

First Quarter Report

For the three months ended June 30, 2003



SPECIAL MESSAGE FROM THE CHAIR AND CEO

The grid blackout in eastern Canada and the United States in mid-August was a stark reminder of how deeply we have come to rely on electricity as part of our everyday lives. It was also a reminder for BC Hydro of the benefits of a well-built, well-maintained and well-operated integrated system, which ensures the security and reliability of electricity supply for all British Columbians.

Sometimes we have difficulty getting people to understand why we are so conservative when it comes to planning for – and having – a reliable supply of electricity. The blackout is, unfortunately, the best way to demonstrate why it's not good enough to just say we can "probably" keep the lights on. We have a legal obligation to make sure that is the case.

Although any grid system is at risk of a blackout in extreme circumstances, it is far less likely to happen here in B.C. To our benefit, the BC Hydro system is much less complex in its design than the eastern system; our system was created to operate under the most extreme circumstances including high demand, weather events, fire and loss of any part of the system. The BC Hydro system is also designed to be able to isolate problem areas on its own system and reroute around those problems without jeopardising supply on the rest of the system.

The BC Hydro system is primarily hydroelectric, meaning we would fare better than the eastern system if a blackout were to happen, as a hydroelectric system is more easily restarted. The eastern system has a number of coal and nuclear plants, which require longer periods of time to begin operating after a major event.

BC Hydro's grid is interconnected on the western system transmission "highway" to Alberta on the east, and south through Washington, Oregon, California and down to Mexico. Being connected to the grid has a number of benefits, including flexibility to buy power on the market during low water years to help support our reservoir levels and being able to sell power to bring financial benefits back into the province. And even in a blackout, the fact that we have a hydroelectric system would mean we would be able to generate enough power to meet domestic needs.

We will be involved in reviewing what happened with respect to the blackout. With world-respected leaders in both Powertech and the new BC Transmission Corporation, we will not only play a role in finding out the cause of the blackout but also applying any learnings to our own system. The end result will be an even stronger system here in B.C.



L.I. (Larry) Bell

Chair and Chief Executive Officer

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1. OVERVIEW

KEY HIGHLIGHTS

Financial

- Consolidated net loss for the three months ended June 30, 2003 was \$4 million, compared with consolidated net income of \$40 million for the same period in the previous year. The primary reason for the decline in net income is a decrease in margins caused by increasing cost of supply, due primarily to an increase in market prices BC Hydro paid for energy purchases. An increase in operations, maintenance and administration expenses, due primarily to an increase in employee future benefit costs (pension costs), one-time expenditures and other timing differences, added to the unfavourable variance, while a decrease in finance charges partly offset the variance.
- Net loss from domestic sources for the three months ended June 30, 2003 totalled \$41 million, while electricity trade sources produced net income of \$37 million. This compares with a net loss from domestic sources of \$4 million and a net income of \$44 million from electricity trade sources for the same period in the prior year.
- BC Hydro's forecast net income before Rate Stabilization Account (RSA) transfers for fiscal 2004 is approximately \$115 million, an increase of \$185 million from the forecast in BC Hydro's 2003 Service Plan and \$35 million from the forecast in BC Hydro's 2003 Annual Report. The increase from the Service Plan forecast to that in the Annual Report was largely due to the positive impact of the wetter-than-normal spring and to the decrease in the prices for electricity and natural gas purchases. BC Hydro is now projecting water inflows at 94 per cent of normal for this year, compared with 87 per cent of normal when the Service Plan was prepared. The additional \$35 million increase in the forecast is primarily due to lower finance charges as a result of lower-than-expected short-term interest rates.

Based on this forecast, the balance of \$21 million remaining in the RSA at the end of fiscal 2003 will be used up.

- BC Hydro is subject to various risks and uncertainties that can cause significant volatility in 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. A reduction in water inflows into the reservoirs results in greater reliance on imports or the Burrard Generating Station. As a result of these risks and uncertainties, BC Hydro's net income for fiscal 2004 could range from a loss of \$140 million to an income of \$265 million under various plausible scenarios.

Performance Plan

- BC Hydro's first-quarter performance was better than expected. Five of the six corporate measures reported on either met (3) or exceeded (2) their quarterly targets.
- Net Income (loss) was better than the target loss of \$83 million, primarily as a result of lower energy purchase costs due to lower market prices, an increase in electricity trade margins, and lower finance charges. Net Income is expected to remain ahead of target for the year, due to an improvement in the level of water inflows into BC Hydro's reservoirs as a result of an unusually wet spring and the positive impact of lower interest rates.
- BC Hydro was on target for the first quarter for the All Injury Frequency measure, which is defined as the combination of medical aid injuries and disabling injuries.
- BC Hydro was slightly below its quarterly reliability goal. The average number of hours per interruption was worse than target, mainly due to five major weather events.

Domestic Supply and Demand

- Compared with the first quarter of the previous fiscal year, total sales were 72 GW·h or 0.6 per cent higher. Of this total, Transmission sales were 162 GW·h or 4.5 per cent higher; General sales were eight GW·h or 0.2 per cent higher; Residential sales were 86 GW·h or 2.2 per cent lower (due to warmer temperatures than last year); and Other sales were eight GW·h or 3.3 per cent lower.
- BC Hydro is a winter peaking utility driven by residential electric space heating. A one-hour peak demand of 8,484 MW, at a daily average temperature of +5.3°C, was reached on December 18, 2002. As temperatures moderate in the spring and summer months, the system peak demand is reduced. In June 2003 the peak was 6,547 MW, compared with a peak of 6,487 in June 2002.
- Precipitation throughout most basins in the BC Hydro system during fall 2002 and winter 2002/2003 was well below normal. This contributed to below-average snowpacks in most areas of the province. However, the situation improved substantially during the month of March, due to significantly higher-than-average precipitation. Most of the snow-melt is now complete for 2003 and the stream flows to the end of September will depend on glacier melt in the Columbia and Bridge River drainages and summer rainfall in all regions.
- System storage on June 30, 2003 was about 13 per cent less than the same date last year and about 1,450 GW·h below the historical average for this time of year. The combined storage in BC Hydro reservoirs at June 30, 2003 was 94 per cent of average. This compares with the combined storage at June 30, 2002 of 108 per cent of average. With both system energy and the inflow forecast below normal, energy purchases will be needed during the year. BC Hydro currently anticipates importing approximately 5,000 GW·h for domestic use this year, approximately nine per cent of its load.

- The forecast for the Peace River area is 98 per cent of normal. The forecast for Kinbasket Reservoir is 91 per cent of normal. The forecasts for Revelstoke and Arrow local inflows are 90 per cent and 92 per cent of normal, respectively. The water supply forecasts for Kootenay Lake and Duncan Reservoir are 86 per cent and 92 per cent of normal, respectively. For the Bridge River/Coastal Area, the forecasts range from 81 per cent of normal at Coquitlam Reservoir to 107 per cent of normal at Upper Campbell Reservoir on Vancouver Island.

Lines of Business

- The Green Power Certificate (GPC) product for business customers continues to advance the demand for green electricity development in B.C. During the first quarter, eight new contracts were signed at an average price of \$20, representing 1,962 GPCs and bringing the total number of customers to 40.
- Power Smart continues implementing its comprehensive 10-year plan to reach an annual target of 3,500 GW·h in new energy savings, or enough to supply an additional 350,000 homes in British Columbia.
- For the first quarter of this fiscal year total cumulative run-rate energy savings achieved 401 GW·h/yr. placing Power Smart on target of 400 GW·h/yr. and on track to reach this year's cumulative target of 810 GW·h/yr.
- The Power Smart Traffic Light Program continues to make good progress towards the goal of converting traffic intersections in B.C. from incandescent to LED technology. At the end of the first quarter, 55 customers have enrolled in the program, representing 2,958 intersections, which is 81 per cent of available intersections in the province.
- Net new customer additions totalled 4,855 for the first quarter, an increase of 16 per cent over the same period last year. This upward trend is expected to continue for the remainder of the fiscal year.

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- BC Hydro has been proceeding with obtaining regulatory approvals for the Vancouver Island Generation Project (VIGP). The VIGP consists of a proposed 265 MW natural gas-fired electric generating facility to be built at Nanaimo's Duke Point industrial area on Vancouver Island. A regulatory schedule for reviewing BC Hydro's request for a Certificate of Public Convenience and Necessity (CPCN) was established. This included holding a series of workshops in Nanaimo in late April for representatives of the applicant to explain and respond to questions from the public about the project. The regulatory process culminated in an oral hearing that began on June 16 in Nanaimo and lasted nearly three weeks. The British Columbia Utilities Commission (BCUC) heard testimony from seven witness panels representing the applicant. The Vancouver Island Energy Corporation filed its final argument with the BCUC on July 15, requesting a decision by early September 2003.
 - The Georgia Strait Crossing Project (GSX) will provide firm natural gas transportation to Vancouver Island to supply the existing Island Cogeneration Project and the new proposed Vancouver Island Generation Project. On June 23, 2003, the Joint Review Panel (JRP) heard submissions from parties wishing to reopen the hearing to admit into the GSX proceeding evidence filed by Terasen Gas (Vancouver Island) in the Vancouver Island Generation Project hearing to expand its system as an alternative to the proposed GSX pipeline. On July 8 the JRP dismissed the parties' submission on the grounds that the Terasen proposal is at a preliminary stage and was not useful to the determinations that the JRP must make in the GSX proceeding. A positive decision by the JRP on GSX's CPCN application was received in late July.
 - Work continued on establishment of the British Columbia Transmission Corporation (BCTC). As part of the B.C. Government's Energy Plan, BCTC will be a separate government-owned corporation charged with operating and managing BC Hydro's transmission assets. Bill 39, the Transmission Corporation Act, was passed by the Legislature and received Royal Assent on May 29. On June 12, the government appointed a 10-member board of directors to oversee the corporation, under the Chairmanship of Robert Reid. The new company began operations on August 1st.
 - Unit 4 at Seven Mile Dam was placed in commercial service on April 24, a week ahead of the approved accelerated in-service date. Commercial generation began just before arrival of the spring freshet, when Unit 4 can make its greatest annual contribution to the 800 MW plant. Based on actual Unit 4 generation to date, the initial estimate of \$11 million in benefits from project acceleration is expected to be exceeded.
 - Accenture Business Services of British Columbia assumed responsibility for the performance of all Customer Care functions as of April 1, 2003. During the first quarter, the new company met or exceeded the targets for critical service levels.
 - As part of implementing the province's Energy Plan, the BCUC will hold an inquiry starting on July 29, 2003 to recommend to government the terms and conditions of a legislated Heritage Contract that will set the terms for supply from existing low-cost generation. The inquiry will also focus on recommending the design of a stepped rate for industrial customers, intended to increase the efficiency of the use and supply of energy to those customers without raising rates. BC Hydro filed its proposals on both initiatives with the BCUC on April 30, 2003.

2. FINANCIAL

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 BC Hydro's 2003 Annual Report and the consolidated financial statements of BC Hydro for the three months ended June 30, 2003 and 2002. 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

Consolidated net loss for the three months ended June 30, 2003 was \$4 million, compared with consolidated net income of \$40 million for the same period in the previous year. The primary reason for the decline in net income is a decrease in domestic margins resulting from increasing cost of supply, due primarily to an increase in market prices for energy. An increase in operations, maintenance and administration expenses, due primarily to an increase in employee future benefit costs, one-time expenditures and other timing differences, added to the unfavourable variance, while a decrease in finance charges partly offset the variance.

Domestic Revenues

Total domestic revenues of \$583 million for the three months ended June 30, 2003 were \$10 million higher than for the same period in the prior year. This increase was primarily due to an increase in large industrial revenues. The majority of the change in large industrial revenues occurred in the pulp and paper sector,

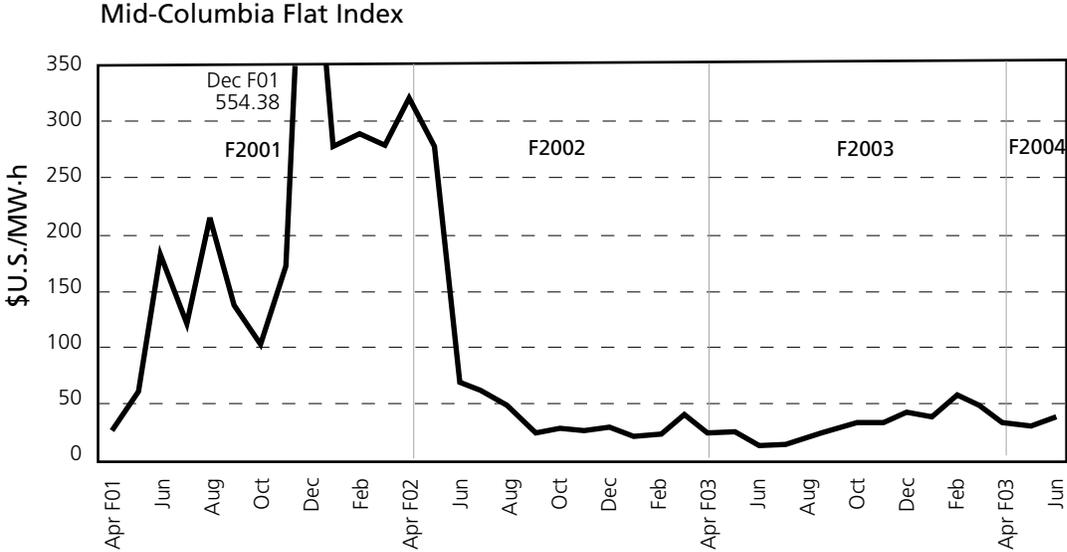
where several customers had higher levels of production than the prior year. Residential and light industrial and commercial customer growth also contributed to the increase in domestic revenues. Approximately 19,000 residential customers have been added to the system over the last 12 months. Domestic tariff rates have not increased over the last 10 years.

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 for the three months ended June 30, 2003 were \$463 million, an increase of \$138 million from the same period last year. The increase was due to a higher average sale price, which increased by 30 per cent from \$47/MW·h last year to \$61/MW·h this year. The increase in market prices is caused by several factors, including lower hydro availability in the region and tighter natural gas supplies. The nine per cent increase in sales volumes, from 6,995 GW·h in the prior year to 7,652 GW·h this year, also contributed to the increase in electricity trade revenues.

The following graph compares the electricity market prices over the last few years. It shows market prices at the mid-Columbia trading hub in central Washington State, as they are indicative of prices in the Pacific Northwest. Market prices have declined to more traditional levels since June 2001.



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

	(\$in millions)		Volumes (in GW·h)	
	2003	2002	2003	2002
Sales	463	325	7,652	6,995
Purchases	451	309	10,111	9,614
Net export (import)			(2,459)	(2,619)
			Volumes (in GW·h)	
			2003	2002
Net purchases to be used for future re-sale in the electricity trade market			532	2,619
Net purchases for domestic use			1,927	–
			2,459	2,619

BC Hydro chose to import energy for domestic use and conserve reservoir levels, as it was more economic compared with generating additional energy from its hydro and thermal facilities.

BC Hydro currently anticipates importing approximately 5,000 GW·h for domestic use this year, approximately nine per cent of its load.

Expenses

Energy costs are composed of the following sources of supply:

	(in millions of \$)		Volumes (in GW·h)		Prices (\$/MW·h)	
	2003	2002	2003	2002	2003	2002
Hydro ¹	\$49	\$46	8,641	8,283	\$5.7	\$5.6
Purchases from Independent Power Producers and other long-term purchase contracts	83	70	1,322	1,213	62.9	57.3
Other electricity purchases	451	309	10,111	9,614	44.6	32.1
Natural gas ²	37	28	96	119	116.7	84.1
Non-integrated	3	3	23	23	130.4	130.4
Transmission charges and other expenses	31	28				
Total	\$655	\$483	20,193	19,252	\$32.4	\$25.1

¹ Net of storage exchange.

² Includes costs of remarketed gas of approximately \$26 million for the three months ended June 30, 2003 compared with \$18 million for the same period in the prior year. The volumes shown for natural gas relate only to gas used for thermal generation.

The mix of sources of supply are impacted by variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

Energy costs of \$655 million for the three months ended June 30, 2003 increased by \$172 million from the same period last year. This increase reflects the increase in the price of energy purchases. Energy purchase prices averaged \$45/MW·h for the first three months of this year, compared with \$32/MW·h for the same period last year, a 25 per cent increase. An increase in the price of deliveries from some Independent Power Producers also increased due to higher natural gas prices. An increase in the volume of energy supply required to meet the increase in demand also contributed to the increase in energy costs.

Water inflows into BC Hydro's reservoirs decreased by 18 per cent over the prior year. This resulted in a reduction in reservoir levels. The combined storage in BC Hydro reservoirs at June 30, 2003 was 94 per cent of average, with the Williston Reservoir on the Peace River system at 97 per cent of average and the Kinbasket Reservoir on the Columbia river system at 77 per cent of average. This compares with the combined storage at June 30, 2002 of 108 per cent of average, with the Williston Reservoir at 120 per cent of average and the Kinbasket Reservoir at 79 per cent of average.

Operations, maintenance and administration expenses (OMA) of \$158 million for the three months ended June 30, 2003, were \$38 million higher than for the same period last year. This increase was largely due to an increase in

employee future benefit costs (pension costs) as a result of an increase in the pension liability, based on the September 2002 actuarial valuation of BC Hydro's pension plans and the timing of expenditures. The actuarial valuation reflected increased obligations as a result of several factors, such as employees retiring earlier and living longer. One-time expenditures related to implementation costs for IT projects and the setting up of the new Transmission company (BC Transmission Corp.) also contributed to the increase in OMA. BC Hydro's OMA expenditures are on Plan and the variance from the prior year is expected to decline over the year.

Taxes

Taxes, which are comprised of school taxes, grants in lieu of taxes and the corporation capital tax, decreased by \$2 million from the same period last year. This decrease was primarily due to the elimination of corporation capital tax in September 2002.

Finance Charges

Finance charges were \$100 million, a decrease of \$16 million from the same period last year. This was primarily due to capital gains on sinking funds and a stronger Canadian dollar, which impacted the cost of interest payments on U.S. dollar denominated debt. The Canadian dollar for the three months ended June 30, 2003 averaged U.S.\$0.72, compared with U.S.\$0.65 for the same period in the prior year.

Investing Activities

Capital expenditures, including demand-side management programs, for the three months ended June 30, 2003 amounted to \$132 million, compared with \$160 million for the same period last year.

The decrease in Generation replacements and expansion expenditures was primarily a result of lower spending on the Vancouver Island Generation Project (VIGP) as expenditures are being minimized pending approval of the project by the BC Utilities Commission (BCUC). BC Hydro

submitted its application to the BCUC for a Certificate of Public Convenience (CPCN) for the proposed VIGP. A public hearing process was held by the BCUC and a decision is anticipated in September 2003.

On June 23, 2003 BC Hydro committed at the BCUC hearing to proceed with a Vancouver Island capacity call. While BC Hydro maintains that VIGP is the most cost-effective alternative for its ratepayers, many early stage proposals have been advanced by other proponents that need to be thoroughly evaluated, with conclusive information provided through a call for tender process. The timing of the call is expected to be in September 2003.

(millions of dollars)	2003	2002	Change Increase (Decrease)
Generation replacements and expansion	\$23	\$59	\$(36)
Transmission lines and substation replacements and expansion	29	30	(1)
Distribution improvements and expansion	46	37	9
General—computers, vehicles, etc.	26	27	(1)
Power Smart (Demand-side management)	8	7	1
Total	\$132	\$160	\$(28)

Financing Activities

During the three months ended June 30, 2003, BC Hydro issued two new Canadian bond issues totalling \$440 million. The funds from these issues were used to redeem a Canadian \$300 million bond and to fund the payment to the Province. The net long-term debt balance at June 30, 2003 was \$6,924 million, compared with \$6,849 million at March 31, 2003. The increase of \$75 million is largely due to a higher volume of debt needed to finance the payment to the Province, partially offset by the impact of the stronger Canadian dollar.

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.

Future Outlook

BC Hydro's forecast net income for this fiscal year is \$115 million before any transfers to or from the Rate Stabilization Account.

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 a loss of \$140 million and an income of \$265 million.

CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

for the three months ended June 30 (in millions)

	2003	2002 ¹
Revenues		
Residential	\$ 208	\$ 205
Light industrial and commercial	217	213
Large industrial	129	122
Other energy sales	16	18
Miscellaneous	13	15
	583	573
Electricity trade	463	325
	1,046	898
Expenses		
Energy costs	655	483
Operations and administration	89	67
Maintenance	69	53
Total OMA	158	120
Taxes	35	37
Depreciation and amortization	102	102
	950	742
Income Before Finance Charges	96	156
Finance charges	100	116
Net Income (Loss)	\$ (4)	\$ 40

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (UNAUDITED)

As at June 30 (in millions)

	2003	2002
Retained earnings, beginning of year	\$ 1,609	\$ 1,529
Net income (Loss)	(4)	40
Payment to the Province	–	(29)
	\$ 1,605	\$ 1,540

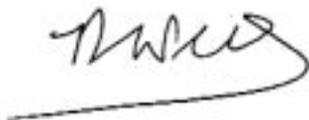
¹ Certain figures in the prior year have been restated to conform to the presentation in the current fiscal year.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

<i>(in millions)</i>	<i>as at June 30</i> 2003	<i>as at Mar 31</i> 2003
ASSETS		
Capital Assets		
Capital assets in service	\$14,806	\$14,940
Less accumulated depreciation	5,790	5,816
	9,016	9,124
Unfinished construction	793	669
	9,809	9,793
Current Assets		
Temporary investments	35	4
Accounts receivable and accrued revenue	295	362
Materials and supplies	95	88
Prepaid expenses	40	86
Unrealized gains on mark-to-market transactions	11	10
	476	550
Other Assets and Deferred Charges		
Loan receivable	22	23
Sinking funds	995	1,037
Demand-side management programs	125	123
Deferred debt costs	247	385
Foreign currency contracts	1	13
	1,390	1,581
	\$11,675	\$11,924
LIABILITIES AND EQUITY		
Long-Term Debt		
Long-term debt net of sinking funds	\$ 6,959	\$ 6,853
Sinking funds presented as assets	995	1,037
	7,954	7,890
Foreign Currency Contracts	55	15
Current Liabilities		
Accounts payable and accrued liabilities	660	689
Accrued interest	143	108
Accrued payment to the Province	–	338
Unrealized losses on mark-to-market transactions	12	10
	815	1,145
Deferred Credits and Other Liabilities		
Provision for future removal and site restoration costs	179	174
Deferred revenue	257	258
Rate stabilization account	21	21
Contributions arising from the Columbia River Treaty	200	203
Contributions in aid of construction	589	609
	1,246	1,265
Retained Earnings	1,605	1,609
	\$11,675	\$11,924



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



Bob Elton
Executive Vice-President, Finance and
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

for the three months ended June 30

<i>(in millions)</i>	2003	2002
Operating Activities		
Net income (loss)	\$ (4)	\$ 40
Adjustments for:		
– Depreciation and amortization	102	102
– Other non-cash items	(18)	14
	80	156
Working capital changes	135	17
Cash provided by operating activities	215	173
Investing Activities		
Loan receivable	(2)	(5)
Capital asset expenditures	(157)	(164)
Contributions in aid of construction	4	18
Demand-side management programs	(8)	(7)
Future removal and site restoration costs	(1)	(2)
Proceeds from property sales	1	1
Cash used for investing activities	(163)	(159)
Financing Activities		
Bonds, notes and debentures:		
– Issued	440	400
– Retired	(300)	(234)
Revolving borrowings	152	263
Sinking fund changes	18	(18)
Premium, discount and issue costs	7	(4)
Cash provided by financing activities	317	407
Payment to the Province	(338)	(332)
Increase in Cash	31	89
Cash at Beginning of Period¹	4	17
Cash at End of Period¹	\$ 35	\$ 106
Supplemental disclosure of cash flow information		
– Interest paid	\$ 104	\$ 95

1. Cash at the beginning and end of the period consists of temporary investments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and take into account certain accounting practices by regulatory bodies that differ from the accounting practices applied in unregulated enterprises and relate specifically to certain deferred charges.

The consolidated financial statements for the quarter and the present Notes should be read in conjunction with the Consolidated Financial Statements and accompanying Notes in BC Hydro's 2003 Annual Report.

The accounting policies used to prepare the quarterly consolidated financial statements conform to those described in BC Hydro's 2003 Annual Report. On April 1, 2003 BC Hydro adopted the recommendations in AcG-14 of the CICA Handbook, entitled Disclosure of Guarantees. The information required is presented in note 2.

Note 2: Guarantees

BC Hydro has not granted any significant or material guarantees to third parties to indemnify them other than those disclosed in its 2003 Annual Report.

Note 3: Contingencies

There are no material changes to the contingencies disclosed in BC Hydro's 2003 Annual Report.

Note 4: Segmented Information

The segmented information for the three months ended June 30, 2003 reflect several changes from the segmented information disclosed in BC Hydro's 2003 Annual Report. The changes were made to reflect the proposals contained within the Heritage Contract proposal filed with the British Columbia Utilities Commission in April 2003 and to reflect changes in the Accountability

Framework used for internal management purposes. The changes relate to the following:

- Powerex pays its net income, excluding unrealized gains/losses on system-backed transactions, to Generation as a dividend. In the prior year, Powerex paid only a portion of its net income to Generation based on factors such as the amount of income earned on its Trade books. Powerex's dividend to Generation for the three months ended June 30, 2003 was \$35 million, compared with \$11 million for the same period in the prior year.
- The cost of Powerex's transmission for trade includes an allocation of BC Hydro's cost of purchases of point-to-point transmission within B.C. for export and most import transactions. These costs, totalling \$14 million for the three months ended June 30, 2003, were not deducted from Powerex's income in the prior year.
- Generation's revenue in the prior year included the recovery from Distribution of the costs relating to energy purchases from Independent Power Producers (IPPs) and other long-term purchase commitments. These energy purchases were managed by Generation and the costs were included in setting the transfer price for energy between Generation and Distribution. Effective April 1, 2003, energy purchases from IPPs and other long-term purchase commitments are managed by Distribution. These purchase costs, excluding gas costs, are now shown as direct costs to Distribution and no longer enter into the transfer price between Generation and Distribution. The costs of these purchases for the three months ended June 30, 2003 totalled \$64 million, compared with \$59 million for the same period in the prior year.

Three months ended June 30, 2003

(millions of dollars)

	Distribution	Transmission	Generation	Powerex	Other ³	Consolidation Adjustments	Total
External revenues	570	3	4	475	10	(16) ²	1,046
Inter-segment revenues	–	166	343	149	85	(743)	–
Net income (loss)	(94)	46	56	46	15	(73) ²	(4)
Total assets	3,230	3,060	4,726	522	615 ¹	(478)	11,675

Three months ended June 30, 2002

(millions of dollars)

	Distribution	Transmission	Generation	Powerex	Other ³	Consolidation Adjustments	Total
External revenues	548	2	12	325	17	(6) ²	898
Inter-segment revenues	–	191	300	19	144	(654)	–
Net income (loss)	2	68	34	50	(40)	(74) ²	40
Total assets	3,036	3,068	4,966	1,462	685 ¹	(1,351)	11,866

An analysis of the segmented results compared with the prior year is provided on pages 27, 30, 50, 53 and 56.

¹ Mainly consists of capital assets such as office buildings, vehicles and computer equipment.

² These adjustments mainly relate to the difference between BC Hydro's management reporting, used for risk management and performance measurement purposes, and Generally Accepted Accounting Principles (GAAP). For management reporting purposes, energy purchases bought for future resale are expensed when the energy is sold. The energy purchased for future resale is also marked to market each month. For GAAP reporting purposes, energy purchases bought for future resale are expensed in the period of purchase. Under GAAP reporting, Powerex's income was \$37 million and the loss from domestic sources was \$41 million for the three months ended June 30, 2003, compared with Powerex's income of \$44 million and a loss from domestic sources of \$4 million for the same period in the previous year.

³ Includes Engineering Services, Field Services and Shared Services (in fiscal 2002) Organizations, other subsidiaries including Westech (in fiscal 2002) and Powertech and Corporate costs. The functions within Shared Services and Westech were outsourced to Accenture Business Services of British Columbia (ABS) effective April 1, 2003.

OPERATING HIGHLIGHTS (UNAUDITED)

for the three months ended June 30

(in GW-h)	2003	2002
Electricity Sold		
Residential	3,349	3,293
Light industrial and commercial	4,086	4,015
Large industrial	3,777	3,614
Other energy sales	281	326
	11,493	11,248
Electricity trade	7,652	6,995
	19,145	18,243
Number of domestic customers	1,633,872	1,613,921
Number of employees	4,505	6,247

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 per cent 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 74,500 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.

3. PERFORMANCE MEASURES – BC HYDRO OVERALL

BC Hydro will accomplish its vision of being North America’s leading sustainable energy company by building on its solid base of clean, renewable hydropower assets, by employing a skilled and capable workforce, by delivering excellent financial and operational performance, and by attaining strong public support. The company’s four key goals reflect this ambition.

Strong financial performance – by targeting first quartile costs when compared with similar utilities and striving to deliver stable earnings at the allowed Return on Equity.

Quality service – by focusing on customer satisfaction and service reliability.

Good environmental and social performance – by continuing to manage priority environmental and social issues.

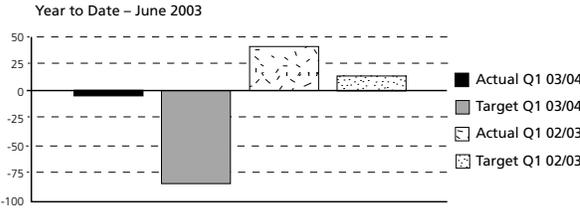
Skilled workforce, safe workplace – by developing skills and knowledge of employees and contractors, and providing a safe, healthful and harassment-free workplace.

Performance Measures, Targets, and Results

Performance measurement, both financial and non-financial, is an integral part of BC Hydro’s Strategic Management Process. 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 first quarter 2003/2004 performance measures as identified in the Service Plan against current targets and, where available, historical performance. Line of Business (business segments) measures are disclosed in the Line of Business sections.

Net Income (in millions) ▲

	Actual	Target
Q1 03/04	\$ (4)	\$(83)
Q1 02/03	\$40	\$13



Net Income is defined as total revenue less total expenses before transfers to or from the Rate Stabilization Account. The targets are based on current cost and revenue drivers and the impact that cost reduction and/or revenue enhancement initiatives will have on these drivers. In recent years BC Hydro has experienced significant changes in net income due to extreme volatility in the electricity trade market. While such volatility has abated, its return would significantly impact the targets.

Net Income was better than target, primarily as a result of lower energy purchase costs due to lower market prices, an increase in electricity trade margins, and lower finance charges. Finance charges on U.S. denominated debt were lower, mainly due to lower short-term interest rates and the strengthening of the Canadian dollar against the U.S. dollar. Net income is expected to remain ahead of target for the year due to an improvement in the level of water inflows into BC Hydro’s reservoirs as a result of an unusually wet spring.

Net income for the quarter was lower than for the same period in the previous year. The primary reason for the decline was the decrease in domestic margins resulting from the increasing cost of supply, due primarily to the increase in the market prices for energy. An increase in operations, maintenance, and administration expenses, due largely to an increase in employee future benefit costs, one-time expenditures, and other timing differences, added to the unfavourable variance. A decrease in finance charges partly offset the variance.

Reliability ▼

ASAI	Actual	Target
Q1 03/04	99.958%	99.970%
Q1 02/03	99.956%	99.970%
CAIDI	Actual	Target
Q1 03/04	2.66 hrs.	2.15 hrs.
Q1 02/03	2.62 hrs.	2.15 hrs.

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. CAIDI and ASAI are reported on a rolling 12-month average. For the current results, this period was from July 1, 2002 to June 30, 2003. ASAI and CAIDI by function are as follows:

	ASAI (%)
Generation	99.9997%
Transmission	99.9967%
Substation	99.9973%
Distribution	99.9647%
BC Hydro ¹	99.9584%

¹ BC Hydro's overall ASAI is the weighted average of Generation, Transmission, Substation and Distribution.

	CAIDI (hours)
Generation	0.51
Transmission	1.17
Substation	1.28
Distribution	3.48
BC Hydro ²	2.66

² BC Hydro's overall CAIDI is the weighted average of Generation, Transmission, Substation and Distribution.

CAIDI was slightly lower than target mainly due to five major weather events:

Date	Cause	Areas Affected	Duration (average)
Dec. 15, 2002	Windstorm	Lower Mainland & Vancouver Island	6.1 hours
Dec. 25-26, 2002	Windstorm	Lower Mainland & Vancouver Island	1.4 hours
Jan. 2-3, 2003	High Winds & Heavy Rain	Lower Mainland & South Vancouver Island	4.9 hours
Mar. 13, 2003	Windstorm	Lower Mainland & Vancouver Island	7.8 hours
Mar. 22, 2003	High Winds & Lightning	Vancouver Island	1.3 hours

For the year-to-date, 1,155,252 customer hours were lost, compared with a five-year average of 810,308 customer hours lost for the same period (April to June). Also for this year-to-date period, 21.7 per cent of the total customer hours lost was due to Distribution Line equipment failure (the five-year average for the same period is 12.81 per cent). One per cent was due to equipment failure from source outages, mainly Substations (the five-year average for the same period is 6.64 per cent). The higher-than-average year-to-date figure for Distribution Line equipment failure may be due to the relatively benign weather experienced over the last three months. It is expected that this percentage will decline as more months from fiscal 2004 are added to the data, especially when adverse weather begins to impact the system in the late fall and winter months.

However, the year-to-date data may also suggest that as the Distribution system ages, a higher-than-average percentage of customer hours lost (and customer interruptions) may be attributed to Distribution Line equipment failures. The historical data is being analyzed to see if there is a pattern.

The ASAI result means that over the 12-month period, the system was unavailable less than a total of four hours.

All Injury Frequency ●

	Actual	Target
Q1 03/04	3.0	3.1

All Injury Frequency is defined as the combination of Medical Aid Injuries and Disabling Injuries. Medical Aid Injuries are injuries where a medical practitioner has submitted a fee to Workers' Compensation Board for services rendered and the duration the employee was absent from work did not exceed the normal shift of the day of injury. Disabling Injuries are injuries that involve the employee being absent for more than the day of injury. The calculation is based on injuries

experienced at BC Hydro over the previous 12 months and it is relative to person-hours that have been worked over that same period.

For the first quarter, the All Injury Frequency measure was on target.

Regulatory Compliance ▲

	Actual	Target
Q1 03/04	3 Incidents	10 Incidents
Q1 02/03	9 Incidents	15 Incidents

Environmental Regulatory Compliance is defined as the number of externally reportable, preventable environmental incidents. The targets were derived from historical rates to allow for continued increased reporting resulting from greater awareness and utilization of BC Hydro's Environmental Incident Reporting system as well as increased pressure by regulatory agencies. After the education and awareness are complete, as well as improved relations and understanding with regulators, BC Hydro expects the numbers to start dropping. The reductions should result from continually improving management practices.

Results are lower than the apportioned annual target for this quarter (10), but close to the normal quarter-to-quarter variability observed historically. Of the three incidents that qualified as preventable (two human error, one equipment failure), none was characterized as "severe".

Incremental Conservation Gigawatt Hours ●

	Actual	Target
Q1 03/04	401 GW·h	400 GW·h
Q1 02/03	28 GW·h	30 GW·h

Conservation Gigawatt Hours is defined as cumulative gigawatt hours saved as a result of economic demand-side management. The targets are based on net savings from current Power Smart

programs and programs expected to come on stream. The targets include both residential and business demand-side management. If the targets are achieved, BC Hydro will rank in the top quartile for both energy savings as a percentage of domestic energy sales and for investment in demand-side management as a percentage of revenue (American Council for the Energy Efficient Economy).

The actual number of 401 gigawatt hours includes discounts for free riders, free drivers, and measurement and verification for business sector programs. These discounts make the Conservation figure a net number. Without applying these initial estimates the cumulative run-rate energy savings would be 432 gigawatt hours.

Approved Strategic Workforce Positions Filled ●

	Actual	Target
Q1 03/04	43	41

Approved Strategic Workforce Positions Filled is defined as the number of positions filled under BC Hydro’s Strategic Workforce Planning (SWfP) initiative. SWfP is the management process for anticipating, scoping and planning the alignment of needed critical workforce capabilities to meet BC Hydro’s strategic business goals. The targets were set based on internally performed needs assessments.

For the first quarter, the Strategic Workforce measure was on target.

POWEREX

Powerex’s goal is strong financial performance and increasing returns for its shareholder. This goal is measured by the following two indicators.

Net Income (in Millions) ▲

	Actual	Target
Q1 03/04	\$46	\$10

Net Income is defined as total revenue less total expenses before transfers to the Rate Stabilization Account. The targets are based on current cost and revenue drivers and the impact that cost reduction and/or revenue enhancement initiatives will have on these drivers.

Powerex’s net income was better than target in the first quarter, mainly due to healthy price spreads and good forward calls made in the prior year that are being realized in the current year.

Sales Volumes¹ ●

	Actual	Target
Q1 03/04	8,099 GW·h	8,524 GW·h

Sales Volumes is defined as gigawatt hours sold. Targets have been set based on supply and demand forecasts.

For the first quarter, the Sales Volume measure was on target (i.e. sales volumes were within five per cent of target).

¹ Includes sales to third parties and to BC Hydro.

4. LINES OF BUSINESS

GENERATION

Introduction

- The Generation Line of Business is responsible for the operation, maintenance and financial performance of BC Hydro's existing integrated electricity generation assets throughout British Columbia. This includes 42 dams, 79 units at 31 hydroelectric generation facilities and nine units at three thermal generation facilities
- The Generation Team optimizes the value of these assets by managing inflows, storage, thermal resources, maintenance and investments to maximize profitability over the long term, while at the same time balancing environmental and social issues.
- The primary focus for Generation is value creation. Commercial performance, which is a measure of actual revenue relative to possible revenue, is a key indicator of success. Generation's Commercial Performance target for fiscal 2004 is 99.50 per cent, an increase over the fiscal 2003 Actual of 99.43 per cent. For reference, a 0.1 per cent improvement in Commercial Performance equates to approximately \$2.5 to \$3.0 million additional gross revenue.
- To maintain and improve the condition of Generation's assets over the next 10 years, Generation will invest one per cent of replacement cost annually in its facilities. This will ensure that 10 years from now, despite being 10 years older, Generation assets will be in as good or better condition than they are today.
- In late April 2003, BC Hydro filed with the BCUC recommendations with respect to the Commission's inquiry into the legislative changes necessary to implement the provincial government's *Energy for our Future: A Plan for B.C.* This will result in a legislated "Heritage Contract" that will preserve the value of BC Hydro heritage resources for the benefit of

the ratepayer. The Heritage Contract will be based on energy from existing generating stations under average water conditions.

- Generation will provide advice to the BCUC on Generation's cost of supplying energy to Distribution; the price that the Distribution Line of Business should pay; the principles and impacts of providing ancillary services to the BC Transmission Corporation (BCTC); and appropriate adjustment mechanisms. The BCUC is scheduled to issue a final report to the B.C. Government on October 17, 2003.
- Over the next five years, Generation's goal is to move from top quartile to top decile (top tenth) both in terms of the cost and the performance of its core and strategic assets. Generation has put in place initiatives to reduce overhead costs by increasing efficiencies, being more innovative and implementing best in class business processes and information technology.
- To ensure that cash is allocated to provide the greatest value, Generation has also put in place an asset management process built around 20-year Asset Plans for each facility and a Consolidated Generation Asset Plan that includes prioritization of investments to maximize contribution margin and manage risk.

System Operation

- BC Hydro monitors the levels at its hydroelectric reservoirs to ensure the most efficient use of stored water to meet domestic loads and to maximize value creation through electricity trade. Reservoir levels at any time are a function of inflows (caused by snowmelt and/or rainfall runoff) and electricity demand (as water in the reservoirs is discharged through turbines to produce electricity).
- Precipitation throughout most basins in the BC Hydro system during fall 2002 and winter 2002/2003 was well below normal. This

contributed to below-average snowpacks in most areas of the province. However, this situation improved substantially during the month of March due to significantly higher-than-average precipitation. Most of the snowmelt is now complete for 2003 and the stream flows to the end of September will depend on glacier melt in the Columbia and Bridge River drainages and summer rainfall in all regions.

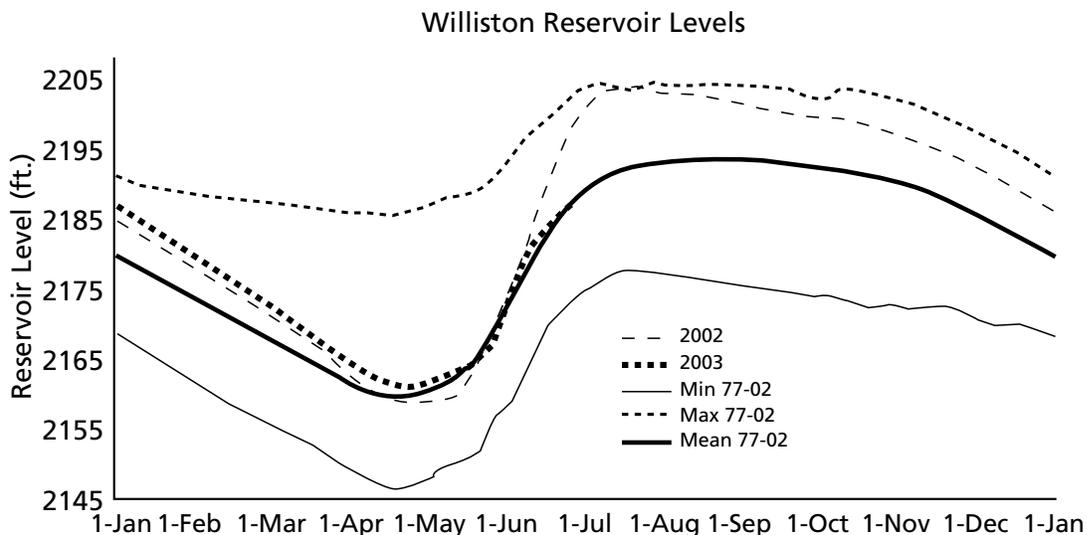
- System storage energy on June 30, 2003 was about 13 per cent less than the same date last year and about 1,450 GW·h below the historical average for this time of year. With both system energy and the inflow forecast below normal, energy purchases will be needed during this year.

Peace River Area

- The Peace River Area includes Generation's single largest facility, the 10-unit, 2,730 MW G.M. Shrum Generating Station and the four-unit, 700 MW Peace Canyon Generating Station.
- The Williston Reservoir filled to its full-pool level during the summer of 2002 and a spill was initiated to prevent the reservoir from exceeding its full-pool level. Snowpack accumulations during the winter of 2002-2003 began slowly but improved in March and early April. Most of this year's snowmelt has now

occurred in the Peace Area and, during the period February through June 2003, observed runoff to Williston Reservoir was 98 per cent of normal.

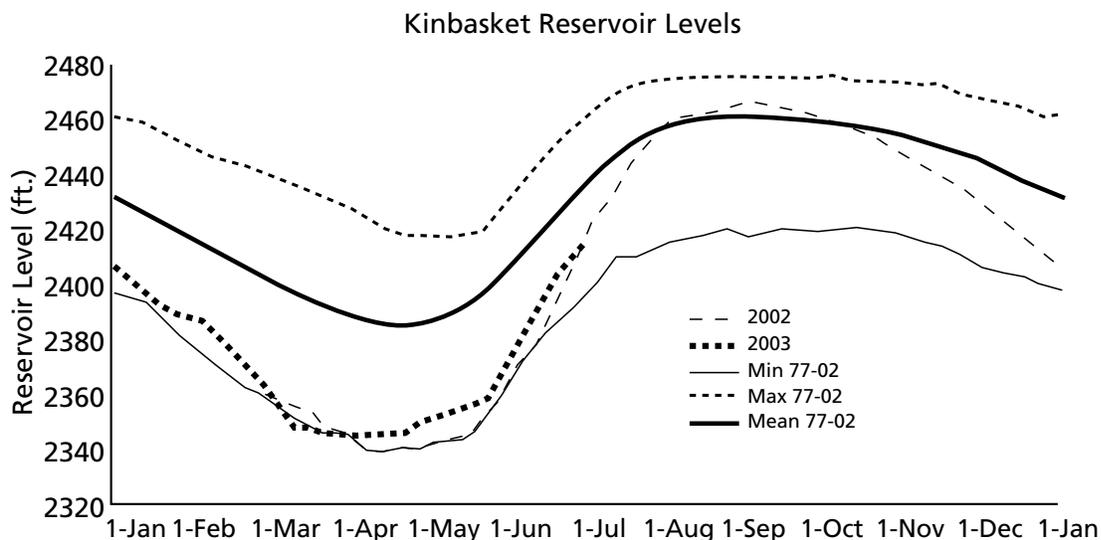
- During fiscal 2004, capital investment of \$40.0 million is planned for the Peace River Area.
- Work has begun to refurbish G.M. Shrum Generating Station Unit 6. As part of this work, the turbine will be replaced under BC Hydro's Resource Smart program, resulting in an increase of 81 GW·h of energy. The cost of incremental generation from the new turbine is 1.2 cents/kW·h. A similar work program was completed on Unit 7 during 2003.
- Concerns have been raised about the premature end of life of the generators at Peace Canyon Generating Station. BC Hydro has assembled an Advisory Panel of international experts to provide advice to BC Hydro on this issue.
- Other major capital projects include:
 - replacing a number of G.M. Shrum exciters and unit transformers;
 - modernizing G.M. Shrum unit protection;
 - upgrading Peace Canyon fire protection; and
 - upgrading Peace Canyon powerhouse crane.



Upper Columbia Area

- The Upper Columbia Area has the largest installed capacity of the five Generation areas and includes the following facilities:
 - the four-unit, 1,860 MW Mica Generating Station;
 - the four-unit, 2,000 MW Revelstoke Generating Station;
 - Walter Hardman (WHN), Shuswap (SHU) and Whatshan (WGS) generating stations, totalling five units and 68 MW.
- The recorded 2002 water supply for the Columbia River basin was near normal (99 per cent of normal for the Kinbasket basin). Kinbasket Reservoir reached a record low level in April 2002, but was refilled to within three metres of its full-pool level during the summer of 2002. Snowpack accumulations during the winter of 2002/2003 were very low until the end of February but improved in March and early April.
- Most of the 2003 snowmelt has now occurred in the Columbia Basin. The February through June observed runoff was 98 per cent of normal for both Kinbasket and Revelstoke Reservoirs, and 102 per cent of normal for Arrow Reservoir.

- The July 1, 2003 water supply forecast for Kinbasket Reservoir is 91 per cent of normal. This is an improvement over the April 1, 2003 runoff forecast, which was 85 per cent of normal. The forecasts for Revelstoke and Arrow local inflows are 90 per cent and 92 per cent of normal, respectively.
- During fiscal 2004, capital investment of \$11.0 million is planned for the Upper Columbia Area.
- BC Hydro recently received approval from the British Columbia Utilities Commission and the Provincial Environmental Assessment Office to decommission Coursier Dam, about 30 km south of Revelstoke, due to concerns about the safety of the dam. Pending regulatory approvals, a restriction had been placed on the maximum reservoir level to ensure the safety of the dam. The decommissioning work will be done during the summer and fall of 2003, with revegetation work planned for 2004.
- An ongoing problem with the condition of the Mica Generating Station generators has progressed to the point where BC Hydro must address the issue. Generator stator core laminations are held in place by stator core bolts, which secure the stator laminations to the stator frame. At Mica, these core bolts

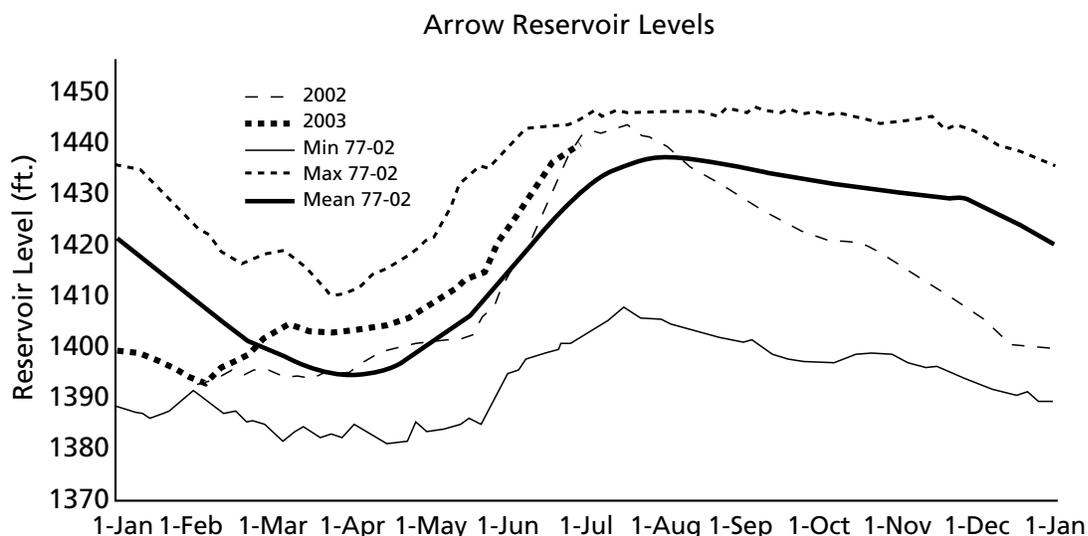


have begun to fail. A study by GE Canada, the manufacturer of the Mica generators, recommended two options: a repair to the stator core bolts in situ; or replacement of the existing generator stators with new replacement stators. In both options, the generator stator windings will have to be replaced. The primary difference is the cost of the option and the duration of the outages. The in-situ core bolt repair will require a unit outage of approximately six months per unit, for each of the four units. Stator replacement can be accomplished in about three months per unit.

- There is also the opportunity to combine the generator stator work with the proposed Resource Smart project of replacing the turbine runners on Units 1 and 2 with more efficient runners. Work is being done to determine how the stator repair and runner replacement can be accomplished during the same outage. The alternatives are being examined and a proposed approach will be finalized during the upcoming year.
- Other major capital projects include:
 - enhancing Mica Dam instrumentation; and
 - contouring Columbia riverbed downstream of Revelstoke Dam.

Kootenay Area

- The Kootenay Area includes the following facilities:
 - the four-unit, 580 MW Kootenay Canal Generating Station;
 - the four-unit, 800 MW Seven Mile Generating Station;
 - Spillimacheen (SPN), Elko (ELK) and Aberfeldie (ABF) generating stations, totalling six units and 21 MW.
- The July 1, 2003 water supply forecasts for Kootenay Lake and Duncan Reservoir are 86 per cent and 92 per cent of normal, respectively. The February through June observed runoff to Kootenay Lake was 86 per cent of normal and for Duncan was 100 per cent of normal.
- Capital investment of \$48.4 million is planned for the Kootenay Area.
- Major projects include:
 - seismic upgrading of Seven Mile Dam;
 - replacing Kootenay Canal unit transformers;
 - upgrading Kootenay Canal fire protection; and
 - contouring Pend d'Oreille riverbed downstream of Seven Mile Dam.



Bridge River/Coastal Area

- The Bridge River/Coastal Area comprises 25 dams, 19 powerhouses and 38 generating units with an installed capacity of 1,535 MW located in 13 river basins throughout the province. The largest facilities include the eight-unit, 466 MW Bridge River complex; the two-unit, 167 MW Cheakamus Generating Station, the six-unit, 132 MW John Hart Generating Station, the three-unit, 105 MW Ruskin Generating Station and the two-unit, 91 MW Stave Falls Generating Station.
- Snowpack accumulations in the Bridge River basin during the winter of 2002/2003 have followed the same pattern as those in the Peace and Columbia basins – lower than normal until the end of February and then improving in March and early April.
- Most of this year's snowmelt has now occurred along the coast. The February through June observed runoff was about 10 per cent above average in the Bridge, South Coast and Central Vancouver Island areas, and about 10 per cent below average in the lower Fraser Valley and South Vancouver Island areas.
- The July 1, 2003 water supply forecasts for the region range from below normal in the lower Fraser Valley to slightly above normal on Vancouver Island. The forecasts range from 81 per cent of normal at Coquitlam Reservoir to 107 per cent of normal at Upper Campbell Reservoir on Vancouver Island.
- Capital investment of \$52.0 million is planned for the Bridge River/Coastal Area.
- Dam safety improvements at Elsie Dam will improve the dam's performance in major earthquakes. The work on the earthfill dam was completed in 2001, and during 2002 upgrades were made to the upstream portion of the low-level outlet structures in the dam. The remaining upgrades to the low-level outlet conduit and valves are scheduled for completion by 2005 at a total project cost of \$17 million.

- The Coquitlam Dam requires upgrading to meet present earthquake standards. During 2002, various remediation options were investigated and the preferred option has been determined. The project costs will be about \$40 million and remediation is expected to be complete in 2005. Discussions are also underway with the GVRD regarding their increased use of water from Coquitlam as drinking water.
- Bridge River #1 Units 2 and 3 will be refurbished this summer. As part of this work, the turbines will be replaced under BC Hydro's Resource Smart program, resulting in an increase of 28 GW·h. The cost of incremental generation from the new Bridge River turbines is 1.8 cents/kW·h. A similar work program was completed on Units 1 and 4 during 2002.
- Other major projects include:
 - refurbishing Cheakamus Units 1 and 2, including replacing the existing runners;
 - replacing transformers at Bridge River, John Hart and Strathcona generating stations; and
 - safety improvements at La Joie, Blind Slough and Ruskin dams.

Thermal Generation Area

- The Thermal Generation Area includes BC Hydro's three thermal facilities:
 - the six-unit, 912 MW Burrard Generating Station;
 - the two-unit, 46 MW Prince Rupert Generating Station; and
 - the single-unit, 45 MW Fort Nelson Generating Station.
- During fiscal 2004, capital investment of \$18.0 million is planned for the Thermal Area.
- Major capital projects include:
 - removal and management of asbestos at Burrard;

- modifying one unit at Burrard to enable synchronous condenser operation, including control upgrade; and
- enhancing start-up capability of Burrard units.
- To ensure the security of supply on Vancouver Island, BC Hydro recommended the development of the Vancouver Island Generation Project (VIGP) at Duke Point near Nanaimo and a gas pipeline from the mainland to Vancouver Island. VIGP will be a 265 MW gas-fired combined cycle generating station. BC Hydro has applied for regulatory approval from the British Columbia Environmental Assessment Office and the British Columbia Utilities Commission to proceed with the project. Hearings began in mid-June. Generation's goal is to have regulatory approval in place and construction underway before the end of March 2004. Expenditures of \$45.2 million are planned during fiscal 2004 for these projects.
- As announced in the British Columbia Government's Energy Plan (*Energy for our Future: A Plan for B.C.*), released in November 2002, an MLA Task Force has been established to determine the future of BC Hydro's gas-fired Burrard Generating Station. Burrard is important to the BC Hydro system by supporting transmission transfer capability. Options include continued operation of the existing plant; phasing out the plant; or repowering the plant, to take advantage of the latest technology in terms of efficiency and emissions.
- Other non-area-specific capital expenditures of \$18.1 million are planned for fiscal 2004.

Financial Highlights

Interim Report – Generation – three months ended June 30

In millions	2003 actual	2002 actual	% change
External revenues	\$ 4.0	\$ 11.9	- 66%
Inter-segment revenues ¹	\$342.8	\$300.3	14%
Net income	\$ 55.5	\$ 33.5	66%

¹ Includes allocation of Powerex income of \$35 million (fiscal 2002 – \$11 million)

Highlights Notes:

- Net Income for the first three months of the fiscal year was \$55.5 million, an increase of \$20 million compared with last year and an improvement over Plan of \$49 million. The increase over last year was primarily due to increased sales revenues and higher Powerex revenues, offset partially by higher energy and operating costs.
- The reduction in External revenues resulted from City of New Westminster and Aquila (formerly West Kootenay Power) reported as Generation revenues in 2002 being reported by Distribution Line of Business in 2003.
- Revenues from Distribution increased in 2003 over 2002 by \$18.5 million as a result of increased volumes (11,124 GW·h vs. 10,964 GW·h) and a higher selling price (\$27.67/MW·h vs. \$26.39/MW·h).
- Revenues from Powerex were higher in the first three months in fiscal 2003 over fiscal 2002 by \$24 million, reflecting more favourable market conditions.

PERFORMANCE MEASURES – GENERATION

Generation’s four key goals are:

Strong financial performance – through targeting first-quartile results.

Quality service – through ensuring that Generation facilities are able to meet contractual obligations to Distribution and are available to maximize market opportunities.

Good environmental and social performance – through continuing to manage environmental and social issues that are a priority to Generation.

Skilled workforce, safe workplace – by providing employees with the means to be successful and ensuring safety.

The following indicators measure these goals. In addition to these indicators, Generation tracks a number of measures that cascade from BC Hydro’s overall measures.

Net Income (in Millions) ▲

	Actual	Target
Q1 03/04	\$56	\$7

Net Income is defined as total revenue less total expenses before transfers to the Rate Stabilization Account. The targets are based on current cost and revenue drivers and the impact that cost reduction and/or revenue enhancement initiatives will have on these drivers.

Net Income was better than target, primarily as a result of higher sales, reduced electricity purchases and lower thermal use, lower finance charges, and higher Powerex income due to favourable market conditions.

Cost per Megawatt Hour Generated ▲

	Actual	Target
Q1 03/04	\$26.2	\$28.8

Cost per MW Hour Generated is defined as all Generation costs divided by the volume of energy generated under average water conditions. Currently, all major hydroelectric generating units place in the first and second quartiles for cost efficiency (Hadden Jackson).

For the first quarter, the Cost per Megawatt Hour Generated measure was better than target due to lower energy costs and reduced finance charges.

Commercial Performance ●

	Actual	Target
Q1 03/04	99.3%	99.5%

Commercial Performance is defined as revenue from energy produced relative to the revenue from energy that could have been produced had all generation needed to meet domestic load and trade opportunities been available. Targets have been set based on historical performance (including analysis of planned outages) and assessment of reasonable improvement given investment in assets.

For the first quarter, the Commercial Performance measure was on target.

Resource Smart Energy Gains Put Into Service ●

	Actual	Target
Q1 03/04	328 GW·h	328 GW·h

Resource Smart Energy Gains put into Service is defined as the projected long-term average incremental energy gains for existing Generation facilities, put into service during the year.

For the first quarter, the Resource Smart measure was on target.

Introduction

- BC Hydro's Transmission Line of Business plans, constructs, maintains and operates the "Energy Highway" for transferring bulk electricity from generating plants to large industrial customers and to electricity distribution organizations including BC Hydro's Distribution Line of Business. Transmission also transports electricity from and to interconnection points with Alberta, the U.S. and other utilities within British Columbia for enabling electricity trade. Transmission provides non-discriminatory access to transmission capacity and ensures high levels of availability to serve customer needs.

Highlights

British Columbia Transmission Corporation (BCTC)

- Work continued on establishment of the British Columbia Transmission Corporation (BCTC). As part of the British Columbia Government's Energy Plan, BCTC will be a separate government-owned corporation charged with operating and managing BC Hydro's transmission assets. Bill 39, the Transmission Corporation Act, was passed by the Legislature and received Royal Assent on May 29. On June 12, the government appointed a 10-member board of directors to oversee the corporation, under the Chairmanship of Robert Reid.
- BCTC and BC Hydro have been actively involved in the negotiation of agreements required to launch BCTC operations. The agreements will be considered and approved by the BC Hydro and BCTC boards during July. The BCTC legislation requires that the agreements be "designated" by the B.C. government as the legal foundation for the transfer of the authority to BCTC and this is expected to occur in the latter part of July. Based on this timing, the corporation's start-up and employee transfers will occur on August 1. Plans are being developed to ensure seamless transfer of responsibilities, particularly those related to

emergency response, recovery and security. The following executive appointments were made during the first quarter:

Michael Costello – President and Chief Executive Officer

Jane Peverett – Vice-President and Chief Financial Officer, with responsibility for Regulatory and Corporate Affairs

Scott Woronuik – Vice-President Investment Planning and Strategy, with responsibility for Customer Relations

Brian Demerse – Director, Human Resources

RTO West

- BC Hydro collaborated with nine Western U.S. utilities to develop a model for a Regional Transmission organization – RTO West – and filed a proposal with the U.S. Federal Regulatory Commission (FERC) in March 2002. FERC issued a favourable Declaratory Order in September 2002, requesting RTO West to address specific concerns with its filing. Work continues to address these issues as well as matters related to the final structure and operation of RTO West, including coordination of B.C. operations with RTO West. If RTO West is formed, it is expected to be fully operational in about four years. BC Hydro also continues to monitor RTO West stakeholder consultation in the Pacific Northwest.

Vancouver Island Supply

- Work commenced on the fast-track replacement of a five-kilometre section of high-voltage direct current (HVDC) submarine Cable 5, which was at risk of failure. The damaged cable section, along with a second cable (Cable 9) that failed earlier in 2002, are required to meet 2003 winter peak requirements on Vancouver Island. The five-kilometre section of Cable 5 was removed from the seabed west of Galiano Ridge in mid-May, using innovative construction techniques to minimize environmental impacts.

Cable 9 installation, west of Galiano Island, is scheduled for mid-July, and Cable 5 installation is scheduled for mid-September following receipt of the replacement cable from the manufacturer.

Metropolitan Vancouver Cable Project

- Installation of cable circuit 2L33 will secure reliable supply to downtown Vancouver and is part of BCTC's long-term development plan for the metropolitan system to address aging infrastructure and seismic concerns. The \$44-million project is on budget and on schedule for completion in May 2004. Extensive cable trenching continues in downtown Vancouver.

Substation Source Outages

- Substation outages caused by animal contacts continue to be a serious problem. On April 26, a cat caused a bus outage at Whalley Substation that affected 16,000 customers for 1.5 hours and damaged buswork and a circuit breaker. An action plan has been developed to implement preventive measures, including modification of substation design standards.

Transmission System Upgrades

- A new 500 kV reactor and associated equipment were installed at Kelly Lake Substation to improve control of the electric system during light load periods. Remedial

action schemes were expanded to accommodate the addition of Seven Mile Unit 4 and to shed the B.C.– Alberta intertie in the case of loss of the B.C.– U.S. intertie. The latter change ensures compliance with Western Electricity Coordinating Council reliability criteria during high imports into the BC Hydro system.

Operational Issues

- Transmission carried out a large amount of maintenance and construction during the period. During June alone, 110 transmission circuit outages were scheduled to allow maintenance and upgrades to the system. In addition, a large number of outages were planned within substations as well as live line work on transmission circuits. The high volume of field work requires extensive operational review to coordinate requests, develop detailed plans and reconfigure the electric system.
- Constraints in the eastern part of the electric system required active management during the period. The BC Hydro transmission system in the Trail area was fully loaded several times during the month as a result of high generation in the spring freshet, construction activities and high demand for imports from the U.S. and Alberta. Additional remedial action schemes are being implemented to increase the transmission capacity in the area.

Financial Highlights

Interim Report – Transmission – three months ended June 30

In millions	2003 actual	2002 actual	% change
External revenues	\$ 2.5	\$ 2.5	0%
Inter-segment revenues	\$165.9	\$190.6	-13%
Net income	\$ 46.1	\$ 68.4	-33%

Highlights Notes:

- Lower revenue this fiscal year due to lower Point-to-Point volumes (48 per cent decrease) and lower Point-to-Point sale prices (20 per cent decrease).
- Increase in OMA expenses due to BCTC set-up costs and earlier start to Maintenance work, partially offset by lower than Plan Finance charges.

PERFORMANCE MEASURES – TRANSMISSION

Transmission’s four key goals are:

Independent business structure – through the formation of a new transmission company, independent of BC Hydro, that is commercially viable and stakeholder focused.

Workforce expertise and competency – through development of an interdependent, professional, competent workforce that is excited about achieving Transmission business goals.

Meet the energy transfer needs of its customers – through enhancing and sustaining the transmission infrastructure to reliably meet the needs of its domestic customers and by ensuring that the investment made in transmission assets is protected.

Enable the new electricity marketplace – through meeting the needs of stakeholders for open access to the transmission system, efficient and effective electricity markets in B.C., and participation in wider regional markets.

The following indicators measure these goals. In addition to these indicators, Transmission tracks a number of measures that cascade from BC Hydro’s overall measures.

Net Income (in Millions) ▲

	Actual	Target
Q1 03/04	\$47	\$36

Net Income is defined as total revenue less total expenses before transfers to the Rate Stabilization Account. The targets are based on current cost and revenue drivers and the impact that cost reduction and/or revenue enhancement initiatives will have on these drivers.

Net Income was better than target, primarily as a result of lower OMA costs partially offset by lower Point-to-Point and secondary revenue.

OMA/GW·h-km ▲

	Actual	Target
Q1 03/04	9.0¢	10.7¢

OMA/GW·h-km is defined as operating, maintenance and administrative expenses divided by the gigawatt hours transmitted over kilometres of Transmission circuit. Gigawatt hours include both domestic and Powerex sales. While the OMA/GW·h-km measure itself does not have an industry benchmark, Transmission placed in the second quartile in terms of cost per structure kilometre in the last PA Consulting benchmarking study.

OMA/GW·h-km was better than target primarily as a result of lower OMA costs partially offset by lower gigawatt hours delivered.

Customer Satisfaction ▲

	Actual	Target
Q1 03/04	0 Complaints	1 Complaint

Customer Satisfaction is defined as the number of complaints received from customers that were identified at, or escalated to, the vice-presidential level in BC Hydro. Targets were set based on historical performance.

For the first quarter, no complaints were received.

DISTRIBUTION

Introduction

- Distribution Line of Business serves 1.6 million customers and another 6,000 customers in non-integrated areas within B.C. It manages 55,000 km of overhead, underground and submarine distribution lines, 860,000 poles and 292,000 transformers in order to provide customers with safe, dependable and reliable energy, as well as extension and connection services. Consistent with the provincial government's new Energy Plan, Distribution's mandate is to:
 - Uphold its obligation to serve BC Hydro's domestic ratepayers (Distribution is the single face to the customer and is responsible for providing customer service through contracts and service level agreements.)
 - Operate Distribution as a separate Line of Business from Generation
 - Administer the Heritage Contract to preserve the benefits of BC Hydro's existing generation and electricity trade for Distribution customers
 - Develop new rate structures that will:
 - enable large electricity customers to choose a supplier other than Distribution
 - provide better price signals for conservation and efficiency
 - Maintain high reliability and energy security

ELECTRICITY LOAD

BC Hydro System

Energy Sales

- Compared with the first quarter of the previous fiscal year, total sales were 72 GW·h or 0.6 per cent higher. Of this total, Transmission sales were 162 GW·h or 4.5 per cent higher; General sales were eight GW·h or 0.2 per cent higher; Residential sales were 86 GW·h or 2.2 per cent lower; and Other sales were eight GW·h or 3.3 per cent lower.
- Transmission sales are tracking close to Plan. The higher level of transmission sales compared with the first quarter of last year is due, in part, to the resilience of the province's export sector. Year-to-date general sales are very similar to last year and residential sales are lower due to warmer temperatures than were experienced last year.

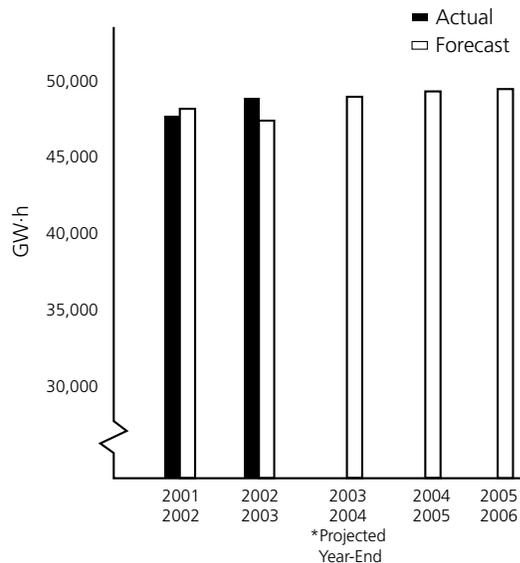
Peak Demand

- BC Hydro is a winter peaking utility driven by residential electric space heating. A one-hour peak demand of 8,484 MW, at a daily average temperature of +5.3 °C, was reached on December 18, 2002. As temperatures moderate in the spring and summer months, the system peak demand is reduced. In June 2003 the peak was 6,547 MW compared with a peak of 6,487 in June 2002.

Short-Term Forecast

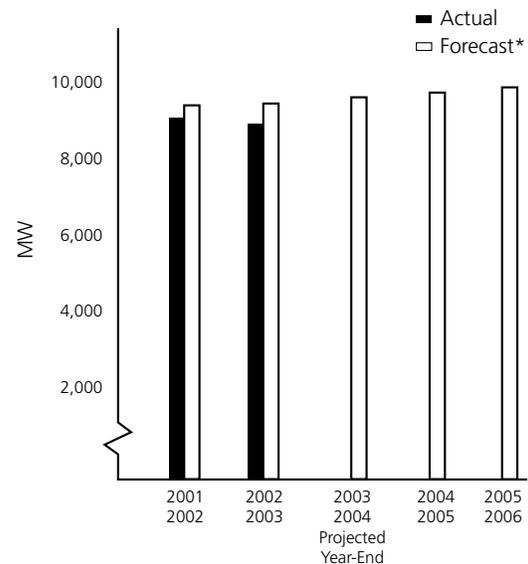
- The fiscal 2003/2004 probable sales forecast is for 49,082 GW·h. First quarter year-to-date total sales are up by 1.7 per cent compared with the Plan values; however, this trend does not provide indicative information for updating the forecast for the remaining nine months of the year.

BC HYDRO SYSTEM—BILLED SALES



* Projected Year-end includes actual sales from April 2003 to May 2003 plus planned sales for June 2003 to March 2004.

BC HYDRO SYSTEM—PEAK DEMAND



* Forecast BCH System peak is based on a design daily average temperature of -6.8°C.

Vancouver Island (VI)

Energy Sales

- Compared with the first quarter of the previous year, total VI sales are slightly up at 18 GW-h or 0.67 per cent. This increase is attributed to Transmission sales, which are about 90 GW-h or 10 per cent higher compared with last year's first quarter, while General sales are lower by 12 GW-h or 1.9 per cent and Residential sales are lower by 59 GW-h or 5.5 per cent.
- Increased transmission sales in the pulp sector in the first quarter of this year compared with last year reflects a combination of production input and pricing factors. These reasons for higher electricity sales to pulp producers also account for higher sales to chemical producers that supplied their products mainly to the pulp and paper sector.

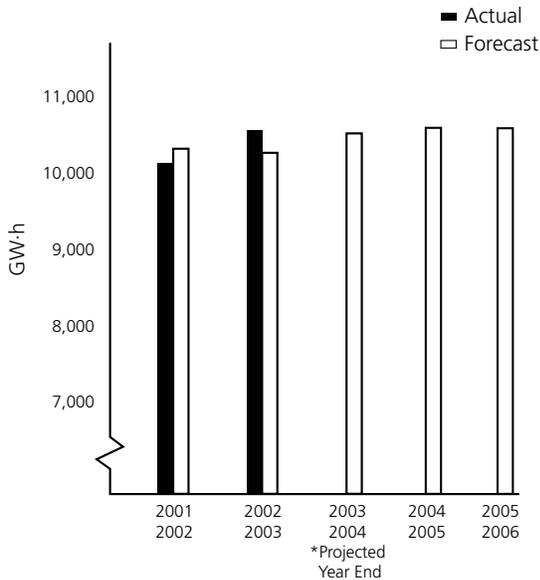
Peak Demand

- Vancouver Island's system peak reached a one-hour peak of 1,999 MW on February 25, 2003, at a daily average temperature of +2.1°C at the Victoria airport. This peak is driven by the large presence of electric heating on the Island and, as a result, it declines sharply as the temperature moderates. In June 2003 the peak demand was 1,279 MW compared with the June 2002 peak of 1,266 MW.

Short-Term Forecast

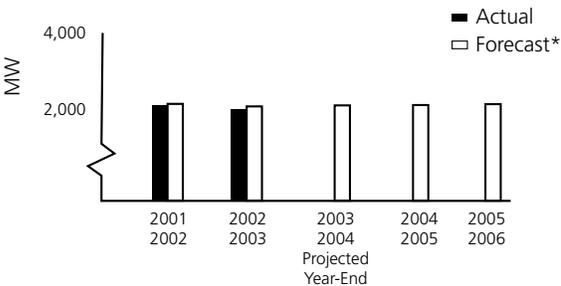
- First quarter year-to-date sales on Vancouver Island were up 1.2 per cent compared with Plan (Residential sales up 1.6 per cent, General sales down 1.0 per cent and Transmission sales up 2.5 per cent). The fiscal 2003/2004 probable sales forecast on the Island is for 10,510 GW-h.

VANCOUVER ISLAND-BILLED SALES



* Projected Year-end includes actual sales from April 2003 to May 2003 plus planned sales for June 2003 to March 2004.

VANCOUVER ISLAND-PEAK DEMAND



* Forecast VI peak is based on a design daily average temperature of -4.4°C.

ELECTRICITY & NATURAL GAS PRICES

- BC Hydro tracks market information that forms the basis for its future price forecasts for both electricity and natural gas. Because BC Hydro is part of a larger market extending, in the case of electricity, through the Western and Southwestern United States, and in the case of natural gas throughout North America, BC Hydro is subject to market forces beyond its borders that influence prices.

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 commonly traded delivery point is Mid-Columbia, and in the case of natural gas it is Sumas.
- Forward market quotes are readily available for a period of up to two years for electricity and for three to five years for natural gas. Forward prices for both electricity and natural gas are usually 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 specialized forecasting groups – is based on representations of the supply and demand for electricity and of cost drivers expected to prevail.
- Key factors in the long-term electricity price forecasts are:
 - **Supply:** the expected stock and availability of generating units (especially new units);
 - **Generation Costs:** the expected level of fuel prices (especially natural gas) and other costs of operating generating units;

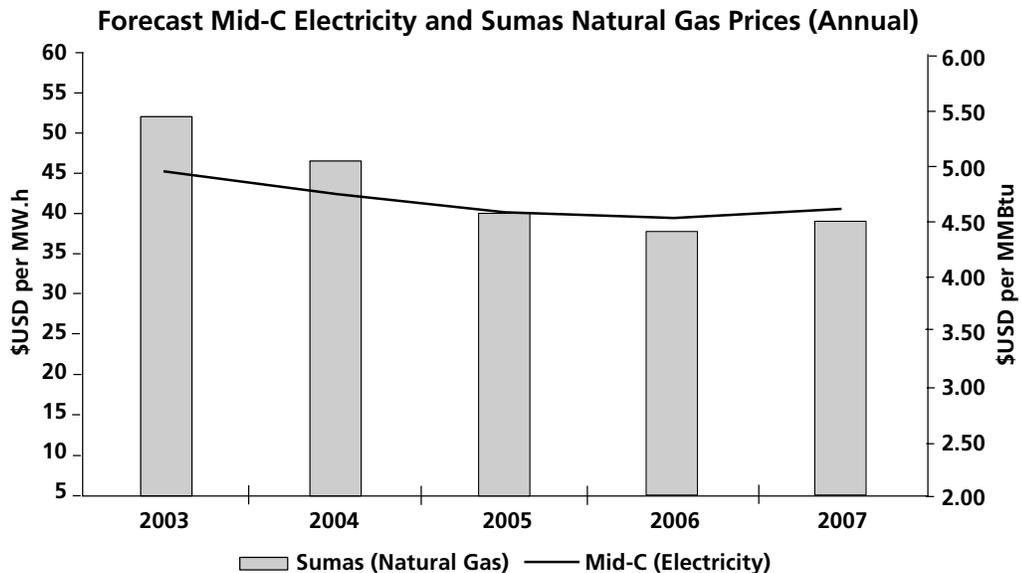
- **Demand:** the level of demand as driven by forecasts of economic activity, technology and expected conservation; and
- **Regulatory/Market:** the expected state of the regulatory or market environment.
- Key drivers for long run natural gas price forecasts are similar to electricity prices as they relate to supply and production costs:
 - **Supply:** the on-stream timing of new reserves versus decline rates.
 - **Production Costs:** the costs of exploration and drilling, and the pace of technological advancements that serve to reduce costs.
- BC Hydro acquires the forecast output and market analysis of a number of third-party forecasts to supplement its long-term forecasting activities.

Market History

- The last quarter can be characterized by:
 - Volatile and relatively high natural gas and electricity prices.
 - Natural gas inventories still recovering from the high demand winter of 2002/2003, causing a continuation of high natural gas prices.
 - A weather pattern with high snowfall and cold temperatures in the eastern half of the continent caused significant supply concerns in the market, and led to high natural gas prices.
 - Warm, dry conditions to the west lowered hydroelectric generation capacity, which increased electricity prices.
 - The effect of reduced hydro generation was tempered by a reduction in demand due to the slow economy in the U.S. and a warm winter in the West.

Market Outlook

- Electricity, natural gas and crude oil forwards are currently relatively high, but demonstrate a generally declining price trend. This is attributed by experts to expected recovery in low natural gas storage inventories from the very cold winter of 2002/2003 and some reinvestment in natural gas production, but with a continued medium-term tightness in supply/demand balance.
- Electricity forwards show a slight declining trend, with seasonal peaks in summer and winter. An uncertain economy coupled with the downward pressure from a surplus of recently built new generation capacity is expected to affect electricity market prices for several years and contribute to continued volatility in prices.
- Beyond 2003, most observers forecast slow but positive economic growth. Electricity price expectations are based on a supply/demand balance tightening with economic growth. Long-term prices of both electricity and gas are expected to exhibit considerable volatility and to be vulnerable to fluctuations in weather that impact supply and demand.



RESOURCE ACQUISITION

Vancouver Island Generation Project

- BC Hydro has been proceeding with obtaining regulatory approvals for the Vancouver Island Generation Project (VIGP). The VIGP consists of a proposed high-efficiency natural gas-fired electric generating facility to be built at Nanaimo's Duke Point industrial area on Vancouver Island. VIGP is a key project for meeting the electricity supply needs for Vancouver Island. The cost of the project is estimated at \$370 million, based on 90 per cent probability of non-exceedance. The scheduled in-service date will finally be determined based on obtaining all regulatory approvals. To date, an application has been filed with the Environmental Assessment Office (EAO) for a Project Approval Certificate, which is pending. As well, an application has been made to the British Columbia Utilities Commission (BCUC) for a Certificate of Public Convenience and Necessity (CPCN) to construct and operate VIGP. The hearing for the CPCN began on June 16, 2003 in Nanaimo and ran until July 4, 2003 with a decision expected in September 2003. The hearing focused on demonstrating the imperative for a VIGP CPCN on a reliability, timing and cost basis. BC Hydro is seeking an unconditional CPCN, or as an alternative, a CPCN subject to conditions associated with BC Hydro conducting a Request for Qualifications and Call for Tenders and determination that none of the tenders is preferable to the construction of the VIGP.

Call for Tenders – Vancouver Island

- After BC Hydro's filing of the application for a CPCN, a number of alternative proposals came forward for supplying electricity to Vancouver Island. For the most part, these proposals lack details and certainty relating to key factors such as cost, scheduling and permitting, but may still be of merit. As BC Hydro is interested

in pursuing the least costly option, BC Hydro has proposed conducting a Call for Tenders for Vancouver Island to give potential electricity suppliers an opportunity to bid their projects into the process and demonstrate that they have a viable low-cost alternative for supply of power. The Call for Tender process is designed to be transparent and fair, and those attributes will be subject to verification by an independent reviewer. The Call for Tender process would be completed by May 2004 to allow either VIGP or an alternative to proceed upon the BCUC satisfying itself that BC Hydro fairly reviewed both VIGP and the alternatives as a basis to proceed.

Georgia Strait Crossing Project

- The Georgia Strait Crossing Project (GSX) will provide firm natural gas transportation to Vancouver Island to supply the existing Island Cogeneration Project and the new proposed Vancouver Island Generation Project. On June 23, 2003 the Joint Review Panel (JRP) heard submissions from parties wishing to reopen the hearing to admit into the GSX proceeding evidence filed by Terasen Gas (Vancouver Island) in the Vancouver Island Generation Project hearing to expand its system as an alternative to the proposed GSX pipeline. On July 8 the JRP dismissed their application on the grounds that the Terasen proposal is at a preliminary stage and would not be useful to the determinations that the JRP must make in the GSX proceeding. A positive decision by the JRP on GSX's CPCN application was received on July 30 .
- The Georgia Strait Crossing Project is subject to concurrent federal regulatory hearings and approval processes in Canada and the U.S., the former of which is underway and the latter complete. A decision under the Canadian process is expected in the fall of 2003. The in-service date of the project would be confirmed based on accommodating the finalized in-service date for VIGP.

Green Independent Power Producers (IPPs)

- Green Power IPPs are part of BC Hydro's energy acquisition program, which seeks to acquire a total of 10,000 GW·h annually by 2012 to meet load growth. Green Power IPPs have been targeted as part of this volume through a series of calls. From the 2001 Green Call, BC Hydro has received 22 signed Electricity Purchase Agreements, representing 930 GW·h/yr. with in-service dates of 2004/2005. Two of these projects, Eagle Lake Micro Hydro (1.2 GW·h/yr.) and Pingston Creek Small Hydro (155 GW·h/yr.) began commercial operation in May.
- In October 2002, BC Hydro issued another call for green energy for up to 800 GW·h per year. At the Request for Qualification stage, 70 projects were submitted and 29 are now shortlisted. The shortlisted projects represent 3,300 GW·h per year, to be evaluated upon bid submission August 29, 2003 to meet the call target of 800 GW·h per year. Given the number of qualified bids, the 800 GW·h per year target may be exceeded.

Green Power Certificate

- The Green Power Certificate (GPC) product for business customers continues to advance the demand for green electricity development in British Columbia. During the first quarter, eight new contracts were signed, with Envision Credit Union, Science World, Swiss Water Decaffeinated Coffee, Emily Carr Institute of Art and Design, Kwantlen College, Royal Bank, Trinity Western University, and the City of White Rock. During the first quarter, eight new contracts were signed at an average price of \$20, representing 1,962 GPCs and bringing the total number of customers to 40.

Customer-Based Generation Call

- Customer-Based Generation (CBG) is also a component of BC Hydro's energy acquisition program and is proceeding pursuant to the same standardized call process as for Green Energy. On April 14, BC Hydro announced five successful bidders to the 2002 CBG program. When these projects achieve commercial operation, by September 30, 2006, they will provide a total of approximately 500 GW·h per year of new electricity.

Successful CBG Projects

Project Name	Bidder	Location	Resource	GW·h/yr.
Armstrong Wood Waste Cogeneration Plant	RFP Power Ltd.	Armstrong	Wood Residue	122.6
Eurocan Power Project	West Fraser Mills Ltd.	Kitimat	Wood Residue	160.0
Lois Unit 1 Upgrade	Powell River Energy Inc.	Powell River	Hydro	10.4
Long Lake Project	Premier Power Corp.	Stewart	Hydro	83.2
SEEGEN Project	Montenay Inc.	Burnaby	Municipal Solid Waste	125.0

Power Smart

- Power Smart continues implementing its comprehensive 10-year plan to reach an annual target of 3,500 GW·h in new energy savings, or enough to supply about 350,000 homes in British Columbia.
- For the first quarter of this fiscal year total cumulative run-rate energy savings achieved was 401 GW·h/yr., placing Power Smart on the first quarter target of 400 GW·h/yr. and on track to reach this year's cumulative target of 810 GW·h/yr. The above figures include discount for free riders and free drivers, and measurement and verification for business sector programs. Without these discounts the cumulative run-rate energy savings would be 432 GW·h/yr.
- More than 375 business customers have signed as Power Smart Partners (including the Schools, Universities, Colleges and Hospitals sector) and over 550 project submissions for incentives have been received from business customers in response to competitive calls. Examples of customer projects include:
 - In April 2003 the City of Richmond and BC Hydro announced that the City of Richmond has been recognized as the first Power Smart Certified Municipality in British Columbia. BC Hydro made a presentation at the Richmond City Council meeting in April 2003. The City of Richmond has accumulated over \$500,000 in electricity savings since 1997 – enough to power the Richmond City Hall for five years. The City of Richmond has also committed to an aggressive target of a further 15 per cent reduction in electricity consumption over the next four years.
 - Canada Place Corp. (CPC) and BC Hydro have just completed a significant Power Smart retrofit of Canada Place and Vancouver Convention & Exhibition Centre (VCEC). The project, which incorporates retrofitting the lighting and HVAC of meeting rooms, exhibition halls, offices and common space, will save CPC and VCEC in excess of 1.3 GW·h per year. This project, coupled with Canada Place's purchase of BC Hydro's Green Power Certificates, demonstrates Canada Place's ongoing commitment to sustainability and energy efficiency.
- The City of Burnaby will be the first municipality in British Columbia to embark upon an Energy Performance Contract (EPC). The City recently awarded the project to the successful bidder ESCO after a Request for Proposals and will begin an energy study of 155 buildings. The project will provide the City of Burnaby with guaranteed energy savings to pay for the capital cost of the upgrade. It is expected that several municipalities will follow Burnaby's lead and look to an Energy Performance Contract as a way to implement their energy upgrades. Power Smart is working with customers and industry to support these large projects under the energy Performance Contracting initiative. EPC is an important implementation tool that will allow customers to realize the full potential of an energy upgrade.
- BC Hydro and BCIT have completed a campus-wide lighting retrofit. Fifty-five buildings have had the lighting completely retrofitted. The project was worth \$1.6 million with savings of 3.75 GW·h. Phase two – the detailed mechanical audit – will be started late September/early October of this year. The goal is to identify and retrofit the entire campus's mechanical system. The preliminary projected savings are 3.5 GW·h.
- For industrial customers, interest has been growing around the concept of Load Displacement since the January announcement

of a Power Smart deal with Weyerhaeuser at their Kamloops pulpmill. Load Displacement projects utilize co-generation or self-generation to reduce the customer's on-site purchase of electricity. A number of major customers have presented proposals for wood-waste and micro hydro generation projects, and these are being evaluated.

- The Power Smart Traffic Light Program continues to make good progress towards the goal of converting traffic intersections in British Columbia from incandescent to LED technology. At the end of the first quarter, 55 customers have enrolled in the program, representing 2,958 intersections, which is 81 per cent of available intersections in the province.
- For residential customers, Power Smart retail events designed to raise the awareness level of ENERGY STAR® labelled products are proving to be highly successful. BC Hydro's Power Smart Outreach Team has held over 300 retail events throughout the province, resulting in the distribution of manufacturer-funded rebate coupons and face-to-face education with over 75,000 customers.
- Activities to begin the transformation in the seasonal lighting category from incandescent lighting to LED technology experienced a significant milestone in the first quarter of this fiscal year. Based on the successful promotion last year and extensive negotiations with key retailers this quarter, seasonal LED lights will be

carried throughout the province this season, with London Drugs beginning to sell and promote the lights as early as July. Without BC Hydro involvement, these LED lights, which use 90 per cent less energy than incandescent lights, would not have been introduced to the British Columbia market for several years.

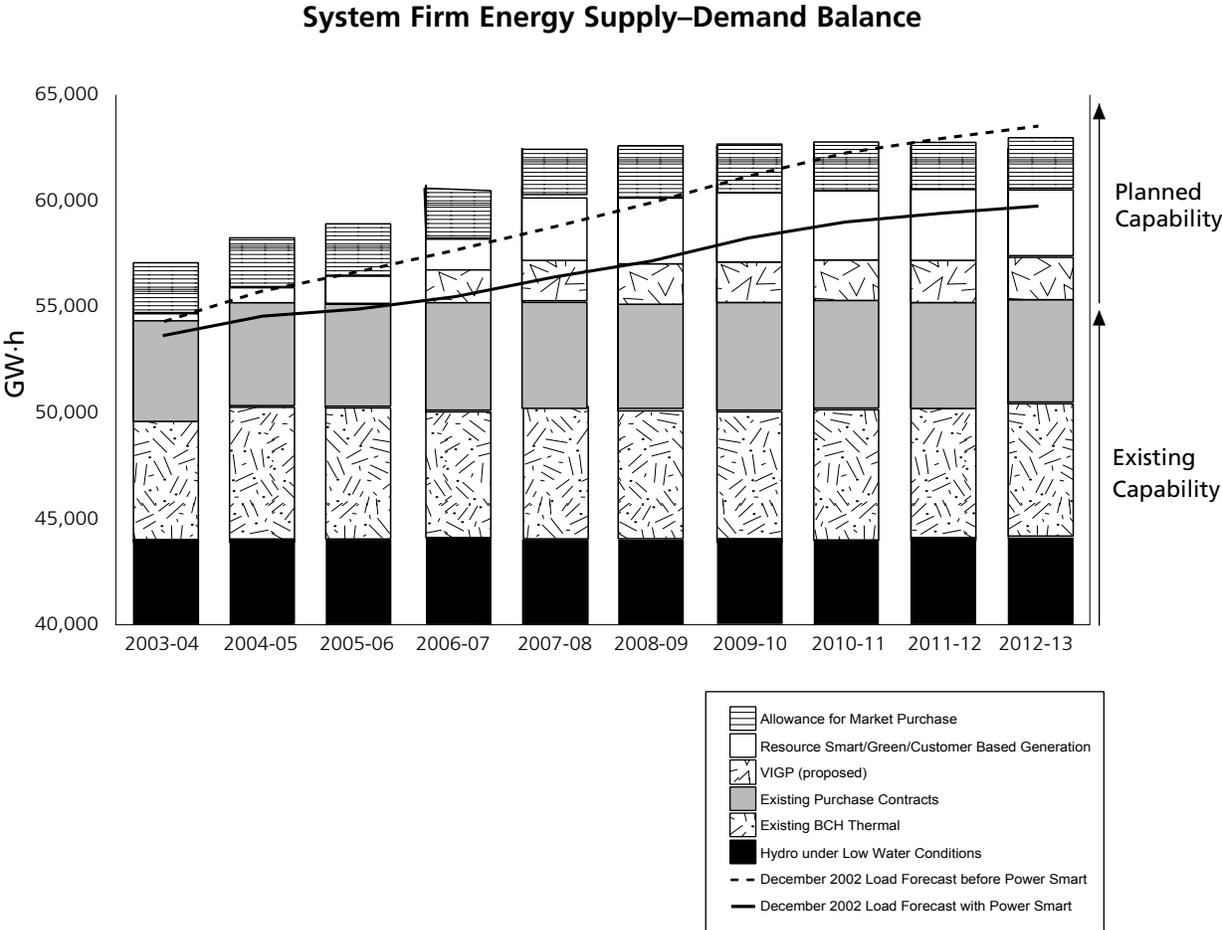
- Power Smart continued its leadership position on a variety of CSA and NRCan committees, most notably ensuring that NRCan's new ENERGY STAR® windows standard was as strong as the former Power Smart Window Certification Standard. This involvement prevented a lower standard from being adopted and results in continued market transformation in this technology.
- A recently published review of the Conservation Potential achievable in the BC Hydro service area concludes that by 2015/2016, consumers and businesses can reduce their electricity consumption by 5,800 GW·h/year and save \$255 million annually through the implementation of cost-effective measures. It is estimated that residences can achieve \$80 million annually in electricity savings, while businesses and industrial plants can achieve savings of \$175 million annually. The energy saved would be equivalent to that generated by a power plant with a capacity of 840 MW, and would be sufficient to serve the electrical needs of 580,000 residential customers.

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. These charts reflect the capability of the resources in BC Hydro’s supply portfolio rather than expected generation. In BC Hydro’s annual planning cycle these charts are typically updated during the second half of the fiscal year.

System Firm Energy Supply–Demand Balances

- The System Firm Energy Supply-Demand Balance chart below compares annual energy demand, with and without the impact of Power Smart, and the energy capability of existing and planned new facilities.



Assumptions

- Updated December 2002 Probable Forecast shown with and without Power Smart programs.

Existing Capabilities

- “Hydro under low water conditions” is based on:
 - Lowest historical streamflow conditions.
 - Full use of storage capability of the major reservoirs.
 - Includes contribution from Arrow Lakes Hydro (formerly Keenleyside).

Existing BC Hydro Thermal

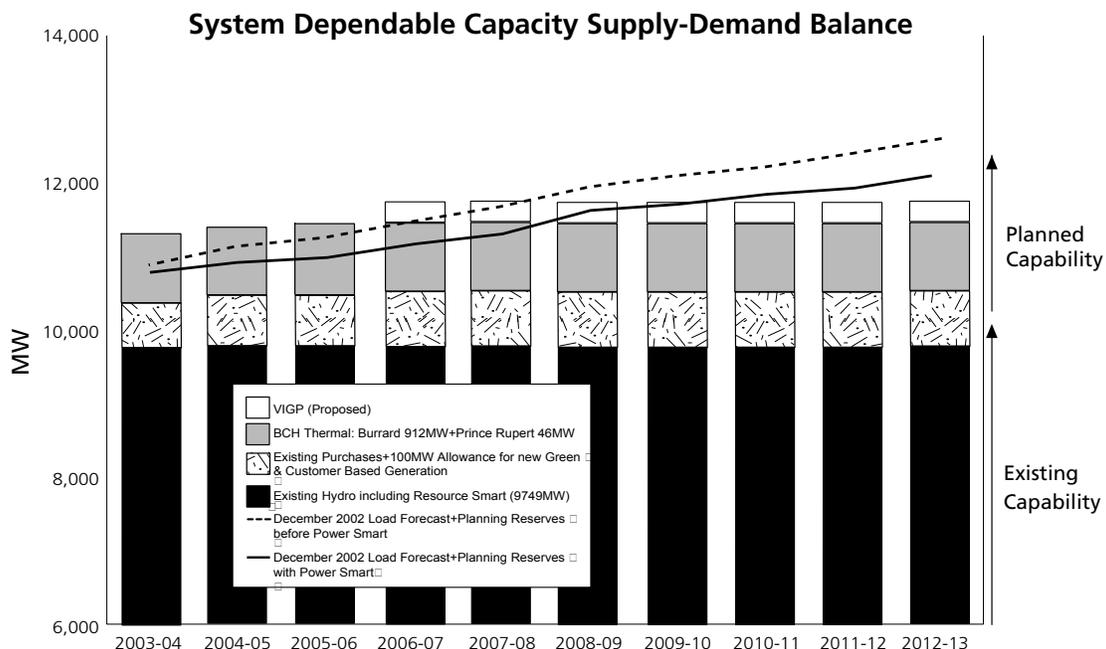
- Includes Burrard Generating Station and Prince Rupert Generating Station:
 - The capability of thermal resources is not affected by streamflow conditions; rather, it is primarily related to the installed capacity, the availability of fuel and the requirements for maintenance and forced outages. However, the actual dispatch of thermal resources is significantly impacted by streamflow conditions and by fluctuations in electricity and fuel prices.

Existing Purchase Contracts includes:

- Pre-2002 IPP contracts
- Alcan
- VIGP is the 265 MW proposed Vancouver Island Generation Project at Duke Point. In-service is expected in 2006/07.
- “Resource Smart/Green/Customer-Based Generation” includes the expected contribution of additional Resource Smart opportunities to make improvements at existing BC Hydro facilities and the expected contribution from recent Green and Customer-Based Generation calls.
- Allowance for Market Purchase: In the planning for new resources, BC Hydro allows for reliance on resources available from the wholesale market.

System Dependable Capacity Supply-Demand Balance

- The System Dependable Capacity Supply-Demand chart compares the forecast peak electricity demand (peak winter usage) with and without the impact of Power Smart – plus required capacity reserves – against the dependable capacity of existing and planned facilities.



Assumptions

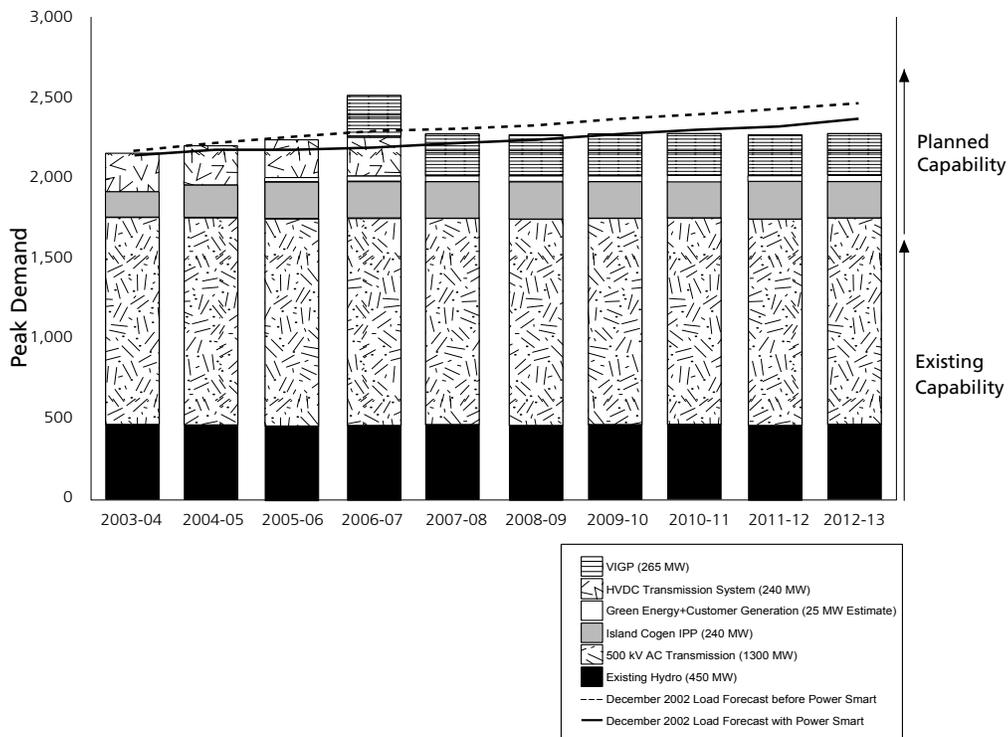
- Updated December 2002 Probable Forecast plus reserves shown with and without Power Smart programs.
- Capacity and Planning Reserves: BC Hydro is obligated to maintain operating reserves set by the Western Electricity Coordinating Council (WECC). For the BC Hydro system this is about 7 to 8 per cent of load. In addition, the 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 per cent of dependable capacity supply. Since BC Hydro is interconnected with other systems, up to 400 MW of capacity from imports is assumed available.
- The Forecast + Reserves – Power Smart represents planning estimates of reduction in peak demand as a result of Power Smart.

- For Green Energy and Customer-Based Generation, a 100 MW contribution of dependable capacity is assumed but is subject to verification depending on the ability of the selected projects to provide capacity to meet system peak requirements with a high degree of confidence.

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. “Reliability Planning Criteria” are such that the system should be able to withstand the 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.

Vancouver Island Dependable Capacity Supply – Demand Balance



Assumptions

- Updated December 2002 Probable forecast shown with and without the estimated impact of Power Smart. Transmission losses have also been included.
- “Dependable Winter Capacity” of the existing VI hydroelectric system is 450 MW (for three hours). Because of the limited storage capacity of the VI hydroelectric plants, 450 MW for three hours is the maximum sustainable peak per day during the winter peak period.
- “Continuous Rating” of the 500 kV ac cables is 1,200 MW. This is the largest or worst single contingency system condition for Vancouver Island. The single contingency firm power transfer capacity for these circuits is the two-hour rating of 1,300 MW.
- “HVDC” is the high-voltage direct current submarine cable system to Vancouver Island. This system brings electricity from the mainland to Vancouver Island to meet customers’ needs there. Due to its deteriorating condition, its remaining firm (dependable) delivery capability is 240 MW, with expected retirement in 2007.
- The Island Cogeneration Plant (ICP) is expected to provide BC Hydro with up to 240 MW of dependable generating capacity by 2005.
- The fall of 2005 is the target in-service date for the Georgia Strait Crossing pipeline to Vancouver Island. The spring/summer of 2006 is the in-service date for the Vancouver Island Generation Project.
- For Green Energy and Customer-Based Generation, a 25 MW contribution of dependable capacity is assumed but is subject to verification depending on the ability of the selected projects to provide capacity to meet system peak requirements with a high degree of confidence.

CUSTOMER SERVICE

Customers

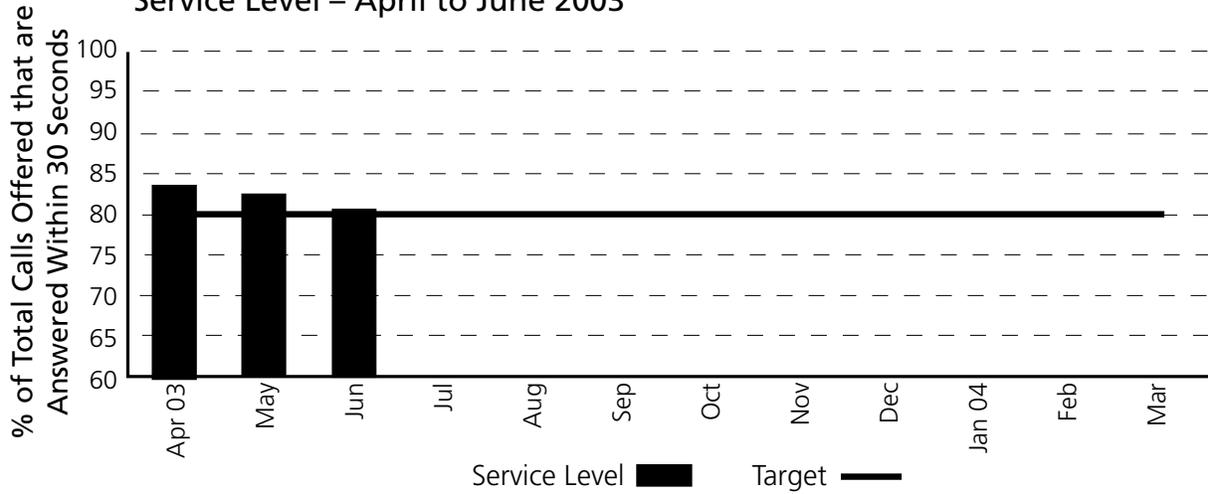
- Net new customer additions totalled 4,855 for the first quarter, an increase of 16 per cent over the same period last year. This upward trend is expected to continue for the remainder of the fiscal year, due to the general strength of the economy in the southern part of the province and the volume of initial requests for estimates received from the development community.

Customer Care

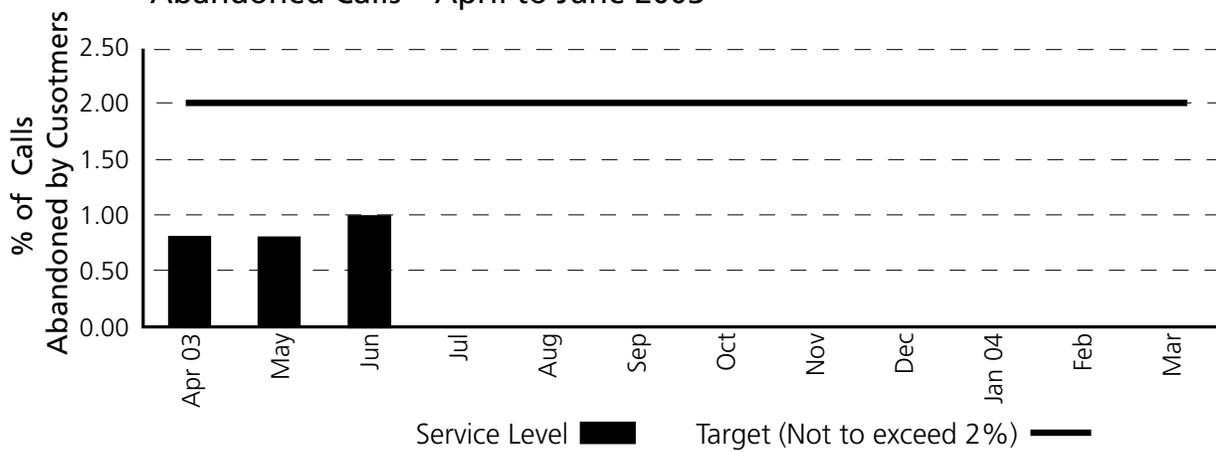
- The Service Level chart on the following page shows the number of calls to the Customer Care line that were answered within 30 seconds of a caller requesting to speak to a Customer Service Representative (CSR) and exiting the Interactive Voice Response (IVR) system. The Percentage of Total Calls Abandoned shows the number of callers that hung up before being answered by a CSR.
 - Both service level and abandonment levels showed a downward trend in the first quarter. This was caused by a number of factors, including some call centre infrastructure problems. Even with a downward trend, ABS Customer Care continues to meet or exceed their targets each month. The trend is being monitored and discussed with ABS to ensure these critical performance targets will continue to be met on a consistent basis.
- In the first quarter of the current fiscal year, the elimination of the Terasen gas calls appears to have had an impact on the overall call volumes to the call centre, even with the expansion of the PowerOn* outage management system to more communities in the province. Total calls offered to the IVR for the first quarter of the current fiscal year were approximately 647,200, compared with 778,600 for the same period last year. This represents a decrease of 16 per cent.
 - Total calls answered by CSRs were just over 437,100 for the first quarter. This compares with 508,000 for the same period last fiscal year, a decrease of 14 per cent.
 - In the first quarter of the current fiscal year, the call centre achieved an overall adjusted Customer Care Service level of 82 per cent, which compares favourably with the target of 80 per cent. The adjusted abandonment rate of 0.9 per cent for the quarter also compares favourably with the maximum target of 2.0 per cent.

* PowerOn is an automated management system that can provide specific detailed outage information to customers, including restoration time.

Customer Care – Accenture Business Services Call Centres
Service Level – April to June 2003



Customer Care – Accenture Business Services Call Centres
Abandoned Calls – April to June 2003



Accenture Business Services

Accenture Business Services of British Columbia assumed responsibility for the performance of all Customer Care functions as of April 1, 2003.

Critical Service Levels	April	May	June
Deposit 98% of payments within agreed timeline	▲	▲	▲
Answer 80% of Customer Care calls within 30 seconds	▲	▲	▲
No more than 2% Customer Care calls abandoned	▲	▲	▲
96% of meters read in accordance with schedule	▲	▲	▲
99.85% of meters are read accurately	▲	▲	▲
84% of customers calling the Call Centre are satisfied or better	▲	▲	▲

▲ Met or exceeded target ▼ Did not meet target

- The focus of work during the first quarter has centred around building the relationships with ABS, finalizing the measurements and targets for the six-month performance expectations and establishing the volume bandwidths for Customer Care work.

Information Systems & Technology

- Over the last four-plus years there have been three major IT initiatives to replace legacy applications. The Portal (Work Management and Supply Chain) and Finance Business Transformation (Financial and Time Capture) projects completed implementation in the spring of this year and the Northstar (Customer Information) project is on schedule for a December implementation. In total almost \$180 million will have been invested in the three projects.

Impacts to customers have been minimal and have been well received.

Work Management and Supply Chain Replacement Project (or Portal Project)

- The new Work Management and Supply Chain processes and applications were rolled out on target in mid-April. Sustainment responsibilities were handed over to Accenture Business Services of BC at the beginning of June as scheduled. Post-implementation stabilization will continue through fiscal 2004 as planned. The project is forecast to be completed on budget.

Project Northstar

- Project Northstar, the implementation of the SAP Customer Care System, continues on schedule and on budget. A major issue regarding existing customers on Pre-Authorized Equal Payment Plans has been resolved and any potential impact on customers has been mitigated.
- Several Customer Care Collection process changes have been implemented during the first quarter in advance preparation for Northstar’s implementation in December 2003.

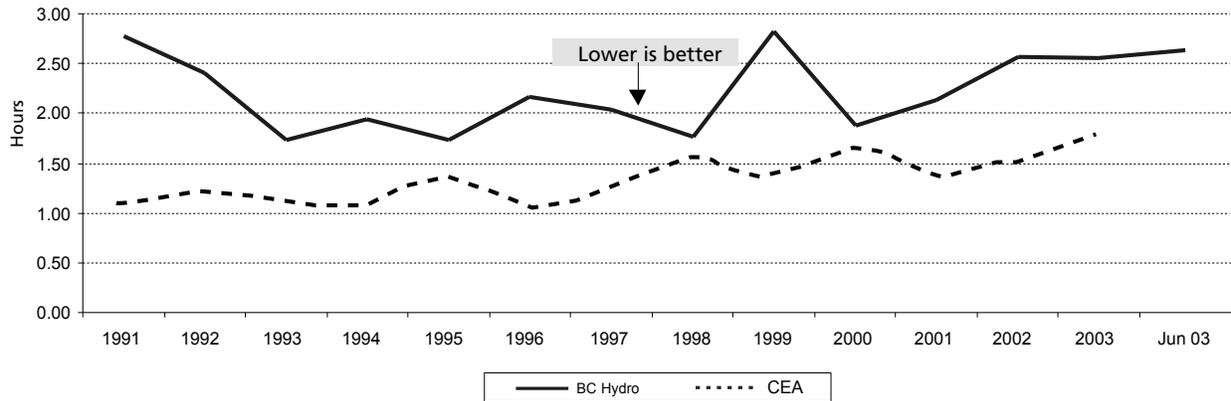
Finance Business Transformation Project (or FBT Project)

- The final wave of new financial processes and applications was rolled out between mid-April and mid-May. The transition of sustainment responsibilities to Accenture Business Services of BC continued through July as scheduled. Post-implementation stabilization will continue through fiscal 2004 as planned. The project is forecast to come in approximately six per cent under budget.

Reliability

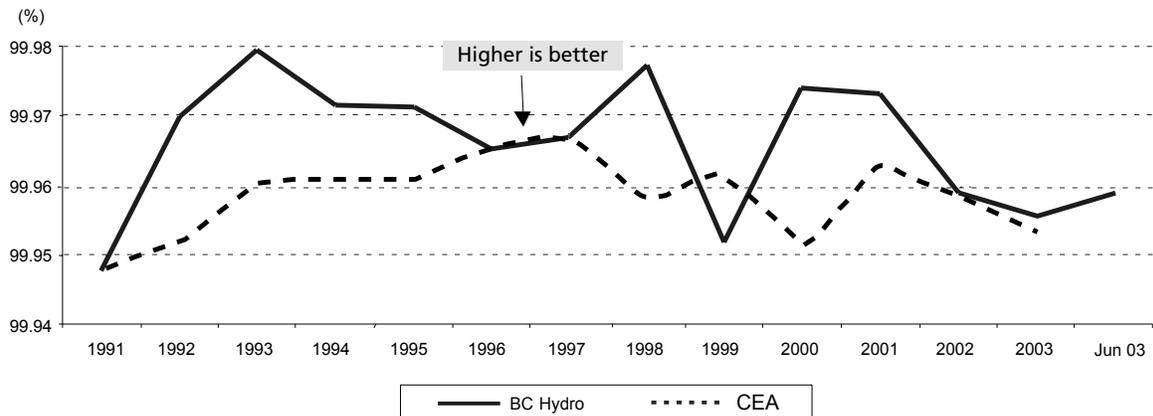
Customer Average Interruption Duration Index (CAIDI)

CAIDI = # Customer Hours Lost / # Customer Interruptions



Average System Availability Index (ASAI)

ASAI = # Customer Hours Served / # Customer Hours Demanded



Vancouver/Burnaby compares well in ASAI with the CEA composite of approximately 40 utilities. In 2002, Vancouver/Burnaby was placed in the top quartile with an ASAI of 99.991%, relative to the CEA average of 99.954%. Vancouver/Burnaby's average ASAI for the previous five years was 99.985%. However, Vancouver/Burnaby does not compare favourably in CAIDI, with 2.61 hours in 2002, relative to the CEA average of 1.74 hours. This is primarily due to Vancouver/Burnaby having fewer customer interruptions relative to the number of customer hours lost, compared with most of the Canadian utilities.

Reliability

(12 months year-to-date to June 30, 2003)

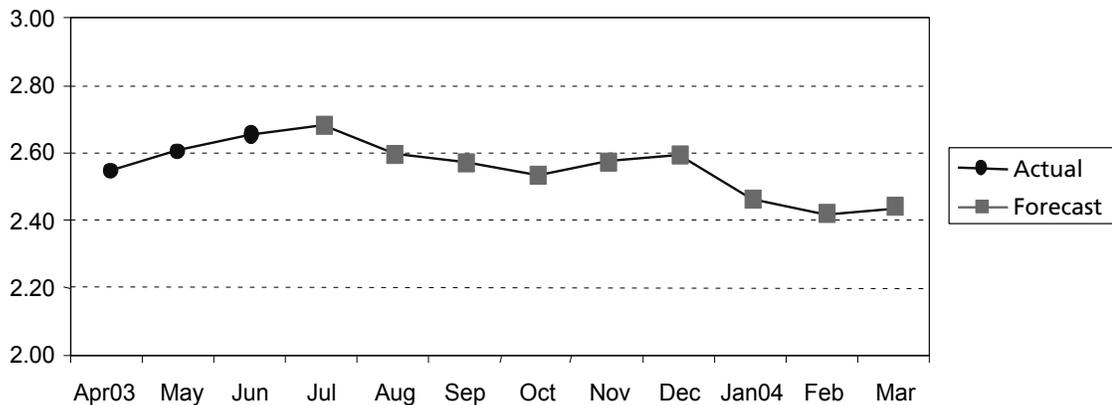
Actual Reliability	Target Reliability
ASAI: 99.959%	99.970%
CAIDI: 2.66 hours	2.15 hours

- For the 12 months ending June 2003, ASAI and CAIDI are below targets due to several weather-related events, resulting in higher-than-expected customer hours lost. Since 1991, BC Hydro's ASAI has been consistently higher (better) than the CEA average while its CAIDI does not compare favourably, due to the fact that customer interruption frequency is

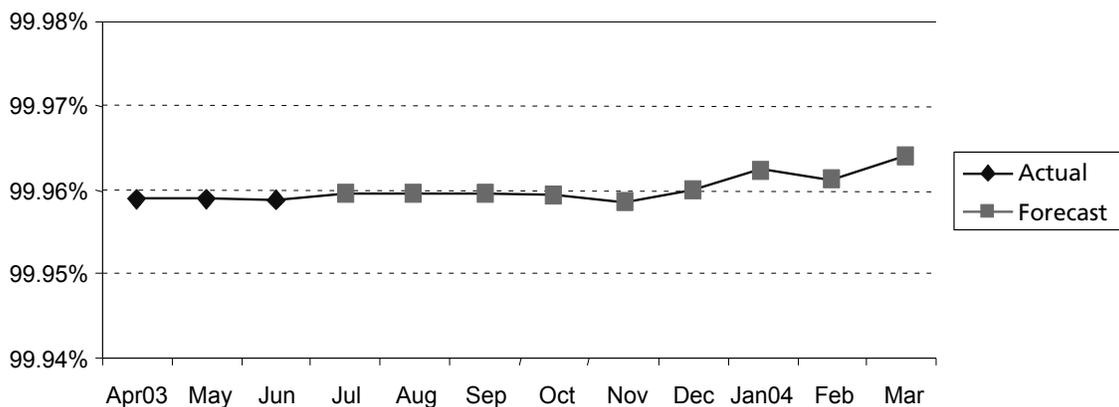
lower (better) than the CEA average. Overall, BC Hydro's customers consider fewer interruptions more important than the length of an interruption, as evidenced by the results of the March 2003 customer satisfaction survey.

- BC Hydro's strategy is to focus on the customer and enhance the customer experience while maintaining competitive rates. This strategy will be applied to all aspects of the business, starting with reliability. The Customer-Based component will align spending for reliability with the value customers place on reliability. The strategy will be designed in the second quarter, followed by implementation into the coming planning cycle.

F2004 Rolling 12-Month CAIDI Forecast



F2004 Rolling 12-Month ASAI Forecast



ASSETS AND FINANCIAL HIGHLIGHTS

Assets

- The annual Distribution System Improvement Recurring Capital Program addresses capacity constraints, reliability, power quality, safety and legal/regulatory issues on the BC Hydro distribution system. Projects have been prioritized to ensure maximum value is derived. Significant projects in fiscal year 2003/2004 include: replacement of faulted feeder and submarine cables, installation of new feeder circuits in the Surrey and Vancouver areas, increased circuit capacity and security of supply to the Gulf Islands and installation of numerous circuit reclosers.
- Improvement work in the Non-Integrated Area this year is focused on addressing potential environmental impacts, by improving fuel forwarding and oil spill containment systems.

Financial Highlights

Interim Report – Distribution – three months ended June 30

In millions	2003 actual	2002 actual	% change
External revenues	\$ 569.8	\$ 547.8	4%
Inter-segment revenues			
Net income (loss)	\$ (93.7)	\$ 2.3	- 4174%

Highlights Notes:

- First quarter revenues were higher than for the same period last year due to customer growth, higher sales to pulp and paper customers, and customer revenues relating to wholesale customers (\$8 million) previously reported in the Generation LoB.
- The large reduction in Net Income (\$96 million) was mainly due to an increase in energy costs, slightly offset by a reduction in finance charges. The increase in energy costs is largely due to an increase in the price of energy purchases and the increase in the volume of energy required to meet the increase in demand.

PERFORMANCE MEASURES – DISTRIBUTION

Distribution’s four key goals are:

Strong financial performance – through identification and management of risks associated with the business to ensure optimal decision-making that adds value to stakeholders and customers.

Quality service – through continuing to better understand customer needs, building on customer relationships, providing differentiated services based on customer needs, and through sustaining and operating a safe and reliable infrastructure at the lowest cost.

Energy management – through optimization of the domestic energy portfolio and through portfolio management techniques to manage the physical and financial supply risk. Performance measures for this goal are being developed and will be benchmarked against the best in class when ready.

Skilled workforce, safe workplace – through development of an interdependent, engaged, and competent workforce to make Distribution a Top 50 company in Canada for which to work. (Measured annually with an Employee Commitment Index.)

In addition to the following indicators, Distribution tracks a number of measures either on behalf of BC Hydro overall (Reliability and Incremental Conservation Gigawatt Hours) or that cascade from BC Hydro’s overall measures (All Injury Frequency and Approved Strategic Workforce Positions Filled).

Net Income (in Millions) ▲

	Actual	Target
Q1 03/04	\$(94)	\$(122)

Net Income is defined as total revenue less total expenses before transfers to the Rate Stabilization Account. The targets are based on current cost and revenue drivers and the impact that cost reduction and/or revenue enhancement initiatives will have on these drivers.

Net Income was better than target, primarily as a result of higher revenues, lower cost of energy, and lower finance charges.

COMA/Customer ●

(Cost of Maintenance and Administration per Customer)

	Actual	Target
Q1 03/04	\$61.8	\$64.1

COMA/Customer is defined as gross recurring capital expenditures (net of Telus recoveries) and operating, maintenance and administrative expenses divided by the total number of customers. BC Hydro’s Distribution Line of Business includes a number of functions that are not included in industry benchmarks. The PA Consulting and Canadian Electricity Association benchmarks are based only on the expenditures associated with the distribution of electricity.

COMA/Customer was on target for the first quarter.

Introduction

- 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. These will include the British Columbia Transmission Corporation when it is formed. First quarter activities have focused on the delivery of engineering services within scope, schedule and budget and with appropriate quality.

Seven Mile Unit 4 / Dam Safety Improvement Projects

- Unit 4 was placed in commercial service on April 24, a week ahead of the approved accelerated in-service date. Commercial generation commenced just before arrival of the spring freshet when Unit 4 can make its greatest annual contribution to the 810 MW plant. Based on actual Unit 4 generation to date, the initial estimate of \$11 million in benefits from project acceleration is expected to be exceeded.
- Dam Safety Improvements: Peter Kiewit Sons (Contract SM 152 – Dam Anchors) has completed the installation of 38 of 57 large-capacity anchors in the dam. Anchoring has been completed in the spillway area and has now moved to the main portion of the dam. The 92-strand anchors being installed at Seven Mile are the largest dam anchors installed in North America to date. Contract SM 153 (Dam Safety Improvements to the Spillway) was awarded to Peter Kiewit Sons in May 2003. The work includes replacement of the spillway towers and upgrades to spillway gate mechanical equipment. Preparatory work is currently underway, including demolition of existing structures on top of the dam.

High-Voltage DC Submarine Cable Replacement

- Replacement of approximately 8.6 km of high-voltage DC submarine cable in the Gulf Islands is currently being carried out by a project team from Engineering, Field Services and contractor personnel. The team is working in a challenging marine environment while meeting stringent schedule, safety, and environmental targets. To date, 8.8 km of existing cable has been recovered, shore-end work for the cables is underway, and 4.3 km of spare cable has been laid.

Financial Performance

- Key financial metrics for Engineering for the first quarter of fiscal 2004 are:

Metric	FY04-Q1	Year to Date
Utilization (hourly)	83.3%	83.3%
Billable hours	206,000	206,000

- Utilization is defined as the percentage of available hours (approximately 1,600 hours per employee) of all staff, that has been charged to billable work (work authorized by LOB's or external clients).

Financial Highlights

Interim Report – Engineering – three months ended June 30

In millions	2003 actual	2002 actual	% change
External revenues	\$ 0.5	\$ 1.8	– 72%
Inter-segment revenues	\$22.1	\$ 18.5	19%
Net income (loss)	\$(3.0)	\$(1.2)	150%

Highlights Notes:

- External Recoveries are lower than last year due mainly to the emphasis on Internal Clients (LoBs).
- Inter-segment revenues are higher than last year mainly because of higher Billable Hours.

**PERFORMANCE MEASURES –
ENGINEERING**

Engineering’s three key goals are:

Maximize Financial Performance

Improve Client Focus

Ensure skilled workforce, promote entrepreneurial team

The following indicators measure these goals. In addition to these indicators, Engineering tracks a number of measures that cascade from BC Hydro’s overall measures.

Utilization Rate ●

	Actual	Target
Q1 03/04	83.3%	82.4%

Utilization Rate is defined as billable hours divided by total hours worked. Targets have been set based on moving towards first quartile when compared with other engineering firms.

The Utilization Rate measure for the first quarter was on target.

Hourly Charge-out Rate ●

	Actual	Target
Q1 03/04	\$95.54	\$95.33

Hourly Charge-out Rate is defined as the weighted average hourly rate charged by Engineering Services. It is calculated as net revenue less the contract hire margin divided by total billable hours. Targets have been set based on improvements to historical performance.

The Hourly Charge-out Rate measure for the first quarter was on target.

Client Feedback/Satisfaction ●

	Actual	Target
Q1 03/04	5.8	5.5

Client Feedback/Satisfaction is defined as client ratings of Engineering’s performance on:

- Understanding of client’s business
- Delivering on time
- Delivering on budget
- Communication
- Quality of products and services
- Overall satisfaction

A face-to-face meeting is conducted once a week with different clients within BC Hydro and scored on a scale of 1 to 7 (1: Extremely Poor to 7: Excellent). Targets have been set based on Engineering keeping near the upper end of the range.

The Client Feedback/Satisfaction measure for the first quarter was on target.

% of Approved EIT and GTT Positions Filled ▼

	Actual	Target
Q1 03/04	83%	100%

Per cent of Approved Engineer-in-Training (EIT) and Graduate Technologist-in-Training (GTT) Positions Filled is defined as the percentage of EIT and GTT targeted positions that are filled. The targets have been set based on an internal needs assessment against expected organizational capacity.

Per cent of EIT and GTT Positions Filled was below target as positions were not required due to staffing strategy.

Introduction

- Field Services, through its own workforce and the Contractors that it administers, provides Service Restoration, Maintenance, Construction (Civil, Electrical and Mechanical), Telecommunications Maintenance, Public Safety, Vehicle and Vegetation services to the three BC Hydro Lines of Business – Transmission, Distribution and Generation. Field Services' primary role is to work safely to keep the lights on while providing customers with high-quality service at low cost.

Employee and Customer Safety

- Field Services continues to drive its effort in reaching "Zero" injuries. Participation by all staff, management and labour, remains a cornerstone for improved safety performance.
- The continued emphasis on management presence in the workplace, coupled with reinforcement of safe work behaviours and recognition of successes, has contributed to a reduction of six reportable incidents over the first quarter of last year, a 27 per cent decrease. This translates into a rolling 12-month Field Services All Injury Frequency (AIF) of 5.9 with a year-to-date AIF of 4.6.
- The delivery of public safety programs for schools and first responders for the first three months of fiscal 2004 has seen activity across the province. School safety programs have been delivered to approximately 9,100 students, and first responder programs to over 1,200 attendees.

Building a Strong and Capable Workforce

- Field Services continues to invest in building a highly skilled workforce, with trainees accounting for nine per cent of the regular employee base. Moving forward, Field Services is on track with the fiscal 2004 targeted intake of new apprentices and other trainees. In

addition, 18 temporary workers were hired for the summer in support of the Youth Trade Hire program.

- A Training and Qualification Tracking System is currently being installed in Field Services in an effort to continuously improve its workforce processes. This system will track all training and will alert managers and employees to mandatory certification renewals and new, job-related training requirements. The system will also become a gateway to certification tools, learning materials and on-line learning events.

Service Restoration/Customer Reliability

- Field Services continues to focus on service restoration and customer reliability as part of its core service offering. During the first quarter of fiscal 2004, Field Services has experienced approximately 45 per cent fewer trouble calls than in the first quarter of fiscal 2003. This period of the year is typically characterized by lightning and bird-related outages, both of which are down from the previous fiscal year. In addition, there have not been any large system events during this quarter.

Financial Summary

- Field Services has been created as a cost recovery business unit within BC Hydro, and for the first three months ended June 30, 2003, recoveries have marginally exceeded costs by 1.5 per cent. Field Services recoveries were \$77.5 million compared with a Plan of \$71.4 million. Recoveries reflect services provided to internal BC Hydro Lines of Business customers as well as third-party customers external to BC Hydro. The higher-than-Plan recoveries are mainly related to increased recoveries on materials, vehicles and labour.
- Internal recoveries account for over 94 per cent of the total recoveries. Approximately 66 per cent of these recoveries are derived from

an internal, Field Services trade workforce, with the remaining 34 per cent from external Contractor workforces.

- Internal workforce chargeable hours are tracking near Plan levels, with 337,000 chargeable hours billed. The chargeable hours utilization (total number of chargeable hours divided by the total number of hours available)

is approximately 81 per cent. Under current billing practices, management, supervisory and administrative time (which represents about 30 per cent of the total Field Services internal available hours) is not billed separately to customers but is factored into the chargeable hourly rate.

Financial Highlights

Interim Report – Field Services – three months ended June 30

In millions	2003 actual	2002 actual	% change
External revenues	\$ 4.2	\$ 0.3	1,300%
Inter-segment revenues	\$61.6	\$46.9	31%
Net income (loss)	\$ 1.4	\$ (3.5)	140%

Highlights Notes:

- Variances are primarily associated with the addition of Fleet Services to Field Services.
- Increased volume of work resulted in additional recoveries from Field Services clients.

**PERFORMANCE MEASURES –
FIELD SERVICES**

Field Services’ three key goals are:

Strong financial performance – by improving cost performance while maintaining and improving service.

Quality service – by focusing on customer satisfaction and service reliability.

Safe workplace, skilled workforce – by providing employees a safe, healthful and harassment-free workplace through continual improvement and ensuring safety remains a top priority and by retaining and developing the skills and knowledge of employees and contractors.

The following indicators measure these goals. In addition to these indicators, Field Services tracks a number of measures that cascade from BC Hydro’s overall measures.

Utilization Rate ●

	Actual	Target
Q1 03/04	80.6%	78.8%

Labour Utilization is defined as the number of chargeable hours divided by the total of all labour hours available. Targets have been set based on improvements to historical performance. Standby is not currently included in this measure but is being addressed as part of the Field Services pricing and service level agreement process.

The Utilization Rate measure for the first quarter was on target.

Hourly Charge-out Rate ●

	Actual	Target
Q1 03/04	\$96	\$96

Hourly Charge-out Rate is defined as the average hourly billing rate designed to recover all costs

providing the service. Targets have been set based on expected efficiency gains and external benchmarks.

The Hourly Charge-out Rate measure for the first quarter was on target.

% of Total Planned Work Complete ▼

	Actual	Target
Q1 03/04	93%	98%

Percentage of Total Planned Work Completed is defined as the total planned customer work assigned to Field Services divided by total planned customer work completed. This measure is a proxy measure of customer satisfaction. High levels of completed work have historically correlated to high levels of customer satisfaction. Targets have been set based on customer expectations.

Percentage of Total Planned Work Completed was below target in the first quarter, mainly due to severe wet weather in the Peace Region that prevented contractors from carrying out vegetation maintenance work for the Transmission right-of-way program. Vegetation work should increase in the second quarter and be on Plan by the end of September.

All Injury Frequency ▲

	Actual	Target
Q1 03/04	4.6	5.9

All Injury Frequency is defined as the combination of Medical Aid Injuries and Disabling Injuries. Medical Aid Injuries are injuries where a medical practitioner has submitted a fee to Workers’ Compensation Board for services rendered and the duration the employee was absent from work did not exceed the normal shift of the day of injury. Disabling Injuries are injuries that involve the employee being absent for more than the day of injury. The calculation is based on injuries experienced in Field Services over the previous 12

months and it is relative to person-hours worked over that same period.

All Injury Frequency was better than target for the quarter, primarily as a result of more management emphasis on safety. Management has been reinforcing the message by spending more time with the crews and reinforcing safety messages via the "SAFE START" program and following up more on corrective action plans. Variable pay contracts have also brought around a greater awareness of safety in the field. Overall, the field crews have a greater awareness of safety issues.

Total Trainees – Strategic Workforce Planning ●

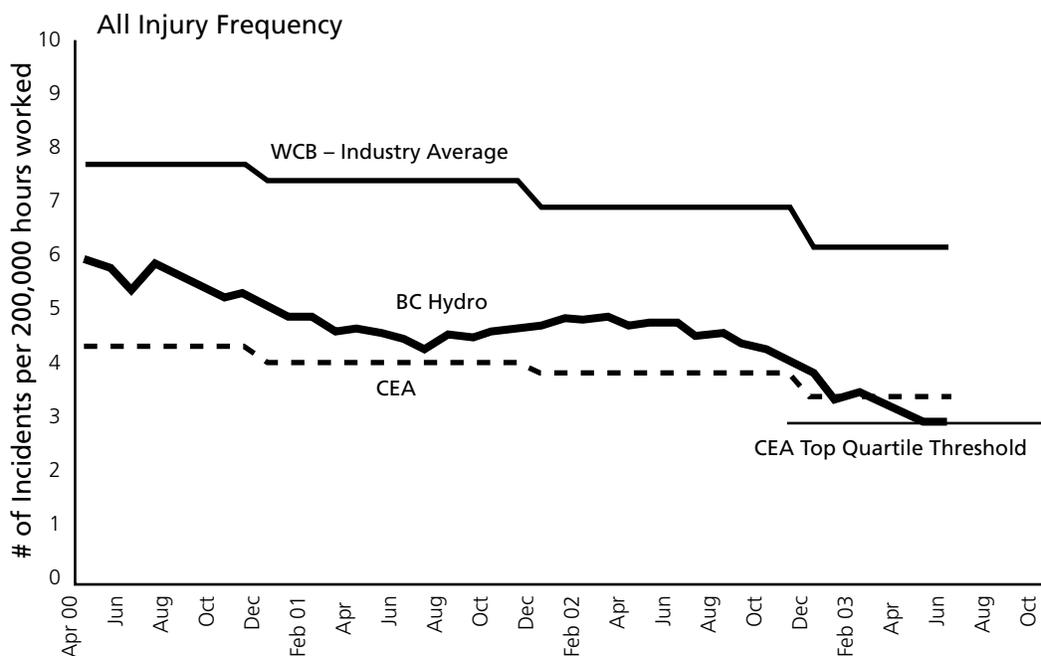
	Actual	Target (Annual)
Q1 03/04	96	122

Total Trainees – Strategic Workforce Planning is defined as the number of apprentices/trainees in Field Services being trained to fill positions as a result of retirement, attrition or other core workforce requirements. The targets have been set based on an internal needs assessment against expected organizational capacity.

The Total Trainees – Strategic Workforce Planning measure was on target for the quarter.

SAFETY PERFORMANCE

- BC Hydro is committed to being a top-quartile performer in occupational safety and health. One of the ways BC Hydro measures its performance in this area is by comparing the “All Injury Frequency Rate” (AIF) with other Canadian electric utilities. AIF is a standard calculation of the total number of disabling and medical treatment injuries per 200,000 hours worked.
- Over the past two fiscal years there has been a dramatic (44 per cent) improvement in safety performance, which has enabled BC Hydro to reach its goal of being a Canadian Electrical Association Top-Quartile Performer a full year ahead of Plan. Safety performance during the first quarter was 3.0, slightly better than the 3.2 target for the quarter. What is most remarkable about this accomplishment is that BC Hydro remained within the top-quartile performance threshold after transferring a significant number of back office/low-risk functions to Accenture Business Services of B.C. This change resulted in the removal of a large number of “hours worked”, as compared with very few “injury incidents”, resulting in the net effect of restating BC Hydro’s performance less favourably.
- BC Hydro’s success in improving safety performance is attributable to the following factors: employees who demonstrate the right leadership behaviours; holding people accountable; using a systems approach to safety management; good incident and near-miss investigation that promotes learning; and rigorous performance management.
- Despite these improvements, there were over 100 employee injuries in the last 12 months and an electrocution during the first quarter that could have, under less fortunate circumstances, cost an employee his life. BC Hydro remains committed to continual improvement in safety performance and to reaching its goal of zero injuries in the workplace.
- In late July, a tragic accident occurred when BC Hydro employee Norm Cockerill was fatally injured in a contact incident at the G.M. Shrum switchyard. BC Hydro has conducted a full investigation and developed an action plan to help prevent the recurrence of this kind of accident.



HUMAN RESOURCES

To ensure that BC Hydro will be able to sustain its core operations, a strategic workforce planning initiative (SWfP) has been underway since fiscal 2001 to mitigate the impact of retirements and renew critical workforce capability. Each year, initiative funding has been targeted to enable hiring of apprentices and trainees in trades, engineering, technical and management positions. A total of 226 positions were funded in fiscal years 2001 to 2003, bringing the total investment to \$19 million. An additional \$10.3 million has been allocated to sustain the SWfP initiative in fiscal 2004.

- As shown below, approximately half (41) of the 81 planned positions for the fiscal year were filled during the first quarter. In the first quarter, 41 of the 43 planned positions were filled.

	Planned Full Year (81)	Filled YTD (41)
Generation	11	8
Transmission	10	3
Distribution	8	4
Engineering	18	15
Field Services	34	11
Total Planned & Filled	81	41

Q1 Targets	Planned Q1 (43)	Filled YTD (41)
Generation ¹	11	8
Transmission ²	1	3
Distribution ³	2	4
Engineering ⁴	18	15
Field Services	11	11
Total Planned & Filled	43	41

¹ change in intake target

² 2 hired early

³ 4 hired early

⁴ staffing strategy change

- Employee attrition (from BC Hydro and soon to be formed BCTC), which includes retirements, resignations and other terminations, was 1.8 per cent or 69 employees in the first quarter. Retirements represented the major component of attrition, with 58 regular employees retiring or completing pre-retirement leaves by June 30, 2003. In total, 609 employees are eligible or will become eligible to retire with unreduced pension in fiscal 2004, but many will choose to defer retirement.
- There are two kinds of terminated employee affected by the creation of Accenture Business Services of British Columbia (ABS): the first chose to terminate from ABS; the second chose to retire from BC Hydro but will not be reported on for BC Hydro's attrition because their jobs were moved to ABS.
- In addition to the 30 BC Hydro-ABS affected employees who terminated, there remain 147 additional BC Hydro-ABS affected employees seconded to ABS, on severance leaves or awaiting collective agreement options as of June 23, 2003.
- The largest share of retirement risk remains with BC Hydro – out of the 708 potential retirees for BC Hydro and ABS as of March 31, 2003 – only 99 of them moved to ABS and 609 remain with BC Hydro.

REGULATORY

- On March 12, 2003, Vancouver Island Generation Corporation, a wholly-owned subsidiary of BC Hydro, filed an application with the British Columbia Utilities Commission (BCUC) requesting a Certificate of Public Convenience and Necessity (CPCN) for the Vancouver Island Generation Plant (VIGP) at Duke Point. The 265 MW plant is needed to replace capacity to Vancouver Island that will be lost with the expected retirement of the HVDC underwater cable system in 2007. A regulatory schedule for reviewing the application was established which included holding a series of workshops in Nanaimo in late April for representatives of the applicant to explain and respond to questions from the public about the project. The regulatory process culminated in an oral hearing that began on June 16 in Nanaimo and lasted nearly three weeks. The Commission heard testimony from seven witness panels representing the applicant. The Vancouver Island Energy Corporation filed its final argument with the Commission on July 15, requesting a decision by early September 2003.
- The Canadian process for reviewing the Georgia Strait Crossing (GSX) Project CPCN application concluded on March 19, 2003 after a three and a half week hearing. At the hearing, the Joint Review Panel, representing the National Energy Board and the Canadian Environmental Assessment Agency, heard testimony from eight witness panels representing BC Hydro and Williams Pipeline. On June 23, 2003, the Joint Review Panel (JRP) heard submissions from parties wishing to reopen the hearing to admit into the GSX proceeding evidence filed by Terasen Gas (Vancouver Island) in the VIGP hearing to expand its system as an alternative to the proposed GSX pipeline. On July 8 the JRP dismissed their application on the grounds that the Terasen proposal is at a preliminary stage and would not be useful to the determinations that the JRP must make in the GSX proceeding. A positive decision by the JRP on GSX's CPCN application was received on July 30.
- As part of implementing the province's Energy Plan, the Commission will hold an inquiry beginning on July 29, 2003 to recommend to government the terms and conditions of a legislated Heritage Contract that will set the terms for supply from existing low-cost generation. The inquiry will also focus on recommending the design of a stepped rate for industrial customers, intended to increase the efficiency of the use and supply of energy to those customers without raising rates. BC Hydro filed its proposals on both initiatives with the Commission on April 30, 2003. This has been followed by a regulatory review of these submissions, which included a workshop on May 13 to discuss the rationale for the proposals with key stakeholders, including industrial rate customers, the Joint Industry Electrical Steering Committee and consumer groups. As well, a series of stepped rates meetings were held in May and June with BCUC staff and interested parties to focus on identifying potential areas of agreement on new rate structures for industrial customers that may achieve the policy objectives of the Energy Plan.
- On April 30, 2003, BC Hydro filed an application with the BCUC to decommission the Coursier Dam located near Revelstoke. BC Hydro had determined that this dam had the potential to fail and had considered several remediation options. However, the risk was considered unacceptable. After a brief written process, the Commission issued an order on June 5 approving the decommissioning of this dam.

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- On June 12, 2003, the BCUC issued a decision denying the OPEIU's application requesting it to examine the divestiture plans of BC Hydro manifested by its agreements with Accenture Inc. and the separation of its transmission function. The Commission had previously

dismissed a similar complaint by the OPEIU last year. New legislation was enacted this spring that confirmed the lack of Commission jurisdiction to approve such transactions.