MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 18, 2011. The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

The consolidated financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The Audit & Risk Management Committee also recommends the appointment of external auditors to the Board of Directors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.

David Cobb
President and Chief Executive Officer

Charles Reid
Executive VP Finance & Chief Financial Officer

Vancouver, Canada
May 18, 2011

AUDITORS' REPORT

THE LIEUTENANT GOVERNOR IN COUNCIL, PROVINCE OF BRITISH COLUMBIA:

We have audited the accompanying consolidated financial statements of British Columbia Hydro and Power Authority, which comprise the consolidated balance sheet as at March 31, 2011, the consolidated statements of operations, comprehensive income, retained earnings and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of British Columbia Hydro and Power Authority as at March 31, 2011 and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
May 18, 2011

CONSOLIDATED STATEMENT OF OPERATIONS

for the years ended March 31 (in millions)	2011	*(Revised Note 1)* 2010
Revenues		
Domestic	$ 3,438	$ 3,289
Trade	578	739
	4,016	4,028
Expenses		
Operating Costs		
Cost of energy (Note 6)	1,415	1,621
Other operating expenses (Note 6)	1,577	1,460
	2,992	3,081
Finance Charges (Note 7)	435	500
	3,427	3,581
Net Income	$ 589	$ 447

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the years ended March 31 (in millions)	2011	2010
Net Income	$ 589	$ 447
Other Comprehensive Income (Note 15)	20	95
Comprehensive Income	$ 609	$ 542

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended March 31 (in millions)	2011	2010
Retained Earnings, Beginning of Year	$ 2,621	$ 2,221
Net Income	589	447
Accrued Payment to the Province	(463)	(47)
Retained Earnings, End of Year	$ 2,747	$ 2,621

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

as at March 31 (in millions)	2011	(Revised Note 1) 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 27	$ 9
Accounts receivable and accrued revenue	569	650
Inventories (Note 3)	128	118
Prepaid expenses	156	131
Current portion of derivative financial instrument assets (Note 12)	198	434
	1,078	1,342
Other Assets		
Property, plant and equipment (Note 8)	15,211	13,713
Intangible assets (Note 9)	335	282
Regulatory assets (Note 4)	2,436	2,157
Sinking funds (Note 10)	97	96
Employee future benefits (Note 14)	296	313
Derivative financial instrument assets (Note 12)	26	86
	18,401	16,647
	$ 19,479	$ 17,989
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,515	$ 1,101
Current portion of long-term debt (Note 11)	2,793	2,074
Current portion of derivative financial instrument liabilities (Note 12)	159	393
	4,467	3,568
Other Liabilities		
Long-term debt (Note 11)	8,851	8,727
Regulatory liabilities (Note 4)	276	444
Deferred contributions	1,012	970
Derivative financial instrument liabilities, long-term (Note 12)	212	224
Other long-term liabilities (Note 13)	1,781	1,382
	12,132	11,747
Shareholder's Equity		
Contributed surplus (Note 19)	60	—
Retained earnings	2,747	2,621
Accumulated other comprehensive income (Note 15)	73	53
	2,880	2,674
	$ 19,479	$ 17,989

Commitments and Contingencies (Note 16)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Dan Doyle
Chairman

Tracey L. McVicar
Chair, Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended March 31 (in millions)	**2011**	*(Revised)* 2010
Operating Activities		
Net income	**$ 589**	$ 447
Regulatory account transfers	**(552)**	(497)
Adjustments for non-cash items:		
Amortization of regulatory accounts (Note 4)	**32**	68
Amortization expense and depreciation	**490**	445
Foreign exchange translation gains	**(6)**	(34)
Unrealized losses (gains) on mark-to-market	**15**	(13)
Employee benefit plan expenses	**58**	42
Other items	**38**	(39)
	664	419
Changes in non-cash working capital:		
Accounts receivable and accrued revenue	**102**	63
Accounts payable and accrued liabilities	**(68)**	(208)
Prepaid expenses	**(20)**	35
Inventories	**(10)**	64
	4	(46)
Cash provided by operating activities	**668**	373
Investing Activities		
Property, plant and equipment and intangible asset expenditures	**(1,483)**	(1,554)
Waneta dam and generating facility acquisition	**—**	(841)
Deferred contributions	**69**	101
Other items	**7**	2
Cash used in investing activities	**(1,407)**	(2,292)
Financing Activities		
Long-term debt		
Issued	**593**	2,116
Retired	**(150)**	(631)
Revolving borrowings, included in long-term debt	**380**	240
Payment to the Province	**(47)**	—
Repayment of capital lease liability	**(19)**	—
Other items	**—**	13
Cash provided by financing activities	**757**	1,738
Increase (decrease) in cash and cash equivalents	**18**	(181)
Cash and cash equivalents, beginning of year	**9**	190
Cash and cash equivalents, end of year	**$ 27**	$ 9
Supplemental Disclosure of Cash Flow Information		
Interest paid	**$ 555**	$ 509
Non-cash transaction:		
Capital lease obligation included in other liabilities	**$ 480**	$ —

See accompanying notes to consolidated financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PURPOSE

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown Corporation of the Province of British Columbia (the Province) by enactment of the *Hydro and Power Authority Act*. As directed by the *Hydro and Power Authority Act*, BC Hydro's mandate is to generate, manufacture, conserve and supply power. BC Hydro is subject to regulation (see Note 4) by the British Columbia Utilities Commission (BCUC) which, among other things, approves the rates BC Hydro charges for its services.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of BC Hydro and its wholly-owned operating subsidiaries, including Powerex Corp. (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd., (collectively with BC Hydro, "the Company"). All intercompany transactions and balances are eliminated upon consolidation.

BC Hydro accounts for its one-third interest in the Waneta dam and generating facility as a jointly controlled asset with Teck Metals Ltd. A jointly controlled asset is considered a joint venture as it includes the joint ownership and control of one or more assets to obtain benefits for the venturers. Each venturer takes a share of the output from the assets for its own exclusive use. These consolidated financial statements include BC Hydro's proportionate share of the Waneta dam and generating facility. BC Hydro has also included its share of any liabilities and expenses incurred jointly with Teck Metals Ltd. and any revenue from the sale or use of its share of the output in relation to the Waneta dam and generating facility.

Certain amounts in the prior year's balance sheet related to prepaid expenses, inventories, property plant and equipment, deferred contributions, regulatory assets and regulatory liabilities, have been reclassified to conform to the current year's presentation, including the netting of $107 million related to Columbia River Treaty contributions which are now presented net of the associated property plant and equipment.

Certain amounts in the prior year's statement of operations have been reclassified to conform to a change in the current year's classification of operating expenses to a presentation of costs based on the nature of the expenditures. Amounts previously presented as operations, maintenance and administration costs are now classified by the nature of the expense as outlined in Note 6. In addition, the Company has changed its presentation of the impact of regulation on its statement of operations. In prior periods the aggregate impact of regulatory accounting was shown as a single line item whereas in the current period the impact of regulation is netted against the corresponding expense or revenue line item in the statement of operations. This change results in the Company's presentation being more consistent with other regulated utilities in Canada. Detail on regulatory account transfers can be found in Note 4. Comparative balances have been reclassified to conform to the current period's presentation including reclassifications of amounts previously presented as domestic and trade revenue and expenses, amortization, and finance charges.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities and commitments at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to management estimates and assumptions include the determination of the allowance for doubtful accounts, the fair value of sinking funds and derivative and non-derivative financial instruments, the actuarial assumptions used to value the employee future benefit plans, the useful lives of property, plant and equipment and intangible assets, amounts for accrued liabilities and contingencies, including environmental, First Nations, asset retirement and lease obligations, the accrual for unbilled revenue at period end, and the estimated net realizable value of inventory. Actual results could differ from these estimates.

REGULATORY ACCOUNTING

BC Hydro is regulated by the BCUC and both entities are subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the BCUC. Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province (Note 5). Revenue requirements and rates charged to customers are established through applications filed with and approved by the BCUC.

BC Hydro applies various accounting policies that differ from GAAP for enterprises that do not operate in a rate-regulated environment (see Note 4). Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application to, and approval by, the BCUC. When a regulatory account has been or will be applied for, and, in management's judgement, acceptance of deferral treatment by the BCUC is considered probable, BC Hydro defers such costs in advance of a final decision of the BCUC. If the BCUC subsequently denies the application for regulatory treatment, the remaining deferred amount is recognized in net income.

REVENUES AND ENERGY COSTS

Domestic revenues comprise sales to customers within the Province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade.

Energy trading contracts that meet the definition of a financial or non-financial derivative are accounted for on a fair value basis whereby any realized gains and losses and unrealized changes in fair value are recognized in trade revenues in the period the change occurred.

Energy trading and other contracts which do not meet the definition of a derivative are accounted for on an accrual basis whereby the realized gains and losses are recognized as revenue as the contracts are settled. Such contracts are considered to be settled when, for the sale of products, the significant risks and rewards of ownership transfer to the buyer, and for the sale of services, those services are rendered.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

FOREIGN CURRENCY TRANSLATION

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Exchange gains or losses arising from translation of foreign denominated monetary balances are reflected in finance charges in the statement of operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and units of a money market fund that are redeemable on demand and carried at fair value.

INVENTORIES

Inventories are comprised of materials and supplies and natural gas and are valued at the lower of weighted average cost and net realizable value. Cost of materials and supplies includes invoiced costs and directly attributable costs of acquiring the inventory. Net realizable value is the expected selling price in the ordinary course of business, less any costs expected to be incurred in selling the inventory.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Property, plant and equipment in service include the cost of plant and equipment financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. The Columbia River Treaty contributions have been deducted from the cost of the related assets. Upon retirement or disposal, any gain or loss is charged to amortization.

Unfinished construction consists of costs of property, plant and equipment that are under construction or not ready for service. Costs are transferred to property, plant and equipment in service when the constructed asset is substantially complete and capable of operation at a pre-determined significant level of capacity.

Property, plant and equipment in service are amortized on an individual or pooled basis over the expected useful lives of the assets, using the straight-line method. Leased assets, which are included in Generation assets, are amortized over the lease term unless the useful life is shorter than the term of the lease.

The expected useful lives, in years, of BC Hydro's main classes of property, plant and equipment are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Other	15 – 25
Lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	7 – 20
Computer hardware	2 – 10
Service vehicles	7 – 20
Sundry	20 – 45

INTANGIBLE ASSETS

Intangible assets are recorded at cost. Intangible assets with indefinite useful lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events indicate that the asset may be impaired.

Intangible assets with finite useful lives are amortized over their useful lives on a straight line basis. The expected useful lives, in years, are as follows:

Software	2 – 10
Sundry	10 – 20

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property, plant and equipment and amortized intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS—RECOGNITION AND MEASUREMENT

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified or designated as "held-for-trading", or "available-for-sale", or classified as "held-to-maturity", "loans and receivables", or "other financial liabilities". Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition. All regular-way purchases or sales of financial assets are accounted for on a settlement date basis.

Financial assets and financial liabilities held-for-trading are subsequently measured at fair value with changes in those fair values recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value, with changes in those fair values recognized in other comprehensive income until realized. Financial assets classified as held-to-maturity or loans and receivables, and financial liabilities classified as other financial liabilities are subsequently measured at amortized cost using the effective interest method of amortization. Derivatives, including embedded derivatives that are not closely related to the host contract and must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheet. The classification of financial instruments is described in Note 12.

DERIVATIVE FINANCIAL INSTRUMENTS

BC Hydro and its subsidiaries use derivative financial instruments to manage interest rate and foreign exchange risks related to debt and to manage foreign exchange risks and commodity price risk related to electricity and natural gas commodity transactions.

Interest rate and foreign exchange related derivative instruments that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. For liability management activities, the related gains or losses are included in finance charges. For foreign currency exchange risk associated with electricity and natural gas commodity transactions, the related gains or losses are included in domestic revenues. BC Hydro's policy is not to utilize interest rate and foreign exchange related derivative financial instruments for speculative purposes.

Derivative financial instruments are also used by Powerex to manage economic exposure to market risks relating to commodity prices. Derivatives used for energy trading activities that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. Gains or losses are included in trade revenues.

HEDGES

On initial designation of the hedge, BC Hydro formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. BC Hydro makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 per cent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

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

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. When hedge accounting is discontinued, the cumulative gain or loss previously recognized in accumulated other comprehensive income remains there until the forecasted transaction occurs. When the hedged item is a non-financial asset or liability, the amount recognized in accumulated other comprehensive income is transferred to the carrying amount of the asset or liability when it is recognized. In other cases the amount recognized in accumulated other comprehensive income is transferred to net income in the same period that the hedged item affects net income.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the hedging relationship is discontinued, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

DEFERRED CONTRIBUTIONS

Contributions in aid of construction are amounts paid by certain customers toward the cost of property, plant and equipment required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation is incurred at the present value of the estimated future costs when a reasonable estimate of the fair value can be made. When a liability is initially recorded, BC Hydro capitalizes the costs by increasing the carrying value of the associated long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over the useful life of the associated asset. Actual costs incurred upon settlement of an asset retirement obligation are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in earnings at that time.

LEASES

Leases entered into by BC Hydro are classified as either capital or operating leases. Leases where all of the benefits and risk of ownership rest with BC Hydro are accounted for as capital leases. At the lease inception date, capital leases are recognized as assets and liabilities at the lower of the fair value of the asset and the present value of the minimum lease payments. Minimum lease payments are apportioned between finance cost and a reduction of the outstanding liability. Finance costs are charged to net income over the term of the lease at interest rates applicable to the lease on the remaining balance of the obligations. Assets under capital leases are depreciated on the same basis as property, plant and equipment or over the term of the relevant lease period, whichever is shorter.

Leases where all of the benefits and risk of ownership do not rest with BC Hydro are accounted for as operating leases. Payments under operating leases are expensed on a straight-line basis unless another rational basis is more representative of the benefit to be received from the leased assets. Contingent lease payments are accounted for in the period in which they are incurred.

DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE

At inception of an arrangement, BC Hydro determines whether such an arrangement is or contains a lease under EIC 150, *Determining Whether an Arrangement Contains a Lease*. Certain energy purchase agreements where BC Hydro has committed to purchase power under long term agreements have been assessed as containing a lease. BC Hydro separates payments required by the energy purchase agreements into those for the lease and those for other elements such as services. Evaluation of these leases has resulted in the recognition of both operating and capital leases.

DEFINED BENEFIT PLANS

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs. For the purpose of calculating the return on plan assets the assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 12 years (2010—11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

ENVIRONMENTAL EXPENDITURES AND LIABILITIES

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued at the present value of the estimated future costs when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded amounts.

TAXES

BC Hydro pays local government taxes and grants in lieu to municipalities and regional districts. As a Crown Corporation, BC Hydro is exempt from Canadian federal and provincial income taxes.

NOTE 2: FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The *Budget Transparency and Accountability Act* (BTAA) specifies that the Government and government organizations conform to the set of standards and guidelines that comprise generally accepted accounting principles for senior governments in Canada, unless otherwise directed by Treasury Board. Accounting standards for senior government are understood to mean standards established by the Public Sector Accounting Board (PSAB), which directs Government Business Enterprises (GBE) to adhere to International Financial Reporting Standards (IFRS). BC Hydro is classified as a GBE. Qualifying entities with rate-regulated activities have the option of deferring the adoption of IFRS and continuing to apply the accounting standards in Part V of the CICA Handbook—*Accounting* until their annual periods beginning on or after January 1, 2012. BC Hydro will use the deferral option. For subsequent years, alternatives available pursuant to Section 23.1 of the BTAA may be considered by Treasury Board. The Company is continuing to evaluate the impact on its consolidated financial statements of the adoption of IFRS and will work with Treasury Board with respect to potential alternatives.

NOTE 3: INVENTORIES

(in millions)	**2011**	*(Revised)* 2010
Materials and supplies	$ **83**	$ 76
Natural gas trading inventories	**45**	42
Total	$ **128**	$ 118

During the year ended March 31, 2011, a write-down of $8 million (2010—$5 million) was charged to cost of energy to adjust the cost of natural gas in storage to its net realizable value as a result of declines in market prices. At March 31, 2011, $22 million (2010—$35 million) of the carrying value of natural gas in storage was valued at net realizable value

NOTE 4: REGULATION

RATE REGULATION

BC Hydro's fiscal 2011 Revenue Requirement Application (RRA) was filed with the BCUC on March 3, 2010 requesting a 6.11 per cent rate increase and that the Deferral account Rate Rider (DARR) increase from 1 per cent to 4 per cent. The increases were approved by the BCUC on an interim basis effective April 1, 2010.

BC Hydro and interveners entered into a negotiated settlement process in September 2010. A Negotiated Settlement Agreement (NSA) was reached and approved by the BCUC on December 2, 2010. The NSA confirmed the 6.11 per cent rate increase as final with a 4.71 per cent rate credit applied for the period January 1 to March 31, 2011 to reflect the NSA adjustments. The NSA also confirmed the DARR of 4.0 per cent for the period from April 1, 2010 to December 31, 2010, inclusive, and 2.5 per cent thereafter.

Additional provisions in the NSA included a $5.5 million write-down of the Procurement Enhancement Initiative (PEI) Regulatory Account balance and $10.3 million of the Demand-Side Management (DSM) Regulatory Account balance.

Results for the year ended March 31, 2011 reflect the final rate increase for fiscal 2011 and provisions in the BCUC approved NSA.

REGULATORY ACCOUNTS

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2011, the impact of regulatory accounting has resulted in an increase to net income of $447 million (2010—$695 million increase). Except as otherwise noted, all regulatory accounts were approved by the BCUC and established under a regulatory order.

(in millions)	*(Revised)* 2010	Addition (Reduction)	Amortization	Net Change	2011
Regulatory Assets					
Heritage Deferral Account	$ 325	$ (15)	$ (63)	$ (78)	$ 247
Non-Heritage Deferral Account	119	266	(23)	243	362
BCTC Deferral Account	18	(15)	(3)	(18)	—
Trade Income Deferral Account	122	89	(23)	66	188
Demand-Side Management Programs	442	128	(64)	64	506
First Nation Negotiations, Litigation and Settlement Costs	399	6	(6)	—	399
Non-Current Pension Cost	86	3	(17)	(14)	72
Site C	60	44	—	44	104
Environmental Compliance	321	(83)	(7)	(90)	231
Other Regulatory Accounts	265	79	(17)	62	327
Total Regulatory Assets	2,157	502	(223)	279	2,436
Regulatory Liabilities					
Future Removal and Site Restoration Costs	159	—	(19)	(19)	140
Foreign Exchange Gains and Losses	101	5	—	5	106
Finance Charges	104	4	(104)	(100)	4
Other Regulatory Accounts	80	14	(68)	(54)	26
Total Regulatory Liabilities	444	23	(191)	(168)	276
Net Regulatory Asset	$ 1,713	$ 479	$ (32)	$ 447	$ 2,160

(in millions)	2009	Addition (Reduction)	Amortization	Net Change	2010
Regulatory Assets					
Heritage Deferral Account	$ 329	$ 25	$ (29)	$ (4)	$ 325
Non-Heritage Deferral Account	74	52	(7)	45	119
BCTC Deferral Account	9	10	(1)	9	18
Trade Income Deferral Account— Asset	—	115	7	122	122
Demand-Side Management Programs	364	130	(52)	78	442
First Nation Negotiations, Litigation and Settlement Costs	389	16	(6)	10	399
Non-Current Pension Cost	—	86	—	86	86
Site C	35	25	—	25	60
Environmental Compliance	—	321	—	321	321
Other Regulatory Accounts	160	110	(5)	105	265
Total Regulatory Assets	1,360	890	(93)	797	2,157
Regulatory Liabilities					
Future Removal and Site Restoration Costs	172	—	(13)	(13)	159
Trade Income Deferral Account—Liability	80	(80)	—	(80)	—
Foreign Exchange Gains and Losses	57	34	10	44	101
Finance Charges	—	104	—	104	104
Other Regulatory Accounts	33	47	—	47	80
Total Regulatory Liabilities	342	105	(3)	102	444
Net Regulatory Asset	$ 1,018	$ 785	$ (90)	$ 695	$ 1,713

HERITAGE DEFERRAL ACCOUNT (HDA)

Under a Special Directive issued by the Province, BCUC was directed to authorize BC Hydro to establish the HDA. This account is intended to mitigate the impact of certain variances between the forecasted costs in a revenue requirements application and actual costs of service associated with the Heritage Resources by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $78 million increase in net income (2010—$4 million increase).

NON-HERITAGE DEFERRAL ACCOUNT (NHDA)

Under a Special Directive issued by the Province, BCUC approved the establishment of the NHDA, which is intended to mitigate the impact of certain cost variances between the forecasted costs in a revenue requirements application and actual costs related to energy acquisition and maintenance of BC Hydro's distribution assets by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of the cost variances deferred in the NHDA in operating results in the year in which they are incurred, which would have resulted in a $243 million decrease in net income (2010—$45 million decrease).

BCTC DEFERRAL ACCOUNT

Under a Special Directive issued by the Province, variances that arose between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $18 million increase in net income (2010—$9 million decrease). The BCTC deferral account balance has been transferred to the Non-Heritage Deferral Account and the account has been terminated.

TRADE INCOME DEFERRAL ACCOUNT

Established under a Special Directive issued by the Province, this account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the net income of Powerex based on GAAP. The difference between the Trade Income forecast and actual Trade Income is deferred except for amounts arising from a net loss in Trade Income or the portion of Trade Income in excess of $200 million.

In the absence of rate regulation, GAAP would require the inclusion of actual Trade Income to be reflected in operating results, regardless of the variance between forecast and actual amounts, which would have resulted in a $66 million decrease in net income (2010—$202 million decrease).

DEMAND-SIDE MANAGEMENT PROGRAMS

Amounts incurred for demand-side management programs (DSM) are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, over a period of 10 years. DSM programs are designed to reduce the energy requirements on BC Hydro's system. Costs of the programs include materials, direct labour and applicable portions of administration charges, equipment costs, and incentives.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria are recorded as property, plant and equipment. In fiscal 2011, $128 million of DSM program period costs were incurred and amortization of previously capitalized amounts totaled $64 million (2010—$130 million and $52 million, respectively). Consequently, net income would have been $64 million lower than would have been recorded in the absence of rate regulation (2010—$78 million decrease).

FIRST NATION NEGOTIATIONS, LITIGATION AND SETTLEMENT COSTS

Provisions for and costs incurred with respect to First Nation negotiations, litigation and settlements are deferred and costs incurred are amortized on a straight-line basis over a period of 10 years.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria are recorded as property, plant and equipment. In fiscal 2011, $6 million (2010—$16 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled $6 million (2010 —$6 million). Consequently, there is no impact on net income for 2011 (2010—$10 million decrease).

NON-CURRENT PENSION COST

Variances that arise between forecast and actual non-current pension cost are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $14 million increase in net income (2010—$86 million decrease).

SITE C

Site C expenditures incurred in fiscal 2007 through fiscal 2011 have been deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $44 million decrease in net income (2010—$25 million decrease).

ENVIRONMENTAL COMPLIANCE

A liability provision for environmental compliance and remediation arising from the costs that will likely be incurred to comply with the Federal Polychlorinated Biphenyl (PCB) Regulations enacted under the *Canadian Environmental Protection Act* and the remediation of environmental contamination at Rock Bay was deferred. In the absence of rate regulation, GAAP would require the inclusion of the provision in operating results in the year in which it is recognized, which would have resulted in a $90 million increase in net income (2010 - $321 million decrease).

FUTURE REMOVAL AND SITE RESTORATION COSTS

This account was established by a one-time transfer of $251 million from retained earnings. The costs of dismantling and disposal of property, plant and equipment will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

This liability has been recognized solely as a result of rate regulation as costs for future removal and site restoration have been established in excess of amounts required as asset retirement obligations. In the absence of rate regulation, it is likely that a liability would not be recognized. The amortization of previously capitalized amounts totaled $19 million in the current year (2010—$13 million). Consequently, net income would be $19 million lower than would have been recorded in the absence of rate regulation.

FOREIGN EXCHANGE GAINS AND LOSSES

Foreign exchange gains and losses from the translation of specified foreign currency financial instruments are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $5 million increase in net income (2010—$44 million increase).

FINANCE CHARGES

Variances that arise between forecast and actual finance charges are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a decrease of $100 million in net income (2010—$104 million increase).

OTHER REGULATORY ACCOUNTS

Other regulatory asset accounts with individual balances less than $60 million include the following: Depreciation Study Adjustments, Contributions in Aid of Construction Amortization Variance, Capital Project Investigation Costs, Procurement Enhancement Initiative Costs, Smart Metering and Infrastructure Project Costs (SMI), GM Shrum Unit 3 Outage, Home Purchase Option Plan, Return on Equity (ROE) Adjustment, and Waneta Rate Smoothing.

In January 2011, BC Hydro divested the assets of four domestic water systems, referred to collectively as the Arrow Water Systems, to the Regional District of Central Kootenay. BC Hydro is applying to and awaiting approval from the BCUC for a regulatory account, "Arrow Water Systems Divestiture", to defer divestiture costs relating to the transfer in order to recover them through rates in future years, which total $11 million as at March 31, 2011.

BC Hydro has applied and is awaiting approval from the BCUC to defer fiscal 2011 costs related to SMI, which are $15 million (asset) as at March 31, 2011.

In 2011, $62 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2010—$105 million decrease).

Other regulatory liability accounts with individual balances less than $15 million include the following: Net Employment Costs, Amortization of Capital Additions, Storm Damage, and Taxes.

In 2011, $54 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2010—$47 million increase).

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is under the authority of the BCUC.

NOTE 5: CAPITAL MANAGEMENT

Orders in Council ("OIC") from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Capital requirements are consequently managed through the retention of equity subsequent to the Payment to the Province and the imposed requirement of maintaining a debt to equity ratio not exceeding 80:20.

BC Hydro monitors its capital structure on the basis of its debt to equity ratio. For this purpose, the applicable OIC defines debt as revolving borrowings and interest-bearing borrowings less investments held in sinking funds and cash and cash equivalents. Effective April 1, 2008, equity for regulatory purposes comprises retained earnings and accumulated other comprehensive income (loss).

BC Hydro manages its capital so as not to exceed the 80:20 debt to equity ratio as defined by the Province. During the year ended March 31, 2011, there were no changes in the approach to capital management.

The debt to equity ratio at March 31, 2011 and March 31, 2010 was as follows:

(in millions)	**2011**	2010
Total long-term debt, net of sinking funds	**$ 11,547**	$ 10,705
Less: cash and cash equivalents	**(27)**	(9)
Net Debt	**$ 11,520**	$ 10,696
Retained earnings	**$ 2,747**	$ 2,621
Contributed surplus (Note 19)	**60**	—
Accumulated other comprehensive income	**73**	53
Total Equity	**$ 2,880**	$ 2,674
Net Debt to Equity Ratio	**80 : 20**	80 : 20

PAYMENT TO THE PROVINCE

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20. The Payment accrued as at March 31, 2011 is $463 million (2010—$47 million) and is capped due to the debt to equity ratio.

In November 2010, Treasury Board approved a change in how the allowed return on equity (ROE) is calculated. Allowed ROE will now be based on an assets-in-service rate base instead of debt and equity. This change will take effect April 1, 2011 as per Order in Council No. 020 approved on February 2, 2011.

NOTE 6: OPERATING COSTS

COST OF ENERGY

(in millions)	**2011**	2010
Electricity and gas purchases	**$ 924**	$ 1,058
Water rentals	**305**	315
Transmission charges	**186**	248
Total	**$ 1,415**	$ 1,621

OTHER OPERATING EXPENSES

(in millions)	**2011**	2010
Personnel expenses	**$ 541**	$ 472
Materials and external services	**585**	605
Amortization and depreciation	**533**	487
Grants and taxes	**184**	178
Other costs	**4**	(2)
Capitalized costs	**(270)**	(280)
Total	**$ 1,577**	$ 1,460

AMORTIZATION

(in millions)	**2011**	*(Revised)* 2010
Amortization of property, plant and equipment in service	**$ 471**	$ 381
Amortization of intangible assets	**49**	42
Amortization of deferred contributions	**(39)**	(39)
Amortization of regulatory accounts	**52**	103
Total	**$ 533**	$ 487

NOTE 7: FINANCE CHARGES

(in millions)	**2011**	*(Revised)* 2010
Interest on long-term debt	**$ 549**	$ 514
Other	**(62)**	44
	487	558
Less: Assigned to unfinished construction	**(52)**	(58)
Total	**$ 435**	$ 500

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

(in millions)	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Generation						
Hydraulic	$ 7,005	$ 1,939	$ 5,066	$ 6,576	$ 1,821	$ 4,755
Thermal	625	321	304	450	288	162
Other	367	31	336	56	28	28
	7,997	2,291	5,706	7,082	2,137	4,945
Transmission	6,426	2,927	3,499	6,112	2,808	3,304
Distribution	5,543	1,781	3,762	5,200	1,648	3,552
Land and Buildings	567	223	344	516	205	311
Equipment and Other	547	246	301	474	247	227
Unfinished Construction	1,599	—	1,599	1,374	—	1,374
Total	$ 22,679	$ 7,468	$ 15,211	$ 20,758	$ 7,045	$ 13,713

Property, plant and equipment under capital leases of $480 million (2010—$ nil), net of accumulated amortization of $15 million (2010—$ nil), are included in the total amount of property, plant and equipment above.

NOTE 9: INTANGIBLE ASSETS

(in millions)	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	$ 409	$ 263	$ 146	$ 298	$ 207	$ 91
Internally developed software	47	39	8	46	38	8
Sundry	32	18	14	33	15	18
Work In Progress	12	—	12	18	—	18
	500	320	180	395	260	135
Not Subject to Amortization						
Land rights	155	—	155	147	—	147
Total	$ 655	$ 320	$ 335	$ 542	$ 260	$ 282

NOTE 10: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

(in millions)	**2011**		2010	
	Carrying Value	**Weighted Average Effective Rate[1]**	Carrying Value	Weighted Average Effective Rate[1]
Province and BC Crown Corporation bonds	**$ 60**	**4.6 %**	$ 61	5.4 %
Federal and other provincial government securities	**37**	**4.7 %**	35	5.5 %
Total	**$ 97**		$ 96	

[1] *Rate calculated on market yield to maturity.*

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.

NOTE 11: LONG-TERM DEBT AND DEBT MANAGEMENT

BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province.

BC Hydro's commercial paper borrowing program with the Province, which includes revolving borrowings, is limited to $3,000 million. At March 31, 2011, the outstanding amount under this borrowing program was $2,333 million (2010 - $1,924 million).

During fiscal 2011, BC Hydro issued bonds with a par value of $600 million (2010—$2,070 million), a weighted average effective interest rate of 3.9 per cent (2010—4.6 per cent) and a weighted average term to maturity of 13.9 years (2010—23.1 years). On July 5, 2010, BC Hydro assumed $70 million of long-term debt from British Columbia Transmission Corporation (BCTC) with a weighted average effective interest rate of 4.8 per cent and weighted average term to maturity of 7.5 years (Note 19).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity:

(dollar amounts in millions of Canadian dollars)	2011				2010			
	Canadian	US	Total	Weighted Average Interest Rate[1]	Canadian	US	Total	Weighted Average Interest Rate[1]
Maturing in fiscal:								
2011	$ —	$ —	$ —	—	$ 150	$ —	$ 150	6.5
2012	450	—	450	6.1	450	—	450	6.1
2013	200	—	200	4.8	200	—	200	4.8
2014	500	194	694	6.6	500	203	703	6.6
2015	325	—	325	5.5	325	—	325	5.5
2016	150	—	150	5.2	—	—	—	—
1–5 years	1,625	194	1,819	6.0	1,625	203	1,828	6.1
6–10 years	2,345	194	2,539	5.9	1,325	203	1,528	4.7
11–15 years	936	486	1,422	7.7	1,536	—	1,536	9.2
16–20 years	500	—	500	5.0	500	508	1,008	5.8
21–25 years	800	—	800	5.5	800	—	800	5.5
26–30 years	1,250	292	1,542	5.3	—	305	305	7.4
Over 30 years	470	—	470	4.7	1,620	—	1,620	4.8
Bonds and debentures	7,926	1,166	9,092	6.0	7,406	1,219	8,625	6.1
Revolving borrowings	2,261	72	2,333	1.2	1,924	—	1,924	0.4
	10,187	1,238	11,425		9,330	1,219	10,549	
Adjustments to carrying value resulting from hedge accounting	77	21	98		96	22	118	
Unamortized premium, discount, and issue costs	132	(11)	121		146	(12)	134	
	$10,396	$ 1,248	$11,644		$ 9,572	$ 1,229	$ 10,801	
Less: Current portion			2,793				2,074	
Long-term debt			$ 8,851				$ 8,727	

[1] *The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments used to manage interest rate risk.*

The following interest rate contracts were in place at March 31, 2011 in an asset position of $20 million (2010—$28 million). Floating rates are based on the effective rates at the balance sheet date and vary over time. Such contracts are used to hedge the impact of interest rate changes on debt.

(dollar amounts in millions)	**2011**	2010
Receive fixed, pay floating rate swaps		
Notional amount[1]	**$ 1,194**	$ 1,203
Weighted average receive rate	**3.66%**	3.66%
Weighted average pay rate	**1.14%**	0.42%
Weighted terms	**2 years**	3 years
Receive floating, pay fixed rate swaps		
Notional amount[1]	**$ 290**	$ 290
Weighted average receive rate	**1.47%**	0.61%
Weighted average pay rate	**4.90%**	4.90%
Weighted terms	**2 years**	3 years

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

The following foreign currency contracts were in place at March 31, 2011 in a liability position of $179 million (2010—liability of $149 million). Such contracts are primarily used to hedge foreign dollar principal payments

(dollar amounts in millions)	**2011**	2010
Cross-Currency Swaps		
United States dollar to Canadian dollar – notional amount[1]	**US $ 200**	US $ 200
United States dollar to Canadian dollar – weighted average contract rate	**1.45**	1.45
Weighted remaining term	**2 years**	3 years

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

(dollar amounts in millions)	**2011**	2010
Foreign Currency Forwards		
United States dollar – notional amount[1]	**US $ 897**	US $ 864
United States dollar – weighted average contract rate	**1.18**	1.19
Weighted remaining term	**14 years**	16 years

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

NOTE 12: FINANCIAL INSTRUMENTS

FINANCIAL RISKS

BC Hydro is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in commodity prices, interest rates and foreign currency exchange rates, as well as credit risks and liquidity risks. The nature of the financial risks and BC Hydro's strategy for managing these risks has not changed significantly from the prior period.

The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under Section 3862 of the CICA Handbook. However, for a complete understanding of the nature and extent of risks BC Hydro is exposed to, this note should be read in conjunction with BC Hydro's discussion of Risk Management found in the Management Discussion and Analysis section of the 2011 Annual Report.

(a) Credit Risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for a counterparty by failing to discharge a contractual obligation. BC Hydro is exposed to credit risk related to cash and cash equivalents, sinking fund investments, and derivative instruments. It is also exposed to credit risk related to accounts receivable arising from its day to day electricity and natural gas sales in and outside British Columbia. Maximum credit risk with respect to financial assets is limited to the carrying amount presented on the balance sheet with the exception of U.S. dollar sinking funds classified as held-to-maturity and carried on the balance sheet at amortized cost of $97 million. The maximum credit risk exposure for these U.S. dollar sinking funds as at March 31, 2011 is its fair value of $103 million. BC Hydro manages this risk through Board-approved credit risk management policies which contain limits and procedures to the selection of counterparties. Exposures to credit risks are monitored on a regular basis.

(b) Liquidity Risk

Liquidity risk refers to the risk that BC Hydro will encounter difficulty in meeting obligations associated with financial liabilities. BC Hydro manages liquidity risk by forecasting cash flows to identify financing requirements and by maintaining committed credit facilities. BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province. Cash from operations reduces BC Hydro's liquidity risk. BC Hydro does not believe that it will encounter difficulty in meeting its obligations associated with financial liabilities.

(c) Market Risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk, such as changes in commodity prices and equity values. BC Hydro monitors its exposure to market fluctuations and may use derivative contracts to manage these risks, as it considers appropriate. Other than in its energy trading subsidiary Powerex, BC Hydro does not use derivative contracts for trading or speculative purposes.

i. Currency Risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. BC Hydro's currency risk is primarily with the U.S. dollar.

The majority of BC Hydro's currency risk arises from long-term debt in the form of U.S. dollar denominated bonds. Energy commodity prices are also subject to currency risk as they are primarily denominated in U.S. dollars. As a result, BC Hydro's trade revenues and purchases of energy commodities, such as electricity and natural gas, and associated accounts receivable and accounts payable, are affected by the Canadian/U.S. dollar exchange rate. In addition, all commodity derivatives and contracts priced in U.S. dollars are also affected by the Canadian/U.S. dollar exchange rate.

BC Hydro actively manages its currency risk through a number of Board-approved policy documents. BC Hydro uses cross currency swaps and forward foreign exchange purchase contracts to achieve and maintain the Board-approved U.S. dollar exposure targets.

ii. Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. BC Hydro is exposed to changes in interest rates primarily through its variable rate debt and the active management of its debt portfolio including its related sinking fund assets and temporary investments. BC Hydro Board-approved debt management strategies include maintaining a percentage of variable interest rate debt within a certain range. BC Hydro enters into interest rate swaps to achieve and maintain the target range of variable interest rate debt.

iii. Commodity Price Risk

BC Hydro is exposed to commodity price risk as fluctuations in electricity prices and natural gas prices could have a materially adverse effect on its financial condition. Prices for electricity and natural gas fluctuate in response to changes in supply and demand, market uncertainty, and a variety of other factors beyond BC Hydro's control.

BC Hydro enters into derivative contracts to manage commodity price risk. Risk management strategies, policies and limits are designed to ensure BC Hydro's risks and related exposures are aligned with the Company's business objectives and risk tolerance. Risks are managed within defined limits that are regularly reviewed by the Board of Directors.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be exchanged in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair values can be determined by reference to last quoted prices in the most advantageous active market for that instrument.

When quoted prices in an active market are not available, BC Hydro maximizes the use of other observable market data and comparable transactions as inputs to industry accepted valuation techniques and models, such as option pricing models and discounted cash flow models, to determine the fair value. In some circumstances, Powerex uses valuation inputs that are not based on observable market data and internally developed valuation models which are usually based on models and techniques commonly used within the energy industry.

BC Hydro also takes into account the effects of liquidity and credit risk on the fair value of derivative financial instruments.

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.

Level 3 inputs are those that are not based on observable market data.

The following tables present the financial instruments measured at fair value for each hierarchy level as follows:

As at March 31, 2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 27	$ —	$ —	$ 27
Revolving borrowings	—	(2,333)	—	(2,333)
Derivatives designated as hedges	—	(155)	—	(155)
Derivatives not designated as hedges	(1)	(22)	31	8
	$ 26	$ (2,510)	$ 31	$ (2,453)

As at March 31, 2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 9	$ —	$ —	$ 9
Revolving borrowings	—	(1,924)	—	(1,924)
Derivatives designated as hedges	—	(121)	—	(121)
Derivatives not designated as hedges	6	10	8	24
	$ 15	$ (2,035)	$ 8	$ (2,012)

There were no transfers between Levels 1 and 2 during the year ended March 31, 2011 and 2010.

The following table reconciles the changes in the balance of financial instruments carried at fair value on the balance sheet, classified as Level 3, for the years ended March 31, 2011 and March 31, 2010:

	2011 Derivatives not designated as hedges	2010 Derivatives not designated as hedges
Opening Balance	**$ 8**	$ 46
Net gain (loss) recognized	**51**	(13)
New transactions	**7**	8
Existing transactions settled	**(35)**	(33)
Closing Balance	**$ 31**	$ 8

A net gain of $41 million recognized in net income during the year ended March 31, 2011 (2010—net loss of $20 million) relates to Level 3 financial instruments held at March 31, 2011. The net gain is recognized in trade revenue and expense.

The Company believes that the use of reasonable alternative valuation input assumptions in the calculation of Level 3 fair values would not result in significantly different fair values.

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

	2011		2010		Interest Income (Expense) recognized in Finance Charges	Interest Income (Expense) recognized in Finance Charges
	Carrying Value	**Fair Value**	Carrying Value	Fair Value	**2011**	2010
Held for Trading:						
Cash and cash equivalents	**$ 27**	**$ 27**	$ 9	$ 9	**$ —**	$ —
Revolving borrowings – CDN	**(2,261)**	**(2,261)**	(1,924)	(1,924)	**(27)**	(38)
Revolving borrowings – US	**(72)**	**(72)**	—	—	**—**	—
Loans and Receivables:						
Accounts receivable and accrued revenue	**569**	**569**	650	650	**—**	—
Held to Maturity:						
Sinking funds – US	**97**	**103**	96	95	**4**	5
Other Financial Liabilities:						
Accounts payable and accrued liabilities	**(1,515)**	**(1,515)**	(1,101)	(1,101)	**—**	—
Long-term debt (including current portion due in one year)	**(9,311)**	**(10,375)**	(8,877)	(9,776)	**(522)**	(476)
Other	**(63)**	**(63)**	(62)	(62)	**—**	—

For non-derivative financial assets and liabilities classified as held-for-trading, a $1 million loss (2010—$3 million gain) has been recognized in net income for the period relating to changes in fair value. For loans and receivables, and accounts payable and accrued liabilities, the carrying value approximates fair value due to the short term nature of these financial instruments. For available-for-sale financial assets, no amount has been recorded in other comprehensive income and no amount was removed from other comprehensive income and reported in net income for the period.

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

	2011		2010	
(in millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Designated Hedges Used to Manage Risk Associated with Long-term Debt:				
Foreign currency contracts (cash flow hedges for $US denominated long-term debt)	**$ (178)**	**$ (178)**	$ (154)	$ (154)
Interest rate swaps (fair value hedges for debt)	**23**	**23**	33	33
	(155)	**(155)**	(121)	(121)
Non-Designated Hedges:				
Foreign currency contracts	**(4)**	**(4)**	—	—
Commodity derivatives	**12**	**12**	24	24
	8	**8**	24	24
Total	**$ (147)**	**$ (147)**	$ (97)	$ (97)

Information related to the foreign currency and interest rate swaps contracts is presented in Note 11. Additional information related to the fair value of the commodity derivatives is as follows:

As at March 31, 2011	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
Current assets	9,493	6,937	$ 169	$ 169	12
Long-term assets	3,246	584	18	18	90
Current liabilities	5,231	4,159	(146)	(146)	12
Long-term liabilities	5,022	258	(29)	(29)	105
Total			$ 12	$ 12	

As at March 31, 2010	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
Current assets	96,555	15,167	$ 408	$ 408	12
Long-term assets	13,363	3,086	62	62	102
Current liabilities	79,312	13,458	(385)	(385)	12
Long-term liabilities	12,786	2,600	(61)	(61)	33
Total			$ 24	$ 24	

Notional quantities in the above tables are presented on a net basis and do not necessarily represent the amounts to be exchanged by the parties to the instruments. Furthermore, the magnitude of the notional amounts does not necessarily correlate to the carrying value or fair value of the commodity derivatives.

The derivatives are represented on the balance sheet as follows:

	2011	2010
Current portion of derivative financial instrument assets	$ 198	$ 434
Current portion of derivative financial instrument liabilities	(159)	(393)
Derivative financial instrument assets, long-term	26	86
Derivative financial instrument liabilities, long-term	(212)	(224)
Total	$ (147)	$ (97)

For the year ended March 31, 2011 a loss of $1 million (2010—nil) was recognized in finance charges related to the ineffective portion of designated cash flow hedges and fair value hedges. For designated cash flow hedges for the year ended March 31, 2011, a loss of $24 million (2010—loss of $150 million) was recognized in other comprehensive income. For the year ended March 31, 2011, $44 million (2010—$245 million) was removed from other comprehensive income and reported in net income, offsetting foreign exchange gains (2010—gains) recorded in the year.

For derivatives not designated as hedging instruments, a gain of $1 million (2010—$1 million) was recognized in domestic revenue for the year ended March 31, 2011 with respect to foreign currency contracts for cash management purposes. For the year ended March 31, 2011, a $10 million loss (2010— nil) was recognized in finance charges with respect to foreign currency contracts for U.S. short-term borrowings. These economic hedges offset $10 million of foreign exchange revaluation gains recorded with respect to U.S. short-term borrowings. A net loss of $58 million (2010—$94 million) was recorded in trade revenue for the year ended March 31, 2011 with respect to commodity derivatives.

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, call centre agents ensure accounts are secured either by a credit bureau check, a cash security deposit, or a credit reference letter.

The value of domestic and trade accounts receivable by age and the related provision for doubtful accounts are presented in the following tables.

DOMESTIC AND TRADE ACCOUNTS RECEIVABLE NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

(in millions)	2011	2010
Current	$ 412	$ 428
Past due (30–59 days)	21	18
Past due (60–89 days)	5	5
Past due (more than 90 days)	4	3
	442	454
Allowance for doubtful accounts	(9)	(9)
Total	$ 433	$ 445

At the end of each reporting period a review of the provision for doubtful accounts is performed. It is an assessment of the potential amount of domestic and trade accounts receivable which will not be paid by customers after the balance sheet date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions, and historical information. There was no change in the allowance for doubtful accounts during the year.

FINANCIAL ASSETS ARISING FROM BC HYDRO'S TRADING ACTIVITIES

A substantial majority of BC Hydro's counterparties associated with its trading activities are in the energy sector. This industry concentration has the potential to impact the Company's overall exposure to credit risk in that the counterparties may be similarly affected by changes in economic, regulatory, political, and other factors. The Company manages credit risk by authorizing trading transactions within the guidelines of the Company's risk management policies, by monitoring the credit risk exposure and credit standing of counterparties on a regular basis, and by obtaining credit assurances from counterparties to which they are entitled under contract.

The Company regularly uses standard master netting agreements that allow for netting of exposures and often include margining provisions. In addition, the Company has credit loss insurance that covers most credit exposure associated with transactions that are delivered in the United States.

With respect to these financial assets, BC Hydro assigns credit limits for counterparties based on evaluations of their financial condition, net worth, regulatory environment, cost recovery mechanisms, credit ratings, and other credit criteria as deemed appropriate. Credit limits and credit quality are monitored periodically and a detailed credit analysis is performed at least annually. Further, BC Hydro has tied a portion of its contracts to master agreements that require security in the form of cash or letters of credit if current net receivables and replacement cost exposure exceed contractually specified limits. The following table outlines the distribution, by credit rating, of financial assets that are neither past due nor impaired:

As at March 31, 2011	Investment Grade %	Unrated %	Non-Investment Grade %	Total %
Accounts receivable	54	42	4	100
Derivative commodity assets	69	31	0	100

As at March 31, 2010	Investment Grade %	Unrated %	Non-Investment Grade %	Total %
Accounts receivable	86	13	1	100
Derivative commodity assets	97	3	0	100

The outstanding amount of collateral received from customers at March 31, 2011 was nil (2010—$30 million).

LIQUIDITY RISK

The following table details remaining contractual maturities at March 31, 2011 of BC Hydro's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows. Interest payments have been computed using contractual rates or, if floating, based on rates current at March 31, 2011. In respect of the cash flows in U.S. dollars, the exchange rate as at March 31, 2011 has been used.

(in millions)	Carrying Value	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017 *and thereafter*
Non-Derivative Financial Liabilities							
Total trade and other payables (excluding interest accruals)	$ 1,368	$ (1,368)	$ —	$ —	$ —	$ —	$ —
Bank overdrafts	5	(5)	—	—	—	—	—
Long-term debt (including interest payments)	11,786	(3,348)	(723)	(1,189)	(784)	(600)	(12,445)
Lease obligations	437	(79)	(78)	(78)	(78)	(77)	(1,172)
Other long-term liabilities	63	(4)	(4)	(4)	(4)	(4)	(165)
		(4,804)	(805)	(1,271)	(866)	(681)	(13,782)
Derivative Financial Liabilities							
Interest rate swaps used for hedging	17	(9)	(8)	(3)	—	—	—
Cross currency swaps used for hedging	100						
Cash outflow		(5)	(7)	(294)	—	—	—
Cash inflow		1	2	196	—	—	—
Forward foreign exchange contracts used for hedging	74						
Cash outflow		—	—	—	—	—	(923)
Cash inflow		—	—	—	—	—	751
Other forward foreign exchange contracts designated at fair value	4						
Cash outflow		(124)	—	—	—	—	—
Cash inflow		120	—	—	—	—	—
Financially settled commodity derivative liabilities designated at fair value	104	(126)	(9)	(8)	—	—	—
Physically settled commodity derivative liabilities designated at fair value	71	52	6	—	—	—	—
		(91)	(16)	(109)	—	—	(172)
Total		(4,895)	(821)	(1,380)	(866)	(681)	(13,954)
Derivative Financial Assets							
Financially settled commodity derivative assets designated at fair value	(128)	118	7	3	1	—	—
Physically settled commodity derivative assets designated at fair value	(59)	48	11	5	3	4	18
Net Total[1]		**$ (4,729)**	**$ (803)**	**$ (1,372)**	**$ (862)**	**$ (677)**	**$ (13,936)**

[1] *BC Hydro believes that the liquidity risk associated with commodity derivative financial liabilities needs to be considered in conjunction with the profile of payments or receipts arising from commodity derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not considered financial instruments under Section 3855 are not included in this analysis, which is prepared in accordance with Section 3862.*

MARKET RISKS

(a) Currency Risk

Sensitivity Analysis

A $0.01 strengthening or weakening of the U.S. dollar against the Canadian dollar at March 31, 2011 would have no impact on net income and would have no material impact on other comprehensive income. The regulatory account that captures all variances from forecasted finance charges as described in Note 4 eliminates any impact on net income. This analysis assumes that all other variables, in particular interest rates, remain constant.

This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at March 31, 2011 and had been applied to each of BC Hydro's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next quarter end balance sheet date.

(b) Interest Rate Risk

Fair value sensitivity analysis for fixed rate non-derivative instruments

BC Hydro does not account for any fixed rate financial assets or liabilities as held-for-trading or available-for-sale. Therefore a change in interest rates at March 31, 2011 would not affect net income or other comprehensive income with respect to these fixed rate instruments.

Sensitivity analysis for variable rate non-derivative instruments and derivative instruments

An increase or decrease of 100-basis points in interest rates at March 31, 2011 would have no impact on net income and would have no material impact on other comprehensive income. The Finance Charges regulatory account that captures all variances from forecasted finance charges as described in Note 4 eliminates any impact on net income. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at March 31, 2011 and had been applied to each of BC Hydro's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in interest rates over the period until the next quarter end balance sheet date.

(c) Commodity Price Risk

Sensitivity Analysis

Commodity price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity prices.

BC Hydro's subsidiary Powerex trades and delivers energy and associated products and services throughout North America. As a result, BC Hydro has exposure to movements in commodity prices for commodities Powerex trades, including electricity, natural gas and associated derivative products. Prices for these commodities fluctuate in response to changes in supply and demand, market uncertainty, and other factors beyond BC Hydro's control.

BC Hydro manages these exposures through its Board-approved risk management policies, which limit components of and overall market risk exposures, pre-define approved products and mandate regular reporting of exposures.

BC Hydro's risk management policy for trading activities defines various limits and controls, including Value at Risk ("VaR") limits, mark-to-market limits, and various transaction specific limits which are monitored on a daily basis. VaR estimates the pre-tax forward trading loss that could result from changes in commodity prices, with a specific level of confidence, over a specific time period. Powerex uses an industry standard Monte Carlo VaR model to determine the potential change in value of its forward trading portfolio over a 10-day holding period, within a 95 per cent confidence level, resulting from normal market fluctuations.

VaR as an estimate of price risk has several limitations. The VaR model uses historical information to determine potential future volatility, assuming that price movements in the past will be indicative of future price movements. It cannot forecast unusual events such as extreme price movements. In addition, it is sometimes difficult to appropriately estimate the VaR associated with illiquid or non-standard products. As a result, Powerex uses additional measures to supplement the use of VaR to estimate price risk. These include the use of a Historic VaR methodology, stress tests, and notional limits for illiquid or emerging products.

Powerex's VaR, calculated under this methodology, was approximately $13 million at March 31, 2011 (2010—$7 million).

NOTE 13: OTHER LONG-TERM LIABILITIES

(in millions)	**2011**	*(Revised)* 2010
Environmental liabilities	**$ 237**	$ 329
Accrued pension benefit liability (Note 14)	**99**	87
Accrued other benefit plan liability (Note 14)	**246**	211
First Nations liabilities	**303**	308
Deferred revenue	**411**	389
Asset retirement obligations	**44**	58
Lease obligations and other provisions	**441**	—
Total	**$ 1,781**	$ 1,382

ENVIRONMENTAL LIABILITIES AND ASSET RETIREMENT OBLIGATIONS

In fiscal 2010, BC Hydro recorded a liability for the estimated future expenditures associated with the removal and destruction of PCB-contaminated insulating oils and related electrical equipment and for the assessment and remediation of chemically-contaminated lands. The Company's recorded liability is based on management's best estimate of the present value of the future expenditures expected to be required to comply with existing regulations.

There are uncertainties in estimating future environmental costs due to potential external events such as changes in legislation or regulations and advances in remediation technologies. All factors used in estimating the Company's environmental liabilities represent management's best estimates of the present value cost required to meet existing legislation or regulations. However, it is reasonably possible that numbers or volumes of contaminated assets, cost estimates to perform work, inflation assumptions and the assumed pattern of annual cash flows may differ significantly from the Company's current assumptions. In addition, for the PCB program, the availability of critical resources such as skilled labour and replacement assets and the ability to take maintenance outages in critical facilities may influence the timing of expenditures. Estimated environmental liabilities are reviewed annually or more frequently if significant changes in regulation or other relevant factors occur. Estimate changes are accounted for prospectively.

In determining the amounts to be recorded as environmental liabilities, the Company estimates the current cost of completing required work and makes assumptions as to when the future expenditures will actually be incurred, in order to generate future cash flow information. A long-term inflation assumption of approximately 2 per cent has been used to express these current cost estimates as estimated future expenditures. Future environmental expenditures have been discounted using factors ranging from 2.0 per cent to 4.7 per cent, depending on the appropriate rate for the period when increases in the obligations were first recorded.

Management's best estimate of the total undiscounted estimated future expenditures to comply with PCB regulations is approximately $361 million. These expenditures are expected to be incurred over the period from 2012 to 2045. As a result of its most recent cost estimate to comply with existing PCB regulations, the Company reduced its March 31, 2011 PCB environmental liability by approximately $94 million. As described in Note 4, BC Hydro has offset this provision with a regulatory account.

DEFERRED REVENUE

Deferred revenue consists principally of amounts received under the agreement relating to the Skagit River, Ross Lake, and the Seven Mile Reservoir on the Pend d'Oreille River. Under the agreement BC Hydro has committed to deliver a pre-determined amount of electricity each year to the City of Seattle for an 80-year period ending in fiscal 2066 in return for two annual payments of approximately US$22 million per year for 35 years ending in 2021 and US$100,000 (adjusted for inflation) per year for the 80-year period.

The amounts received under the Skagit River Agreement are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

LEASE OBLIGATIONS AND OTHER PROVISIONS

The capital lease obligations are related to long-term energy purchase agreements. The present value of the lease obligations were discounted at rates ranging from 4.47 per cent to 4.60 per cent with contract terms ranging from 11 to 25 years. Interest of $8.8 million relating to capital lease obligations has been included in finance charges. Minimum lease payments over the lease terms are as follows:

(in millions)	2011
2012	$ 79
2013	78
2014	78
2015	78
2016	77
Later years, through F2022	1,172
Total minimum lease payments	1,562
Less: estimated executory costs	848
Net minimum capital lease payments	714
Less: amount representing interests	253
Present value of net minimum capital lease payments	461
Less: current portion of obligations under capital leases, included in accounts payable and accrued liabilities	24
Total long-term portion of obligations under capital leases	**$ 437**

NOTE 14: EMPLOYEE FUTURE BENEFIT PLANS

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which fund the pension benefits earned in excess of the maximum pension benefits provided by the defined benefit statutory pension plan. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangements are unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2009. The next valuation for funding purposes will be prepared as at December 31, 2012.

BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation.

The BCTC Registered Pension Plan was integrated with the BC Hydro Pension Plan effective July 5, 2010 (see Note 19). The provisions of the BC Hydro Pension Plan and the BCTC Pension Plan were substantially the same. On July 5, 2010, the actuarial present value of the accrued pension benefit liability of the BCTC Pension Plan of $76.6 million, was assumed by the BC Hydro Pension Plan and its assets, totaling $72.5 million, were transferred to the BC Hydro Pension Plan at fair market values.

Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2011**	2010	**2011**	2010
Net expense	**$ 83**	$ 73	**$ 31**	$ 24

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2011**	2010	**2011**	2010
Accrued benefit obligation	**$ 3,027**	$ 2,538	**$ 285**	$ 238
Fair value of plan assets	**2,431**	2,174	**—**	—
Plan deficit	**$ (596)**	$ (364)	**$ (285)**	$ (238)
Unamortized net actuarial losses	**805**	616	**33**	14
Unamortized past service costs	**3**	4	**—**	—
Unamortized transition (asset) liability	**(15)**	(30)	**6**	13
Accrued benefit asset (liability)	**$ 197**	$ 226	**$ (246)**	$ (211)

Represented by:

	2011	2010	**2011**	2010
Accrued benefit asset	**$ 296**	$ 313	**$ —**	$ —
Accrued benefit liability	**(99)**	(87)	**(246)**	(211)
	$ 197	$ 226	**$ (246)**	$ (211)

The net accrued benefit liability is included in Other Long-Term Liabilities (Note 13).

The pension plan assets and obligations are measured as at December 31, 2010. The other benefit plan obligations are measured as at March 31, 2011. No valuation allowance was required in either fiscal 2011 or fiscal 2010. No benefit plans were fully funded in either fiscal 2011 or 2010.

(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2011**	2010	**2011**	2010
Discount rate				
Benefit cost	**6.14%**	7.35%	**5.69%**	7.70%
Accrued benefit obligation	**5.31%**	6.14%	**5.35%**	5.69%
Expected long-term rate of return on plan assets	**7.3%**	7.3%	**n/a**	n/a
Rate of compensation increase				
Benefit cost	**3.7%**	3.8%	**n/a**	n/a
Accrued benefit obligation	**3.7%**	3.7%	**n/a**	n/a
Heath care cost trend rates				
Weighted average health care cost trend rate	**n/a**	n/a	**5.7%**	5.9%
Weighted average ultimate health care cost trend rate	**n/a**	n/a	**3.9%**	3.8%
Year ultimate health care cost trend rate will be achieved	**n/a**	n/a	**2015**	2013

(d) Other information about BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2011**	2010	**2011**	2010
Employer contributions	**$ 44**	$ 40	**$ —**	$ —
Employee contributions	**$ 26**	$ 24	**$ —**	$ —
Benefits paid	**$ 135**	$ 134	**$ 11**	$ 10
Settlement payments	**$ 10**	$ 11	**$ —**	$ —

(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	**2011**	2010
Equities	60%	**63%**	61%
Fixed income investments	30%	**28%**	30%
Real estate	10%	**9%**	9%

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

NOTE 15: OTHER COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME

(in millions)		**2011**		2010
Other Comprehensive Income				
Unrealized loss on derivatives designated as cash flow hedges	**$**	**(24)**	$	(150)
Reclassification to income on deriviatives designated as cash flow hedges		**44**		245
Other Comprehensive Income	**$**	**20**	$	95

Comprehensive income consists of net income and other comprehensive income (OCI). OCI represents the changes in shareholder's equity during a period arising from transactions and changes in the fair value of available for sale securities and the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of operations are met.

ACCUMULATED OTHER COMPREHENSIVE INCOME

(in millions)		**2011**		2010
Accumulated other comprehensive income (loss), beginning of year	**$**	**53**	$	(42)
Other comprehensive income for the year		**20**		95
Accumulated Other Comprehensive Income, End of Year	**$**	**73**	$	53

NOTE 16: COMMITMENTS AND CONTINGENCIES

ENERGY COMMITMENTS

BC Hydro (excluding Powerex) has long-term energy purchase agreements to meet a portion of its expected future domestic electricity requirements. The expected obligations to purchase energy under these agreements have a total value of approximately $42,976 million of which approximately $1,310 million relates to the purchase of natural gas and natural gas transportation agreements, at market prices over 30 years. The remaining commitments are at predetermined prices. Included in the total value of the long-term energy purchase agreements are $714 million accounted for as obligations under capital leases. Powerex has energy purchase commitments with an estimated minimum payment obligation of $2,968 million extending to 2024.

The total combined payments for the next five years are approximately (in millions): 2012—$1,497; 2013—$1,310; 2014—$1,484; 2015—$1,461; 2016—$1,444.

Powerex has energy sales commitments over the next five years with a total estimated value of $1,008 million.

LEASE AND SERVICE AGREEMENTS

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately $275 million. Payments for the next five years are approximately (in millions): 2012—$121; 2013 —$118; 2014—$11; 2015—$7; 2016—$6.

LEGAL CONTINGENCIES

a) Since 2000, Powerex has been named, along with other energy providers, in lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. Powerex has obtained dismissals of all but one of the lawsuits. In the remaining lawsuit, the California Department of Water Resources (CDWR) has claimed that it was forced under duress to enter into numerous transactions with Powerex in 2001. Powerex has obtained an indefinite stay of this remaining lawsuit pending resolution of related proceedings before the Federal Energy Regulatory Commission (FERC).

   FERC has approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming or other improper practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier to the California market throughout the energy crisis. FERC's approval of this settlement is currently being challenged by various California parties. If the challenges are unsuccessful, FERC's determination that Powerex did not engage in market manipulation will stand and could provide Powerex with additional defences in the remaining litigation and other FERC proceedings.

   FERC decided earlier in the proceedings that certain market-wide refunds will have to be paid by energy providers to various California parties. The precise amount has not been determined and the timing of the refunds is unknown. In addition, FERC will hold an inquiry to reconsider additional refunds based on allegations of seller market manipulation during the summer of 2000. CDWR transactions will be included in these latter inquiries.

   A FERC trial judge has determined that in the event Powerex and other energy providers improperly reported transactional data to FERC in 2000 and 2001, those reports did not hide an accumulation of market power which resulted in unreasonably high energy prices. If the FERC Commission issues a final order upholding the trial judge's initial decision it is expected that the California Parties will commence appeal proceedings.

   At March 31, 2011, Powerex was owed US $265 million (CDN $258 million) by the California Power Exchange and the California Independent System Operator related to Powerex's trade activities in California during the period covered by the lawsuits. It is expected those receivables will be offset against any refunds that Powerex is required to pay.

   Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

b) Facilities and Rights of Way: BC Hydro is subject to existing and pending legal claims relating to alleged infringement and damages in the operation and use of facilities owned by BC Hydro. These claims may be resolved unfavourably with respect to BC Hydro and may have a significant adverse effect on BC Hydro's financial position. For existing claims in respect of which settlement negotiations have advanced to the extent that potential settlement amounts can reasonably be predicted, management has recorded a provision for the potential costs of those settlements. For pending claims, management believes that any loss exposure that may ultimately be incurred may differ materially from management's current estimates. Management has not disclosed the ranges of expected outcomes due to the potentially adverse effect on the negotiation process for these pending claims.

c) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

d) BC Hydro and its subsidiaries have outstanding letters of credit, related primarily to Powerex trading activities. At March 31, 2011, the letters of credit outstanding total CDN $99 million (2010—CDN $62 million) and US $108 million (2010—US $94 million).

NOTE 17: GEOGRAPHIC INFORMATION

Revenues, based on location of the customer, are as follows:

(in millions)	**2011**	2010
British Columbia	**$ 3,408**	$ 3,157
Canada (excluding British Columbia)	**205**	171
United States	**368**	549
Transfers to Regulatory Deferral Accounts	**35**	151
Total	**$ 4,016**	$ 4,028

Substantially all of BC Hydro's assets are located in the Province of British Columbia. Energy sales outside of British Columbia are carried out by Powerex, a wholly owned subsidiary of BC Hydro.

NOTE 18: RELATED PARTY TRANSACTIONS

As Crown Corporations of the Province, BC Hydro, Columbia Power Corporation and the Province are considered related parties. All transactions between BC Hydro and its related parties are considered to have commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions and balances are summarized below:

(in millions)	**2011**	2010
Province of BC		
Accounts receivable	**$ 105**	$ 93
Accounts payable	**514**	114
Water rental fees	**298**	312
Cost of energy sales	**131**	167
Taxes	**120**	111
Finance charges	**435**	419
Payment to the Province	**463**	47
Columbia Power Corporation		
Cost of energy sales	**47**	48

BC Hydro's debt is either held or guaranteed by the Province (see Note 11). Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. At March 31, 2011, the aggregate exposure under this indemnity totaled approximately $43 million (2010—$58 million). BC Hydro has not experienced any losses to date under this indemnity.

NOTE 19: INTEGRATION OF BCTC

On June 3, 2010, the Province enacted the *Clean Energy Act* (the Act) in the B.C. Legislature. The Act sets the foundation for a new future of electricity self-sufficiency powered by investments in clean, renewable energy across the province. The Act required the integration of BC Hydro and BCTC into a single organization with one board of directors and executive, and the transfer of all BCTC assets, liabilities and employees to BC Hydro, effective July 5, 2010.

BC Hydro has accounted for the merger of BCTC on a continuity-of-interests basis as there is no substantive change in the ownership of BCTC arising from the transaction. The following assets and liabilities of BCTC were transferred to BC Hydro at their net book values on July 5, 2010:

(in millions)		
Assets		
Current assets	$	13
Property, plant and equipment		107
Intangible assets		28
Regulatory assets		25
Other assets		2
Total Assets	$	175
Liabilities		
Current liabilities	$	25
Long-term debt		70
Other non-current liabilities		20
Contributed surplus		60
Total Liabilities & Equity	$	175

In transferring its ownership interest in BCTC to BC Hydro, the Province's contribution has been included in contributed surplus.