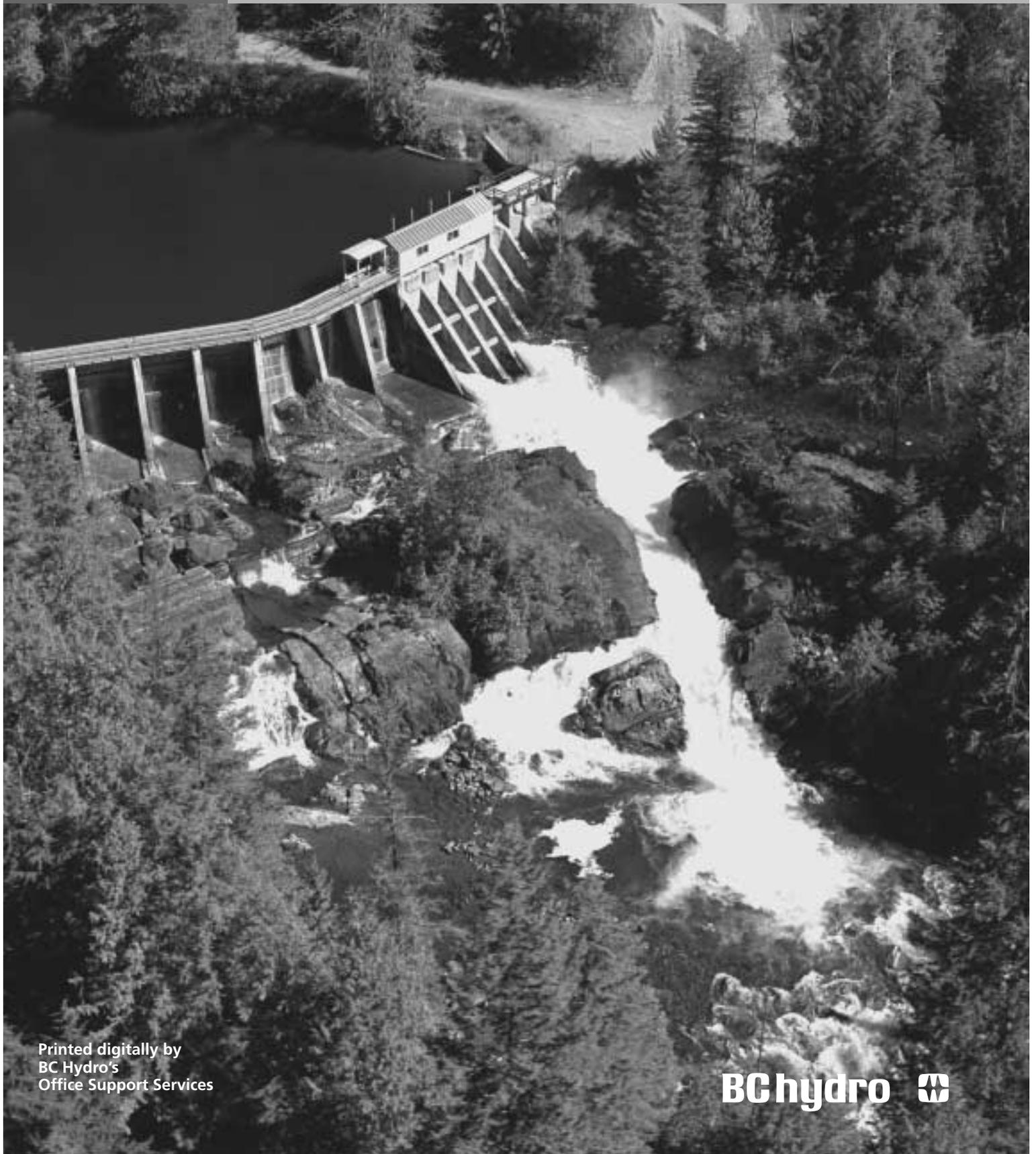


# First Quarter Report

For the three months ended June 30, 2002



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**BC hydro** 

## INDEX

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1. Overview of the First Quarter . . . . .	3
2. Financial . . . . .	5
3. Performance Measures . . . . .	14
4. Domestic Supply and Demand . . . . .	19
a) Electricity Load	
b) Electricity and Gas Prices	
c) BC Hydro Cost to Provide Service	
d) Operations	
e) Resources	
5. Lines of Business . . . . .	31
a) Generation	
b) Transmission	
c) Distribution	
d) Engineering Services	
e) Field Services	
f) Shared Services	
g) Safety	
h) Demand Side Management	
i) Human Resources	
j) Regulatory	

## 1. OVERVIEW

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### KEY HIGHLIGHTS

#### Financial

- Consolidated net income of \$40 million for the three months ended June 30, 2002, was \$34 million lower than for the same period in the previous year. A decrease in electricity trade margins due to lower market prices was the primary reason for the unfavourable variance. The decrease in trading margins was partly offset by decreases in operations, maintenance and administration expenses and finance charges.
- Net income for the three months ended June 30, 2002 from domestic sources totalled \$63 million while there was a loss of \$23 million from electricity trade sources. The loss from electricity trade sources reflects energy purchases of approximately \$75 million (2,600 GW·h) made during this period that will be resold in the electricity trade market in future periods. Under Generally Accepted Accounting Principles (GAAP), these purchases are expensed in the current period. Income from electricity trade was \$52 million prior to deduction of these expenses.
- BC Hydro's forecast net income for fiscal 2003 is approximately \$350 million. Based on this forecast, a transfer of approximately \$65 million will be required from the Rate Stabilization Account (RSA) in order for BC Hydro to earn its allowed return on equity. This will leave approximately \$22 million in the RSA at the end of the year. BC Hydro is subject to various risks and uncertainties that can cause significant volatility in the earnings. Factors such as the level of water inflows into its reservoirs, market prices for electricity and natural gas, interest rates, foreign exchange rates, weather and regulatory and government policies influence both the operation of the BC Hydro system and its earnings. As a result of these risks and uncertainties, BC Hydro's net income for fiscal 2003 could range from \$285 million to \$500 million under various plausible scenarios.

#### Performance Plan

- BC Hydro's first quarter performance was better than expected. Seven out of the eight measures reported on either met (4) or exceeded (3) their quarterly targets.
- BC Hydro exceeded its quarterly financial goals. Net Income was better than target mainly due to colder than normal domestic weather. The cooler weather led to an increase in residential demand for electricity. Operations, maintenance and administration costs were lower than expected largely due to delays in initiatives and other work. As this difference is mainly timing related, it is not expected to continue.
- BC Hydro exceeded its quarterly environmental goal. Environmental incidents during this period were less than forecast.
- BC Hydro met its quarterly safety goal by achieving its targeted reduction in the combination of medical aid injuries and disabling injuries.
- BC Hydro did not meet its quarterly reliability goal. The average number of hours per interruption was worse than expected, mainly due to three major weather events. Since this measure is based on a rolling 12-month average, and two of those weather events took place in 2001, it is expected that reliability results will improve by the end of the year.

#### Domestic Supply and Demand

- Total energy sales were 79 gigawatt-hours (GW·h) or 0.7 percent higher this quarter compared to the same period last year: Industrial sales were 223 GW·h lower; General sales were 86 GW·h higher; Residential sales were 219 GW·h higher; and Other sales were 3 GW·h lower.
- As a 'winter peaking' utility, BC Hydro's peak demand is much lower in non-winter months. The domestic integrated system peak was reduced to 6487 megawatts (MW) in June (down from the December peak of 8692 MW).

- 
- Market prices for electricity and natural gas remain low compared to 2001, but show signs of modest recovery in late 2002 (as suggested by forward markets).
  - From a supply perspective, the spring freshet was very late this year throughout the province and resulted in higher than normal stream flows during June. The water supply forecast across the province includes much above average in the Peace system, near to above average for the Columbia, near average for the Bridge System and above average for our Coastal Projects. The approximate overall system energy value of the July 1 seasonal inflow forecast was 111 percent of average.

### **Lines of Business**

- Two of the “less than 40 GW-h/yr” green IPPs reached their commercial operation dates in the first quarter of the fiscal year. Hystad Creek near Valemount attained this milestone on May 21, while the Raging River project near Port Alice also began selling electricity into the BC Hydro electricity grid in late May. Raging River is working on finalizing its green criteria submission.
- BC Hydro announced its Customer Based Generation (CBG) initiative on May 31, 2002, with a goal to sign Energy Purchase Agreements for up to 800 GW-h of energy by February 28, 2003. A workshop was attended by 162 people in late June to help facilitate this program. Subsequent to that, 38 proposals were received from customers in all sectors across the province.
- Progress continued on the \$370 million Vancouver Island Generation Project (VIGP) with the submission of an application to the provincial Environmental Assessment Office (EA) in mid-June. The in-service date for the project is November 2004.
- In BC Hydro’s Request for Expression of Interest (RFEI) process, Accenture was chosen as the lead proponent for the “Combined Bid” component. The scope for this component was also expanded such that it now includes the entire Shared Services business unit. For the other portion of the RFEI – the one dealing with Fleet Services – negotiations continued in the first quarter to identify a lead proponent.
- At the end of June (over the long weekend), BC Hydro successfully separated the 550,000 BC Gas accounts from its Customer Information System (CIS) and provided the data for the migration of those accounts to the BC Gas CIS. This work was done because of BC Gas’ previous decision to begin providing its customers with a separate BC Gas bill beginning in July 2002.
- First quarter results for BC Hydro’s Power Smart program included 28 GW-h in energy savings, of which 17 GW-h came from the “e.points” program, a Power Smart program that rewards customers for driving electricity savings in their organization. By making their organization more energy efficient, customers earn e.points that can be redeemed to use towards Power Smart approved capital energy efficiency projects.

## 2. FINANCIAL

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### MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position. This discussion should be read in conjunction with the Management Discussion and Analysis presented in the 2002 Annual Report of BC Hydro and the consolidated financial statements of BC Hydro for the three months ended June 30, 2002 and 2001. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements.

### Consolidated Results of Operations

Net income of \$40 million for the three months ended June 30, 2002, was \$34 million lower than for the same period in the previous year. A decrease in electricity trade margins, due primarily to the substantial decline in market prices experienced since June 2001, more than offset the decreases in operations, maintenance and administration expenses and finance charges.

### Domestic Revenues

Total domestic revenues of \$573 million for the three months ended June 30, 2002, decreased by \$6 million from the prior year. This decrease was primarily due to a reduction in large industrial and miscellaneous revenues. The lower large industrial revenues, particularly in the pulp and paper sector, reflects the general slowdown in the sector and the weak commodity prices experienced since the second half of the prior year. Miscellaneous revenues decreased from the prior year primarily

due to a decrease in transmission wheeling and ancillary service revenues. These decreases in revenues were partly offset by an increase in residential revenues caused by an increase in consumption due to the cold weather experienced in May 2002 and to customer growth. Approximately 14,200 residential customers have been added to the system over the last 12 months.

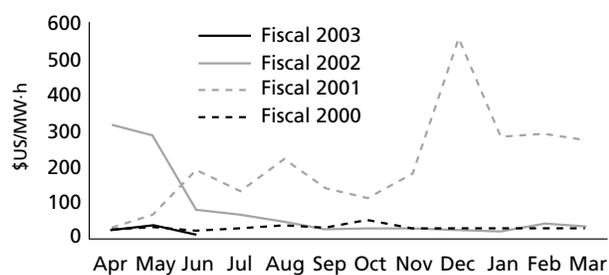
### Electricity Trade Revenues

BC Hydro's electricity system is interconnected with systems in Alberta and the western United States. This interconnection facilitates sales and purchases of electricity outside British Columbia. While engaged in electricity trade, BC Hydro ensures its ability to meet its domestic supply requirements is not put under undue risk as a result of these transactions. Electricity trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met. Electricity trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro.

Electricity trade revenues were \$358 million, a significant decrease of \$1,502 million from the same period last year. The decrease was due to a reduction in average sale prices which fell by 86 percent from \$377/MW·h last year to \$51/MW·h this year. Market prices have declined to more traditional levels since June 2001. A 42 percent increase in sales volumes from 4,940 GW·h in the prior year to 6,995 GW·h this year partly offset the decrease in revenues.

The following graph compares the electricity market prices over the last few years. Market prices at the mid-Columbia trading hub in central Washington state are shown as they are indicative of prices in the Pacific Northwest.

#### MID-COLUMBIA FLAT INDEX



Powerex sales and purchases during the first quarter were as follows:

	(\$ in millions)		Volumes (in GW·h)	
	2002	2001	2002	2001
Sales	358	1,860	6,995	4,940
Purchases	342	1,608	9,614	7,665
Net Export (Import)			(2,619)	(2,725)

	F2002	
	(\$ in millions)	GW·h
Net purchases to be used for future resale in the electricity trade market	\$ 75	2,619
Net purchases for domestic use	—	—
	\$ 75	2,619

BC Hydro did not require any imports to meet its domestic load requirements for the three months ended June 30, 2002. The net imports will be used for future resale in the electricity trade market. The cost of these purchases have been expensed in the current period.

#### Expenses

Energy costs of \$516 million for the three months ended June 30, 2002, decreased by \$1,429 million from the same period last year. This decrease reflects the decrease in the price of energy purchases, used primarily for resale in the electricity trade market, and the positive impact of improved water inflow conditions.

Energy purchase prices averaged \$36/MW·h for the first three months of this year compared to \$210/MW·h for the same period last year, an 83 percent decrease. A decrease in electricity trade transmission costs due to lower market prices also contributed to the decrease in energy costs. An increase in purchases used for buy/resell transactions in the electricity trade market partly offset the decrease in energy costs.

Water inflows into BC Hydro's reservoirs increased by 39 percent over the prior year, allowing for an increase in low-cost hydro generation of approximately 800 GW·h and the replenishing of reservoir levels. The availability of low-cost hydro generation has a significant impact on energy costs as the variable cost of hydro-generation is substantially less than the cost of electricity purchases. The combined storage in BC Hydro reservoirs at June 30, 2002 was 108 percent of average with the Williston Reservoir on the Peace River system at 120 percent of average and the Kinbasket Reservoir on the Columbia river system at 79 percent of average. This compares to the combined storage at June 30, 2001 of 82 percent of average with the Williston Reservoir at 92 percent of average and the Kinbasket Reservoir at 55 percent of average.

Operations, maintenance and administration expenses of \$120 million for the three months ended June 30, 2002, decreased by \$20 million from the same period last year. This decrease was largely due to a decrease in emergency maintenance costs caused by a failed unit at the Burrard Generating Station in the prior year, timing differences in spending on various programs, and targeted cost reductions.

## Taxes

Taxes, which are comprised of school taxes, grants in lieu of taxes and the corporation capital tax, decreased by \$7 million from the same period last year. This decrease was primarily due to lower corporation capital taxes as a result of a reduction in the corporation capital tax rate in September 2001.

## Depreciation and Amortization

Depreciation and amortization charges for the three months ended June 30, 2002 of \$102 million increased by \$8 million from the same period last year. This increase was primarily due to more assets in service.

## Finance Charges

Finance charges of \$116 million decreased by \$27 million from the same period last year primarily due to lower short-term interest rates. Interest rates on Canadian variable rate debt declined by 51 percent to an average of 2.25 percent for the first three months of this year compared to 4.60 percent for the same period in the prior year.

## Investing Activities

Capital expenditures, including demand-side management programs, for the three months ended June 30, 2002 amounted to \$160 million compared with \$105 million for the same period last year.

(millions of dollars)	2002	2001	Change
Generation upgrade and plant reliability and safety projects	\$ 54	\$ 28	\$ 26
Distribution system expansion and improvements	37	34	3
Transmission lines, substation, resource smart, computer control communication projects	69	43	26
Total	\$160	\$105	\$ 55

The increase in expenditures was primarily due to the Vancouver Island Generation Project which is a new high-efficiency natural gas-fired electricity generation facility to be built at Duke Point near Nanaimo. Expenditures for the three months ended June 30, 2002 totalled approximately \$28 million and related to filing of the application to the Environmental Assessment Office. The Seven Mile Unit 4 project which involves the design, supply, and installation of a fourth generating unit at BC Hydro's Seven Mile dam and powerhouse on the Pend d'Oreille River near Trail also contributed to the increase in expenditures. Expenditures for the three months ended June 30, 2002 totalled approximately \$10 million and related to the completion of the installation of the hydraulic turbine embedded steelwork.

## Financing Activities

During the three months ended June 30, 2002, BC Hydro issued two new Canadian bond issues totalling \$400 million. The funds from these issues were used to redeem a US \$150 million bond and to pre-fund capital expenditures and operating activities.

## Business Risks/Uncertainties

BC Hydro is subject to various risks and uncertainties that cause significant volatility in its earnings. Factors such as the level of water inflows into its reservoirs, market prices for electricity and natural gas, interest rates, foreign exchange rates, weather and regulatory and government policies influence both the operation of the BC Hydro system and its earnings. While these risks cannot be eliminated, as they are largely non-controllable, some may be mitigated to a certain degree.

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## Future Outlook

BC Hydro's net income for this fiscal year is expected to be \$350 million before any transfers to/from the Rate Stabilization Account. This is the same as forecast in BC Hydro's Service Plan of January 2002. BC Hydro's income can fluctuate significantly due largely to non-controllable factors such as the market price of energy, weather, interest rates, and water inflows. The range of income under plausible scenarios is estimated to be between \$285 million and \$500 million.

## Segmented Results

Consistent with industry trends and best practices, BC Hydro management made a decision to move to a "Lines of Business" structure within the company as the best way to become more competitive, focus resources on distinct customer groups and more effectively meet those customers' needs. Starting this fiscal year, Generation, Transmission and Distribution Lines of Business (LOB's) have been created along with two service groups – Field Services and Engineering Services. Together with the existing Corporate Operations, Shared Services and subsidiaries including Powerex, the company began operating this way as of April 01, 2002.

The Generation, Transmission and Distribution LOB's have been created as profit centres, while the Service Organizations have been created as cost recovery centres. The Service Organizations will be transitioned to profit centres in the future. The costs of the corporate groups are allocated to the LOB's on a reasonable basis.

The main components of the LOB business model include:

### External Revenues

- All domestic retail energy sales, including sales to residential, commercial and industrial customers, are recorded in Distribution. Wholesale energy sales are recorded in Generation.

- Electricity trade sales are recorded in Powerex, BC Hydro's wholly owned power marketing subsidiary.
- Third party wheeling revenues are recorded in Transmission.
- External revenues for BC Hydro's other subsidiaries (including Westech and Powertech) are recorded in Other.

### Inter-segment revenues

- Transmission provides point-to-point and network transmission to Generation and Distribution respectively and charges based on the tariff rates approved by the British Columbia Utilities Commission. As Transmission has open access to its transmission system, third parties are charged the same tariff rates for use of the system.
- Generation provides Distribution with electricity needed to meet Distribution's load requirements and charges based on a negotiated transfer price.
- Generation and Powerex also have a transfer pricing mechanism to charge for sale and purchase transactions between the two units.

For more information on the LOB's and Service Groups, please refer to pages 31 to 45.

The following are the segmented results (in \$ millions) as of June 30, 2002. As this is the first year of operating under this "Lines of Business" structure, there is no comparative information for the prior year.

The transfer pricing methods used to determine the revenues and costs of the LoBs are under review this year and the year-to-date September results may be prepared on a different basis.

(millions of dollars)

	Distribution	Transmission	Generation	Trade	Other	Consolidation Eliminations	Total
External revenues	548	2	12	358	11	–	931
Inter-segment revenues	–	191	300	25	144	(1,378)	–
Net income (loss)	2	69	33	(23) <sup>1</sup>	(41)	–	40
Total assets	\$3,040	\$3,070	\$ 4,965	\$1,125 <sup>2</sup>	\$840 <sup>3</sup>	\$(1,154)	\$11,886

1. The loss from electricity trade sources reflects energy purchases of approximately \$75 million made during this period that will be resold in the electricity trade market in future periods. Under Generally Accepted Accounting Principles (GAAP), these purchases are expensed in the current period. Income from electricity trade was \$52 million prior to deduction of these expenses.

2. Primarily consists of inter-segment receivables of \$1,040 million.

3. Mainly consists of capital assets such as office buildings, vehicles, computer equipment and deferred Demand Side Management Programs.

### Basis of Presentation

The accounting policies and methods of application used in the preparation of these interim consolidated financial statements are consistent with the accounting policies used in the Company's year-end audited consolidated financial statements of March 31, 2002, except for the method for amortizing gains and losses arising from the translation of long-term foreign currency denominated monetary items. These consolidated financial statements do not include all disclosures required for annual financial statements, and therefore these statements should be read in conjunction with the consolidated financial statements for the year ended March 31, 2002, as set out in the 2002 Annual Report.

On July 11, 2002, the British Columbia Utilities Commission approved, under Order Number G-47-02, the continued deferral and amortization of foreign exchange gains and losses on the translation of foreign denominated long monetary items, using the straight-line pooled method of amortization, for the fiscal year beginning April 1, 2002 and future periods. Under the straight-line pooled method, foreign exchange gains and losses are amortized based on the weighted average remaining term to maturity of foreign denominated debt. The amortization method used in prior years was a reverse sum-of-years methodology, with straight-line amortization in the last four years.

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**CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)**

<i>for the Three Months ended June 30 (in millions)</i>	2002	2001
<b>Revenues</b>		
Residential	\$ 205	\$ 197
Light industrial and commercial	213	211
Large industrial	122	130
Other energy sales	18	19
Miscellaneous	15	22
	<hr/> 573	<hr/> 579
Electricity trade	358	1,860
	<hr/> 931	<hr/> 2,439
<b>Expenses</b>		
Energy costs	516	1,945
Operations and administration	62	
Maintenance	58	
Total OMA	120	139
Taxes	37	44
Depreciation and amortization	102	94
	<hr/> 775	<hr/> 2,222
Income before Finance Charges	156	217
Finance charges	116	143
<b>Net Income</b>	<hr/> \$ 40	<hr/> \$ 74

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS(UNAUDITED)**

<i>for the Three Months ended June 30 (in millions)</i>	2002	2001
Retained earnings, beginning of year	\$ 1,529	\$ 1,459
Net income	40	74
Payment to the Province	(29)	(60)
	<hr/> \$ 1,540	<hr/> \$ 1,473

## CONSOLIDATED BALANCE SHEET (UNAUDITED)

	<i>as at June 30</i>	<i>As at March 31</i>
<i>(in millions)</i>	2002	2002
<b>Assets</b>		
<b>Capital Assets</b>		
Capital assets in service	\$ 14,675	\$ 14,608
Less accumulated depreciation	5,637	5,557
	9,038	9,051
Unfinished construction	519	459
	9,557	9,510
<b>Current Assets</b>		
Temporary investments	106	17
Accounts receivable and accrued revenue	340	409
Materials and supplies	89	88
Prepaid expenses	67	111
Unrealized gains on mark-to-market transactions	33	19
	635	644
<b>Other Assets and Deferred Charges</b>		
Loan Receivable	18	17
Sinking funds	1,072	1,073
Demand-side management programs	103	103
Deferred debt costs	481	587
Foreign currency contracts	20	32
	1,694	1,812
	\$ 11,886	\$ 11,966
<b>Liabilities and Equity</b>		
<b>Long-Term Debt</b>		
Long-term debt net of sinking funds	\$ 7,185	\$ 6,906
Sinking funds presented as assets	1,072	1,073
	8,257	7,979
<b>Foreign Currency Contracts</b>		
	23	16
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	574	708
Accrued interest	143	107
Accrued Payment to the Province	29	333
Unrealized losses on mark-to-market transactions	35	17
	781	1,165
<b>Deferred Credits and Other Liabilities</b>		
Provision for future removal and site restoration costs	162	159
Deferred revenue	235	238
Rate Stabilization Account	87	87
Contributions arising from the Columbia River Treaty	210	212
Contributions in aid of construction	591	581
	1,285	1,277
Retained Earnings	1,540	1,529
	\$ 11,886	\$ 11,966

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## CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

<i>for the Three Months ended June 30 (in millions)</i>	2002	2001
<b>Operating Activities</b>		
Net income	\$ 40	\$ 74
Adjustments for:		
Depreciation and amortization	102	94
Other non-cash items	5	(6)
	147	162
Working capital changes	23	(146)
<b>Cash provided by operating activities</b>	<b>170</b>	<b>16</b>
<b>Investing Activities</b>		
Loan receivable	(2)	–
Capital asset expenditures	(164)	(128)
Contributions in aid of construction	18	13
Demand-side management programs	(6)	–
Future removal and site restoration costs	(2)	(1)
Proceeds from property sales	1	1
<b>Cash used for investing activities</b>	<b>(155)</b>	<b>(115)</b>
<b>Financing Activities</b>		
Bonds, notes and debentures:		
Issued	400	–
Retired	(234)	(104)
Revolving borrowings	263	2
Sinking fund changes	(18)	60
Premium, discount and issue costs	(4)	–
<b>Cash provided by (used for) financing activities</b>	<b>407</b>	<b>(42)</b>
<b>Payment to the Province</b>	<b>(333)</b>	<b>(372)</b>
Increase (decrease) in cash	89	(513)
Cash at Beginning of Period (Note 1)	17	686
<b>Cash at End of Period (Note 1)</b>	<b>\$ 106</b>	<b>\$ 173</b>

### Supplemental disclosure of cash flow information

Interest paid	\$ 95	\$ 109
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1. Cash at the beginning and end of the period consist of temporary investments.

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## OPERATING HIGHLIGHTS (UNAUDITED)

<i>for the Three Months ended June 30 (in GW·h)</i>	2002	2001
<b>Electricity Sold</b>		
Residential	3,293	3,174
Light industrial and commercial	4,015	3,963
Large industrial	3,614	3,854
Other energy sales	326	346
	11,248	11,337
Electricity trade	6,995	4,940
	18,243	16,277
Number of domestic customers	1,613,921	1,598,070
Number of employees	6,247	6,317

### Business of BC Hydro

British Columbia Hydro and Power Authority (BC Hydro) is a provincial Crown corporation. Our mission is to provide integrated energy solutions to our customers in an environmentally and socially responsible manner.

As one of the largest electric utilities in Canada, BC Hydro serves more than 1.6 million customers in an area containing over 94 percent of British Columbia's population. Between 43 000 and 54 000 gigawatt-hours of electricity are generated annually, depending upon prevailing water levels. Electricity is delivered to customers mainly through an interconnected system of more than 72 000 kilometres of transmission and distribution lines.

BC Hydro's Board of Directors is appointed by the Lieutenant-Governor in Council and is responsible for the overall direction of the company.

### Regulation

BC Hydro is regulated by the British Columbia Utilities Commission (the Commission), and they are both subject to directions issued by order of the Province. Under Special Direction No. 8, the Commission must allow BC Hydro to achieve a return on equity equal to the return allowed, on a pre-income tax basis, by the most comparable investor-owned energy utility. In the event that BC Hydro's actual return on equity is in excess of that allowed by the Commission, a transfer from net income to the Rate Stabilization Account (RSA) is required for the excess. Where BC Hydro earns a return on equity below that allowed, and there is a balance in the RSA, a transfer from the RSA is required to offset the need for a rate increase. Under Special Directive No. 4, BC Hydro is required to make an annual payment to the Province equal to approximately 85 percent of its net income, after any Rate Stabilization Account transfers.



L.I. (Larry) Bell  
Chair and  
Chief Executive Officer



Michael Costello  
President and  
Chief Operating Officer

### 3. PERFORMANCE MEASURES

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#### GOALS, OBJECTIVES, AND KEY STRATEGIES

BC Hydro's vision centers on the concept of sustainability. Sustainability is about focusing on financial, environmental, and social value to address the challenges and opportunities BC Hydro faces.

BC Hydro continues to focus on its strengths in financial performance, service quality, environmental management, and employees. Financial Performance means targeting first quartile costs when compared with similar utilities. Service Performance means focusing on customer satisfaction and reliability. Environmental Performance means continuing to manage priority environmental and social issues. Employee Performance means ensuring safety and providing incentives to achieve corporate and personal development goals.

#### FINANCIAL PERFORMANCE

BC Hydro's profits are greatly influenced by such uncontrollable factors as precipitation and market prices for electricity. Therefore, to help face the challenge of earning its allowed rate of return, BC Hydro continues to focus on what it can control: costs, with a secondary focus on potential new products or services, and export and trading opportunities. Additionally, BC Hydro continues with its plans to capitalize on competitive services and alternative delivery opportunities.

#### QUALITY OF SERVICE

BC Hydro's service objective is to be a top quartile performer in terms of customer satisfaction and service reliability. This objective will be accomplished by optimizing the utilization and health of Hydro's physical assets including dams, generating stations, transmission and distribution systems, and information technology. BC Hydro also continues to ensure it has public support by maintaining the high reliability of its power system and providing service excellence.

#### ENVIRONMENT

BC Hydro's environmental objective is to be a top quartile performer in terms of sustainability by continuing to manage priority environmental and social issues. This objective will be accomplished by operating in an environmentally and socially responsible manner. Additionally, BC Hydro is changing its future resource mix to focus on effective Power Smart, customer co-generation and self-generation, green energy, and alternative energy. Power Smart is a demand side management program aimed at energy conservation.

#### EMPLOYEES

BC Hydro's objective regarding employees is to reinforce the importance of safety and pride in service. This objective will be accomplished by aligning BC Hydro's role and activities as guided by the BC Government Energy Policy and Core Services Review. Additionally, BC Hydro continues to ensure and promote safety.

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## PERFORMANCE MEASURES, TARGETS, AND RESULTS

Performance measurement is an integral part of BC Hydro's Strategic Management Process. The tool that BC Hydro uses to assess performance is the Balanced Scorecard. The Scorecard is used to translate Hydro's mission and strategy into tangible measures and targets that drive action. The balanced part of the Scorecard means it contains a combination of both financial and non-financial indicators.

The development of performance measures is an evolving process. As business needs change, so also must the related measures change. Performance measures have been identified for the majority of BC Hydro's strategic objectives. The following report provides the results for BC Hydro's Q1 F2003 performance measures against current targets and, where available, historical performance.

### Net Income (in millions)

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	Actual	Target
Q1 02/03	\$39.7	\$12.7
Q1 01/02	\$74.0	\$(207.8)

Net Income is an outcome measure of financial performance. Its purpose is to indicate how well BC Hydro is increasing shareholder value by managing the profit side of the economic bottom line. Net Income is defined as total revenue less total expenses.

Net Income is better than target mainly as a result of colder weather leading to an increase in residential demand for electricity. Also, delays in

initiatives and other work have led to a positive OMA variance. As the OMA variance is mainly timing related, the positive variance is not expected to continue.

Net income for the quarter was significantly lower than for the same period in the previous year. A decrease in electricity trade margins was the primary reason for the unfavourable variance. The decrease in trading margins was partly offset by decreases in operations, maintenance and administration expenses and finance charges.

### Total OMA Cost (in millions)

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	Actual	Target
Q1 02/03	\$119.8	\$130.9
Q1 01/02	\$139.5	\$139.1

Total OMA Cost is an outcome measure of financial performance. Its purpose is to indicate how well BC Hydro is increasing shareholder value by managing the cost side of the economic bottom line. Total OMA cost is defined as the total of operations, maintenance and administration expenditures.

Total OMA Cost is better than target as a result of delays in initiatives and other work. As this variance is mainly timing related, it is not expected to continue. Also contributing to the positive variance are higher bad debt recoveries and lower travel expenditures.

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## Cost per Customer Transaction

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<b>Consolidated</b>	<b>Actual</b>	<b>Target</b>
Q1 02/03	\$ 48.84	\$ 48.80
Q1 01/02	\$145.28	\$149.36
<b>Domestic</b>	<b>Actual</b>	<b>Target</b>
Q1 02/03	\$ 45.85	\$ 47.37

Cost per Customer Transaction is an outcome measure of financial performance. Its purpose is to indicate how proficiently BC Hydro is increasing operating efficiencies and productivity relative to the level of service it provides. Cost per Customer Transaction is defined as total cost divided by total sales volume (megawatt hours sold). The definition of this measure in BC Hydro's Service Plan was based on consolidated numbers. Consolidated Cost per

Customer Transaction includes costs and volumes related to electricity trade. The significant drop in the market price of electricity accounts for most of the difference between this year's and last year's results.

Domestic Cost per Customer Transaction does not include electricity trade. With energy trade transactions taken out of the domestic calculation, total domestic costs are slightly lower than target (mainly on the OMA side as explained above) whereas domestic sales volume is greater than target (primarily due to an increase in residential demand as a result of colder than normal weather). The combination of these factors led to domestic Cost per Customer Transaction coming in better than target.

## Reliability

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<b>ASAI</b>	<b>Actual</b>	<b>Target</b>
Q1 02/03	99.956%	99.970%
Q1 01/02	99.969%	99.973%
<b>CAIDI</b>	<b>Actual</b>	<b>Target</b>
Q1 02/03	2.62 Hrs	2.15 Hrs
Q1 01/02	2.16 Hrs	2.15 Hrs

Reliability is an outcome measure of service quality. Its purpose is to indicate how well BC Hydro is focusing on system dependability. This measure's result demonstrates how dependable BC Hydro's service has been. Reliability is defined as a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). ASAI is the percentage of time power is available. CAIDI is the average number of hours per interruption. These indices are electric utility industry standards and are used by the Canadian Electricity Association in their annual comparison of electric utilities. The indices are calculated on a 12-month rolling average basis.

CAIDI (and to a lesser degree ASAI) is worse than target mainly due to three major weather events. The October 22-23, 2001 windstorm that hit the Lower Mainland and Vancouver Island accounted for 4.0 percent of the total customer-hours lost

during this 12-month period and cost approximately \$360K to repair. Winds averaging 72 km/hour with gusts of up to 104 km/hour were recorded off West Vancouver's Point Atkinson, 69 km/hour at Victoria and 59 km/hour at Vancouver International Airport. The December 14-16, 2001 windstorm that struck the Lower Mainland and Vancouver Island accounted for 34.8 percent of the total customer-hours lost during this period and cost approximately \$1.6 million to repair. Steady winds measured between 80 to 100 km/hour, gusting to more than 115 km/hour in some parts of the Fraser Valley. Icing caused the transmission lines to Vancouver Island to trip, resulting in outages affecting most Vancouver Island customers. The April 14, 2002 windstorm that hit the Lower Mainland and parts of Vancouver Island accounted for 6.0 percent of the total customer-hours lost during this period. Gusts of wind as strong as 100 km/hour were recorded in the Lower Mainland.

The severity and number of weather events in this period were in excess of historical levels that were used for setting targets.

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## Regulatory Compliance

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	Actual	Target
Q1 02/03	9 Incidents	15 Incidents

Regulatory Compliance is an outcome measure of environmental performance. Its purpose is to indicate how well BC Hydro is managing priority environmental issues and operating in an environmentally responsible manner. Regulatory Compliance is the number of externally reportable, preventable environmental incidents. This measure is the most visible indicator of environmental compliance to external stakeholders, including the public and regulators.

The target was based on an initial estimate of historical data. Since the measure and target were set, the definition of “preventable” has been further refined. This refinement may result in a lower number of incidents per quarter. This measure is an experiential measure in that it is a new measure for BC Hydro and it is intended to provide organizational focus on reducing preventable incidents.

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## Incremental Green Gigawatt Hours

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	Actual	Target
Q1 02/03	0 GW·h	0 GW·h

Incremental Green Gigawatt Hours is an output measure of environmental performance. Its purpose is to indicate how well BC Hydro is managing priority environmental issues by changing its future resource mix to focus on green energy. Incremental Green Gigawatt Hours is defined as additional (not currently in BC Hydro’s power system) contracted

gigawatt hours from green sources that meet purchase price limits.

The fiscal 2003 call for green energy acquisition is not until October. Therefore, the target and actual are both zero for the first quarter. Last year BC Hydro’s original call for acquisition occurred mid-year and resulted in 498 gigawatt hours contracted – some of which is now coming online.

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## Incremental Conservation Gigawatt Hours

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	Actual	Target
Q1 02/03	28 GW·h	30 GW·h

Incremental Conservation Gigawatt Hours is an output measure of environmental performance. Its purpose is to indicate how well BC Hydro is managing priority environmental issues by efficiently managing demand for energy through Power Smart programs. Conservation Gigawatt Hours is defined as gigawatt hours saved as a result of economic demand side management.

The results to the end of the first quarter are slightly under plan as one additional project for an industrial customer that represents a further 11.8 gigawatt hours had been installed and was in operation but had not been subjected to final inspection by Power Smart staff. All projects are inspected before they are reported as part of the quality assurance for Power Smart. It was inspected shortly after the end of the first quarter and the results will be reflected in the second quarter.

**Improvement in All Injury Frequency**

	<b>Actual</b>	<b>Target</b>
Q1 02/03	2.5%	2.5%

Improvement in All Injury Frequency is an outcome employee measure. Its purpose is to indicate how well BC Hydro is reinforcing the importance of safety by guiding corporate mitigation strategies for managing and preventing all employee work-related injury. Improvement in All Injury Frequency is defined as the percentage reduction in the all injury incident frequency rate (occurrence of Medical Aid and Disabling Injuries). Medical Aid

injuries are defined as those where a medical practitioner has rendered services beyond the level defined as “first aid” and the employee was not absent from work beyond time lost on the day of injury. Disabling injuries are defined as those that involve the employee being absent from work beyond the day of injury. The frequency calculation (number of injury incidents x 200,000/hours worked) is based on injuries experienced at BC Hydro over the previous 12 months and relative to person-hours that have been worked over that same period.

## 4. DOMESTIC SUPPLY AND DEMAND

### ELECTRICITY LOAD

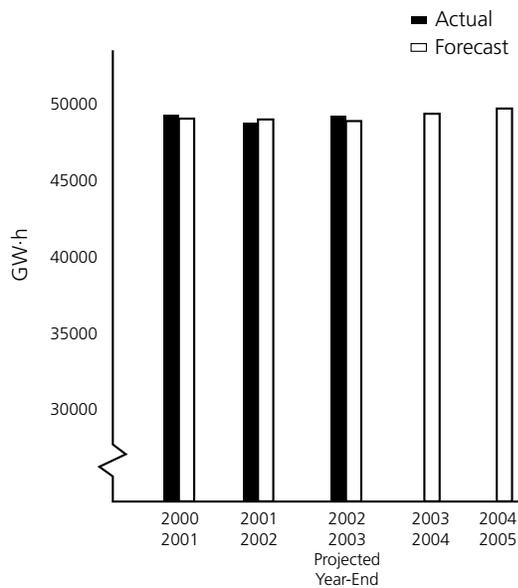
#### BC Hydro System

##### Energy Sales

Compared to the first quarter of the previous fiscal year, total sales were 79 GW·h or 0.7 percent higher. Of this total, Industrial sales were 223 GW·h lower; General sales were 86 GW·h higher; Residential sales were 219 GW·h higher; and Other sales were 3 GW·h lower.

The potential for over forecasting Industrial sales in the first quarter was considerable due to economic uncertainty and the slowing U.S. economy. Industrial sales were 22 GW·h above plan mainly because of the prudent approach used in developing the fiscal 2003 forecast. On a 12-months basis, Industrial sales were 1396 GW·h lower than the previous year. Residential sales were higher in the first quarter, mainly due to cool temperatures.

#### BC HYDRO SYSTEM – BILLED SALES



##### Peak Demand

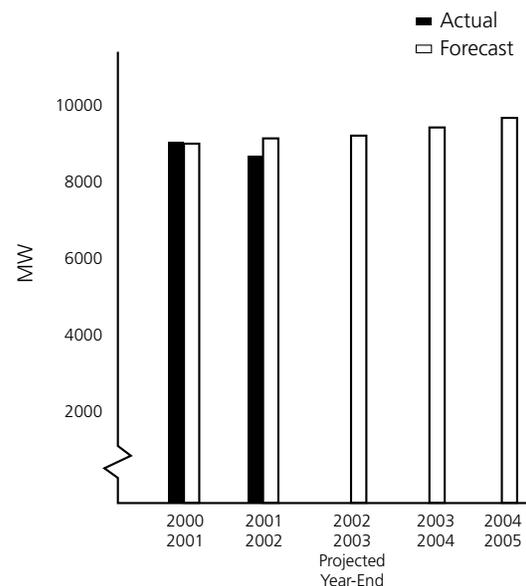
BC Hydro is a winter peaking utility because of residential electric space heating, and peak demand is much lower in the non-winter months. The domestic integrated system peak was reduced to 6487 MW in June. This compares to peak demand of 6281 MW in June 2001.

##### Short -Term Forecast

The Canadian economy is expected to continue to perform better than the U.S. However, the rising trends in Canadian interest and exchange rates are likely to increase pressures on Canada's resource-based exporters.

BC's short-term economic forecast is affected by two additional factors: impact of the 27 percent countervailing duty and the lag between an economic recovery and an increase in commodity prices. Barring any major surprises that may derail the U.S. economy, electricity sales to BC's major industrial customers should benefit from a steady growth in the global commodity market.

#### BC HYDRO SYSTEM – PEAK DEMAND



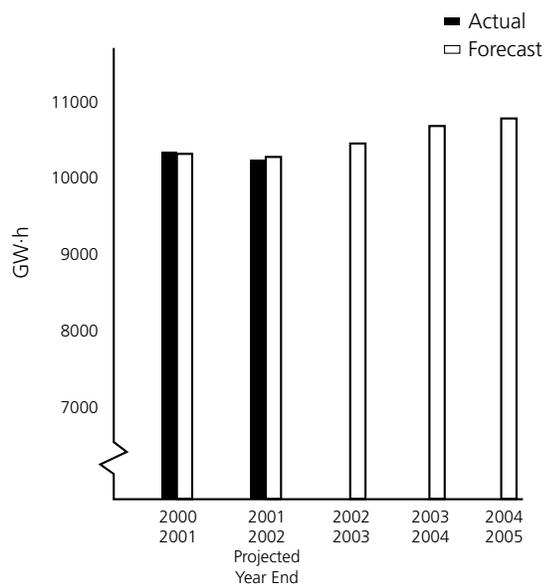
## Vancouver Island (VI)

### Energy Sales

Compared to the first quarter of the previous fiscal year, total VI sales were 45 GW·h or 1.7 percent higher. Industrial sales were 25 GW·h lower. General sales were 20 GW·h higher. Residential sales were 50 GW·h higher.

Industrial sales were 31 GW·h below plan in the first quarter. Due to production curtailments by major VI industrial customers, Industrial sales were 505 GW·h or 12.7 percent lower than the previous year on a running 12-months basis. Residential sales were higher in the first quarter mainly due to cool temperatures.

### VANCOUVER ISLAND – BILLED SALES



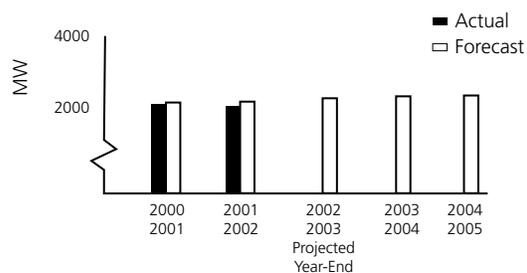
### Peak Demand

Electricity is the primary heating source of about 40 percent of residential customers on VI. Peak demands drop significantly in the non-winter months as a result, and was at 1266 MW in June. This compares to the peak demand of 1278 MW in June 2001.

### Short-Term Forecast

Dominant industries on VI are all related to the forestry sector. Asia, Japan in particular, is a major market for lumber producers on VI. Some improvement in lumber exports to Asia is projected in the short-term. Global inventory in pulp and newsprint has reduced substantially over the last year. Pulp and paper production should resume to levels above what was experienced over the last 12 months. All forecasts are based on information from the forestry sector.

### VANCOUVER ISLAND – PEAK DEMAND



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## ELECTRICITY AND GAS PRICES

BC Hydro tracks market information that forms the basis for its future price forecasts for both natural gas and electricity.

### Forward Market Information

In the short term, BC Hydro tracks “forward prices,” which are market price quotes on transactions for delivery at a specified time and delivery point. For electricity, the nearest (liquid) delivery point is Mid-Columbia, and in the case of natural gas it is Sumas. Market forward quotes are readily available for a period of up to two years for electricity and for three to five years for gas. Forward prices for both electricity and natural gas can be volatile, but they provide an important near-term reference point since they reflect all the information currently available to market participants.

### Longer-Term Market Fundamentals

The longer-term forecast — available from a number of specialised forecasting groups — is based on representing the supply and demand for electricity and of cost drivers expected to prevail. Key factors in the long-term forecasts are:

- the expected stock and availability of generating units (especially new units);
- the expected level of fuel prices and other costs of operating generating units;
- the level of demand as driven by forecasts of economic activity, technology and conservation efforts; and
- the expected state of the regulatory or market environment.

BC Hydro acquires the output and market analysis of a number of third-party forecasts to supplement its long term forecasting activities.

### 2002 compared to 2001

Present prices for both electricity and natural gas remain low compared to 2001 but show signs of a modest recovery in late 2002, as suggested by the forward markets.

Among the reasons for this are:

- the U.S. recession (reducing demand for natural gas and electricity);
- significant new generating supply and natural gas wells coming into service;
- relatively high gas storage inventories (compared to last year and the average for the past five years); and
- improved hydro conditions.

Lower prices have resulted in lower high-load hour to low-load hour differentials, since these tend to be positively correlated with absolute price levels. Further, seasonal spreads have decreased as a result of an abundant supply of hydro resources in the Pacific Northwest combined with reduced industrial loads.

### 2002/03 Outlook

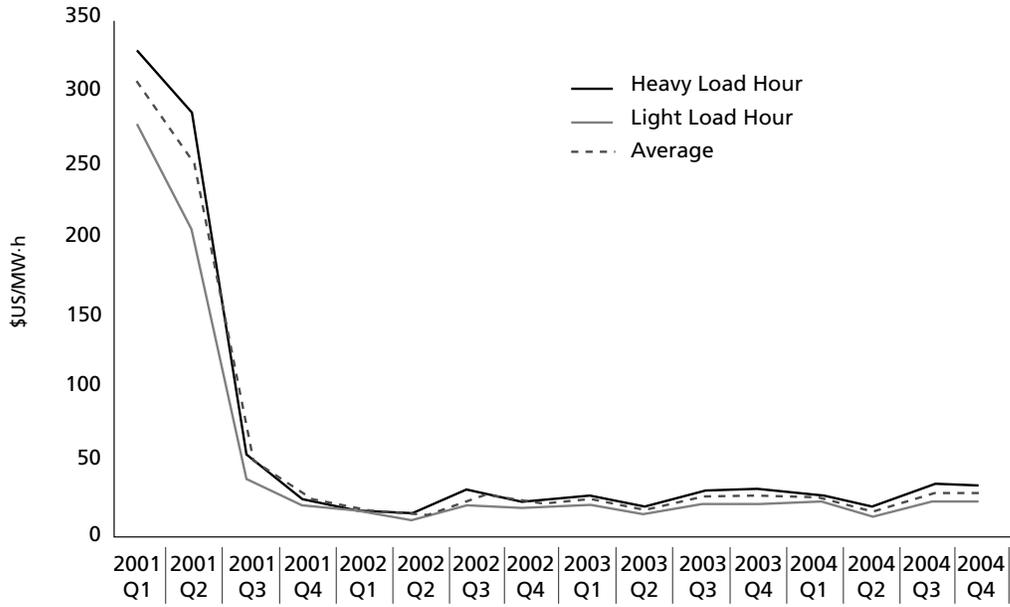
Following the recent stock market declines, the economic outlook remains uncertain. Most observers continue to forecast positive economic growth by the end of the year, although at a slower pace. Recent declines in exploration and drilling activity are expected to result in a decline in natural gas production, while the predicted improvement in the general economy would serve to tighten the supply-demand balance for natural gas and cause an upward pressure on prices.

The combination of higher prices for natural gas and increasing electricity demand should lead to an increase in electricity prices. However, other factors may impair the price recovery, including:

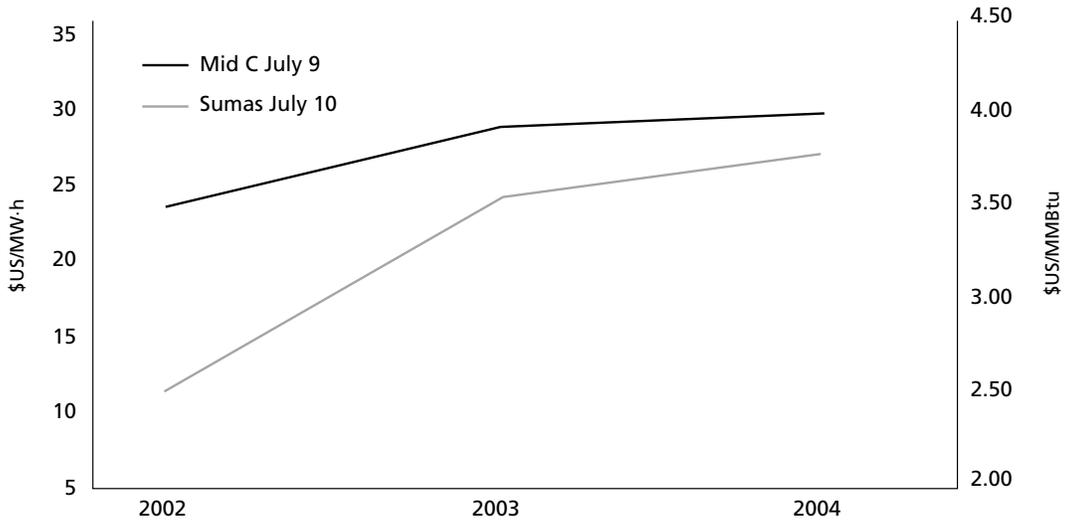
- economic recovery may be sluggish or fail completely;
- significant new generating capacity; and
- more normal regional hydro conditions.

In the longer term, price expectations are based on a supply-demand balance reflective of average economic growth and demand. Prices of both electricity and gas are expected to grow moderately, modulated by seasonal factors.

HISTORIC MID-C ELECTRICITY PRICES AND MARKET FORWARDS



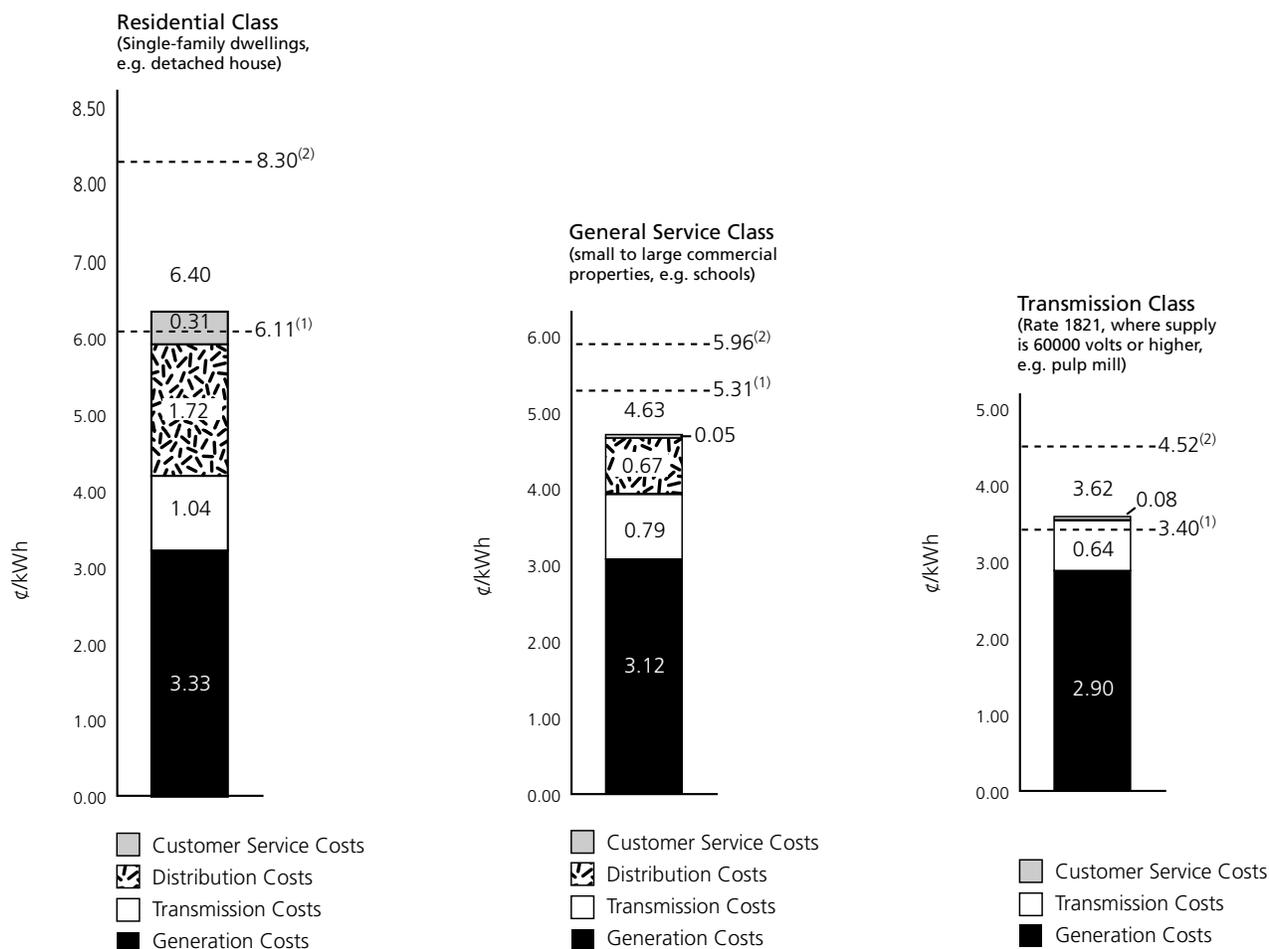
HISTORIC MID-C ELECTRICITY PRICES AND MARKET FORWARDS



## BC HYDRO 2002 COST TO PROVIDE SERVICE

The following graphs present an estimate of the cost of providing service to each customer class (in cents/kW.h), based on an allocation of BC Hydro's 2002 actual costs. This analysis was done by applying the 1997 Fully Allocated Cost of Service Study, which was used in establishing BC Hydro's

current Wholesale Transmission Services tariffs, to the 2002 actual costs. For comparative purposes, the existing BC Hydro Tariff for each customer class has been included and is represented by the dotted line accompanying each graph (see note 1).



<sup>(1)</sup> Existing BC Hydro Tariff.

<sup>(2)</sup> Estimated cost of service if the BC Hydro revenue requirements were recovered completely through domestic rates.

The information presented in this analysis is based on preliminary estimates and is derived through the use of historical allocation methodologies.

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These charts are intended to show how BC Hydro's actual costs can be allocated to customer classes, based on the analysis outlined below. They are not intended to indicate what BC Hydro's rates may be after the expiration of the current rate freeze.

Income from export activities and transfers from the Rate Stabilization Account (RSA) are included in the determination of Allowed Return on Equity, consistent with the terms of Special Direction No. 8 to the BC Utilities Commission. If these amounts were removed from the Allowed Return on Equity calculation, the cost of service would be significantly higher (see note 2). Generation costs for fiscal 2002 include costs for hydro and thermal generation, as well as purchases from independent power producers and the marketplace. Hydro generation (which has the lowest cost of production of the various energy sources) was lower than normal for fiscal 2002, due to lower opening storage levels and reduced system inflows during the year. This resulted in a greater portion of domestic energy requirements being met by thermal generation and the marketplace. If this analysis assumed average water conditions for hydro generation for fiscal 2002, domestic energy costs would have been significantly lower and the resulting cost of service amounts for each customer class would also have been lower.

This analysis does not reflect the reorganization of BC Hydro's operations into the Lines of Business structure. Under the Lines of Business structure, different allocation factors may be appropriate to accurately reflect cost causation.

The BC Hydro system is designed and operated in order to meet customers overall electricity requirements and peak demand loads. As such, Generation, Transmission and Distribution costs are allocated amongst the customer classes, based in part on the demand and consumption profiles of each customer class, in order to reflect the cost of providing service to that class. Generation costs include fixed and variable energy costs and are allocated amongst the customer classes based on demand profiles and also consumption profiles. Transmission costs are allocated amongst the customer classes based on the customer class demand profiles. Distribution costs are allocated amongst the customer classes based on demand profiles, customer numbers and the direct assignment of costs.

These graphs are presented as a matter of public information. The future determination and treatment of the rates to be charged to each customer class will be determined through the regulatory process.

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## OPERATIONS

### **Snowpack**

BC Hydro has significant reservoirs on both the Peace and Columbia River systems, as well as smaller reservoirs on the coast and Vancouver Island. The spring freshet was very late this year throughout the province and resulted in higher than normal stream flows during June. Most of the snow melt is now complete.

### **Peace**

The Peace water supply forecast for February through September 2002 is much above average. Most of the snow melt has already occurred and the February through June observed runoff is much above average. Stream flows to the end of September will depend on rainfall.

### **Columbia**

The Columbia water supply forecasts for February through September are near average. Most of the snow melt has already occurred and the February through June observed runoff is near to above average. Stream flows to the end of September will depend on rainfall and glacier melt.

### **Bridge River**

The Bridge water supply forecast for February through September 2002 is near average. Most of the snow melt has already occurred and the February through June observed runoff is above average. Stream flows to the end of September will depend on rainfall and glacier melt.

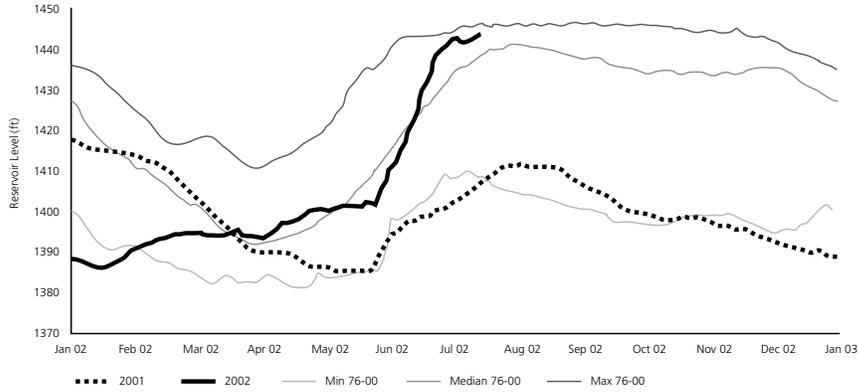
### **Coastal Projects**

The mainland coastal water supply forecasts for February through September 2002 vary from near to above average while the Vancouver Island water supply forecasts are below average. The February through June runoff is near to above average. Stream flows to the end of September will depend on rainfall.

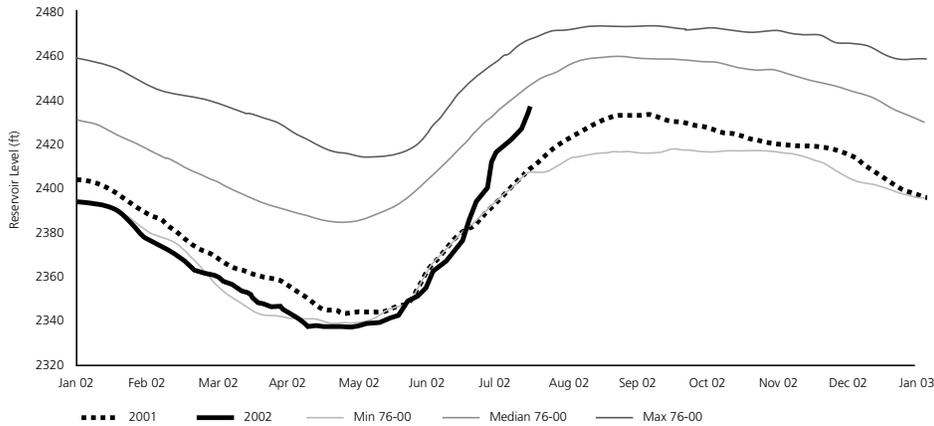
## Reservoir Levels

BC Hydro monitors the levels at all of its hydroelectric reservoirs to ensure the most efficient system integration and operation. The relative reservoir levels at any time are a function of precipitation (rain and/or snow that fills the reservoir) and electricity demand (as the water in the reservoirs is used to turn turbines and produce electricity).

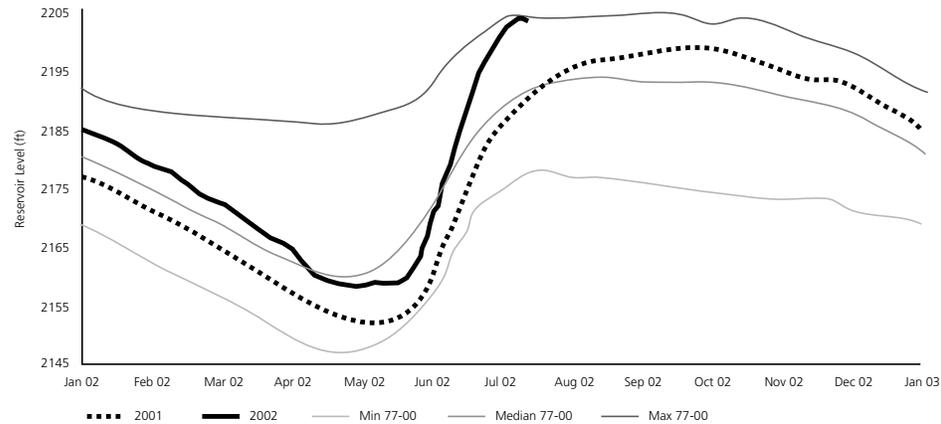
### ARROW RESERVOIR LEVELS



### KINBASKET RESERVOIR LEVELS



### WILLISTON RESERVOIR LEVELS



## RESOURCES

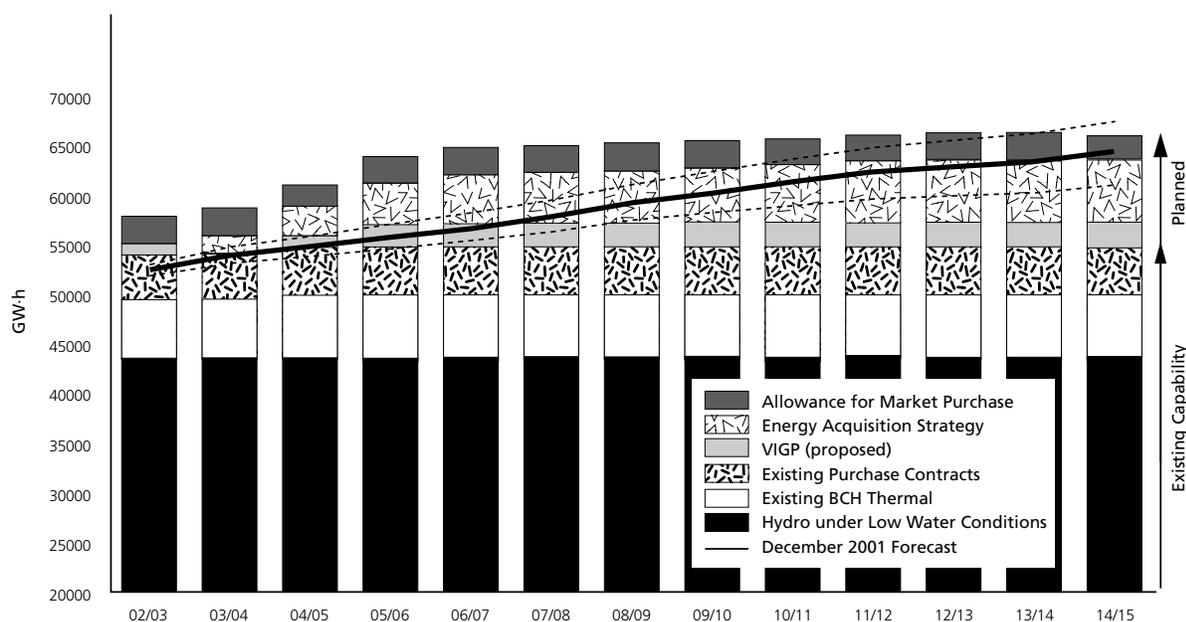
### Load Resource Balance

BC Hydro plans and operates its system to ensure that it meets the electricity needs of customers both now and for the future. The goal is to make sure there is enough electricity supply to meet the “load” (or electricity demand) by using a range of existing and future resources. These resources — and their relative contributions to the BC Hydro system — are shown in the following charts.

There is no change to the system capacity balance and the Vancouver Island capacity balance from that reported in the BC Hydro Annual Report 2002 (Annual Report). The changes from the Annual Report for the system energy balance are minor.

### SYSTEM FIRM ENERGY SUPPLY-DEMAND BALANCE

The System Firm Energy Supply-Demand Balance chart below compares annual energy demand (net of Power Smart) to the energy output of existing (under low water condition) and planned new facilities.



### Assumptions

#### Existing Capability

Under “Hydro under Low Water Conditions”:

- Lowest historical streamflow conditions
- Full use of storage capability of the major reservoirs
- Contribution from Arrow Lakes Hydro (formerly Keenleyside)

In "Existing BCH Thermal":

- Maintenance activities at Burrard Generating Station have increased due to the age of the facility. At the end of the first quarter, 1 unit was available and the plant's annual energy capability was 1000 GW-h (and 150 MW). Current maintenance activities will result in 3 units, or an annual energy capability of about 3000 GW-h (and 450 MW) to be available by the winter period. This capability will be adequate to meet domestic load. If economic, maintenance on the additional units could be accelerated. The fully restored capability of Burrard Generating Station is 6100 GW-h (and 912 MW).
- Prince Rupert Generating Station

In "Existing Purchase Contracts":

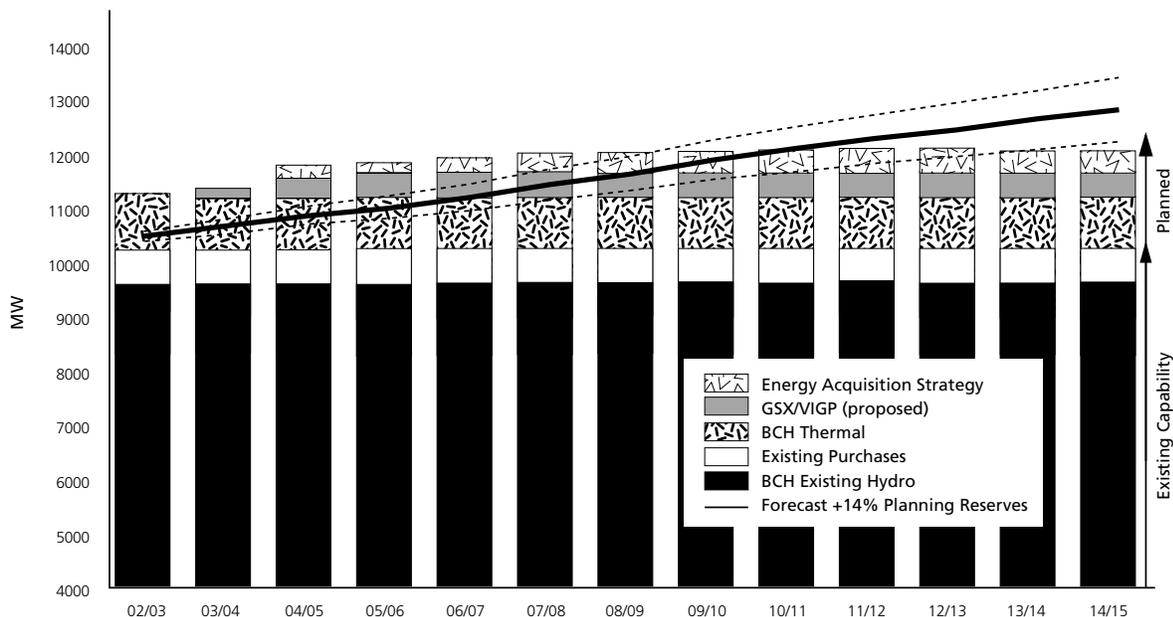
- Pre-2001 IPP Contracts
- Alcan

In "December 2001 Forecast":

- Current Power Smart programs

### SYSTEM DEPENDABLE CAPACITY SUPPLY-DEMAND BALANCE

The System Dependable Capacity Supply-Demand chart compares forecast peak electricity demand (peak winter usage) – plus required capacity reserve – to the dependable capacity of existing and planned facilities.



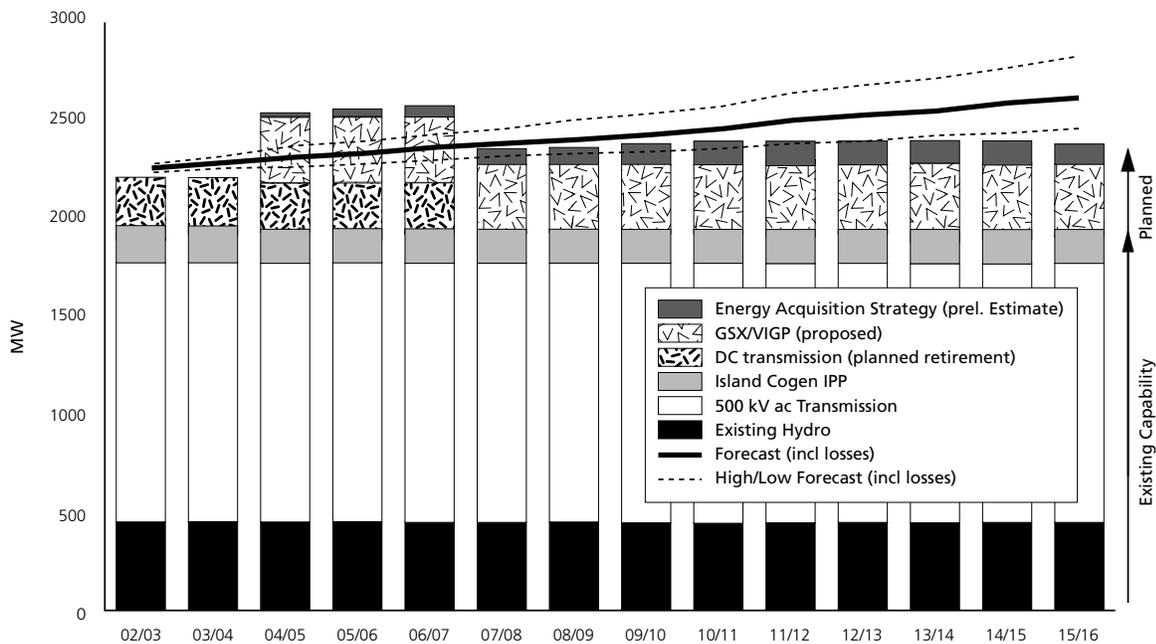
## Assumptions

Planning Reserves: The Western Electricity Coordinating Council (WECC) recommends that each utility carry sufficient capacity reserves to allow it to withstand the temporary outages of generating units. Based on loss-of-load analysis, for the BC Hydro system this criterion can be met by maintaining capacity reserves of approximately 14 percent of dependable capacity supply. Since BC Hydro is interconnected with other systems, up to 400 MW of capacity from imports is assumed available.

“Energy Acquisition Strategy” dependable capacity is conservatively estimated. That is because dependable capacity — the megawatt output a generator can reliably provide to meet peak electricity demands — is project specific and there are a number of projects that make up this category.

## VANCOUVER ISLAND DEPENDABLE CAPACITY SUPPLY-DEMAND BALANCE

Separate information is provided for Vancouver Island (VI) because that is where BC Hydro’s customers are most urgently in need of new electricity generating resources for capacity.



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## Assumptions

- “Forecast” is the December 2001 Forecast which includes approved Power Smart.
- “Reliability Planning Criteria” are such that the system should be able to withstand loss of any single element with no loss of customer load. Therefore, VI firm supply is planned with the largest element — one alternating current (ac) cable circuit — unavailable.
- “Dependable Winter Capacity” of the existing VI hydroelectric system is 448 MW.
- “Continuous Rating” of the 500 kV ac cables is 1200 MW. Their short duration overload capability is 1300 MW (shown here).
- “HVDC” is the high voltage direct current submarine cable to Vancouver Island. Its remaining firm (dependable) delivery capability is 240 MW, with full retirement planned for 2007.
- “Island Cogen IPP” has a winter dependable capacity of 240 MW, but that is limited until GSX is in service and supplying gas.
- “Energy Acquisition Strategy” is expected to provide additional dependable capacity on Vancouver Island as a result of the new resources acquired.

## 5. LINES OF BUSINESS

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### GENERATION

#### Introduction

The Generation Line of Business is responsible for all of BC Hydro's integrated electricity generating facilities and reservoirs in the province.

#### Projects

##### Georgia Strait Crossing Project

- BC Hydro continued work on the Georgia Strait Crossing (GSX) Project, which will provide firm natural gas transportation to Vancouver Island to supply the existing Island Cogeneration Project (ICP) and the new proposed Vancouver Island Generation Project.
- BC Hydro is building the project in partnership with Williams Company. A recent preliminary revision of the project's cost estimate has increased BC Hydro's share from \$131 million to \$170 million (with the total estimated cost of the Project increasing from \$260 million to \$340 million). These increases – which are still being reviewed internally and are not yet approved by BC Hydro's Board of Directors – are primarily related to:
  - a revised estimate for the original October 2004 in-service date (this includes increased costs for scope changes, unexpected regulatory/environmental requirements due to delays in the NEB process, and increased First Nations issues); and
  - a potential delay in the in-service date of the project from October 2004 to October 2005 (again, due to delays by the National Energy Board in their regulatory process).
- Regulatory applications for the project have been filed with the National Energy Board (NEB) in Canada and the Federal Energy Regulatory Commission (FERC) in the United States. The regulatory process in the United States is almost complete, and issue of a certificate for the U.S. portion of the project is expected in summer 2002. The Canadian process is ongoing, and the date for a start of a public hearing is expected to be determined in late summer 2002.
- Assuming the public hearing commences in fall 2002, the project in-service date remains October 2004. However, delays and uncertainty with respect to the NEB and its regulatory

process mean that it is possible that the hearing will be delayed, which could mean that the in-service date also moves into October 2005.

##### Vancouver Island Generation Project

- Progress continued on the \$370 million Vancouver Island Generation Project (VIGP), a new high-efficiency natural gas-fired electricity generation facility on Vancouver Island that will help meet customers' growing electricity demands.
- An application to the provincial Environmental Assessment Office (EAO) was filed in mid-June and the in-service date for the project is November 2004.

##### Island Cogeneration Project

- The Island Cogeneration Project is a 240 MW combined-cycle cogeneration project owned by Calpine Canada that is located near the Elk Falls pulp mill north of Campbell River. The project achieved commercial operation in April 2002.

#### Programs

##### Green Independent Power Producers (IPPs)

- By the end of the first quarter, one contract was executed and approximately 172 GW·h/year was added to our total green energy purchased. This contract was part of the fiscal 2002 call process and was applied against our green energy target for fiscal 2002.
- The target for fiscal 2003 is 5 to 10 new contracts, equalling 350 GW·h/year in green energy. BC Hydro will issue another call for green energy in October 2002 for up to 800 GW·h/year. The intent of the call for up to 800 GW·h/year is to assure that BC Hydro can reach the 350 GW·h/year target.

##### Alternative Energy

- Work continued on the 20 MW demonstration project launched in 2001 on Vancouver Island to learn more about the potential of near-commercial green technologies that could be viable in B.C. The project involves a mix of 10 MW of wind, 6 to 8 MW of micro hydro and 3 to 4 MW of ocean wave energy. Status of the various components follows:

Project Component	Status to 30 June 02
10 MW Wind Energy Project	<p>Second stage funding has been approved for project.</p> <p>No definitive agreement has been signed with joint venture partner, AXOR Group Inc.</p>
3-4 MW Wave Energy Project	<p>MOUs signed with joint venture partners, Ocean Power Delivery and Energetech.</p> <p>Proposal has been advanced to secure preliminary funding and a decision is pending.</p> <p>Preliminary site has been identified, monitoring is underway, and the approvals process has been initiated.</p> <p>No definitive agreements have been signed with partners.</p>
6-8 MW Micro Hydro Project	<p>Sites and IPPs have been identified to use for the demonstration, pending successful completion of green evaluations of these projects.</p> <p>MOUs have been developed and circulated to selected IPPs but have not been signed.</p>

### Customer-Based Generation

BC Hydro is seeking 10 to 20-year agreements to supply new, competitively priced electricity from customer-based generation to meet its future load growth. BC Hydro also wants to help its large customers by encouraging their development of supplementary revenue sources through new

power generation. On-site, customer-based generation has the potential to make use of existing customer-based infrastructure, resulting in low cost electricity and incremental revenue for BC Hydro's customers.

Through a Request for Qualifications (RFQ) process announced on May 31, customers have been invited to submit a Statement of Qualifications. A workshop attended by 162 people was held on 21 June 2002. BC Hydro received 38 proposals from customers from all sectors across the province in response to the RFQ.

### Resource Smart

The Resource Smart program was initiated in 1988 to identify and implement economic efficiency gains at existing BC Hydro facilities to provide more energy. To 31 March 2002, 1535 GW-h of restored and new energy have been brought into service. Currently there are 13 projects funded and underway, with 5 in the "implementation Phase" (636 GW-h/year) and 8 in the "Definition Phase" (407 GW-h/year).

### Dam Safety

The dam stabilization project for Seven Mile received approval to proceed once the installation of the three prototype anchors successfully demonstrated the feasibility of this dam stabilization methodology.

Additional dam safety work included erosion protection at the Strathcona dam and seismic and flood improvement at our Sugar Lake Dam. From a due diligence perspective, dam inspections continued throughout our system and advisory board meetings were completed at our Coquitlam, Hugh Keenlyside, and Mica dams.

The Director of Dam Safety, to ensure benchmark comparisons, met with international experts to discuss and review our risk management and loss risk policies.

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## Facilities

BC Hydro takes great care to maintain the hydro-electric and thermal generating facilities in its system. As much as possible, outages are scheduled to minimize any financial or customer impacts. The following are large unit outages planned for the Hydro system, through to September 30, 2002:

### Peace Generation

- *GM Shrum* – 1 unit on overhaul through 3rd Quarter and 4 units for total of 9 weeks
- *Peace Canyon* – 1 unit, total of 2 weeks

### Upper Columbia

- *Mica* – 4 units, total of 5 weeks
- *Revelstoke* – 1 unit, total of 2 weeks

### Kootenay Generation Area

- *Seven Mile* – 1 unit, total of 10 weeks
- *Kootenay Canal* – 1 unit, total of 2 weeks

## Burrard Generating Station

- Burrard Generating Station is BC Hydro's 950 megawatt natural gas-fired generating station in Port Moody. Burrard generation for fiscal year 2002/03 is currently forecasted to be approximately 500 GW-h, due to the current low prices of electricity on the market which makes it cheaper to import than to run Burrard. However, it should be noted that Burrard generation varies with system conditions, inflows, and the market price of potential energy imports.
- Currently, two Burrard units out of six are available for operation. Four will be available, after maintenance, by the end of September. The remaining units are undergoing upgrades and this work could be accelerated if the units were needed and economic for the winter peak demand period.

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## TRANSMISSION

### Introduction

BC Hydro's high voltage transmission system transports bulk electricity from generating plants to substations distribution systems across the province, and to interconnection points in the western North American grid to enable electricity trade. The transmission system and associated facilities are the responsibility of the Transmission Business.

In order to offer open, non-discriminatory wholesale transmission services to all transmission customers, Transmission operates under a strict Code of Conduct with operating systems and business processes functionally separated from BC Hydro's Generation Business and marketing functions.

### Highlights

#### 230 kV Project

A majority of capital expenditures are allocated to system reliability and equipment end-of-life initiatives. An example of end-of-life equipment replacement is the 230 kV underground transmission circuits serving the metropolitan area of the Lower Mainland. Many of these cables were installed in the late 1950's and are reaching the end of their design life. Failures have occurred on several circuits. The 230 kV system is vulnerable and has little flexibility for operation and maintenance, leading to increased risk of customer outages. One circuit, 2L39 in Burnaby, was replaced last year and a parallel circuit 2L40 is being replaced this summer. Short-term and long-term plans are being developed for other replacement cable circuits and supply to a new 230 kV substation in the Mount Pleasant area.

#### Hydrogen Program

In June, BC Hydro's innovative Hydrogen Program was awarded funding for two of its projects under the joint Federal-Provincial Western Economic Partnership Agreement (WEPA). A project to develop the world's first 10,000 psi hydrogen vehicle fuelling station at Powertech Labs was awarded \$1 million. A project to develop a 1.2 kW fuel cell-based battery replacement unit for use in microwave repeater stations was awarded \$285,000.

#### Guichon 500 kV Series Capacitor Station

The site preparation for the Guichon Capacitor station near Logan Lake has been completed. This included a new road into the site and excavation, fill, grading and fencing of the site. A contract was awarded to Nokian for the design, supply and installation of the station equipment. Nokian have completed the conceptual design and are in the process of ordering equipment to meet an October 2003 in-service date.

#### Nicomekl Substation

The site preparation for the new Nicomekl Substation in South Surrey was completed and foundation work is nearing completion. The control building has been erected and the interior finishing is underway. The electrical installation contract was awarded and equipment installation is underway to meet an October 2002 in-service date.

#### Chilliwack Substation Replacement

The foundation work the replacement substation is nearing completion. The control building has been erected and the interior finishing work is in progress. The installation of electrical equipment is underway to meet a September 30, 2002 in-service date.

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## DISTRIBUTION

### Introduction

There are over 55 000 kilometres of overhead, underground and submarine distribution lines in B.C. as well as 865 000 power poles. These are the responsibility of BC Hydro's Distribution Line of Business, which is the part of the Crown corporation that directly serves our 1.6 million customers and 6000 non-integrated customers in nine remote communities.

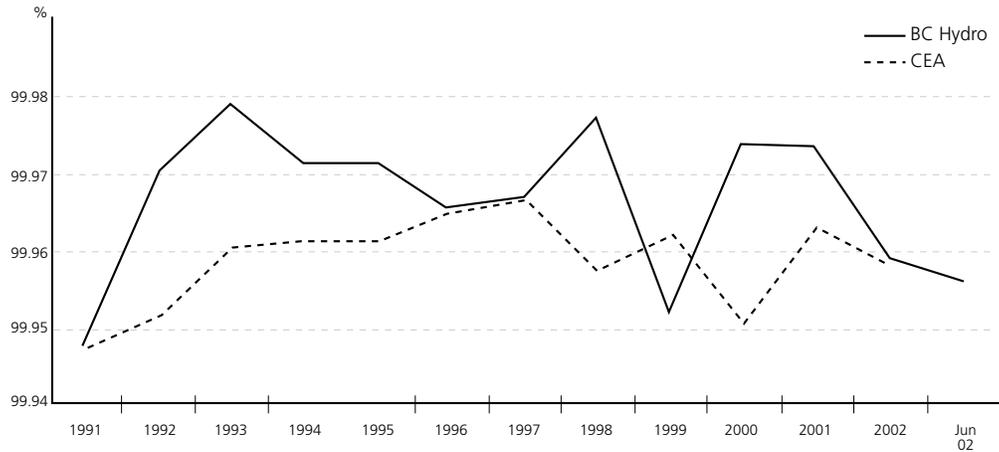
### Highlights

- Get Connected, a newly created Web site, and BC Hydro's first external e-business application, will allow our customers to apply for new service, upgrade existing service or service removal, anytime and anywhere the Internet is available now. The site is designed to assist electricians, builders, contractors, developers and homeowners in applying for service. Get Connected conveniently allows customers to access information regarding the service connection process and to make application 24 hours a day, 7 days a week. The new site allows customers full security to ensure the confidentiality of account information accessed via the Internet.
- Fourteen Service Level Agreements with other Lines of Business and Service Organizations have been drafted; final agreements will be delivered effective October 30, 2002.
- Load Forecasting revised the Corporate load forecast template and is now producing a user-friendly but comprehensive Market Forecast.
- Distribution's Human Resources group have completed a draft employee safety plan.

## Reliability

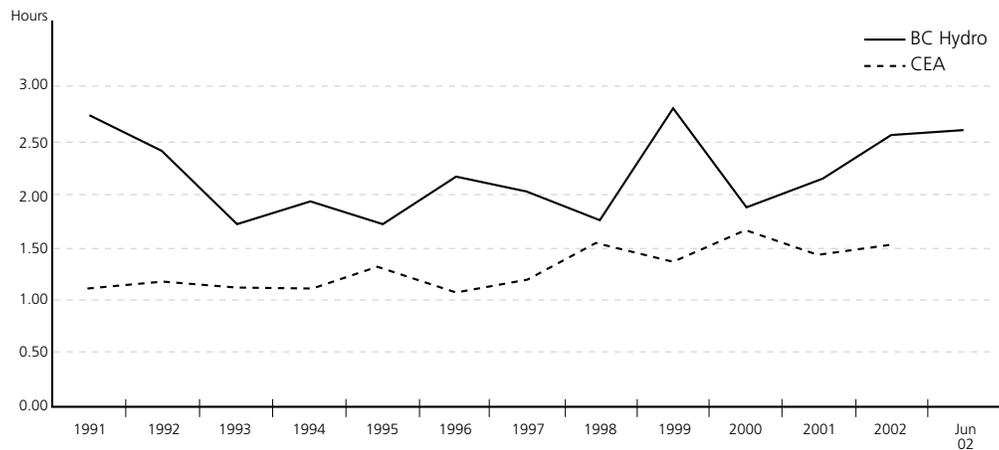
1. ASAI is a measure of overall system reliability, indicating the percentage of time power is kept on during a year.

### AVERAGE SYSTEM AVAILABILITY INDEX (ASAI)



2. CAIDI is a measure of the amount of time an interrupted customer is without power during a year.

### CUSTOMER AVERAGE INTERRUPTION DURATION INDEX (CAIDI)



	Actual Reliability	Target Reliability
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ASAI	99.956%	99.970%
CAIDI	2.62 hours	2.15 hours

BC Hydro did not meet its quarterly reliability target due mainly to several major weather events.

### Customer Additions

2002	April to June	4,188
2001	April to June	3,741

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## ENGINEERING SERVICES

### Introduction

Engineering is a new BC Hydro Service Organization formed by the consolidation of the former Power Supply Engineering and the former Transmission & Distribution Engineering. Engineering provides project management, maintenance, emergency response, design, contracts, and construction management services to the Generation, Transmission and Distribution Lines of Business, and selected external clients. First quarter activities have focused on the delivery of engineering services within scope, schedule, budget and with appropriate quality.

### Highlights

Organizational activities during the first quarter include the following:

- Development of Engineering's strategy, which can be summarized as: prepare for change; financial performance; client focus; streamline our business; and entrepreneurial team.
- Selection of Engineering's Senior Management Team.
- Ongoing development of Engineering's organizational structure, which will be aligned to our clients and their needs.
- Development of a business model to guide our financial operations and to plan for the future.

Engineering project achievements for the first quarter include the following:

- The Seven Mile 210 MW Unit 4 turbine scroll-case was placed in preparation for concrete embedment. The project continues to advance towards an in-service date of the unit in the spring of 2003. The full funding for the Seven Mile Dam Safety project was approved in May 2002. The test anchor program for the dam was completed on budget during the quarter and the tender documents were prepared for the full anchoring program. The remainder of the anchoring is to commence in the summer of 2002.
- Project management of the Vancouver Island 20 MW green energy demonstration initiatives included advancing preliminary design with AXOR Group Inc. for the 10 MW wind component and with Energetech and Ocean Power Delivery for the 4 MW wave energy projects.

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## FIELD SERVICES

### Introduction

Field Services was created to bring together in one unit all of BC Hydro's Service Restoration, Maintenance, Construction (Civil, Electrical and Mechanical), Telecommunications Maintenance, Public Safety, and Vegetation and Line Contractor Management services for Transmission and Distribution. Field Services' role is to work safely to keep the lights on while providing customers with high quality service at a low cost.

### Highlights

#### Employee and Customer Safety

Field Services top priority for fiscal 2003 is to improve its safety performance. The integration of safety into all our activities continues to be a focal point for all Field Services staff.

To date, our safety performance is improving as the Field Services All Injury Frequency (AIF) — a standard measure of disabling and medical aid injuries per 200,000 hours worked — is down from 10.1 at the end of fiscal 2002 to 9.7 at the end of this first quarter.

In addition, our delivery of public safety programs for schools and first responders continues throughout the province in an effort to reduce the risk of public incidents.

#### Building a Strong and Capable Workforce

Field Services continues to move forward with building a highly skilled workforce through its continuing focus on the apprenticeship programs and effective technical and safety training programs.

Field Services demographics have shown that there is a high probability that a significant number of experienced staff are likely to retire over the next two to five year period. As a result, 33 new trade apprentice and managerial positions have been planned in fiscal 2003 through the Strategic Workforce Planning initiative,

In the first quarter of fiscal 2003, 11 of these new positions have been filled with the balance to be filled by the end of the year. This brings the total trainees within Field Services to 95.

## SHARED SERVICES

### Introduction

The Shared Services organization within BC Hydro provides a range of products and services that include Customer Services, Information Technology, Fleet Services, Financial Systems and Disbursement Services, Property and Office Services, Supply Chain and Human Resource Services.

At the end of the fourth quarter of fiscal 2002, Customer Services was combined into the Shared Services business unit.

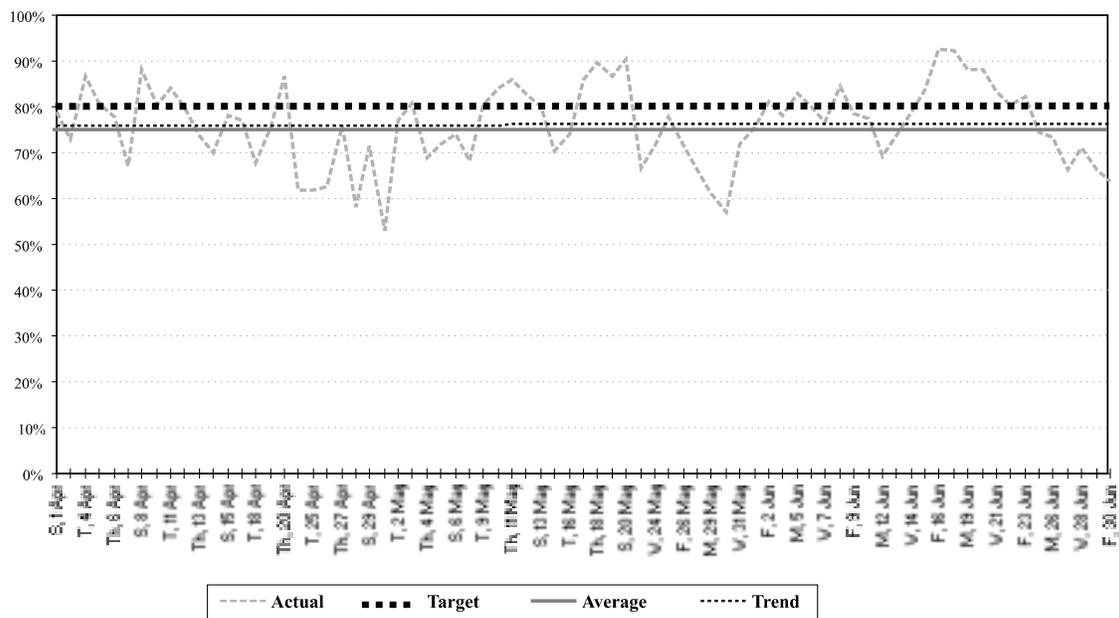
In April 2002, the Materials Management Business Unit (MMBU) was also moved into the Shared Services Business Unit.

### Customer Care

The Service level chart shows the number of calls that were answered within 30 seconds of a caller requesting to speak to a Service Representative and exiting our Interactive Voice Response system. The percentage of calls abandoned shows the number of callers that hung up before being answered by a Service Representative.

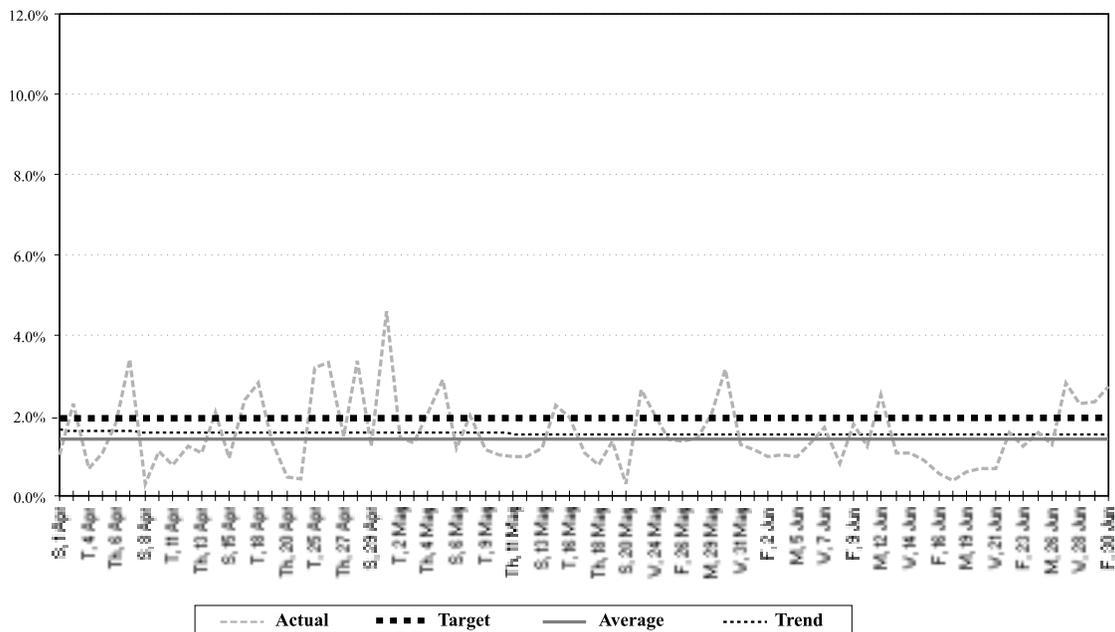
## CUSTOMER CARE – SERVICE LEVEL – APRIL 1 TO JUNE 30, 2002

The month-to-date customer care service level for June is 79 percent, with the fiscal year-to-date service level at 78percent compared to the target of 80percent. Service levels have been impacted by a 13percent increase in Customer Care calls compared to the same period last year. Increases are due mainly to customer moves and payment negotiation calls. Numerous power outages around the province have also contributed to the higher volumes.



## CUSTOMER CARE – PERCENTAGE OF CALLS ABANDONED – APRIL 1 TO JUNE 30, 2002

The average year-to-date abandonment rate is 1.6 percent, compared to the target of 2 percent.



### Request for Expressions of Interest (RFEI)

During fiscal 2002, BC Hydro issued a Request for Expressions of Interest (RFEI) to the private sector. Based on the responses to the RFEI, the process was divided in two – one dealing with Fleet Services and one called the “Combined Bid”.

#### a) Combined Bid

Accenture was chosen as the lead proponent in April 2002. After review, the scope of the process was expanded. The combined bid now includes the entire Shared Services business unit: Customer Services, Westech Information Systems, Network Computing Services, HR Shared Services, Shared Support Services (including Property Services, Financial Systems, Building/Office Services, Disbursement Services, and Purchasing Services), and Business Support Services. The inclusion of the MMBU (Materials Management Business Unit) is being further reviewed.

#### b) Fleet Services

Negotiations have been proceeding with the short-listed proponents. Work continued in the first quarter to identify a lead proponent.

The goal for both processes is to have Memoranda of Understanding signed by the summer of 2002 and to have them implemented by early 2003.

### Separation of BC Gas

BC Gas decided to begin providing their customers with a separate BC Gas bill beginning in July 2002. We successfully separated the 550,000 BC Gas accounts from our system over the July long weekend and provided the data for the migration of those accounts to the BC Gas system.

Coincident with this migration was the implementation of the new meter reading contract with BC Gas. BC Hydro will be receiving BC Gas client information into our meter reading system; we will read their meters and transmit the meter data for the BC Gas billing process.

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### **Property Tax Reviews and Payment**

The review of the calendar 2002 property tax bills was completed in the first quarter and EFT (Electronic Funds Transfer) payments totalling \$137.8 million will be paid out to 269 payees starting on July 2nd. This includes \$1.4 million in First Nation Community Development Fund Agreement payments to 115 bands.

Including payments made at other times of the year, the total taxes and grants for the 2002 calendar year will be about \$141.4 million, allocated \$98.7 million in school taxes, grants-in-lieu to the Province of \$3.4 million, to Municipalities of \$36.7 million, and to Regional Districts of \$2.6 million.

### **Energy Diversions**

There have been 425 suspected energy diversions investigated in the first quarter, with 146 determined to be actual diversions. These energy diversions represented a loss of 5,200,126 kWh in energy for BC Hydro with a value of \$300,000.

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## CORPORATE SAFETY

Our first quarter results indicate an All Injury Frequency (AIF) of 3.84. (AIF is a standard measure of both disabling and medical aid injuries per 200,000 hours worked.) We are on track to meet our overall target for fiscal 2003 of a 10 percent reduction in All Injury Frequency.

During the first quarter the Continuous Improvement Safety Management System was monitored through audits conducted in several locations in the Okanagan and the Kootenays. These audits indicated that while we are doing a very good job in supervision and planning, we can improve the way we manage our materials and worker exposure to hazards such as noise.

Safety incidents are now being investigated with our new "Incident Investigation Process". While these incidents vary in severity from relatively minor

to very serious, it is important to ensure that we are identifying both the "immediate" and "root" cause of incidents. Of the 66 incidents we investigated this quarter, all of the "Corrective Action Plans" necessary to reduce the chance of the incident happening again were completed on time.

A tragic accident occurred in May, in which a BC Hydro service vehicle hit a civilian vehicle resulting in the death of one of the occupants. We have initiated a review of Hydro's policies and procedures for periodically reminding employees of the standards of conduct they must observe in the course of their employment. Our determination to prevent this type of incident from happening again has the full commitment of BC Hydro's management.

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## DEMAND-SIDE MANAGEMENT

Now in the second year of a comprehensive 10-year plan to reach an annual target of 3500 GW·h in new energy savings, Power Smart is on track to reach the year two target of 360 GW·h.

For business customers, committed and installed opportunities, plus new high potential opportunities already identified totalled over 270 GW·h. Of this total, installations increased by 28 GW·h in the first quarter, including an increase in “e.Points” program savings of 17 GW·h. To the end of June, 370 Power Smart Partner agreements were in progress with customers and over 110 applications for incentives had been submitted by customers in response to competitive calls. Two customers signed memoranda of understanding for a revolving fund incentive for energy savings projects.

For residential customers, an additional 4 GW·h of annual savings were achieved as a result of activity in Courtenay, Comox and Quesnel (CCQ) and the new home savings program. As part of the CCQ initiative, over 40,000 compact fluorescent light bulbs (CFLs) were distributed and more than 500 refrigerators were recycled. Plans are in place for a seasonal light emitting diode (i.e. LED Christmas lights) program for this year, and for CFL, refrigerator buy-back and home energy assessment programs on Vancouver Island.

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## HUMAN RESOURCES

To ensure that BC Hydro will be able to sustain its core operations, a strategic workforce planning initiative is underway to renew critical workforce capability in the occupational groups that will be most impacted by retirements. From fiscal 2001 to fiscal 2003, \$19 million in initiative funding has been committed to hire apprentices and trainees in trades, engineering, technical and management positions.

Three-year renewal agreements were negotiated with the IBEW and OPEIU with compensation adjustments linked to external market comparisons. The existing Gainsharing Plan was modified to establish an incentive framework that will focus all BC Hydro employees on specific performance objectives aligned to the success of the organization and/or Lines of Business.

A replacement Variable Pay plan is now in place for all eligible Management and Professional employees, which strengthens the alignment of individual work objectives with BC Hydro's overall business objectives. The new plan allows for greater pay differentiation based on individual performance and corporate success has a greater impact on the amount of variable pay available to employees.

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## REGULATORY

BC Hydro filed two applications with the British Columbia Utilities Commission (“BCUC” or “Commission”) in June 2002 requesting approval for specific accounting treatments relating to certain specialized expenses. One application concerned the capitalization and amortization of costs associated with First Nations negotiations and the other concerned the deferral and amortization of foreign exchange gains and losses associated with BC Hydro’s foreign denominated long-term debt. The Commission approved both applications in July.

The OPEIU commenced proceedings before the BCUC seeking a public hearing with respect to BC Hydro’s RFEI proposal. BC Hydro opposed the application on the basis that sections of the Utilities Commission Act requiring Commission approval of the transaction had no application to BC Hydro

and the BCUC ought not to use its general inquiry powers in this case. The BCUC accepted BC Hydro’s submissions in this regard. The OPEIU sought reconsideration of the decision but the BCUC declined their application on July 12, 2002. The OPEIU has filed an application for leave to appeal to the BC Court of Appeal that has yet to be heard.

The Canadian process for reviewing the Georgia Strait Crossing (GSX) Project is ongoing although dates for the filing of evidence by intervenors and the start of a public hearing have not been re-established. GSX Pipeline Canada responded to over 1200 information requests from the Joint Review Panel and intervenors during this quarter. The regulatory review of the US segment of the project by the Federal Energy Regulatory Commission is nearly complete and issuance of a CPCN certificate for that portion of the project is expected later this year.