during the nine months ending December 31, 2023 were due to below average 2022/23 snowpack and dry conditions across BC Hydro's basins over the summer and in subsequent months.

System energy storage is tracking below the ten-year historic average due to below average inflows across the second half of fiscal 2023 through third quarter of fiscal 2024. System energy storage at December 31, 2023 was lower than at December 31, 2022.

Personnel Expenses

Personnel expenses include salaries and wages, benefits and post-employment benefits. Personnel expenses for the three and nine months ended December 31, 2023 were $199 million and $594 million, respectively, $16 million (or 9 per cent) and $45 million (or 8 per cent) higher than the same periods in the prior fiscal year primarily 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 nine months ended December 31, 2023 were $238 million and $635 million, respectively, $49 million (or 26 per cent) and $99 million (or 18 per cent), respectively, higher than the same periods in the prior fiscal year primarily due to BC Hydro providing rebates for electric vehicles, inflationary pressures from vegetation management and fuel, and higher costs incurred on Demand-Side Management.

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, 2023 were $270 million and $800 million, respectively, comparable to the $267 million and $787 million, respectively, 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 December 31, 2023 were $112 million, an increase of $32 million (or 40 per cent) compared to the same period in the prior fiscal year primarily due to an increase in environmental provisions related to the remediation of polychlorinated biphenyl (PCB) and asbestos as compared to a decrease in the same period in the prior fiscal year.

Total grants, taxes and other costs for the nine months ended December 31, 2023 were $326 million, an increase of $37 million (or 13 per cent) compared to the same period in the prior fiscal year primarily due to an increase in environmental provisions related to the remediation of asbestos as compared to a decrease 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 nine months ended December 31, 2023 were $23 million and $68 million, respectively, comparable to the $21 million and $61 million, respectively, in the same periods in the prior fiscal year.

Finance Charges

Finance charges for the three months ended December 31, 2023 were $470 million, an increase of $360 million (or 327 per cent) compared to the same period in the prior fiscal year. The increase was primarily due to $321 million in unrealized losses on future debt hedges used to economically hedge the interest rates on future debt issuances in the current period as compared to $36 million in unrealized gains in the same period in the prior fiscal year.

Finance charges for the nine months ended December 31, 2023 were $487 million, an increase of $264 million (or 118 per cent) compared to the same period in the prior fiscal year. The increase was primarily due to lower realized gains on future debt hedges settled during the year as well as unrealized losses on future debt hedges used to economically hedge the interest rates on future debt issuances compared to unrealized gains in the prior year.

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 differences between forecast and actual costs or revenues to future periods. 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 December 31 2023	2022	For the nine months ended December 31 2023	2022
Regulatory Additions (Reductions):				
Cost of Energy Variance Accounts				
Heritage Deferral Account	**$ 70**	$ (75)	**$ 117**	$ (111)
Non-Heritage Deferral Account	**230**	89	**693**	(121)
Biomass Energy Program Variance	**(22)**	(13)	**(28)**	(18)
Low Carbon Fuel Credits Variance	**(2)**	2	**(15)**	(19)
Customer Credits	**-**	(320)	**-**	(320)
Other	**44**	(42)	**28**	(90)
	320	(359)	**795**	(679)
Other Cash Variance Accounts				
Trade Income Deferral Account	**(12)**	290	**(247)**	(284)
Total Finance Charges	**11**	10	**34**	9
Remediation	**11**	12	**43**	39
Inflationary Pressures	**19**	(72)	**46**	(72)
Electrical Vehicle Rebate	**1**	-	**(58)**	-
Other	**31**	(2)	**28**	(20)
	61	238	**(154)**	(328)
Non-Cash Variance Accounts				
Non-Current Pension Costs	**544**	(73)	**275**	(226)
PEB Current Pension Costs	**(8)**	(6)	**(25)**	(18)
Debt Management	**321**	(36)	**(3)**	(307)
Other	**(1)**	(2)	**(1)**	6
	856	(117)	**246**	(545)
Benefit Matching Accounts				
Demand-Side Management	**34**	25	**75**	58
First Nation Costs	**1**	1	**16**	15
Site C	**1**	2	**5**	5
CIA Amortization	**(1)**	(1)	**(4)**	(4)
Other	**8**	5	**18**	8
	43	32	**110**	82
Non-Cash Accounts				
Environmental Provisions	**7**	(14)	**(9)**	(29)
First Nations Provisions	**5**	5	**-**	10
	12	(9)	**(9)**	(19)
Amortization of regulatory accounts	**(77)**	260	**(241)**	127
Interest on regulatory accounts	**(3)**	(5)	**(15)**	(6)
Net increase (decrease) in regulatory accounts	**$ 1,212**	$ 40	**$ 732**	$ (1,368)

For the nine months ended December 31, 2023, there was a net addition of $732 million to the Company's regulatory accounts compared to a net reduction of $1.37 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 December 31, 2023 was $2.20 billion compared to $1.47 billion as at March 31, 2023.

Significant changes to the net regulatory asset balance during the nine months ended December 31, 2023 included a $795 million addition to the Cost of Energy Variance Accounts primarily due to higher net system electricity imports as a result of the drought, and a $275 million addition to the Non-Current Pension Costs Account primarily due to actuarial losses on the post-employment benefit plan liabilities as a result of a decrease in the liability discount rate. The significant net additions were partially offset by a $247 million reduction in the Trade Income Deferral Account primarily due to higher trade income and $241 million in Amortization (which is the regulatory mechanism to recover the regulatory account balances in rates).

BC Hydro has or has applied for regulatory mechanisms to collect 35 of 40 regulatory accounts with balances at December 31, 2023 in rates over various periods.

Liquidity and Capital Resources

Cash flow provided by operating activities for the nine months ended December 31, 2023 was $532 million, compared to $1.80 billion in the same period in the prior fiscal year. The decrease of $1.27 billion 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 December 31, 2023 was $29.22 billion compared to $26.78 billion as at March 31, 2023. The increase was mainly a result of an increase in revolving borrowings of $1.81 billion and an increase in net long-term bond issuances (net of redemptions) for net proceeds of $662 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 December 31		*For the nine months ended December 31*	
($ in millions)	**2023**	2022	**2023**	2022
Transmission lines and substation replacements and expansion	**$ 141**	$ 120	**$ 424**	$ 355
Generation replacements and expansion	**117**	88	**342**	257
Distribution system improvements and expansion	**205**	154	**582**	447
General, including technology, vehicles and buildings	**83**	67	**216**	176
Site C Project	**500**	560	**1,852**	1,637
Total Capital Expenditures[1]	**$ 1,046**	$ 989	**$ 3,416**	$ 2,872

[1]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 $57 million for the three months ended December 31, 2023 compared to the same period in the prior fiscal year was primarily due to Distribution system improvements and expansion expenditures. The increase in capital expenditures of $544 million for the nine months ended December 31, 2023 compared to the same period in the prior fiscal year was primarily due to Site C Project expenditures and Distribution system improvements and expansion expenditures. Capital expenditures for the three and nine months ended December 31, 2023 were 23 per cent and 12 per cent higher than Plan, respectively, primarily due to the timing of 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: Peace to Kelly Lake Stations Sustainment, Transmission Wood Structure and Framing Replacements, Various Sites – Transmission Corrective Capital Restorations, Natal – 60-138 kV Switchyard Upgrade, Mainwaring Station Upgrade, 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, Ash River Extend Life of Steel Penstock, and Wahleach Refurbish Generator.

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, and for 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 Fiscal 2023 to Fiscal 2025 Revenue Requirements Application (F2023 – F2025 RRA) and subsequently on June 19, 2023, the BCUC issued its final decision. The decisions 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. As a result of the BCUC's Decision, BC Hydro commenced charging customers the new rate on September 1, 2023 and has issued 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 decisions has been incorporated in the financial statements.

The decisions also directed BC Hydro to file for approval of the levels of the new Trade Income Rate Rider (TIRR) and the Deferral Account Rate Rider (DARR), annually, commencing in fiscal 2025. BC Hydro filed for approval of the TIRR and DARR for fiscal 2025 on October 30, 2023. BC Hydro's filing included a request for reconsideration and variance of Directive 77 in respect of the TIRR. On November 3, 2023, the BCUC approved BC Hydro's request for reconsideration and ordered a proceeding. BC Hydro has requested a decision by February 29, 2024, so that customer bills can be updated for fiscal 2025.

Performance Based Regulation

On December 21, 2023 BC Hydro filed with the BCUC its Performance Based Regulation plan to be used for rate-setting, starting April 1, 2025, as well as a Request for Reconsideration of Performance Based Regulation (Reconsideration). The energy transition and drive towards electrification in the province has created a dynamic operating environment, which BC Hydro believes has rendered it unreasonable to attempt to manage costs within the confines of a formula under Performance Based Regulation. Accordingly, BC Hydro does not consider Performance Based Regulation to be aligned with the interests of our customers at this time. The Reconsideration proposes a continuation of Cost of Service for rate-setting until further order of the BCUC. On January 17, 2024, the BCUC indicated the Reconsideration will proceed to a hearing but the timing of the hearing has not been set.

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, cost of energy, finance charges and actuarial gains (losses) on post-employment benefits. 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, the completion of work activities for reservoir fill and first unit commissioning, commercial negotiations with contractors, and additional work due to unknown conditions or variations to specifications. 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 December 31, 2023, the total Project forecast remains at the $16 billion approved budget and is expected to achieve the approved in-service date of 2025.

Hydro Generation

Water inflows to the system for the nine months ended December 31, 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 in subsequent months. 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

Excluding electricity exports, domestic load volumes for the nine months ended December 31, 2023 were less than 1 per cent lower 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 2024 forecast net income for 2023/24 at $314 million which is $398 million (or 56 per cent) lower than the amount in the previous Service Plan (i.e., $712 million) primarily due to affordability credits that Government announced. Net income for the period 2024/25 – 2026/27 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.

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.

As an example of risks to the financial forecast, annual generation from a hydroelectric system is inherently variable as it depends on inflows.

The annual system surplus (i.e., the difference between generation and load) averaged 2,563 GWh for the five fiscal years prior to 2023/24, ranging from a deficit of 2,605 GWh in 2018/19 to a surplus of 10,699 GWh in 2020/21.

BC has generally been in drought since the summer of 2022. The drought persists in the Columbia and Peace basins, which provide 55% of the BC Hydro owned or contracted energy in the system.

Given the current drought situation, and the large variability that has been seen in system inflows in the past, future actual hydro generation may be significantly different than amounts generated in the current period and, as a result, the cost of energy may be higher due to imports in times of deficit, and domestic revenues may be higher due to exports in times of surpluses. These changes would affect the cost of energy, domestic revenues and financial performance.

The effect of climate change on annual inflows is uncertain and long-term planning will consider increasing occurrences of wider variation in annual system inflows. Planning criteria, which determine the resources needed in the system, will be reviewed as part of developing the next Integrated Resource Plan. It is possible that this will conclude that more resources are needed, or that changes to reservoir operation are needed.

Unaudited Condensed Consolidated Interim Statements of Comprehensive Income

(in millions)	*For the three months ended December 31* **2023**	*For the three months ended December 31* 2022 Adjusted - (Note 2)	*For the nine months ended December 31* **2023**	*For the nine months ended December 31* 2022 Adjusted - (Note 2)
Revenues (Note 3)				
Domestic	**$ 1,529**	$ 1,338	**$ 4,129**	$ 4,362
Trade	**372**	601	**1,269**	2,097
Revenues	**1,901**	1,939	**5,398**	6,459
Expenses				
Operating expenses (Note 4)	**1,829**	1,698	**5,089**	4,854
Finance charges (Note 5)	**470**	110	**487**	223
Net Income (Loss) Before Movement in Regulatory Balances	**(398)**	131	**(178)**	1,382
Net movement in regulatory balances (Note 9)	**674**	119	**522**	(1,040)
Net Income	**276**	250	**344**	342
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)	**(15)**	20	**(1)**	17
Reclassification to income of derivatives designated as cash flow hedges (Note 14)	**8**	(22)	**16**	(87)
Foreign currency translation gains (losses)	**(18)**	(22)	**(9)**	55
Items That Will Not Be Reclassified Subsequently to Net Income				
Actuarial gain (loss) on post employment benefits	**(519)**	96	**(201)**	298
Other Comprehensive Income (Loss) before movement in regulatory balances	**(544)**	72	**(195)**	283
Net movements in regulatory balances (Note 9)	**538**	(79)	**210**	(328)
Other Comprehensive Income (Loss)	**(6)**	(7)	**15**	(45)
Total Comprehensive Income	**$ 270**	$ 243	**$ 359**	$ 297

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* 2023**	*As at March 31* 2023
Assets		
Current Assets		
Cash and cash equivalents	**$ 207**	$ 148
Accounts receivable and accrued revenue	**815**	894
Inventories (Note 7)	**484**	387
Prepaid expenses	**101**	186
Current portion of derivative financial instrument assets (Note 14)	**361**	494
	1,968	2,109
Non-Current Assets		
Property, plant and equipment (Note 8)	**39,510**	36,926
Right-of-use assets	**1,249**	1,305
Intangible assets (Note 8)	**634**	639
Derivative financial instrument assets (Note 14)	**117**	319
Other non-current assets (Note 10)	**432**	542
	41,942	39,731
Total Assets	**43,910**	41,840
Regulatory Balances (Note 9)	**4,576**	3,946
Total Assets and Regulatory Balances	**$ 48,486**	$ 45,786
Liabilities and Equities		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 1,745**	$ 1,953
Current portion of long-term debt (Note 11)	**4,581**	2,958
Current portion of unearned revenues and contributions in aid	**148**	108
Current portion of derivative financial instrument liabilities (Note 14)	**404**	474
	6,878	5,493
Non-Current Liabilities		
Long-term debt (Note 11)	**24,878**	24,057
Lease liabilities	**1,316**	1,376
Derivative financial instrument liabilities (Note 14)	**263**	325
Unearned revenues and contributions in aid	**2,724**	2,615
Post-employment benefits (Note 13)	**986**	731
Other non-current liabilities (Note 15)	**1,349**	1,354
	31,516	30,458
Total Liabilities	**38,394**	35,951
Regulatory Balances (Note 9)	**2,377**	2,479
Total Liabilities and Regulatory Balances	**40,771**	38,430
Shareholder's Equity		
Contributed surplus	**60**	60
Retained earnings	**7,698**	7,354
Accumulated other comprehensive loss	**(43)**	(58)
	7,715	7,356
Total Liabilities, Regulatory Balances, and Shareholder's Equity	**$ 48,486**	$ 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)	25	(70)	(45)	-	342	297
Balance as at December 31, 2022	$ 12	$ (65)	$ (53)	$ 60	$ 7,336	$ 7,343
Balance as at April 1, 2023	$ 10	$ (68)	$ (58)	$ 60	$ 7,354	$ 7,356
Comprehensive Income	-	15	15	-	344	359
Balance as at December 31, 2023	$ 10	$ (53)	$ (43)	$ 60	$ 7,698	$ 7,715

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)	**2023**	2022
Operating Activities		
Net income	**$ 344**	$ 342
Regulatory account transfers (Note 9)	**(522)**	1,040
Adjustments for non-cash items:		
Amortization and depreciation expense (Note 6)	**800**	787
Gains on derivative financial instruments	**59**	(166)
Post-employment benefit plan expenses	**57**	70
Interest accrual	**748**	643
Other items	**47**	26
	1,533	2,742
Changes in working capital and other assets and liabilities (Note 16)	**(68)**	(100)
Interest paid	**(933)**	(841)
Cash provided by operating activities	**532**	1,801
Investing Activities		
Property, plant and equipment and intangible asset expenditures	**(2,976)**	(2,653)
Cash used in investing activities	**(2,976)**	(2,653)
Financing Activities		
Long-term debt issued (Note 11)	**862**	1,498
Long-term debt retired (Note 11)	**(200)**	(500)
Receipt of revolving borrowings	**8,218**	5,464
Repayment of revolving borrowings	**(6,433)**	(5,701)
Payment of principal portion of lease liability	**(65)**	(61)
Settlement of hedging derivatives	**147**	205
Other items	**(26)**	(13)
Cash provided by financing activities	**2,503**	892
Increase in cash and cash equivalents	**59**	40
Cash and cash equivalents, beginning of period	**148**	99
Cash and cash equivalents, end of period	**$ 207**	$ 139

See Note 16 for Cash flow supplement

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2023

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 were prepared using the same accounting policies as described in BC Hydro's 2022/23 Annual Service Plan Report except for a change in accounting policy for the presentation of electricity exports and imports.

BC Hydro has changed its accounting policy from presenting electricity imports acquired through contracts treated as derivatives and exports in Trade Revenue to separately present these electricity imports as Operating expenses (part of electricity and gas purchases) and electricity exports as Domestic revenues. This presentation more appropriately reflects the physical flows of electricity and provides more relevant information for financial statement users. The change was driven by significant electricity imports that occurred during the nine-months ended December 31, 2023 as a result of the prolonged drought.

In conjunction with this change, Domestic revenues now include sales to customers within the province of British Columbia, sales that are surplus to domestic load requirements (included within other sales category in Note 3), and certain sales of energy outside the province that are under long-term contracts (included within other sales category in Note 3). Sales outside the province besides those described above are classified as Trade revenue.

As a result of the change in the accounting policy, we have restated the condensed consolidated interim statements of comprehensive income for the previously disclosed current periods and comparative periods. The change resulted in presentation differences in the statement of comprehensive income but had no impact to net income or to the statements of cash flows, changes in equity, and financial position.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2023

The impact of the change on the comparative periods is as follows:

	For the three months ended December 31, 2022			*For the nine months ended December 31, 2022*		
(in millions)	As originally reported	Adjustment	As Adjusted	As originally reported	Adjustment	As Adjusted
Revenues (Note 3)						
Domestic	$ 1,237	$ 101	$ 1,338	$ 3,717	$ 645	$ 4,362
Trade	582	19	601	2,573	(476)	2,097
Revenues	1,819	120	1,939	6,290	169	6,459
Expenses						
Operating expenses (Note 4)	1,578	120	1,698	4,685	169	4,854
Finance charges (Note 5)	110	-	110	223	-	223
Net Income Before Movement in Regulatory Balances	131	-	131	1,382	-	1,382
Net movement in regulatory balances (Note 9)	119	-	119	(1,040)	-	(1,040)
Net Income	$ 250	$ -	$ 250	$ 342	$ -	$ 342

The impact of the change on the current periods not presented herein is as follows:

	For the three months ended June 30, 2023			*For the six months ended September 30, 2023*		
(in millions)	As originally reported	Adjustment	As Adjusted	As originally reported	Adjustment	As Adjusted
Revenues (Note 3)						
Domestic	$ 1,296	$ 6	$ 1,302	$ 2,557	$ 43	$ 2,600
Trade	157	204	361	381	516	897
Revenues	1,453	210	1,663	2,938	559	3,497
Expenses						
Operating expenses (Note 4)	1,377	210	1,587	2,701	559	3,260
Finance charges (Note 5)	85	-	85	17	-	17
Net Income (loss) Before Movement in Regulatory Balances	(9)	-	(9)	220	-	220
Net movement in regulatory balances (Note 9)	5	-	5	(152)	-	(152)
Net Income (loss)	$ (4)	$ -	$ (4)	$ 68	$ -	$ 68

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 other 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 7, 2024.

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

	For the three months ended December 31		*For the nine months ended December 31*	
(in millions)	**2023**	2022 Adjusted - (Note 2)	**2023**	2022 Adjusted - (Note 2)
Domestic				
Residential	**$ 641**	$ 516	**$ 1,569**	$ 1,430
Light industrial and commercial	**503**	394	**1,472**	1,327
Large industrial	**230**	219	**659**	625
Other sales[1]	**155**	209	**429**	980
Total Domestic	**1,529**	1,338	**4,129**	4,362
Total Trade[2]	**372**	601	**1,269**	2,097
Total Revenue	**$ 1,901**	$ 1,939	**$ 5,398**	$ 6,459

[1] Includes electricity export sales.

[2] Includes revenue reduction recognized under IFRS 9, *Financial Instruments* of $27 million and $225 million for the three and nine months ended December 31, 2023, respectively (2022 - revenue recognized of $74 million and $1.07 billion, respectively).

Note 4: Operating Expenses

	For the three months ended December 31		*For the nine months ended December 31*	
(in millions)	**2023**	2022 Adjusted - (Note 2)	**2023**	2022 Adjusted - (Note 2)
Electricity and gas purchases	**$ 847**	$ 840	**$ 2,264**	$ 2,246
Water rentals	**96**	88	**290**	263
Transmission charges	**90**	72	**248**	245
Personnel expenses	**199**	183	**594**	549
Materials and external services	**238**	189	**635**	536
Amortization and depreciation (Note 6)	**270**	267	**800**	787
Grants, taxes and other costs	**112**	80	**326**	289
Capitalized costs	**(23)**	(21)	**(68)**	(61)
	$ 1,829	$ 1,698	**$ 5,089**	$ 4,854

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2023

Note 5: Finance Charges

(in millions)	*For the three months ended December 31* **2023**	2022	*For the nine months ended December 31* **2023**	2022
Interest on long-term debt	**$ 261**	$ 223	**$ 748**	$ 643
Interest on lease liabilities	**11**	11	**34**	34
Interest on defined benefit plan obligations	**11**	10	**31**	32
Mark-to-market losses (gains) on derivative financial instruments	**318**	(37)	**(7)**	(306)
Capitalized interest	**(125)**	(93)	**(346)**	(252)
Other	**(6)**	(4)	**27**	72
	$ 470	$ 110	**$ 487**	$ 223

Note 6: Amortization and Depreciation

(in millions)	*For the three months ended December 31* **2023**	2022	*For the nine months ended December 31* **2023**	2022
Depreciation of property, plant and equipment	**$ 228**	$ 226	**$ 678**	$ 665
Depreciation of right-of-use assets	**21**	20	**62**	61
Amortization of intangible assets	**21**	21	**60**	61
	$ 270	$ 267	**$ 800**	$ 787

Note 7: Inventories

(in millions)	***As at December 31*** **2023**	*As at March 31* 2023
Materials and Supplies and Environmental Products	**$ 232**	$ 208
Natural Gas and Certain Carbon Products	**252**	179
	$ 484	$ 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 nine months ended December 31, 2023 were $1.05 billion and $3.42 billion, respectively (2022 - $989 million and $2.87 billion, respectively).

As of December 31, 2023, the Company had contractual commitments to spend $1.38 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 December 31		*For the nine months ended December 31*	
(in millions)	**2023**	2022	**2023**	2022
Net increase (decrease) in regulatory balances related to net income	**$ 674**	$ 119	**$ 522**	$ (1,040)
Net increase (decrease) in regulatory balances related to OCI	**538**	(79)	**210**	(328)
	$ 1,212	$ 40	**$ 732**	$ (1,368)

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, 2023

(in millions)	*As at April 1 2023*	*Addition (Reduction)*	*Interest* [1]	*Amortization*	*Net Change*	***As at December 31 2023***
Regulatory Assets						
Heritage Deferral	$ -	$ 85	$ -	$ 1	$ 86	**$ 86**
Non-Heritage Deferral	-	583	6	3	592	**592**
Demand-Side Management	858	75	-	(87)	(12)	**846**
Debt Management	67	(3)	-	(14)	(17)	**50**
First Nations Provisions & Costs	485	16	-	(25)	(9)	**476**
Site C	566	5	16	-	21	**587**
CIA Amortization	63	(4)	-	-	(4)	**59**
Environmental Provisions & Costs	216	34	-	(29)	5	**221**
Smart Metering & Infrastructure	130	-	3	(19)	(16)	**114**
IFRS Pension	344	-	-	(29)	(29)	**315**
IFRS Property, Plant & Equipment	1,007	-	-	(23)	(23)	**984**
Total Finance Charges	45	34	-	(9)	25	**70**
Other Regulatory Accounts	165	39	4	(32)	11	**176**
Total Regulatory Assets	3,946	864	29	(263)	630	**4,576**
Regulatory Liabilities						
Heritage Deferral	32	(32)	-	-	(32)	**-**
Non-Heritage Deferral	110	(110)	-	-	(110)	**-**
Trade Income Deferral Account	1,190	247	37	(31)	253	**1,443**
Biomass Energy Program	75	28	2	(2)	28	**103**
Inflationary Pressures	58	(46)	1	-	(45)	**13**
Low Carbon Fuel Credits Variance	48	15	2	(1)	16	**64**
Non-Current Pension Costs	854	(275)	-	22	(253)	**601**
PEB Current Pension Costs	38	25	-	(6)	19	**57**
Electric Vehicle Rebate	-	58	-	-	58	**58**
Other Regulatory Accounts	74	(34)	2	(4)	(36)	**38**
Total Regulatory Liabilities	2,479	(124)	44	(22)	(102)	**2,377**
Net Regulatory Asset	$ 1,467	$ 988	$ (15)	$ (241)	$ 732	**$ 2,199**

[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 nine months ended December 31, 2023 (2022 – 3.3 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 per cent 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 a 2.00 per cent increase. The financial impact of the Decision has been incorporated in these financial statements.

BC Hydro submitted an application to the BCUC for a Remote Community Electrification (RCE) Repayment regulatory account on December 22, 2023, which includes a request to recover the RCE Repayment regulatory account balance over the next test period. BC Hydro also submitted its Performance Based Regulation (PBR) Plan Application to the BCUC on December 21, 2023, which included a request for a Flow Through Cost regulatory account and recovery of account balances at the end of a test period over the next test period. As of December 31, 2023, the RCE Repayment regulatory account and the Flow Through Cost regulatory account were in use and have been included in Other Regulatory Assets.

There were no significant changes to the remaining recovery/reversal periods for the nine months ended December 31, 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 December 31*** **2023**	*As at March 31* 2023
Non-current receivables	**$ 119**	$ 134
Sinking funds	**240**	237
Non-current Site C prepaid expenses	**61**	159
Other	**12**	12
	$ 432	$ 542

Included in the non-current receivables balance are $107 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 December 31, 2023, the outstanding amount under the borrowing program was $4.57 billion (March 31, 2023 - $2.76 billion) and is included in revolving borrowings.

For the three months ended December 31, 2023, the Company did not issue any bonds (2022 - $nil). For the nine months ended December 31, 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 December 31, 2023, the Company redeemed bonds at maturity with a par value of $100 million (2022 – $200 million). For the nine months ended December 31, 2023, the Company redeemed bonds at maturity with a par value of $200 million (2022 – $500 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 nine months ended December 31, 2023, there were no changes in the approach to capital management.

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

(in millions)	***As at December 31*** **2023**	*As at March 31* 2023
Total debt, net of sinking funds	**$ 29,219**	$ 26,778
Less: Cash and cash equivalents	**(207)**	(148)
Net Debt	**$ 29,012**	$ 26,630
Retained earnings	**$ 7,698**	$ 7,354
Contributed surplus	**60**	60
Accumulated other comprehensive loss	**(43)**	(58)
Total Equity	**$ 7,715**	$ 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 nine months ended December 31, 2023 was $36 million and $107 million, respectively (2022 - $39 million and $117 million, respectively).

Company contributions to the registered defined benefit pension plans for the three and nine months ended December 31, 2023 were $14 million and $41 million (2022 - $14 million and $41 million, respectively).

The plan remeasurements used a discount rate of 4.63 per cent per annum as at December 31, 2023 (December 31, 2022 - 5.18 per cent) and a rate of return on plan assets of positive 4.59 per cent as at December 31, 2023 (December 31, 2022 - negative 0.47 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 December 31, 2023, and March 31, 2023:

	December 31, 2023		March 31, 2023	
(in millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Fair Value Through Profit or Loss (FVTPL):				
Cash equivalents - short-term investments	**$ 82**	**$ 82**	$ 70	$ 70
Amortized Cost:				
Cash	**125**	**125**	78	78
Accounts receivable and accrued revenue	**815**	**815**	894	894
Non-current receivables	**119**	**120**	134	135
Sinking funds	**240**	**239**	237	239
Accounts payable and accrued liabilities	**(1,745)**	**(1,745)**	(1,953)	(1,953)
Revolving borrowings	**(4,571)**	**(4,571)**	(2,758)	(2,758)
Long-term debt (including current portion due in one year)	**(24,888)**	**(23,637)**	(24,257)	(22,800)
First Nations liabilities (non-current portion)	**(435)**	**(471)**	(435)	(467)
Lease liabilities (non-current portion)	**(1,316)**	**(1,316)**	(1,376)	(1,376)
Other liabilities (non-current portion)	**(408)**	**(398)**	(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 December 31, 2023 in a net liability position of $6 million (March 31, 2023 – $5 million). Such contracts are used to hedge the principal on US$ 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31, 2023

($ amounts in millions)	**December 31, 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	**6 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)	**December 31, 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)	**$ 16**	$ 29
Foreign currency contract liabilities (cash flow hedges for EURO€ denominated long-term debt)	**(22)**	(34)
	(6)	(5)
Non-Designated Derivative Instruments:		
Interest rate contract assets	**126**	199
Interest rate contract liabilities	**(95)**	(24)
Foreign currency contract (liabilities) assets	**(34)**	(3)
Commodity derivative assets	**335**	585
Commodity derivative liabilities	**(515)**	(738)
	(183)	19
Net asset (liability)	**$ (189)**	$ 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)	**December 31, 2023**	March 31, 2023
Current portion of derivative financial instrument assets	**$ 361**	$ 494
Current portion of derivative financial instrument liabilities	**(404)**	(474)
Derivative financial instrument assets, non-current	**117**	319
Derivative financial instrument liabilities, non-current	**(263)**	(325)
Net asset (liability)	**$ (189)**	$ 14

For designated cash flow hedges for the three and nine months ended December 31, 2023, there were losses of $15 million and $1 million, respectively (2022 – gains of $20 million and $17 million, respectively). The effective portion was recognized in other comprehensive income. For the three and nine months ended December 31, 2023, $8 million and $16 million, respectively (2022 - $22 million and $87 million, respectively) was reclassified from other comprehensive income and reported in net income, offsetting 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 $321 million decrease and a $68 million decrease, respectively (2022 - $36 million increase and $175 million increase, respectively) in the fair value of these contracts for the three and nine months ended December 31, 2023. For interest rate contracts associated with debt issued, there was a $nil and a $71 million increase, respectively (2022 - $nil and a $132 million increase, respectively) in the fair value of contracts that settled during the three and nine months ended December 31, 2023. The net increase for the nine months ended December 31, 2023 of $3 million (2022 - $307 million increase) in the fair value of these interest rate contracts was transferred to the Debt Management Regulatory Account which had a net asset balance of $50 million as at December 31, 2023.

Foreign currency contracts for cash management purposes not designated as hedges, for the three and nine months ended December 31, 2023, had a loss of $nil and $1 million, respectively (2022 – a loss of $nil 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 nine months ended December 31, 2023, had losses of $36 million and $24 million, respectively (2022 - losses of $18 million and gains of $88 million, respectively) recognized in finance charges. These economic hedges offset $39 million and $29 million, respectively of foreign exchange revaluation gains (2022 - gains of $19 million and $88 million foreign exchange revaluation losses, respectively) recorded in finance charges with respect to US$ revolving borrowings for the three and nine months ended December 31, 2023.

For commodity derivatives not designated as hedges, net losses of $50 million and $282 million, respectively (2022 – net gains of $26 million and $1.03 billion, respectively) was recorded in trade revenue for the three and nine months ended December 31, 2023.

Inception Gains and Losses

Changes in deferred inception gains and losses are as follows:

(in millions)	For the three months ended December 31 2023	2022	For the nine months ended December 31 2023	2022
Deferred inception losses, beginning of the period	**$ (35)**	$ (16)	**$ (15)**	$ (26)
New transactions	**69**	31	**70**	70
Amortization	**(5)**	(11)	**(24)**	(38)
Foreign currency translation gain	**-**	-	**(2)**	(2)
Deferred inception gains, end of the period	**$ 29**	$ 4	**$ 29**	$ 4

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)	December 31, 2023	March 31, 2023
Current	**$ 264**	$ 495
Past due (30-59 days)	**16**	26
Past due (60-89 days)	**4**	6
Past due (More than 90 days)	**2**	2
	286	529
Less: Allowance for doubtful accounts	**(5)**	(8)
	$ 281	$ 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 December 31, 2023 and March 31, 2023:

As at December 31, 2023 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial assets carried at fair value:				
Short-term investments	$ 82	$ -	$ -	$ 82
Derivatives designated as hedges	-	16	-	16
Derivatives not designated as hedges	183	184	95	462
	$ 265	$ 200	$ 95	$ 560

As at December 31, 2023 *(in millions)*	Level 1	Level 2	Level 3	Total
Total financial liabilities carried at fair value:				
Derivatives designated as hedges	$ -	$ (22)	$ -	$ (22)
Derivatives not designated as hedges	(111)	(349)	(185)	(645)
	$ (111)	$ (371)	$ (185)	$ (667)

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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 nine months ended December 31, 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 nine months ended December 31, 2023 and 2022:

(in millions)	
Balance as at April 1, 2023	**$ (255)**
Net gains recognized	153
New transactions	(3)
Existing transactions settled	15
Balance as at December 31, 2023	**$ (90)**

(in millions)	
Balance as at April 1, 2022	**$ (83)**
Net losses recognized	(338)
New transactions	36
Existing transactions settled	78
Balance as at December 31, 2022	**$ (307)**

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

During the three and nine months ended December 31, 2023, unrealized gains of $30 million and $110 million, respectively (2022 – unrealized losses of $229 million and $480 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 December 31, 2023 range between $0 - $566 per MwH and a 10 per cent increase/decrease in certain components of these prices would decrease/increase fair value by $36 million. A 10 per cent change in estimated volumes used in determining Level 3 fair value would increase/decrease fair value by $5 million.

Note 15: Other Non-Current Liabilities

(in millions)	***As at December 31*** **2023**	*As at March 31* 2023
Provisions		
Environmental liabilities	**$ 257**	$ 270
Decommissioning obligations	**64**	70
Other	**73**	39
	394	379
First Nations liabilities	**452**	452
Other contributions	**218**	221
Other liabilities	**430**	432
	1,494	1,484
Less: Current portion, included in accounts payable and accrued liabilities	**(145)**	(130)
	$ 1,349	$ 1,354

Note 16: Supplemental Disclosure of Cash Flow Information

Change in Working Capital and Other Assets and Liabilities:

For the nine months ended December 31 (in millions)	**2023**	2022
Accounts receivable and accrued revenue	**$ 91**	$ (65)
Inventories	**(102)**	(164)
Prepaid expenses	**74**	88
Other non-current assets	**103**	36
Accounts payable and accrued liabilities	**(409)**	(164)
Unearned revenues and contributions in aid	**204**	192
Post-employment benefits	**(5)**	(4)
Other non-current liabilities	**(24)**	(19)
	$ (68)	$ (100)

Non-Cash Investing Transactions:

For the nine months ended December 31 (in millions)		**2023**		2022
Contributions in kind received for property, plant and equipment	**$**	**45**	$	45

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.