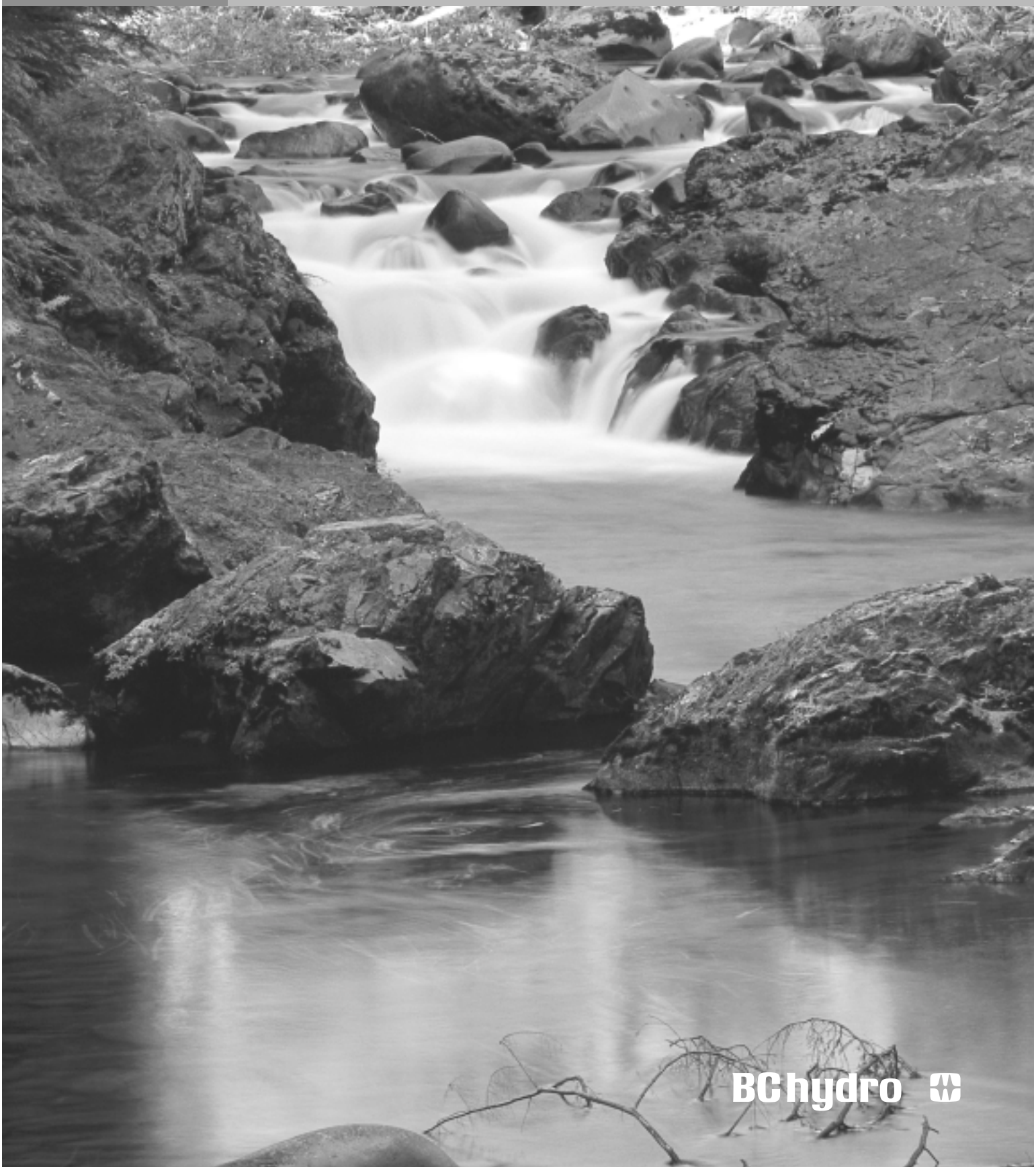
Second Quarter Report

For the six months ended September 30, 2003



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1. OVERVIEW

KEY HIGHLIGHTS

Financial

- Consolidated net income of $33 million for the six months ended September 30, 2003, was $108 million lower than for the same period in the previous year. The primary reason for the decline in net income is a decrease in margins of approximately $80 million. This was caused by increasing cost of supply, due primarily to an increase in market prices for energy and to the lower-than-normal water inflows in the region, which reduces the availability of low-cost hydro generation. Also contributing to the unfavourable variance was an increase of $35 million in maintenance expenses, due primarily to increases in maintenance performed on distribution and transmission systems as a result of forest fire damage and to routine maintenance work performed earlier this year. Additionally, operations and administration expenses increased, due largely to increases in employee future benefit (pension) costs ($8 million), one-time expenditures such as $5 million in set-up costs related to the new transmission company, British Columbia Transmission Corporation (BCTC), and implementation costs related to IT projects ($5 million). A decrease in finance charges of $25 million partly offset the variance.
- The net loss from domestic sources for the six months ended September 30, 2003, was $59 million, while electricity trade sources provided net income of $92 million. This compares with net income from domestic sources of $46 million and net income from electricity trade sources of $95 million for the same period in the prior year.
- Net income of $37 million for the second quarter of this year was $64 million lower than for the same period last year. This is primarily due to higher energy costs, due to lower-than-normal water inflows in the region, which reduces the availability of low-cost hydro generation in the region and higher market prices for energy purchases, and to higher maintenance costs, largely a result of costs related to forest fire damage. An increase in domestic revenues and a decrease in finance charges partially offset the negative variance.
- BC Hydro's forecast net income before Rate Stabilization Account (RSA) transfers for fiscal 2004 is approximately $145 million. Based on this forecast, the balance of $21 million remaining in the RSA at the end of fiscal 2003 will be depleted. The forecast of $145 million is an increase of $215 million from the forecast in BC Hydro's 2003 Service Plan and an increase of $30 million from the forecast disclosed in BC Hydro's June 2003 Quarterly Report. The increase from the Service Plan forecast to the first quarter forecast was largely due to the impact of improved water inflows during the spring and to a decrease in the prices of electricity and natural gas purchases. Lower-than-expected interest rates and a stronger Canadian dollar also contributed to the increase in the forecast. The improvement in the current forecast from the first quarter is largely due to a further reduction in finance charges as a result of the anticipated continuation of the low interest rate environment.

Performance Plan

- BC Hydro had a successful second quarter and that was reflected in its performance measures. Six of the seven corporate measures reported on either met (2) or exceeded (4) their quarterly targets.
- Net Income was better than the target loss of $52 million, primarily as a result of lower finance charges, higher domestic revenues due largely to weather impacts, and an increase in electricity trade margins. Net income is expected to remain ahead of target for the year due to more favourable water inflow conditions than

were expected (although these are still generally below average), the decline in forward prices for natural gas and electricity, and lower-than-expected short-term interest rates.

- BC Hydro was below its quarterly reliability target, with the average number of hours per interruption worse than target. The main reasons for this were beyond BC Hydro's control, specifically five major weather events and the McLure forest fire in the Interior of B.C.
- BC Hydro was above its quarterly safety goal, as measured by All Injury Frequency. BC Hydro is benefiting from the focus that has been placed on safety and performance improvement through awareness, planning, training and safe work practices.

Domestic Supply and Demand

- Total sales compared with last year over the first five months are 261 GW·h or 1.4 per cent higher. Of this total, Transmission sales were 204 GW·h or 3.3 per cent higher; General sales were 64 GW·h or 0.9 per cent higher; Residential sales were 41 GW·h or 0.7 per cent lower; and Other sales were 32 GW·h or about eight per cent higher.
- BC Hydro is a winter peaking utility driven by residential electric space heating. It reached a one-hour peak demand of 8,481 MW at a daily average temperature of +5.3°C, on December 18, 2002. The preliminary peak forecast, including Power Smart, for the upcoming winter is 9,543 MW. Compared with last year's peak forecast of 9,663 MW, this year's peak forecast is 120 MW or 1.2 per cent lower.
- System storage energy on September 30, 2003, was about 13 per cent less than the same date last year and about 1,500 GW·h below the historical average for this time of year. The combined storage in BC Hydro reservoirs at September 30, 2003, was 94 per cent of average. This compares with the combined storage at September 30, 2002, of 109 per cent of average. With system energy well below normal, net energy purchases will be required through to the end of the fiscal year. BC Hydro currently anticipates importing approximately 4,900 GW·h for domestic use this year, approximately nine per cent of its load.
- Williston reservoir basin runoff for the February-September 2003 period was 98 per cent of average, due to a near-average winter snowpack and near-average summer precipitation. Although summer glacier melt helped to improve the seasonal runoff in the Kinbasket, Revelstoke and Duncan watersheds, the recorded 2003 water supply for the Columbia River basin was below average. Inflows were only 89 per cent of average in the Kinbasket basin and 93 per cent of average in Duncan. The Kootenay and Arrow reservoirs, with little glaciation, received only 82 and 83 per cent of average seasonal runoff, respectively. Inflows into the Coastal region ranged from 72 per cent of normal in the Coquitlam reservoir to 104 per cent of normal into the Carpenter reservoir. It is important to note that the significant amount of rain received in October – which led to flooding in the Squamish area – did not have the same level of impact on overall system storage. The reason for this is that the rainfall occurred in the coastal region and not in the Peace or Columbia, where BC Hydro has most of its storage capability.

Lines of Business

- For the first six months of this fiscal year, total cumulative run-rate energy achieved by Power Smart was 453 GW·h, placing it ahead of the first quarter target of 450 GW·h and on track to reach this year's cumulative target of 810 GW·h. The above figures include a discount for free riders and free drivers, and measurement and verification for business sector programs. *Free riders* refers to those who participate in a

program but would have done so without an incentive; *free drivers* refers to those who do not participate in a program (e.g., use a coupon) but are influenced by it and *change their behaviour* because of it; business sector programs are discounted by five per cent to allow for energy savings that may be lower than initial estimates when actually measured by BC Hydro. Without these discounts the cumulative run-rate energy savings would be 490 GW·h/yr.

- Net new customer additions totalled 5,657 for the second quarter, an increase of 12.6 per cent over the same period last year. This upward trend is expected to continue for the remainder of the fiscal year.
- 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. In early September the British Columbia Utilities Commission, while agreeing with the need for new electricity to meet Vancouver Island needs by fiscal 2008, denied BC Hydro's application for a Certificate of Public Convenience and Necessity (CPCN) for this project. As a result, BC Hydro issued a Call for Tenders for alternative electricity supply on Vancouver Island. Proposals received will be evaluated in comparison with the VIGP.
- Accenture Business Services of British Columbia assumed responsibility for the performance of all Customer Care functions as of April 1, 2003. Customer satisfaction with the Customer Care Call Centre has consistently exceeded the established target of 84 per cent over the first six months. The first year of the outsourcing agreement has been identified as a Transition Year. The year-long Transition Plan remains on track with the majority of key milestones met.
- In October 2002 BC Hydro issued another call for green energy for up to 800 GW·h per year. In response to this call, 70 IPPs submitted project proposals to BC Hydro in December 2002. The proposals were evaluated against publicly disclosed criteria. Thirty projects were short-listed, and their developers were invited to submit a bid to the call for tenders phase of the process. Sixteen IPPs tendered bids, equalling 1,800 GW·h/year of new energy, in late August 2003. After each bid was adjusted to reflect various costs and benefits to BC Hydro associated with the project, all still had adjusted prices below the ceiling. Due to the need for new supply BC Hydro offered all 16 bidders 10- to 20-year contracts.
- British Columbia Transmission Corporation (BCTC) officially began operation on August 1, 2003, following the government's designation of a Transition Agreement and an Employee Transfer Agreement. For the period August 1, 2003, to the implementation of the Key Agreements, expected by December, 2003 ("Transition Period"), BCTC will operate BC Hydro's Wholesale Transmission Service tariff as an agent of BC Hydro. (Refer to Note 6 in the Interim Consolidated Financial Statements)
- In late October the coast of British Columbia received a significant amount of precipitation over a short period of time. In the Squamish/Whistler/Pemberton area, this was a "one in 200 year" event, with the Daisy Lake reservoir near Squamish receiving over twice as much rain as the reservoir could hold. BC Hydro implemented approved procedures, but given the volume of water, flooding inevitably occurred. BC Hydro proactively managed this situation by trying to control flows, assisting with evacuations and coordinating with local stakeholders.

MANAGEMENT DISCUSSION AND ANALYSIS

- The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position. This discussion should be read in conjunction with the Management Discussion and Analysis presented in the 2003 Annual Report, the 2003 Audited Consolidated Financial Statements of BC Hydro and the consolidated financial statements of BC Hydro for the three and six months ended September 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

- In summary, net income of $33 million for the six months ended September 30, 2003, was $108 million lower than for the same period in the previous year. The primary reason for the decline in net income is a decrease in margins of approximately $80 million. This was caused by increasing cost of supply, due primarily to an increase in market prices for energy and to lower-than-normal water inflows in the region which reduced the availability of low-cost hydro generation. An increase of $35 million in maintenance expenses, due primarily to increases in maintenance performed on distribution and transmission systems as a result of forest fire damage and to routine maintenance work performed earlier this year, also contributed to the unfavourable variance. Additionally, operations and administrative expenses increased, due largely to increases in employee future benefit (pension) costs ($8 million), one-time expenditures such as $5 million in set-up costs related to the new transmission company, British Columbia Transmission Corporation (BCTC) and implementation costs related to IT projects ($5 million). A decrease in finance charges of $25 million partly offset the decline. These reasons are discussed in more detail below.

- Net income of $37 million for the second quarter of this year was $64 million lower than for the same period in the previous year. This is primarily due to higher energy costs, due largely to lower-than-normal water inflows in the region, which reduces the availability of low-cost hydro generation in the region, and higher market prices for energy purchases, and to higher maintenance costs, largely a result of forest fire damage. An increase in domestic revenues and a decrease in finance charges partially offset the decline. Again, the reasons for the decrease in net income for the second quarter are discussed in more detail below.

Domestic Revenues

- Total domestic revenues of $1,148 million for the six months ended September 30, 2003, were $23 million higher than for the same period in the previous year. The increase in residential revenues is due largely to the addition of approximately 19,000 new customers and to an increase in cooling demand as a result of the extremely warm temperatures in July and August. Revenues from light industrial and commercial customers increased, mainly due to customer growth and to the increase in cooling demand over the summer. Customer growth in the residential and commercial sectors was slightly higher than the average customer growth over the last five years. The increase in large industrial revenues, due to higher production in the pulp and paper sector, also contributed to the increase in domestic revenues. Revenues from the large industrial sector were slightly lower for the second quarter of this year compared with the previous year, due largely to a four-month strike, which ended in late September, at one of the large pulp and paper mills.

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 of British Columbia. Electricity trade activities are carried out by Powerex, a wholly-owned subsidiary of BC Hydro. 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 revenues for the six months ended September 30, 2003, were $1,077 million, an increase of $123 million from the same period in the previous year. The increase was primarily due to an increase in average sale price, which rose 22 per cent from $55/MW·h last year to $67/MW·h this year. The increase in market prices is caused by several factors, including lower availability of low-cost hydro generation in the region and tighter natural gas supplies. The increase due to higher average sale prices was partly offset by a six per cent reduction in sales volumes, from 17,320 GW·h in the prior year to 16,152 in the current year. The decrease in sales volumes, which occurred during the second quarter of this year, was due primarily to lower reservoir levels and inter-tie (connection points between the transmission system in B.C. and the system in Alberta and the U.S.) transmission restrictions imposed by Bonneville Power Administration in the U.S.

Powerex sales and purchases during the six months ended September 30, 2003, were as follows:

	($ in millions)		**Volumes (in GW·h)**		**Average Prices ($/MW·h)**	
	2003	2002[1]	**2003**	2002	**2003**	2002[1]
1st Quarter (April–June)						
Sales	**463**	325	**7,652**	6,995	**61**	47
Purchases[2]	**451**	309	**10,111**	9,614	**45**	32
Net Export (Import)			**(2,459)**	(2,619)		
2nd Quarter (July–September)						
Sales	**614**	629	**8,500**	10,325	**72**	61
Purchases[2]	**492**	469	**8,661**	9,348	**57**	50
Net Export (Import)			**(161)**	977		
Total						
Sales	**1,077**	954	**16,152**	17,320	**67**	55
Purchases[2]	**943**	778	**18,772**	18,962	**50**	41
Net Export (Import)			**(2,620)**	(1,642)		

1. These figures have been reclassified to conform with the presentation in the current year.

2. These figures reflect energy purchases only and do not include any other component of energy costs such as transmission costs.

- BC Hydro's energy purchases and thermal generation to meet its domestic load requirements for the six months ended September 30, 2003, was 2,741 GW·h compared with 240 GW·h for the same period of the previous year. This increase was largely due to the impact of lower water inflow levels as described below.

For the six months ended September 30	**2003 (in GW·h)**	2002 (in GW·h)
Net import	**2,620**	1,642
Thermal generation	**212**	217
	2,832	1,859
For domestic use	**2,741**	240
For future resale in the electricity trade market	**91**	1,619
	2,832	1,859

Expenses

Energy costs are comprised of the following sources of supply:

	For the six months ended September 30					
	(in millions)		**(in GW·h)**		**($/MW·h)**	
	2003	2002	**2003**	2002	**2003**	2002
Hydro[1]	**$109**	$112	**18,828**	19,911	**$5.8**	$5.6
Purchases from Independent Power Producers and other long-term purchase contracts	**184**	147	**3,044**	2,677	**60.4**	54.9
Other electricity purchases	**943**	778	**18,772**	18,962	**50.2**	41.0
Natural gas[2]	**85**	60	**212**	217	**108.5**	73.7
Non-integrated	**6**	6	**40**	42	**150.0**	142.9
Transmission charges and other expenses	**65**	64				
Total	**$1,392**	$1,167	**40,896**	41,809	**$32.5**	$26.9

1 Net of storage exchange.

2 Includes costs of remarketed gas of approximately $62 million for the six months ended September 30, 2003, compared with $44 million for the same period in the previous year. Remarketed gas is natural gas purchased for the purpose of resale. The volumes shown for natural gas relate only to gas used for thermal generation and $ per MW.h is calculated excluding remarketed gas.

- The mix of sources of supply is impacted by variables such as the market price of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.
- Energy costs of $1,392 million in the six months ended September 30, 2003, were $225 million higher than in the same period in the previous year. This increase reflects the increase in the price of energy purchases. Energy purchase prices averaged $50/MW·h for the first six months of this year, compared with $41/MW·h for the same period in the previous year, a 22 per cent increase. The price of deliveries from some Independent Power Producers also increased due to higher natural gas prices. A decrease in water inflow levels this year also contributed to the increase in energy costs as

the availability of low-cost hydro generation was reduced and a greater reliance placed on energy imports to meet demand. BC Hydro chose to import energy for domestic use and conserve reservoir levels, as it was more economic than generating additional energy from its hydro and thermal facilities. The decision to import energy in favour of low-cost hydro generation is based on many factors, such as the forward market price of energy, current reservoir levels and future demand requirements. Operating constraints related to legal and regulatory obligations, such as minimum reservoir levels and stream flow requirements, also affect the decision of importing energy during certain time periods in favour of low-cost hydro generation. BC Hydro currently anticipates importing approximately 4,900 GW·h for domestic use this year, approximately nine per cent of its load. A decrease in the volume of energy supply due to the decrease in electricity trade sales volumes partly offset the increase in energy costs.

- Water inflows into BC Hydro's reservoirs were 17 per cent lower in the current year, compared with the same period in the previous year. This resulted in a reduction in reservoir levels and the availability of low-cost hydro generation. The combined storage in BC Hydro reservoirs at September 30, 2003, was 94 per cent of average (average storage levels relate to the average from 1985 to 2002), with the Williston Reservoir on the Peace River system at 98 per cent of average and the Kinbasket Reservoir on the Columbia river system at 81 per cent of average. This compares with the combined storage at September 30, 2002, of 109 per cent of average, with the Williston Reservoir on the Peace River system at 111 per cent of average and the Kinbasket Reservoir on the Columbia River system at 106 per cent of average.
- Maintenance expenses of $144 million for the six months ended September 30, 2003, were $35 million higher than for the same period in the previous year. The increase is largely due to additional maintenance on the distribution and transmission systems of $10 million, which was necessary primarily because of forest fires across B.C. this summer that damaged transmission poles and lines together with distribution lines. Routine maintenance work was also performed earlier this year, contributing to the increase in maintenance work during the first half of this year.
- Operations and administration expenses of $163 million for the six months ended September 30, 2003 were $20 million higher than for the same period in the previous year. The increase was largely due to one-time expenditures related to implementation costs for IT projects of $5 million, initial set-up costs relating to BCTC of $5 million and implementation costs related to the Provincial Government Energy Policy of $3 million. Energy policy implementation activities included the development and submission to the British Columbia Utilities Commission (BCUC) of recommendations relating to a heritage contract for BC Hydro's existing generation resources, stepped rates and access principles and the Certificate of Public Convenience and Necessity (CPCN) for the Vancouver Island Generation Project (VIGP) and hearings related to each of these. These costs also include costs related to the preparation of the Revenue Requirement Application to be filed in December 2003.
- Another factor that contributed to the increase in both maintenance and operations and administration expenses was higher employee future benefit costs (primarily pension costs) as a result of the increase in the pension liability, based on the September 2002 actuarial valuation of BC Hydro's pension plans, of $8 million. The most recent actuarial valuation reflected increased obligations as a result of several factors, such as employees retiring earlier and living longer.

Taxes

- Taxes, which are comprised of school taxes, grants in lieu of taxes and the corporation capital tax, decreased by $3 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 of $219 million were $25 million lower than for the same period in the previous year. This was primarily due to a stronger Canadian dollar, which impacted the cost of interest payments on U.S. dollar denominated debt. The Canadian dollar for the six months ended September 30, 2003 averaged US$0.7222, compared with US$0.6502 for the same period in the previous year. Lower short-term interest rates and higher sinking fund income also contributed to the favourable variance. The variance was partially offset by a higher average volume of debt needed to fund capital expenditures and the payment to the Province.

Investing Activities

- Capital expenditures, including demand-side management programs, for the six months ended September 30, 2003, amounted to $301 million compared with $357 million for the same period in the previous year.

For the six months ended September 30

(in millions)	**2003**	2002	Increase (Decrease)
Generation replacements and expansion	**$65**	$121	$(56)
Transmission lines and substation replacements and expansion	**84**	79	5
Distribution improvements and expansion	**92**	78	14
General–computers, vehicles, etc.	**41**	60	(19)
Power Smart (Demand-side management)	**19**	19	–
Total	**$301**	$357	$(56)

- Generation-related expenditures decreased, primarily due to reduced expenditures for the Vancouver Island Generation Project (VIGP). Expenditures for VIGP were lower than in the same period in the prior year, due to the recent decision from the British Columbia Utilities Commission (BCUC) to deny the Certificate of Public Convenience (CPCN) for the project (see Note 5 in the notes to the interim Consolidated Financial Statements). BC Hydro has committed to a Call for Tenders (CFT) process to meet demand on Vancouver Island. Depending on several factors, including the success of the CFT process, VIGP may be brought forward to the BCUC for approval at a later time if it is determined to provide reliable supply at the lowest cost. BC Hydro publicly released details of the CFT process on October 31, 2003. BC Hydro's target for the Vancouver Island CFT is to acquire 150 to 300 megawatts (MW), in aggregate, of new dependable capacity on Vancouver Island. Individual projects must employ proven technology, be at least 25 MW in size and be in commercial operation by May 2007. The decrease in general expenditures is primarily due to lower expenditures on computer projects in 2003, due to the completion of a major implementation of an integrated information system in the previous year.

Financing Activities

- During the six months ended September 30, 2003, BC Hydro issued four new bonds for a total of $640 million. The funds from these issues, together with an increase in revolving borrowings, were used to redeem a $300-million bond and to fund the payment to the Province and capital expenditures. The net long-term debt balance net of temporary investments at September 30, 2003, was $7,112 million, compared with $6,849 million at March 31, 2003. The increase in debt was partly offset by the impact of the stronger Canadian dollar, which reduced the Canadian equivalent of U.S. debt by approximately $200 million.

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. A reduction in water inflows into reservoirs results in a greater reliance on energy purchases or use of the Burrard Generating Station, both of which can increase the costs of energy. 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 net income for this fiscal year is forecast to be approximately $145 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 nil and $250 million.
- BC Hydro intends to submit a revenue requirement application to the British Columbia Utilities Commission (BCUC) in December 2003, requesting an increase in rates. Although electricity rates have not increased in the last 10 years, *costs did increase during that time* and new electricity sources to meet increases in demand will be more expensive than the existing supply of large-scale hydroelectricity. In addition, operating costs and the ongoing costs of maintaining infrastructure have, and will continue to, increase primarily as a result of BC Hydro's aging assets and general cost increases. The information for the application is currently being compiled and BC Hydro is in the process of determining the proposed rate increase amount. While the BCUC will make the final decision on any increase, BC Hydro remains confident that it will continue to have one of the lowest electricity rates in North America.
- On October 17, 2003, the British Columbia Utilities Commission (BCUC) released its *Report and Recommendations In the Matter of British Columbia Hydro and Power Authority and an Inquiry Into a Heritage Contract for British Columbia Hydro and Power Authority's Existing Generation Resources and Regarding Stepped Rates and Transmission Access* ("The Report").
- The Report endorses the preference of customers and BC Hydro as detailed in submissions to the BCUC and testimony at the related hearings and makes recommendations for the implementation of a "Revenue Requirements" model for the heritage contract between the Generation and Distribution lines of business. This model is based on the revenue required by Generation to meet the embedded cost of supplying the energy from heritage resources to Distribution. In proposing a Revenue Requirements model, BC Hydro's goal was maximization of the total amount of wealth from the system. Under the Revenue Requirements model, Generation would remain subject to traditional regulatory oversight, with the opportunity for performance-based ratemaking. One feature of the BC Hydro proposal that warranted special attention was the change in the determination and disposition of trade income. Trade income is defined as the annual audited net income of Powerex and will no longer include revenues from the sale of surplus power, except for a profit expected to be realized by Powerex after paying BC Hydro an indexed price for surplus power. All trade income up to $200 million accrues to the ratepayers. The Report recommends BC Hydro's trade income proposal.

- The Report also recommends implementation of stepped rates for large commercial and industrial customers and delineates principles for their determination. The stepped rates would be based on a two-tier rate design that reflects the benefit of relatively low-cost energy through a Tier 1 block rate while reflecting the higher cost of new supply in a Tier 2 rate. A percentage of Customer Baseline Load would be billed at each rate. The Report recommends that a Tier 2 rate based on the long-term cost of acquiring actual new energy would be more supportive of the objectives of the Energy Plan. The Report further recommends concurrent implementation of time-of-use rates.
- The Provincial Government is expected to officially respond to the recommendations of the Report by the end of the third quarter. BC Hydro will include an estimate of the financial impact of the final Government recommendations in its revenue requirements filing in December 2003.
- In a settlement announced on October 31, 2003, the U.S. Federal Energy Regulatory Commission (FERC) Trial Staff cleared Powerex of allegations of inappropriate market behaviour and concluded that Powerex played a positive role in helping California keep the lights on during the California energy crisis of 2000 and 2001. In the agreement the Trial Staff of FERC rejected California's claims that it was owed more than US$1 billion by Powerex. The agreement is subject to approval by the full Commission and calls for further litigation to be suspended pending this approval. In return for suspension of these lengthy and complex proceedings, and to gain regulatory certainty and closure, Powerex has agreed to a payment of US$1.3 million once the settlement is approved. The payment is not related to any Powerex transactions and does not constitute an admission of any wrongdoing.
- In November 2003 BC Hydro signed agreements to purchase energy from 16 new private sector power projects to provide additional 1,800 gigawatt hours per year to meet the energy needs of British Columbia. The investment from the private sector is estimated at $800 million. The energy, enough to meet the energy needs of 180,000 homes, will be purchased from Independent Power Producers (IPPs) that successfully bid into BC Hydro's 2002/2003 Green Power Generation (GPG) procurement process. Seventy IPPs submitted project proposals to BC Hydro's GPG call last December. The proposals were evaluated against publicly disclosed criteria. Thirty projects were short-listed, and their developers were invited to submit a bid to the call for tenders phase of the process. Sixteen IPPs tendered bids, which were adjusted to reflect various costs and benefits to BC Hydro associated with the project. All of these bids have been accepted and the IPPs will be offered 10- to 20-year contracts. The total net present value of these purchase commitments is estimated at close to $720 million. All projects must be operational by September 30, 2006.
- In October 2003 BC Hydro announced a 15-year agreement with Canadian Forest Products Ltd. (Canfor) to upgrade its Prince George Pulp and Paper mill to provide all of the electricity needs at that mill and its Intercontinental Pulp mill. BC Hydro will contribute $49 million to Canfor's $81 million project to install a 48-megawatt turbo generator. The project will generate 390 gigawatt hours and this will save enough electricity to serve 39,000 homes. The project is scheduled for completion by February 2005.

CONSOLIDATED STATEMENT OF OPERATIONS

	For the three months ended September 30 (Unaudited)		*For the six months ended September 30 (Unaudited)*	
(in millions)	**2003**	2002	**2003**	2002
Revenues				
Residential	**$ 182**	$ 176	**$ 390**	$ 381
Light industrial and commercial	**222**	217	**439**	430
Large industrial	**127**	129	**256**	251
Other energy sales	**20**	17	**36**	35
Other sundry	**14**	13	**27**	28
	565	552	**1,148**	1,125
Electricity trade	**614**	629	**1,077**	954
	1,179	1,181	**2,225**	2,079
Expenses				
Energy costs	**737**	684	**1,392**	1,167
Maintenance	**75**	56	**144**	109
Operations and administration	**74**	76	**163**	143
Taxes	**36**	37	**71**	74
Depreciation and amortization	**101**	99	**203**	201
	1,023	952	**1,973**	1,694
Income Before Finance Charges	**156**	229	**252**	385
Finance charges	**119**	128	**219**	244
Net Income	**$ 37**	$ 101	**$ 33**	$ 141

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

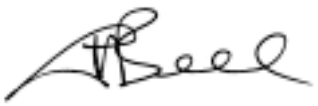
For the six months ended September 30 (in millions)	**2003 *(Unaudited)***	2002 *(Unaudited)*
Retained earnings, beginning of period	**$ 1,609**	$ 1,529
Net income	**33**	141
Payment to the Province	**(17)**	(110)
Retained earnings, end of period	**$ 1,625**	$ 1,560

See accompanying notes to the interim consolidated financial statements.

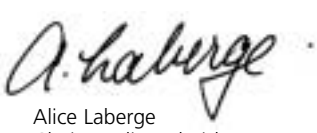
CONSOLIDATED BALANCE SHEET

(in millions)	***as at September 30*** **2003** (Unaudited)	*as at March 31* 2003 (Audited)
ASSETS		
Capital Assets		
Capital assets in service	**$14,830**	$14,940
Less accumulated depreciation	**5,869**	5,816
	8,961	9,124
Unfinished construction	**898**	669
	9,859	9,793
Current Assets		
Temporary investments	**18**	4
Accounts receivable and accrued revenue	**280**	362
Materials and supplies	**91**	88
Prepaid expenses	**135**	86
Unrealized gains on mark-to-market transactions	**7**	10
	531	550
Other Assets and Deferred Charges		
Loan receivable	**23**	23
Sinking funds	**1,021**	1,037
Demand-side management programs	**130**	123
Deferred debt costs	**233**	385
Foreign currency contracts	**1**	13
	1,408	1,581
	$11,798	$11,924
LIABILITIES AND EQUITY		
Long-Term Debt		
Long-term debt net of sinking funds	**$ 7,130**	$ 6,853
Sinking funds presented as assets	**1,021**	1,037
	8,151	7,890
Foreign Currency Contracts	**49**	15
Current Liabilities		
Accounts payable and accrued liabilities	**580**	689
Accrued interest	**114**	108
Accrued payment to the Province	**17**	338
Unrealized losses on mark-to-market transactions	**7**	10
	718	1,145
Deferred Credits and Other Liabilities		
Provision for future removal and site restoration costs	**182**	174
Deferred revenue	**255**	258
Rate stabilization account	**21**	21
Contributions arising from the Columbia River Treaty	**198**	203
Contributions in aid of construction	**599**	609
	1,255	1,265
Retained Earnings	**1,625**	1,609
	$11,798	$11,924

See accompanying notes to the interim consolidated financial statements.



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



Alice Laberge
Chair, Audit and Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended September 30 (Unaudited)		*For the six months ended September 30 (Unaudited)*	
(in millions)	**2003**	2002	**2003**	2002
Operating Activities				
Net income	**$ 37**	$ 101	**$ 33**	$ 141
Adjustments for:				
– Depreciation and amortization	**101**	99	**203**	201
– Other non-cash items	**10**	(2)	**(8)**	13
	148	198	**228**	355
Working capital changes	**(192)**	(123)	**(57)**	(106)
Cash provided (used for) by operating activities	**(44)**	75	**171**	249
Investing Activities				
Loan receivable		(3)		(8)
Capital asset expenditures	**(162)**	(194)	**(319)**	(358)
Contributions in aid of construction	**18**	16	**22**	35
Demand-side management programs	**(11)**	(13)	**(19)**	(19)
Future removal and site restoration costs	**(2)**	(3)	**(3)**	(6)
Cash provided (used for) by investing activities	**(157)**	(197)	**(319)**	(356)
Financing Activities				
Bonds, notes and debentures:				
– Issued	**200**	606	**640**	1,007
– Retired	**–**	(345)	**(300)**	(579)
Revolving borrowings	**(1)**	(191)	**150**	72
Sinking fund changes	**(15)**	39	**3**	21
Premium, discount and issue costs	**–**	8	**7**	3
Proceeds from early settlement of interest rate swaps	**–**	22	**–**	22
Cash provided by financing activities	**184**	139	**500**	546
Payment to the Province	**–**	–	**(338)**	(333)
Increase (Decrease) in Cash	**(17)**	17	**14**	106
Cash, beginning of period[1]	**35**	106	**4**	17
Cash, end of period[1]	**$ 18**	$ 123	**$ 18**	$ 123
Supplemental disclosure of cash flow information				
– Interest paid	**$ 157**	$ 168	**$ 261**	$ 263

See accompanying notes to the interim consolidated financial statements.

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) SEPTEMBER 30, 2003

Business of BC Hydro

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

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.

Note 1: Accounting Policies

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles for preparation of interim financial statements and do not conform in all respects to the disclosure requirements for annual financial statements. These interim consolidated financial statements take into account certain accounting practices by regulatory bodies that differ from the accounting practices applied in unregulated enterprises. The differences specifically relate to certain deferred charges.

These interim consolidated financial statements and the notes should be read in conjunction with the Audited Consolidated Financial Statements and accompanying notes in BC Hydro's 2003 Annual Report.

The accounting policies used to prepare these interim consolidated financial statements conform to those described in the notes to BC Hydro's 2003 Audited Consolidated Financial Statements. On April 1, 2003, BC Hydro adopted the new recommendations in AcG-14 of the CICA Handbook, entitled Disclosure of Guarantees (see Note 3). In addition, BC Hydro changed the basis under which it has disclosed certain segmented information, described in Note 7 to the financial statements.

Certain figures for the previous period have been reclassified to conform to presentation in the current period.

Note 2: Seasonality of Operating Results

Due to the seasonal nature of the BC Hydro's operations, interim operations statements are not indicative of operations on an annual basis. Seasonal impacts of weather, including its impact on water inflow levels, energy consumption demand levels within the region, and market prices of energy, can have a significant impact on BC Hydro's operating results.

Note 3: Guarantees and Indemnities

In addition to the guarantees and indemnities disclosed in BC Hydro's Notes to its 2003 Audited Consolidated Financial Statements, BC Hydro has indemnified Williams Gas Pipeline Company, LLC (Williams) for their 50 per cent share of the aggregate project development costs of the Georgia Strait Crossing Pipeline Project (GSX) if there is a failure to obtain regulatory approval from any Canadian federal, provincial or local Regulatory Authority by March 15, 2004. In July 2003 the Joint Review Panel (JRP) of Canada's National Energy Board (NEB) and the Canadian Environmental Assessment Agency (CEAA) issued its report relating to the environmental assessment of GSX. The JRP recommended that GSX proceed to the next level of decision making. As of September 30, 2003, the total of the shared project costs spent by Williams and BC Hydro was $46 million. The recent decision by the British Columbia Utilities Commission (BCUC) to deny a Certificate of Public Convenience (CPCN) for the Vancouver Island Generation Project (VIGP)

(see Note 5) may impact the future of GSX. Negotiations with Williams to amend the existing agreements are ongoing and BC Hydro's potential liability is uncertain at this time. Accordingly, no provisions have been made in these interim consolidated financial statements.

Note 4: Commitments and Contingencies

In November 2003 BC Hydro signed energy purchase agreements with the private sector to purchase energy to meet a portion of its expected annual electricity requirements. Sixteen new power projects under BC Hydro's 2002/2003 Green Power Generation procurement process were awarded to Independent Power Producers to provide BC Hydro with an additional 1,800 gigawatt hours per year. The minimum obligation to purchase energy under these contracts have an estimated net present value of $720 million. Payments for the next five years are approximately (in millions):

- 2005 $1
- 2006 $7
- 2007 $57
- 2008 $96

As disclosed in the notes to BC Hydro's 2003 Audited Consolidated Financial Statements, on December 2, 2001, Enron Corp. ("Enron") and certain of its subsidiaries filed for bankruptcy protection. As a result, the long-term Power Purchase Agreement between Powerex and Enron terminated. Under a 1997 agreement between Alcan, Enron Power Marketing Inc. ("EPMI"), Powerex and BC Hydro, Alcan agreed to remain liable to Powerex for the payment obligations of EPMI, for which Alcan was originally responsible. Alcan has not paid this obligation so Powerex took the matter to arbitration. An arbitration award was issued on January 17, 2003, which required Alcan to pay Powerex US$100 million within 30 days, with interest accruing thereafter. This payment currently remains outstanding and Powerex has commenced enforcement proceedings in British Columbia.

Subsequent to the arbitration award, Alcan successfully applied to have this proceeding adjourned pending the outcome of an application it made in the U.S. courts to have the arbitration award set aside. That application was heard in August 2003 before a U.S. magistrate who denied the application in a "Findings and Recommendation" on September 18, 2003. This outcome, which is favourable to Powerex, is not final until endorsed by a supervising judge. Alcan has brought a further application objecting to the "Findings and Recommendation". Meanwhile, Powerex has renewed its enforcement proceedings in British Columbia, which are set down for hearing in January 2004. At this time, the outcome of this claim is still not determinable. Accordingly, no recovery in respect of the arbitration award will be recorded in the interim consolidated financial statements until collection is assured.

There are no other material changes to the contingencies disclosed in the notes to BC Hydro's 2003 Audited Consolidated Financial Statements.

Note 5: Vancouver Island Generation Project

On September 8, 2003, the British Columbia Utilities Commission (BCUC) issued a decision that denied BC Hydro's application for a Certificate of Public Convenience and Necessity for the proposed Vancouver Island Generation Project (VIGP). VIGP is the proposed power plant on Vancouver Island that would be one of the power plants for which the Georgia Strait Crossing pipeline (GSX) would supply gas. The BCUC's decision on VIGP may impact the future of GSX. GSX is a joint project of BC Hydro and Williams. If GSX does not go ahead, an indemnity to cover costs expended to date by Williams may be triggered, as described in Note 3. The BCUC agrees with BC Hydro that new electricity supply will be required on Vancouver Island for the 2007/2008 heating season and has, therefore, recommended that BC Hydro proceed with a Call for Tenders (CFT) process to meet the expected Vancouver Island demand. BC Hydro issued the CFT on October 2003.

VIGP may still go ahead if it proves to be the option that provides reliable additional supply for Vancouver Island at the lowest cost. BC Hydro's carrying costs of VIGP and GSX, which include legal, regulatory, administrative and engineering costs, are $65 million and $28 million, respectively. The recovery of these costs is uncertain and dependent on the future decision of the BCUC, who will determine the treatment to be given these costs.

Note 6: Transaction with British Columbia Transmission Corporation

Pursuant to Energy For Our Future: A Plan for B.C., the Province, the sole shareholder of BC Hydro, has approved a plan to transfer the transmission operations of BC Hydro to British Columbia Transmission Corporation (BCTC), a company wholly owned by the Province. The ultimate objective of the transaction is to transfer the management, maintenance and operation of the high-voltage electric system in British Columbia to BCTC and provide transparent open-access transmission services.

On July 16, 2003, BC Hydro signed an Interim Transition Agreement with BCTC to begin the transfer of the transmission operations of BC Hydro to BCTC. On August 1, 2003, BC Hydro permanently transferred to BCTC 260 employees responsible for managing and operating the transmission grid and planning the capital expenditures for the related assets.

From August 1, 2003, to the implementation of the final service agreements (the Key Agreements), expected in the third quarter of the current fiscal year, these transferred employees will be operating, maintaining and planning for BC Hydro's transmission assets on behalf of BC Hydro. During that period, BCTC will charge BC Hydro a service fee equal to BCTC's cost of operations. In addition, BC Hydro has agreed to reimburse expected structuring, legal and other advisory costs incurred by BCTC. The total amount of BCTC's cost of operations and the reimbursement of structuring and advisory costs is currently estimated at $20 million. BC Hydro has provided a loan in the amount of $5 million to fund capital acquisitions by BCTC. This loan is non-interest-bearing and will be repaid when BCTC receives equity funding from the Province.

Upon approval of the Key Agreements by the Province, it is expected, pursuant to direction from the Province, that BC Hydro will declare and pay a special dividend in the amount of approximately $20 million to the Province. These funds will be contributed by the Province to BCTC as an equity contribution. The equity contribution, along with third-party financing, will be used by BCTC to acquire approximately $55 million of assets and facilities related to operation and control of the transmission system from BC Hydro at carrying value. Included in this amount is unfinished construction at the transfer date, primarily software assets, which will be transferred upon completion. BC Hydro will continue to retain legal and beneficial ownership of the transmission assets and will be responsible for funding all future additions and sustaining investments in these assets based on directions from BCTC in its capacity of asset manager. BCTC's role of managing, maintaining and operating BC Hydro's transmission system will be governed by the Transmission Corporation Act, enacted on May 29, 2003, and the Key Agreements to be approved by the Province.

In mid-2004, BCTC and BC Hydro will make a joint filing to the British Columbia Utilities Commission (BCUC) to set the rates charged for the use of the transmission system. The filing will set BCTC's rates for the management, maintenance and operation of the transmission assets and grid operations and set a separate rate for BC Hydro for asset ownership costs and a return on equity for the transmission assets. Until these rates are set by the BCUC, BCTC will receive payment from BC Hydro for the management, maintenance and operation of the transmission assets.

BC Hydro will consolidate BCTC until BCTC is operationally and financially independent of BC Hydro. It is expected that BCTC will remain operationally dependent on BC Hydro until the BCUC approves rates for the activities for which BCTC is directly responsible and BCTC is sufficiently capitalized by the Province to finance its operations. The Province may direct BC Hydro to declare and pay a further special dividend to cover additional equity requirements in BCTC.

Note 7: Segmented Information

The segmented information for the six months ended September 30, 2003, reflects changes from the segmented information disclosed in BC Hydro's 2003 Audited Financial Statements. 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 reporting, risk management and performance measurement purposes. The changes relate to the following:

Powerex pays its net income, excluding unrealized gains/losses, 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 September 30, 2003, was $55 million, compared with $5 million for the same period in the prior year. For the six months ended September 30, 2003, the Powerex dividend to Generation was $90 million, compared with $16 million in the prior year.

Powerex's energy costs include 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 $13 million for the three months ended September 30, 2003, and $27 million for the six months ended September 30, 2003, were not deducted from Powerex's income in the prior year.

Generation's revenue in the six months ended September 30, 2002, 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 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 September 30, 2003, totalled $78 million, compared with $67 million for the same period in the prior year. The costs of these purchases for the six months ended September 30, 2003, amounted to $138 million, compared with $126 million in the prior year.

The Transmission segment at September 30, 2003, includes amounts that have been consolidated from British Columbia Transmission Corporation (BCTC) due to operational dependence on BC Hydro (see Note 6). These amounts were included in previous periods as part of BC Hydro's Transmission operating segment. The BCTC amounts included in the Transmission segment at September 30, 2003, are as follows:

Assets	$13 million
Liabilities	$13 million
Revenues	$ 5 million
Expenses	$ 5 million

Six months ended September 30, 2003

(in millions)	Distribution	Transmission	Generation	Powerex	Other[4]	Consolidation Adjustments/ Eliminations	Total
	$	$	$	$	$	$	$
External revenues	1,120	5	8	1,078	21	(7)[3]	2,225
Inter-segment revenues	–	331	688	243	201	(1,463)	–
Net income (loss)	(208)	83	173	89	7	(111)[3]	33
Total assets	3,227	3,109	4,920	448[1]	480[2]	(386)	11,798

Three months ended September 30, 2003

(in millions)	Distribution	Transmission	Generation	Powerex	Other[4]	Consolidation Adjustments/ Eliminations	Total
	$	$	$	$	$	$	$
External revenues	550	2	4	603	11	9[3]	1,179
Inter-segment revenues	–	165	345	94	116	(720)	–
Net income (loss)	(114)	37	117	43	(8)	(38)[3]	37

Six months ended September 30, 2002

(in millions)	Distribution	Transmission	Generation	Powerex	Other[4]	Consolidation Adjustments/ Eliminations	Total
	$	$	$	$	$	$	$
External revenues	1,081	5	23	968	25	(23)[3]	2,079
Inter-segment revenues	–	392	584	130	305	(1,411)	–
Net income (loss)	(2)	145	45	108	(84)	(71)[3]	141
Total assets	2,973	3,127	5,131	1,403[1]	687[2]	(1,260)	12,061

Three months ended September 30, 2002

(in millions)	Distribution	Transmission	Generation	Powerex	Other[4]	Consolidation Adjustments/ Eliminations	Total
	$	$	$	$	$	$	$
External revenues	533	3	11	643	8	(17)[3]	1,181
Inter-segment revenues	–	201	284	29	150	(664)	–
Net income (loss)	(4)	77	11	58	(44)	3[3]	101

[1] Primarily consists of inter–segment receivables of $244 million ($1,045 million for six months ended September 30, 2002).

[2] Mainly consists of capital assets such as office buildings, vehicles and computer equipment.

[3] 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 $46 million and the loss from domestic sources was $9 million for the three months ended September 30, 2003, compared with Powerex's income of $58 million and income from domestic sources of $43 million for the same period in the previous year. For the six months ended September 30, 2003, Powerex's income under GAAP was $92 million and the loss from domestic sources was $59 million, compared with Powerex's income of $95 million and income from domestic sources of $46 million in the prior year.

[4] The prior year includes Engineering Services, Field Services and Shared Services Organizations, other Subsidiaries including Westech 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.

Note 8: Subsequent Events

a) Heritage Contract

On October 17, 2003, the British Columbia Utilities Commission (BCUC) released its *Report and Recommendations In the Matter of British Columbia Hydro and Power Authority and an Inquiry Into a Heritage Contract for British Columbia Hydro and Power Authority's Existing Generation Resources and Regarding Stepped Rates and Transmission Access* ("The Report"). The Report recommends the implementation of a "Revenue Requirements" model for the heritage contract between the Generation and Distribution lines of business based on the revenue required by Generation to meet the embedded cost of supplying the energy of heritage resources to Distribution. Under the Revenue Requirements model Generation would remain subject to traditional regulatory oversight, with the opportunity for performance-based ratemaking.

The Report also recommends implementation of stepped rates for large commercial and industrial customers and delineates principles for their determination. The stepped rates would be based on a two-tier rate design that reflects the benefit of relatively low-cost energy through a Tier 1 block rate while reflecting the higher cost of new supply in a Tier 2 rate. A percentage of Customer Baseline Load would be billed at each rate. It further recommends concurrent implementation of time-of-use rates. The Provincial Government is expected to officially respond to the recommendations of the Report by the end of the third quarter. BC Hydro will include an estimate of the financial impact of the final Government recommendations in its revenue requirement filing in December 2003.

b) Powerex

In a settlement announced on October 31, 2003, the U.S. Federal Energy Regulatory Commission (FERC) Trial Staff cleared Powerex of allegations of inappropriate market behaviour and concluded that Powerex played a positive role in helping California keep the lights on during the California energy crisis of 2000 and 2001. In the agreement the Trial Staff of FERC rejected California's claims that it was owed more than US$1 billion by Powerex. The agreement is subject to approval by the full Commission and calls for further litigation to be suspended pending this approval. In return for suspension of these lengthy and complex proceedings, and to gain regulatory certainty and closure, Powerex has agreed to a payment of US$1.3 million once the settlement is approved. The payment is not related to any Powerex transactions and does not constitute an admission of any wrongdoing.

As was disclosed in the notes to BC Hydro's 2003 Audited Financial Statements, Powerex still faces possible additional costs as several investigations and regulatory proceedings at the state and federal levels are also looking into causes of the high wholesale electricity prices in the western United States during 2000 and 2001. These investigations are to determine if suppliers should be required to refund some of the revenue earned during this period. BC Hydro has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis. These provisions, based on management's best estimates, are intended to provide for any remaining exposure.

c) Canadian Forest Products Ltd. agreement

In October 2003 BC Hydro announced a 15-year agreement with Canadian Forest Products Ltd. (Canfor) to upgrade its Prince George Pulp and Paper mill to provide all of the electricity needs at that mill and its Intercontinental Pulp mill. BC Hydro will contribute $49 million to Canfor's $81 million project to install a 48-megawatt turbo generator. The project will generate 390 gigawatt hours and this will save enough electricity to serve 39,000 homes. The project is scheduled for completion by February 2005.

OPERATING HIGHLIGHTS

	For the three months ended September 30 (Unaudited)		*For the six months ended September 30 (Unaudited)*	
(in GW·h)	**2003**	2002	**2003**	2002
Electricity Sold				
Residential	**2,895**	2,800	**6,244**	6,093
Light industrial and commercial	**4,172**	4,072	**8,258**	8,087
Large industrial	**3,756**	3,748	**7,533**	7,362
Other energy sales	**359**	265	**640**	591
	11,182	10,885	**22,675**	22,133
Electricity trade	**8,500**	10,325	**16,152**	17,320
	19,682	21,210	**38,827**	39,453
Number of domestic customers			**1,639,529**	1,618,942
Number of employees			**4,301**[1]	6,064

[1] Includes full-time and part-time employees. At April 1, 2003, approximately 1,600 employees were transferred to Accenture Business Services of British Columbia. On August 1, 2003, BC Hydro transferred approximately 260 employees to British Columbia Transmission Corporation.

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.

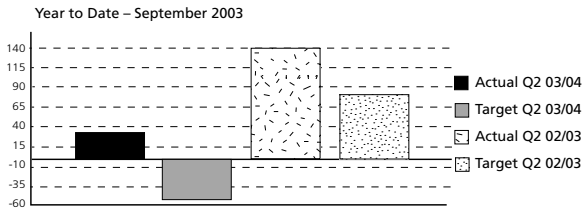
Performance Measures, Targets, and Results

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 second 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.

Legend (for all Performance Measures)	
▲	Significantly better than target
●	Meets target (within range)
▼	Significantly Below Target

Net Income (in millions) ▲

	Actual	Target
Q2 03/04	$ 33	$(52)
Q2 02/03	$141	$82



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. 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 finance charges, higher domestic revenues due largely to weather impacts, and an increase in electricity trade margins (the difference between what BC Hydro pays the market for electricity and what it gets for the electricity it sells to the market). Finance charges were lower than Plan, 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 favourable water inflow conditions, the decline in forward prices for natural gas and electricity, and lower-than-expected short-term interest rates.

Year-to-date Net Income 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 and to a reduction in

hydro availability. An increase in maintenance performed on distribution and transmission systems as a result of fire damage, and increases in operations 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
Q2 03/04	99.934%	99.970%
Q2 02/03	99.955%	99.970%
CAIDI	Actual	Target
Q2 03/04	3.02 hrs.	2.15 hrs.
Q2 02/03	2.82 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 October 1, 2002, to September 30, 2003.

CAIDI was worse than target, mainly due to five major weather events and the McLure forest fire. The weather events were:

1) December 15, 2002 windstorm

2) December 25-26, 2002 windstorm

3) January 2-3, 2003 high winds and heavy rain

4) March 13, 2003 powerful wind storm

5) March 22, 2003 high winds and lightning

The McLure forest fire in the interior of B.C. damaged 20 kilometres of transmission lines during the night of July 31, 2003. This incident put the lines out of service from the Heffley Creek substation, 23 kilometres north of Kamloops, to Valemount. This source outage accounted for over 750,000 customer hours lost, or 11 per cent of the total customer-hours lost during the last 12 months.

For the year to date, 3,133,479 customer hours were lost, compared with a five-year average of 1,798,323 customer hours for the same period (April to September). Source outages accounted for 37.0 per cent of the customer hours lost, largely as a result of the McLure forest fire. Other causes included trees (15.3 per cent), Distribution equipment failures (12.8 per cent), adverse weather (6.2 per cent) and birds (5.9 per cent).

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

For more information about Reliability at BC Hydro please see pages 57-58.

All Injury Frequency ▲

	Actual	Target
Q2 03/04	2.7	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 rendered services beyond the level of "first aid" in relation to an injury incident and the employee was not absent from work beyond 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 year to date, the All Injury Frequency measure was better than target despite a slight recent levelling of the improvement rate and an employee fatality at the G.M. Shrum Generating Station on July 23. BC Hydro is still benefiting

from the focus that has been placed on safety and performance improvement through awareness, planning, training and safe work practices. It is expected that the levelling trend will continue and it will become increasingly difficult to further reduce the frequency.

For more information about Safety at BC Hydro please see page 69.

Environmental Regulatory Compliance ▲

	Actual	Target
Q2 03/04	6 Incidents	10 Incidents
Q2 02/03	9 Incidents	15 Incidents

Environmental Regulatory Compliance is defined as the number of externally reportable, preventable environmental incidents. An environmental incident is an incident that has caused, or has the potential for causing, one or more of the following:

- environmental damage
- adverse effect on fish, wildlife, air quality or other environmental resources
- adverse publicity with respect to environment
- legal or regulatory action (including ticketing) with respect to violation of statutes or environmental damage.

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 is complete, as well as improved relations and understanding with regulators, BC Hydro anticipates 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 six incidents that qualified as preventable (five human error, one equipment failure), none was characterized as "severe".

For this type of measure there is an inherent risk of unreported incidents. BC Hydro is currently reviewing its controls to attempt to ensure that all applicable incidents are reported.

Incremental Conservation Gigawatt Hours ●

	Actual	Target
Q2 03/04	453 GW·h	450 GW·h
Q2 02/03	77 GW·h	75 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 onstream. 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 453 GW·h includes discounts for free riders, free drivers, and measurement and verification for business sector programs. *Free riders* refers to those who participate in a program but would have done so without an incentive; *free drivers* refers to those who do not participate in a program (e.g., use a coupon) but are influenced by it and proceed because of it; business sectors are discounted by five per cent to allow for energy savings that may be lower than initial estimates when actually measured. These discounts make the Conservation figure a net number. Without applying these initial estimates, the cumulative run-rate energy savings would be 490 GW·h.

For more information about Power Smart at BC Hydro please see pages 48-49.

Approved Strategic Workforce Positions Filled ●

	Actual	Target
Q2 03/04	44	45

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 year to date, the Strategic Workforce measure was on target. Most of the hiring was planned and completed in the first quarter.

For more information about Strategic Workforce planning at BC Hydro please see page 70.

Customer Satisfaction Index ▲

	Actual	Target
Q2 03/04	90%	84%
Q2 02/03	85%	84%

Customer Satisfaction is a composite indicator. Thirty per cent of the measure comes from a survey using all customers as the population from which to draw a random sample. The other 70 per cent comes from transactional surveys using only customers who have had a service interaction with BC Hydro as the population from which to draw a sample. Satisfied customers are those who indicate they are either "satisfied" or "very satisfied". Targets have been left constant to recognize that it is a high level of satisfaction and to reflect the challenge BC Hydro will have in maintaining this level with the changes (e.g., Accenture) that will take place over the next several years. The targets correspond closely to first-quartile performance in the Ipsos-Reid National Omnibus survey that BC Hydro is using as its proxy benchmark.

Customer Satisfaction came in above target, largely due to the high level of satisfaction expressed by Residential Customers not only in the overall survey but also with the customer call centre. The results declined slightly since the last survey (March 2003), due to a drop from the 99 per cent satisfaction expressed by BC Hydro's Tier 1 Customers (with hydro purchases > $200,000/year). The main reason for the drop was the reduction in incremental Power Smart opportunities over and above those already identified for these customers in prior periods. Furthermore, it was recognized that a 99 per cent satisfaction rating is not sustainable. Overall, no group was less than 88 per cent satisfied.

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
YTD 03/04	$89	$72

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, mainly due to healthy price spreads and good forward calls made in the prior quarter that are being realized in the current quarter.

Sales Volumes[1] ●

	Actual	Target
Q2 03/04	17,301 GW·h	17,644 GW·h

Sales Volumes is defined as gigawatt hours sold (both electricity and gas). Targets have been set based on supply and demand forecasts.

For the year to date, the Sales Volume measure was on target. The actual figure includes 1,150 gigawatt hours of gas sales, whereas no gas sales were planned.

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. Commercial Performance for the first six months of this fiscal year was 99.56 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.
- 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 BC*. 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 provided 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 BC Government on October 17, 2003.
- Over the next five years, Generation's goal is to move from top quartile to top decile (top tenth), in terms of both the cost and the performance of its larger generation assets. Generation has put in place initiatives to reduce overhead costs by eliminating inefficiencies, being more innovative and implementing best-in-class business processes and information technology.
- During the second quarter, a re-organization within Generation resulted in the consolidation of the five Generation Areas into three regions: the Peace Region; the Columbia Region resulting from combining the Upper Columbia and Kootenay areas; and the Coastal and Thermal Region, resulting from an amalgamation of the Bridge River/Coastal and Thermal Generation areas.

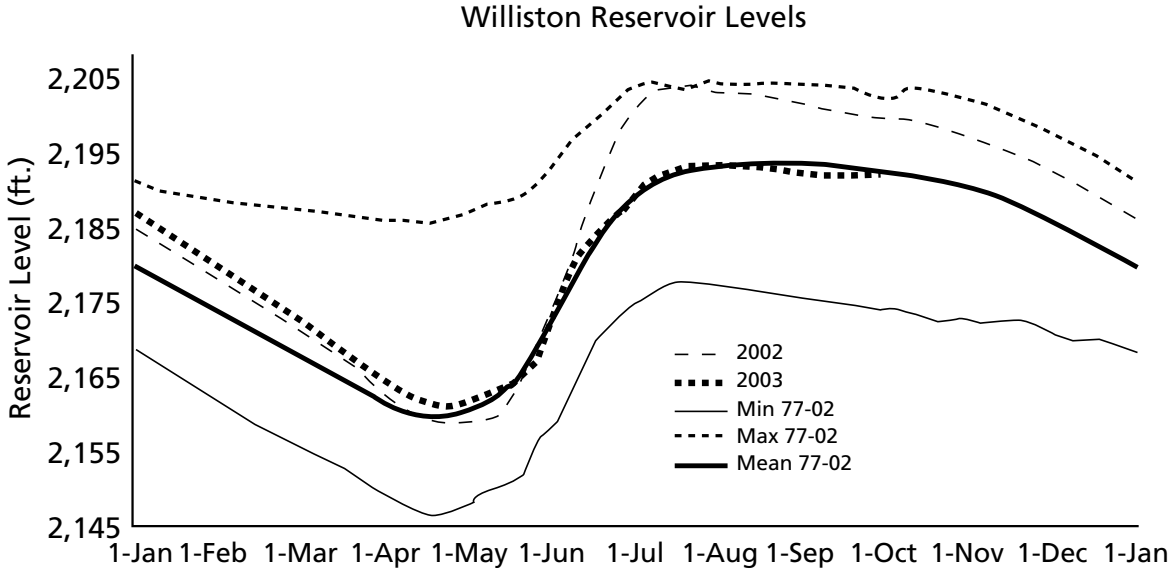
System Operation

- 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).
- A dry summer across British Columbia, combined with average to below-average winter snowpack, has resulted in below-average February through September seasonal runoff into most reservoirs in the BC Hydro system. Only Williston reservoir, the Bridge River reservoirs and Upper Campbell and Comox reservoirs had near-average seasonal runoff for 2003.

- System storage energy on September 30, 2003, was about 13 per cent less than the same date last year and about 1,500 GW·h below the historical average for this time of year. With system energy well below normal, net energy purchases will be required through to the end of the fiscal year.

Peace Region

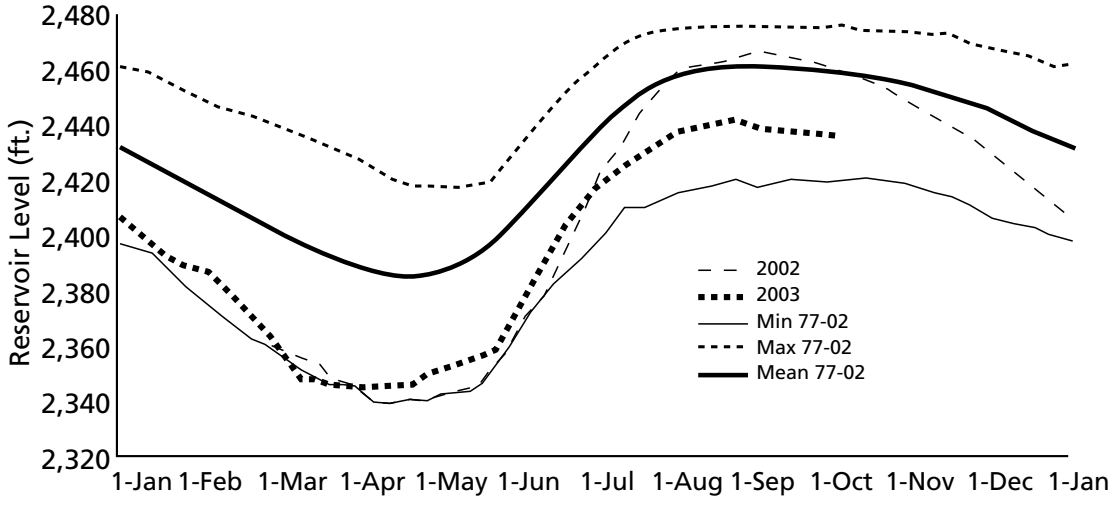
- The Peace Region includes Generation's single largest facility, the 10-unit, 2,730 MW GM Shrum Generating Station and the four-unit, 700 MW Peace Canyon Generating Station.
- Williston reservoir basin runoff for the February-September 2003 period was 98 per cent of average due to a near-average winter snowpack and near-average summer precipitation.
- The Williston Reservoir reached a peak of 2,195 feet during August 2003. Since then, the reservoir has been drafting slowly and, as of September 30, 2003, was at 2,193 feet. Williston Reservoir is projected to draft to a low of about 2,149 feet by end of April 2004.
- During fiscal 2004, capital investment of $40.0 million is planned for the Peace River Area.
- Work to refurbish G.M. Shrum Generating Station Unit 6 has almost been completed. As part of this work, the turbine was replaced under BC Hydro's Resource Smart program, resulting in an increase of 81 GW·h of energy at a cost of $10 million. 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 now received advice from an Advisory Panel of international experts and is finalizing a strategy to address this issue.
- Other major capital projects include:
  - replacing a number of G.M. Shrum exciters and unit transformers;
  - upgrading Peace Canyon fire protection; and
  - upgrading Peace Canyon powerhouse crane.



Columbia Region

- The Columbia Region has the largest installed capacity of the three Generation regions and includes the following facilities:
  - the four-unit, 1,860 MW Mica Generating Station;
  - the four-unit, 2,000 MW Revelstoke Generating Station;
  - the four-unit, 800 MW Seven Mile Generating Station;
  - the four-unit, 580 MW Kootenay Canal Generating Station;
  - Aberfeldie (ABF), Elko (ELK), Falls River, Shuswap (SHU) Spillimacheen (SPN), Walter Hardman (WHN), and Whatshan (WGS) generating stations, totalling 13 units and 96 MW.
- The recorded 2003 water supply for the Columbia River basin was below average (89 per cent of average for the Kinbasket basin). Snowpack accumulations during the winter 2002-2003 were below average across the basin. To compound the low snowpack, summer precipitation was also below average in the basin.
- Summer glacier melt helped to improve the seasonal runoff in those watersheds that have large glaciers. The glacier melt in the Kinbasket, Revelstoke and Duncan watersheds contributed enough water during the hot, dry summer that these watersheds had a five to 10 per cent higher seasonal runoff (89 per cent, 88 per cent and 93 per cent of average respectively) than adjacent watersheds with little glaciation (Kootenay and Arrow reservoirs, with 82 and 83 per cent of average seasonal runoff respectively).
- Kinbasket Reservoir reached a peak of 2,442 feet in late August of 2003. Since then, the reservoir has been drafting slowly, and as of September 30, 2003 was at 2,437 feet. Kinbasket Reservoir is projected to draft to a low of about 2,354 feet by end of April 2004. This projected elevation is highly variable though, and will be impacted by changes in system generation requirements and energy purchases.
- During fiscal 2004, capital investment of $59.4 million is planned for the Columbia Region.
- BC Hydro 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

Kinbasket Reservoir Levels



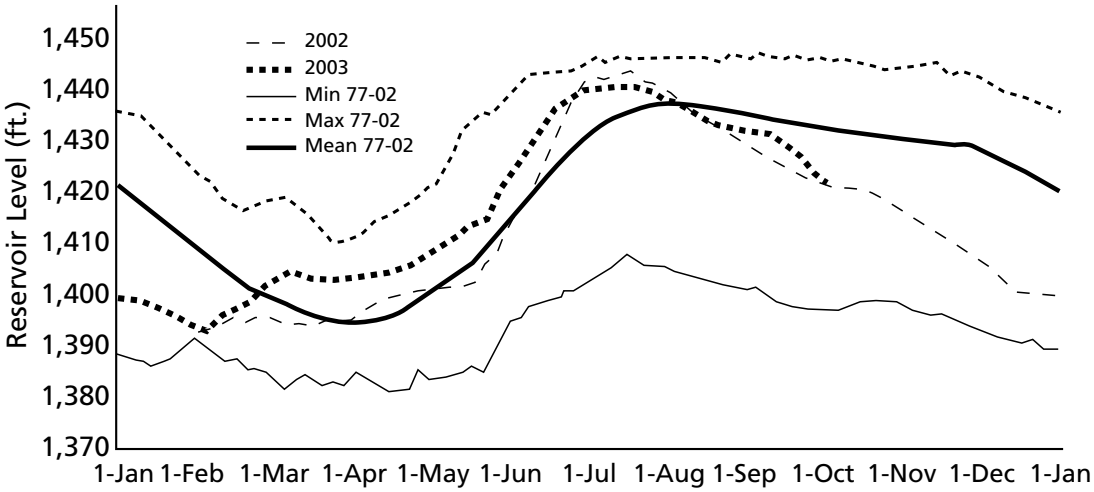
the safety of the dam. The decommissioning work has been completed, with revegetation work planned for 2004 and 2005.

- An ongoing problem with the condition of the Mica Generating Station generators has progressed to the point where BC Hydro must address the issue. Various options have been explored and a proposed approach will be finalized during the next quarter.
- Other major capital projects include:
  - enhancing Mica Dam instrumentation; and
  - contouring Columbia riverbed downstream of Revelstoke Dam.
  - seismic upgrading of Seven Mile Dam;
  - contouring Pend d'Oreille riverbed downstream of Seven Mile Dam;
  - replacing Kootenay Canal unit transformers; and
  - upgrading Kootenay Canal fire protection.

Coastal and Thermal Generation

- The Coastal and Thermal Generation Region comprises 24 dams, 18 powerhouses and 36 generating units with an installed capacity of 1,528 MW located in 12 river basins throughout the province plus three thermal generation facilities.
- The largest hydroelectric facilities include:
  - the eight-unit, 466 Bridge River MW 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.
- Thermal generation facilities include:
  - 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.
- The seasonal runoff for much of the Coastal Lower Mainland and southern Vancouver Island was much below average for February-September 2003, due to below-average winter snowpack and extended hot, dry conditions throughout the summer.

Arrow Reservoir Levels



- Central Vancouver Island, Cheakamus and Bridge River projects observed near-average seasonal runoff as a result of slightly higher winter snowpack accumulations than the areas farther south. The Cheakamus and Bridge River watersheds also had additional contributions of glacier melt during the dry summer months to augment the low summer runoff.
- Capital investment of $70.0 million is planned for the Coastal and Thermal Region.
- 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. In the interim, the reservoir has been restricted to protect public safety.
- Bridge River #1 Units 2 and 3 were 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 at a cost of $5.1 million. 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;
  - safety improvements at La Joie, Blind Slough and Ruskin dams;
  - 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. In early September, the British Columbia Utilities Commission, while agreeing with the need for new electricity to meet Vancouver Island needs by fiscal 2008, denied BC Hydro's application for a Certificate of Public Convenience and Necessity (CPCN) for this project. As a result, BC Hydro issued a Call for Tenders for alternative electricity supply on Vancouver Island. Proposals received will be evaluated in comparison with the VIGP.
- Non region-specific capital expenditures of $18.1 million are planned for fiscal 2004.

Financial Highlights

Interim Report – Generation – six months ended September 30

In millions	2003 actual	2002 actual	% change
External revenues	$ 7.9	$ 23.3	– 66%
Inter-segment revenues	$ 687.6	$583.5	2%
Net income (loss)	$ 172.6	$ 45.1	282%

Highlights Notes:

- Net Income for the first six months of the fiscal year was $172.6 million, compared with Plan of $98 million. This increase above Plan was largely due to higher-than-planned domestic sales (+ 306 GW·h; +$8.7 million); higher-than-forecast revenue from Powerex (+$17.6 million); lower-than-planned cost of energy purchases (+$19.9 million); and lower-than-planned finance charges due to lower interest rates and improvement in the U.S. exchange rate (+29.4 million). This increase was partially offset by higher-than-forecast Operations, Maintenance and Administration (OMA) costs (-$2.3 million) due to accelerated maintenance work and additional security costs.

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
YTD 03/04	$172.6	$98.0

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 for the six months to September 30, 2003 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
Q2 03/04	$24.22	$26.84

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

Commercial Performance ●

	Actual	Target
Q2 03/04	99.5%	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 six months, the Commercial Performance measure was on target.

Resource Smart Energy Gains Put Into Service ●

	Actual	Target
Q2 03/04	358 GW·h	330 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 six months, the Resource Smart measure was on target.

Introduction

- British Columbia Transmission Corporation commenced operations on August 1, 2003 and is responsible for planning, operating and managing BC Hydro's transmission system. The system transports 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

BCTC

- British Columbia Transmission Corporation (BCTC) officially began operation on August 1, 2003, following the government's designation of a Transition Agreement and an Employee Transfer Agreement. For the period August 1, 2003, to the implementation of the Key Agreements, expected by December, 2003 ("Transition Period"), BCTC will operate BC Hydro's Wholesale Transmission Service tariff as an agent of BC Hydro.
- After the designation of the Key Agreements and until BCTC becomes a regulated utility (Phase 1), BCTC will continue to operate BC Hydro's Wholesale Transmission Service tariff as agent for BC Hydro. BCTC's service fee for the period will be calculated to recover its costs of operations and earn a return on equity. BCTC has begun to work on creating its own tariff, which will be submitted to the BCUC for review and approval in mid-2004, and will likely come into effect on April 1, 2005. Once its own tariff is in effect (Phase 2), BCTC will become a separate regulated utility.

RTO West

- BCTC continues to work with nine western U.S. utilities on the final structure and operation of Regional Transmission Organization (RTO) West, including coordination of B.C. operations with the regional organization. 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 continued 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 delay in in-service, due to unavailability of cable splicers from the manufacturer, has been addressed. Installation is scheduled for completion by mid-December 2003. 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. Cable 9 installation, west of Galiano Island, was installed and tested and is ready for service pending the installation of cable 5.

Metropolitan Vancouver Cable Project

- Installation of cable circuit 2L33, which will secure reliable supply to downtown Vancouver, continues. This upgrade 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. Approximately $17.3 million has been expended to date.

Operational Issues

- Operation of transmission circuit 1L210 was restored on August 21, 2003, 21 days after the Strawberry and McLure fires destroyed about 20 km of the line (a total of 104 structures were replaced). The interruption of service affected the communities of Barriere, Clearwater, Agency, Avola, Blue River and Valemount. The only outstanding work is the restoration of the right-of-way. The total repair cost of the Circuit 1L210 is about $ 3.9 million. The forest fire threat situation resulted in the activation of the Corporate Emergency Centre, for the first time since the Year 2000 rollover in December 1999.

Financial Highlights

Interim Report – Transmission – six months ended September 30

In millions	2003 actual	2002 actual	% change
External revenues	$ 5.4	$ 4.6	+17%
Inter-segment revenues	$331.1	$392.4	-16%
Net income	$ 82.6	$144.9	-43%

Highlights Notes:

- Inter-segment revenues are below prior year due to lower Point-to-Point volumes (46 per cent decrease) and lower Point-to-Point prices (35 per cent decrease).
- Net Income below prior year due to lower inter-segment revenues.

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 who are 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 our 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
YTD 03/04	$82.6	$73.5

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 revenue.

OMA/GW·h-km ▲

	Actual	Target
Q2 03/04	10.3¢	10.4¢

OMA/GWh-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
Q2 03/04	0 Complaints	2 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 second quarter, no complaints were received.

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

Short-Term Forecast

- The forecast of firm sales, including Power Smart, for the current fiscal year is 49,182 GW·h. Compared with the March 2003 planned forecast, the variance is 100 GW·h or 0.2 per cent above planned sales. The variance in the current forecast from the planned forecast by rate class is:

Current vs. Planned Forecast

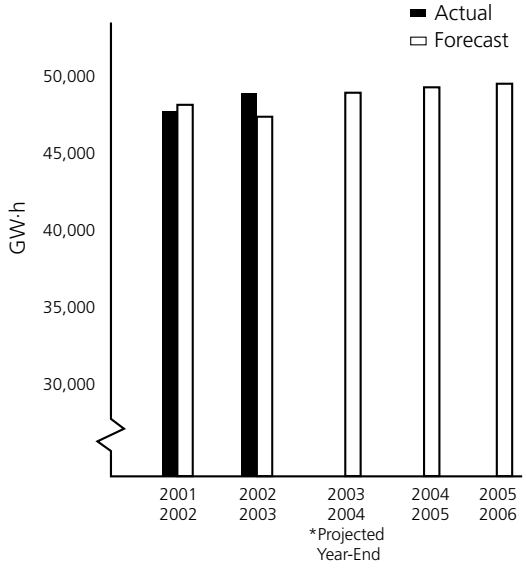
Rate Class	September 2003 Forecast (GW·h)	March 2003 Forecast (GW·h)	Variance (GW·h)
Residential	15,638	15,456	+182
General	16,945	17,030	-85
Transmission	14,802	14,813	-11
Other	366	366	0
Other Utilities	1,431	1,417	+14
Total	49,182	49,082	+100

Variance Explanation

1. Drivers:

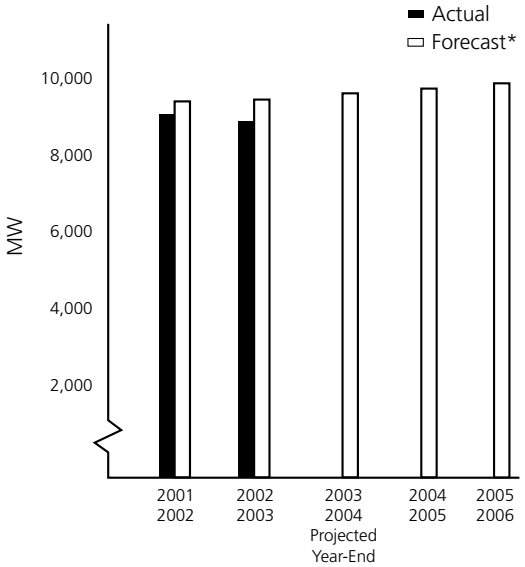
- The small variance in the forecast from the March plan reflects modest changes in some of the key macro-economic drivers of the energy forecast that largely offset each other. While expectations of the province's GDP growth this year are down by 0.9 per cent from last year, growth in housing starts and the residential sector remains strong. The downward revision for economic growth, which reflects a softening in the short-term prospects for BC's economy, is offset by housing starts and account growth.

BC HYDRO SYSTEM–BILLED SALES



* Projected Year-end is based on the September 2003 forecast.

BC HYDRO SYSTEM–PEAK DEMAND



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

The slower outlook in growth is due to several factors, including the slower-than-expected economic growth in the United States, the impact of SARS on tourism and domestic retail sales, the forest fire situation in the Southern Interior, and the impacts of a 27 per cent duty on softwood lumber on B.C.'s lumber industry. These factors have led to the downward revision in the General and Transmission sales forecast relative to the forecast of planned sales.

- The positive variance in the residential sales forecast compared with the plan reflects a continued strong growth in housing starts. Low mortgage rates continue to fuel demand in B.C.'s housing sector. Use of electricity per residential customer is also expected to be higher this year than last year due to a higher saturation of electronic products. The higher use rate also contributed to the upward revision in the residential sales forecast.

2. Energy Sales BC Hydro System:

- The small change in the current forecast compared with the March plan is supported on the basis of how close sales are tracking to planned sales. Total sales are 277 GW·h or 1.4 per cent higher than planned sales over the first five months of the fiscal year. With the current forecast compared with the March plan, it is expected that current residential sales variance for the remainder of the year would decrease by about 55 GW·h. The variance in sales from planned sales over the first five months of this fiscal year is:

Current vs. Planned Sales

Rate Class	Current Sales (GW·h)	Planned Sales (GW·h)	Total (GW·h)
Residential	5,820	5,583	+237
General	6,935	6,905	+30
Transmission	6,314	6,324	-10
Other	127	133	-6
Other Utilities	424	397	+27
Total	19,620	19,342	+278

- Total sales compared with last year over the first five months are 261 GW·h or 1.4 per cent higher. The table below shows a comparison of sales over the first five months of this fiscal year against those of last year.

Current vs. Previous Sales

Rate Class	Current Sales (GW·h)	Previous Year (GW·h)	Total (GW·h)
Residential	5,820	5,861	-41
General	6,935	6,871	+64
Transmission	6,314	6,110	+204
Other	127	125	+2
Other Utilities	424	392	+32
Total	19,620	19,358	+262

Peak Demand – Forecast

- BC Hydro is a winter peaking utility driven by residential electric spacing heating. It reached a one-hour peak demand of 8,481 MW at a daily average temperature of +5.3°C on December 18, 2002.
- The peak forecast is based on a design day temperature of –6.8°C. A review of BC Hydro's design temperature is underway pursuant to the BCUC's VIGP Decision.
- The preliminary peak forecast including Power Smart for the upcoming winter is 9,543 MW. Compared with last year's peak forecast of 9,663 MW, this year's peak forecast is 120 MW or 1.2 per cent below. Changes in the peak forecast reflect a decline in some of the drivers such as employment and industrial outlook, as well as changes in the methodology of determining historic weather adjusted peaks.

Vancouver Island (VI)

Short-Term Forecast

- This fiscal sales forecast, including Power Smart, for the Island is 10,559 GW·h, compared with the March planned sales of 10,519 GW·h. A comparison by rate class of the current forecast and the March forecast is:

Current vs. Planned Forecast

Rate Class	September 2003 Forecast (GW·h)	March 2003 Forecast (GW·h)	Variance (GW·h)
Residential	4,091	4,057	+34
General	2,631	2,671	-40
Transmission	3,789	3,732	+57
Other	48	50	-2
Total	10,559	10,510	+49

Variance Explanation

1. Drivers

- The VI economy depends on the performance of the forestry sector, because about one-third of B.C.'s pulp and paper production and about 10 per cent of B.C.'s lumber production capacity comes from sawmills on VI. The forecast of sales to the General rate class was revised to be below the planned sales as it is expected that the softwood tariffs will continue to impact sales to some of the higher-cost mills on the Island. At the end of August, billed sales to VI's General Over 35 kW Wood Sector are 22 per cent below last year over the first five months of the fiscal year.

2. Energy Sales VI

- On a fiscal year-to-date basis, VI sales are tracking close to plan, as total sales are 78 GW·h or 1.9 per cent higher than March planned sales. As such, this supports the small changes in the current forecast to the planned forecast. The variance of actual sales from March planned sales is:

Current vs. Planned Sales

Rate Class	Current Sales (GW·h)	Planned Sales (GW·h)	Total (GW·h)
Residential	1,447	1,429	+18
General	1,053	1,048	+5
Transmission	1,659	1,602	+57
Other	15	16	-1
Total	4,174	4,095	+79

- Total sales on VI have increased by 44 GW·h or 1.1 per cent this year, compared with last year over the first five months of this fiscal. By rate class, this growth is:

Current vs. Previous Sales

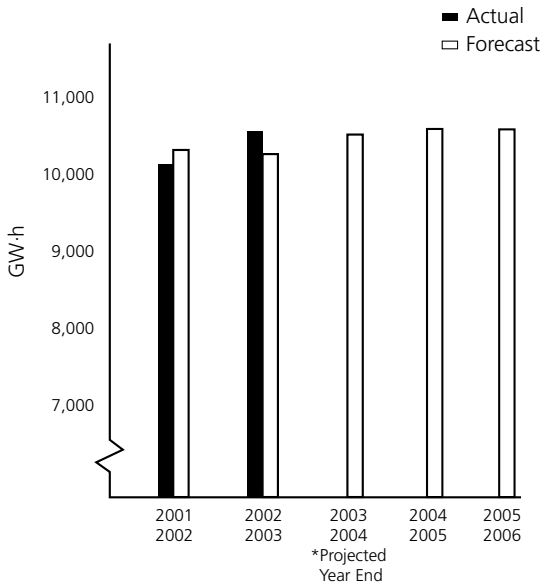
Rate Class	Current Sales (GW·h)	Previous Year (GW·h)	Total (GW·h)
Residential	1,447	1,507	-60
General	1,053	1,058	-5
Transmission	1,659	1,549	+110
Other	15	16	-1
Total	4,174	4,130	+44

- The growth in Transmission sales may be attributed to Transmission sales to the Pulp and Paper Sector, which are 114 GW·h or 8.0 per cent above sales last year over the first five months. A factor that seems to have led to higher sales to the pulp and paper sector is ad-hoc power requirements for customers with self-generation operations. In addition, the Eurocan pulp mill strike, which occurred over part of this summer in the Northern Region, enabled VI pulp producers to capture additional pulp sales.

Peak Demand – Forecast

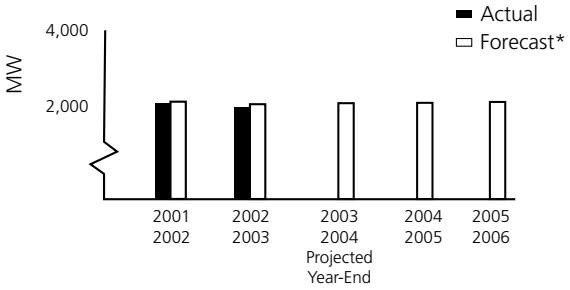
- VI's system peak reached a one-hour peak of 1,999 MW on February 25, 2003, at a daily average temperature of +2.1°C at the Victoria airport. The peak is driven by the large presence of electric heating on the Island and, as a result, it declines sharply as temperature moderates.
- The forecast is prepared based on using a design temperature of –4.4°C. The design temperature for VI is being reviewed in light of the Commission's VIGP Decision that the most recent 30-year rolling average of temperatures should be used in establishing the forecast.
- A preliminary revised peak forecast for VI for the upcoming winter including Power Smart is 2,147 MW, which is 10 MW or 0.5 per cent below the peak forecast for last year. Part of the decline in the peak can be attributed to the expected impacts of softwood tariffs on the distribution peak load requirements for VI.

VANCOUVER ISLAND–BILLED SALES



* Projected Year-end is based on the September 2003 forecast.

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 three 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 production 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.

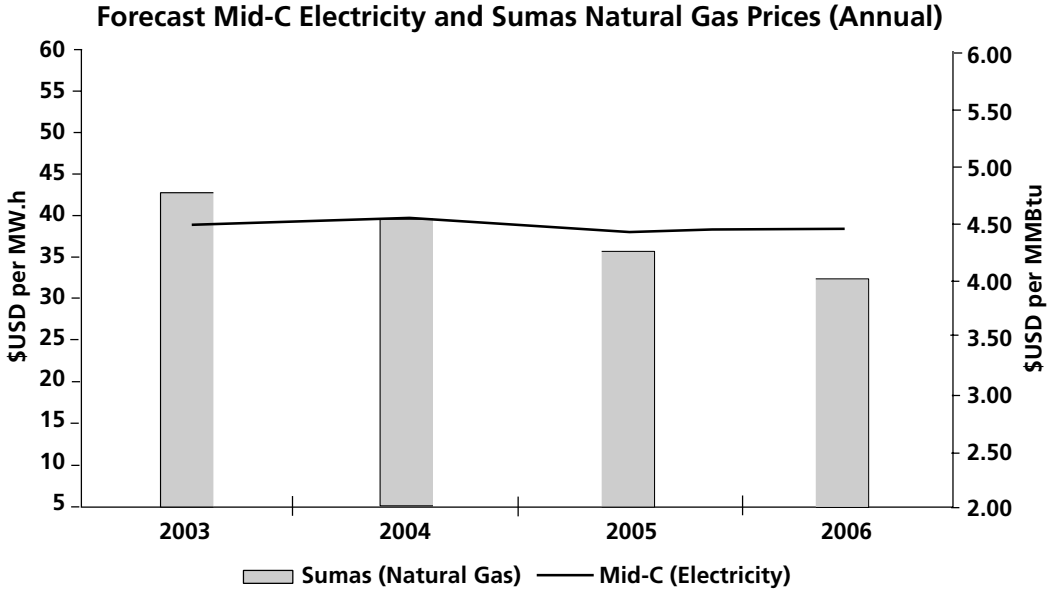
Market History

The last quarter can be characterized by:

- Volatile and relatively high natural gas and electricity prices.
- Natural gas storage inventories have recovered from the lows reached at the beginning of the year. Adequate supplies, near the five-year average, are anticipated for the beginning of the heating season. This will exert downward pressure on prices provided the winter is near normal.
- Summer weather patterns have been diverse: hot in the Southwest and mild in the East; on average moderate enough to allow energy prices to decline somewhat.
- Dry conditions to the west lowered hydroelectric generation capacity, supporting higher 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

- While replenished inventories of gas in storage exerts downward pressure on prices, there is a market concern that production will have difficulty keeping up with demand. Additionally, crude oil prices have been rising. The sluggish economy has kept demand growth in check, and the medium-term gas forecast shows prices declining slightly.
- Electricity forwards are relatively flat, with seasonal peaks in summer and winter. Downward pressure from a surplus of recently built new generation capacity is expected to affect electricity market prices for several years.
- 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

Call for Tenders – Vancouver Island

- On September 8, 2003, the British Columbia Utilities Commission (BCUC) issued its decision regarding the Vancouver Island Generation Project (VIGP). The Commission denied the application for a Certificate of Public Convenience and Necessity (CPCN) on the basis that VIGP had not been established as the most cost-effective means to reliably meet Vancouver Island power requirements. Furthermore, the BCUC encouraged BC Hydro to proceed with a Call for Tenders (CFT) and to select an Independent Reviewer to ensure that the CFT be fair and transparent. The Commission also indicated that it was prepared to consider any future application for approval of a CPCN or Electricity Purchase Agreements awarded through the CFT process for the preferred Vancouver Island resource addition on an expedited basis.
- As a result of the BCUC decision, BC Hydro elected to modify certain elements of the CFT it had previously proposed. The issuance date for the CFT was October 31, 2003.
- The Web site for the Vancouver Island CFT was launched on September 19, 2003. BC Hydro is proceeding with a marketing and communications plan for the CFT.

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. In addition to two of these projects, Eagle Lake Micro Hydro (1.2 GW·h/yr.) and Pingston Creek Small Hydro (155 GW·h/yr.), which began commercial operation in May, the Vancouver Landfill Gas project began generating electricity in early September. Initially, this project will feed about 40 gigawatt hours of electricity per year into BC Hydro's grid.
- In October 2002, BC Hydro issued another call for green energy for up to 800 GW·h per year. In response to this call, 70 IPPs submitted project proposals to BC Hydro in December 2002. The proposals were evaluated against publicly disclosed criteria. Thirty projects were short-listed, and their developers invited to submit a bid to the call for tenders phase of the process. Sixteen IPPs tendered bids, equalling 1,800 GW·h/year of new energy, in late August 2003. After each bid was adjusted to reflect various costs and benefits to BC Hydro associated with the project, all still had adjusted prices below the ceiling and due to the need for new supply BC Hydro offered all 16 bidders 10- to 20-year contracts.

Green Power Certificates

- The Green Power Certificate (GPC) product for business and institutional customers continues to advance the demand for green electricity development in British Columbia. During the second quarter, two new contracts were signed, with Overwaitea Food Group and Roger Hughes Partners Architects. These two sales represent 1,210 GPCs, bringing the total number of customers to 42 and the total number of GPCs sold to 6,055.

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, 2003, BC Hydro announced five successful bidders to the 2002 CBG program. If all 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 Green IPP Projects

Project Name	Bidder	Location	Capacity (megawatts)	Energy (GW·h/yr.)
Small Hydro				
Ashlu Creek Hydroelectric Project	Ledcor Power Inc.	Squamish	42	200
Bear Hydro Project	Regional Power Inc.	Sechelt	16	77
Berkey Creek Hydroelectric Generation Project	Princeton Energy Inc.	Hope	1.5	6.5
Brilliant Expansion Project	Brilliant Expansion Power Corporation	Castlegar	120	203
China Creek Hydro Project	Hupacasath First Nation	Port Alberni	5.6	25
Cypress Creek Hydroelectric Project	Synex Energy Resources Ltd.	Gold River	3.1	11
Forrest Kerr Run-of-River Hydroelectric Project Coast	Mountain Hydro Corp.	Stewart	112	541
Hunter Creek Hydroelectric Generation Project	Princeton Energy Inc.	Hope	2.4	10
Mkw'alts Creek Hydro Project	Cloudworks Energy LP	Mount Currie	45	154
Pierce Creek Hydroelectric Generation Project	Larson Farms Inc. No. 593815	Chilliwack	0.77	3
South Cranberry Creek Power Project	Advanced Energy Systems 1 Limited Partnership	Revelstoke	6.6	33
Spuzzum Creek Power Project	Interpac Resources Ltd.	Boston Bar	29	90
Ucona River Hydro Project	Ucona River Joint Venture	Gold River	35	125
Zeballos Lake Hydro Project	Pacific Rim Power Corp.	Zeballos	21.85	93
Landfill gas				
Maxim Landfill Gas Cogeneration Project	Maxim Power (BC) Inc.	Delta	1.85	15
Wind energy				
Holberg Wind Energy Project	Stothert Power Corp./ Global Renewable Energy Partners Inc.	Holberg	58.5	176

Power Smart

- Power Smart continues implementing its comprehensive 10-year plan to reach an annual target of 3,500 GW·h/yr. in new energy savings, or enough to supply about 350,000 homes in British Columbia.
- For the second quarter of this fiscal year, total cumulative run-rate energy achieved was 453 GW·h, placing Power Smart ahead of the first-quarter target of 450 GW·h/yr. and on track to reach this year's cumulative target of 810 GW·h. The above figures include a discount for free riders and free drivers, and measurement and verification for business sector programs. *Free riders* refers to those who participate in a program but would have done so without an incentive; *free drivers* refers to those who do not participate in a program (e.g. use a coupon) but are influenced by it and change their behaviour because of it; business sector programs are discounted by five per cent to allow for energy savings that may be lower than initial estimates when actually measured. Without these discounts the cumulative run-rate energy savings would be 490 GW·h.
- More than 400 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:
  - Tembec Industries have completed a quarter of the projects that will reduce their electricity consumption at their Chetwynd Pulp Mill by 35 GW·h annually.
  - In the fall of 2001, Highland Valley Copper (HVC) completed a pipeline water reclaim project that saved 24 GW·h. In the summer of 2003, HVC made improvements to optimize their operations to increase the savings by an additional 13 GW·h.
  - Chemtrade Pulp Chemicals (formerly Canfor's BC Chem) facility in Prince George undertook a project to recoat the anodes in their chemical cells to realize savings of 21 GW·h.
  - In healthcare, even though energy costs represent only two per cent of overall operational costs, they are still a significant expenditure for hospitals. Each energy dollar saved can be diverted directly to patient care. The Power Smart message was heard at Lions Gate Hospital in North Vancouver, where an event was held to raise employee and visitor awareness of ways to save energy and the hospital's partnership with Power Smart. This includes having engaged a Power Smart Alliance firm to conduct a comprehensive energy study at the hospital to identify energy retrofit opportunities.
  - Power Smart representatives visited various White Spot restaurants to teach employees how to contribute towards energy savings as part of White Spot's goal to reduce their electricity consumption by 15 per cent. Examples of energy-saving ideas include closing blinds during the day to avoid heat gain from direct sunlight during the summer, reporting any dripping taps or water leaks that waste water and energy, turning building and parking lights off during the day and resetting timers to turn on at appropriate times and remembering to turn off the lights when leaving employee areas such as the staff room or storeroom.
  - BC Hydro is working with School District #8 (Kootenay Lake) to find savings on electricity consumption at Jewett Elementary School in Meadow Creek. The Power Smart Partners program is designed to assist in identifying and overcoming any hurdles to realizing these opportunities. BC Hydro is helping the district save nearly $2,200 annually at Jewett from upgrading to energy-efficient lighting, turning off lights in unused rooms

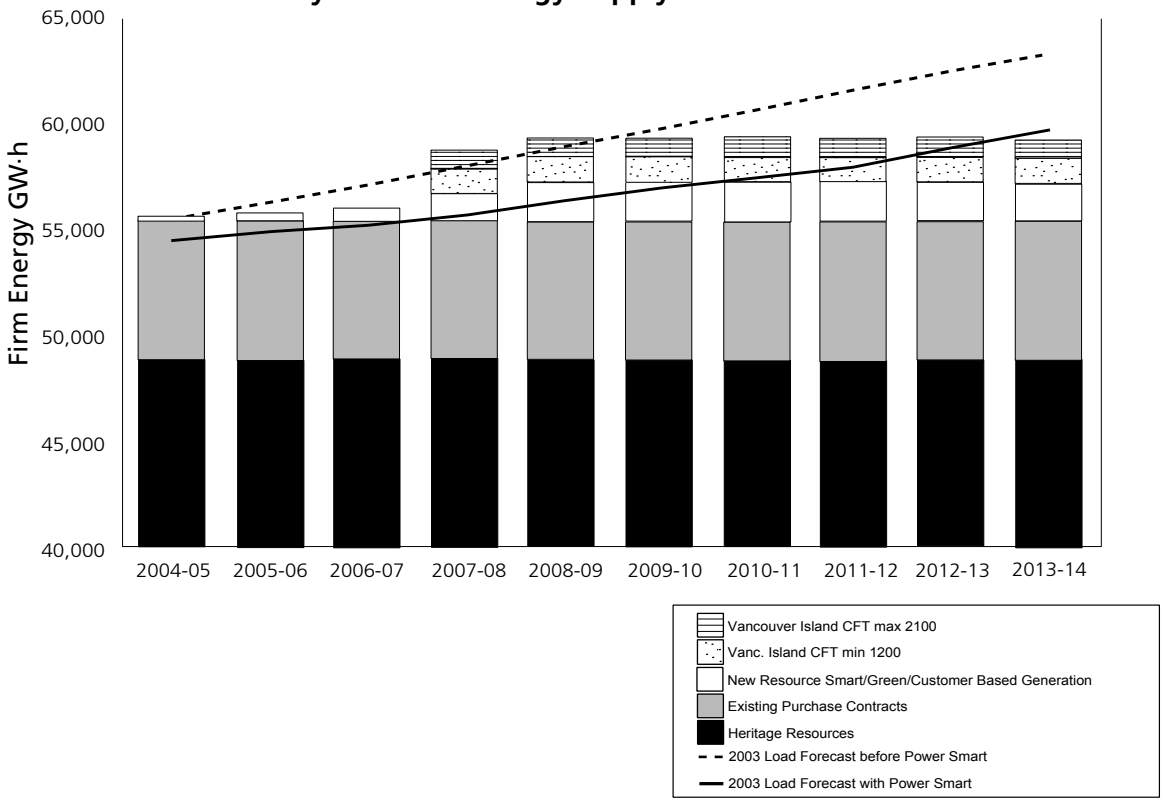
and learning how to use digital timers to realize energy savings from lighting and heating systems.

- Mayors in 13 communities throughout B.C. officially proclaimed July 28 to August 3 Power Smart Week. The goal of Power Smart Week was to educate over 6,500 customers about the financial and environmental benefits of conserving energy by being Power Smart. Power Smart Outreach co-ordinated and participated in over 60 events during the week including, coupon blitzes, small business presentations, Power Smart story times, seminars at home improvement retailers and a number of custom events.
- For the third consecutive year, BC Hydro Power Smart was a sponsor of the "HSBC Celebration of Light" fireworks festival. An estimated 1.4 million people attended the fireworks display over the four-day period. The festival is an important event for Vancouver due to its popularity and economic benefits. Through sponsorship of the event, BC Hydro is able to make a meaningful investment in the City of Vancouver while providing an enjoyable, free event for families. In addition, the festival allows BC Hydro to promote Power Smart to a large general audience.
- Power Smart awareness was also raised through participation at events including the Union of British Columbia Municipalities' 100th annual convention, the Vancouver Building Owners and Managers Association of Canada (BOMA) trade show, and the BC Lions game against the Winnipeg Blue Bombers. Power Smart will also be present at a number of home shows throughout October.
- In September BC Hydro launched a campaign to educate customers across B.C. about the benefits of energy conservation and encourage participation in Power Smart programs. The campaign includes province-wide education-based advertising and targeted conservation programs that will be rolled out during the following months. Customers are being encouraged to participate in special offers, community events and give-aways that will encourage conservation. A key message is that BC Hydro will be asking for rate increases as part of its upcoming revenue requirements application and Power Smart is the best way to keep rates – and potential rate increases – as low as possible. Power Smart programs include a give-away offer of energy-efficient compact fluorescent light bulbs (Lower Mainland only), a province-wide refrigerator "buy-back" program, renovation rebates for upgrading insulation and windows, and a school program.
- Power Smart hosted a workshop on Vancouver Island's Energy Future, facilitated by the Rocky Mountain Institute (RMI). The workshop focused on the longer-term energy service needs of Vancouver Island. The results will be used by BC Hydro in its deliberations on an Integrated Electricity Plan (IEP). The workshop was held to identify and prioritize sustainable energy options for meeting future energy service needs on Vancouver Island.

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 ensure 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 actual planning cycle these charts are typically updated during the second half of the fiscal year.
- A number of outstanding issues that remain to be confirmed will impact the load resource balance. In April BC Hydro submitted its Heritage Contract proposal. The reliable supply of energy and capacity from the heritage resources is reflected in the following resource balances. The BC Utilities Commission (BCUC) on September 8, 2003 denied the Vancouver Island Generation Project (VIGP) Application for a natural gas-fired combined cycle gas turbine of 265 MW and 2,100 GW·h/year. There was, however, an acknowledged need for new Vancouver Island supply of at least 150 MW by 2007. To address this, BC Hydro issued a Call for Tenders for up to 300 MW (minimum 150 MW). The Commission's decision also raised a number of issues with respect to the Vancouver Island supply/demand balance, which are currently being reviewed. The Burrard MLA Review is currently underway, which may affect the future contribution of that generating plant.

System Firm Energy Supply–Demand Balance

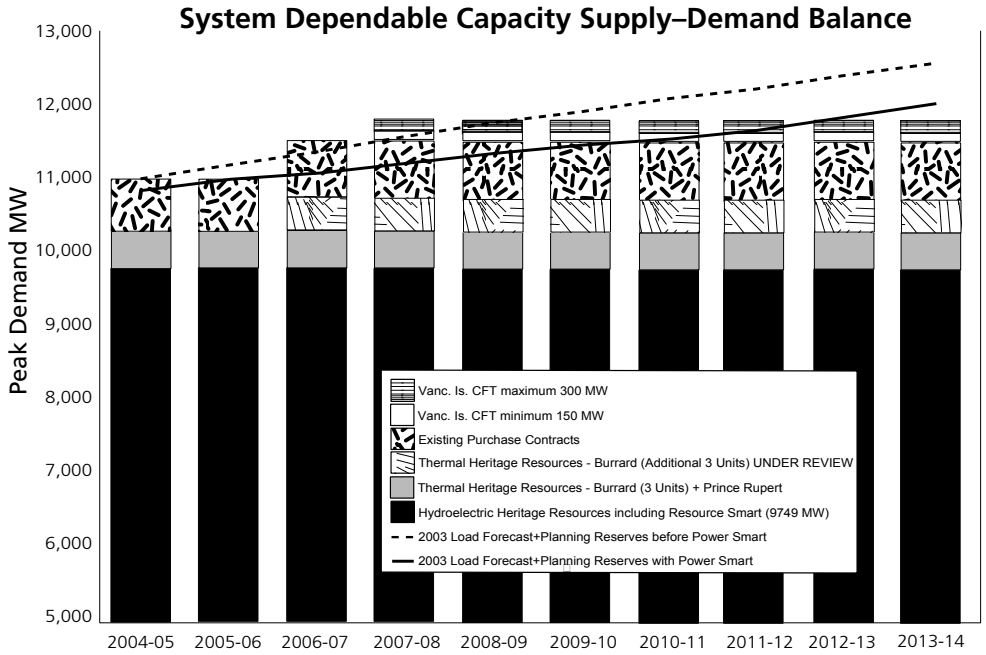


System Firm Energy Supply-Demand Balance

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

Assumptions

- 2003 Load Forecast shown with and without Power Smart.
- Heritage Resources – BC Hydro has proposed that the Heritage Contract provide for a maximum energy supply obligation, subject to force majeure, of 49,000 GW·h per year (the Heritage Energy). The heritage resources include the BC Hydro hydroelectric resources and BC Hydro thermal resources: Burrard, Prince Rupert and Fort Nelson. It is noted that the contribution of Burrard G.S. is under review. The heritage energy of 48,845 GW·h (after adjustment for the non-integrated Fort Nelson G.S.), is currently supported by underlying firm energy from hydroelectric resources of 43,000 GW·h with the balance depending on market and supply conditions, from a combination of market, thermal and non-firm hydro resources.
- Existing Purchase Contracts includes all IPP contracts that are in service as of September 2003, as well as the Alcan and Arrow Lakes Hydro contracts.
- Resource Smart/New Green/Customer-Based Generation includes the expected contribution from new Resource Smart and recent Green and Customer-Based Generation Calls that are not yet in service.
- The planned Vancouver Island Call For Tenders is expected to contribute between 1,200 and 2,100 GW·h per year of new energy supply.
- Allowance for Market Purchases: In the planning for new resources, BC Hydro has relied on 2,500 GW·h/yr. from the wholesale market. This number is currently under review.



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

- 2003 Load Forecast plus planning reserves shown with and without Power Smart.
- 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 seven to eight 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 contribution of the hydroelectric and thermal heritage resources is based on their dependable capacity. It is noted that the contribution of Burrard G.S. is under review. Currently BC Hydro will rely on Burrard G.S. to support dependable capacity based on three units for each of the next two years, being 2004/2005 and 2005/2006, and is reviewing requirements to support six units for the balance of the period.
- Existing Purchase Contracts includes all IPP projects with which BC Hydro has an energy purchase agreement. The contribution of the Alcan contract and the Arrow Lake Hydro project are also included.
- The planned Vancouver Island Call for Tenders is expected to contribute between 150 and 300 MW of new dependable capacity.

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.

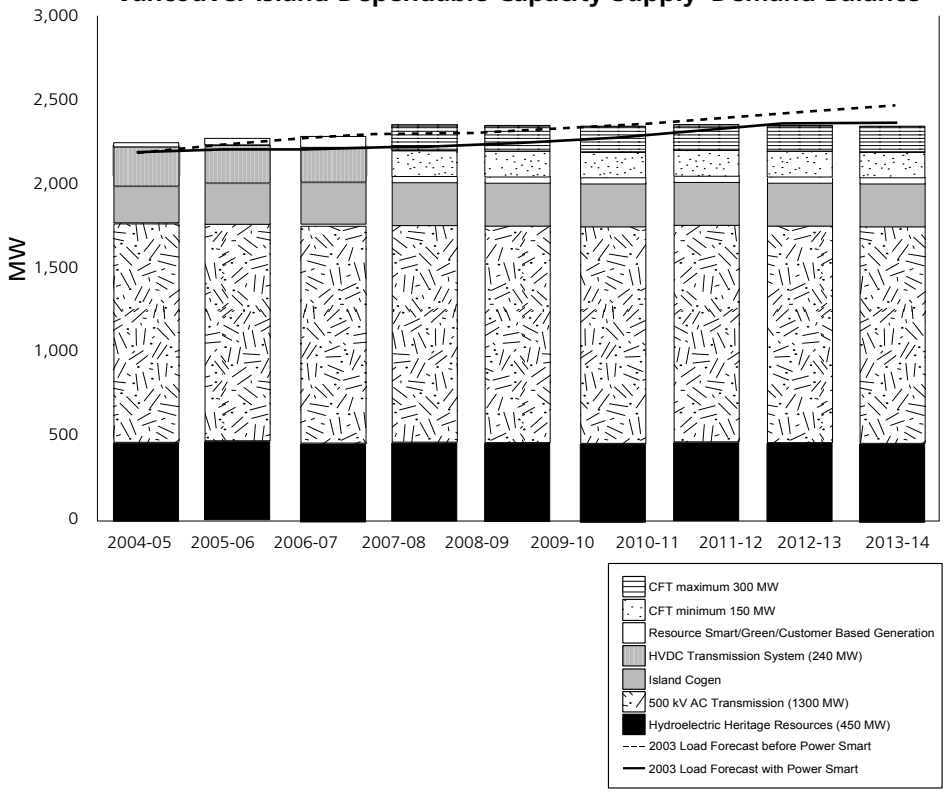
Assumptions

- The 2003 Load Forecast is shown with and without the estimated impact of Power Smart programs. Transmission losses have also been included.
- The "Dependable Winter Capacity" of the existing Vancouver Island (VI) hydroelectric Heritage Resources 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.
- The High-Voltage Direct Current (HVDC) cable 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.

- Vancouver Island Call for Tenders: BC Hydro issued a Call for Tenders for up to 300 MW (minimum 150 MW), which is expected to also contribute up to 2,100 GW·h. This new Vancouver Island supply also contributes to system supplies of energy and dependable capacity.
- The expected dependable capacity contribution of Resource Smart and Green and Customer-Based Generation Calls to date is included.

Vancouver Island Dependable Capacity Supply–Demand Balance



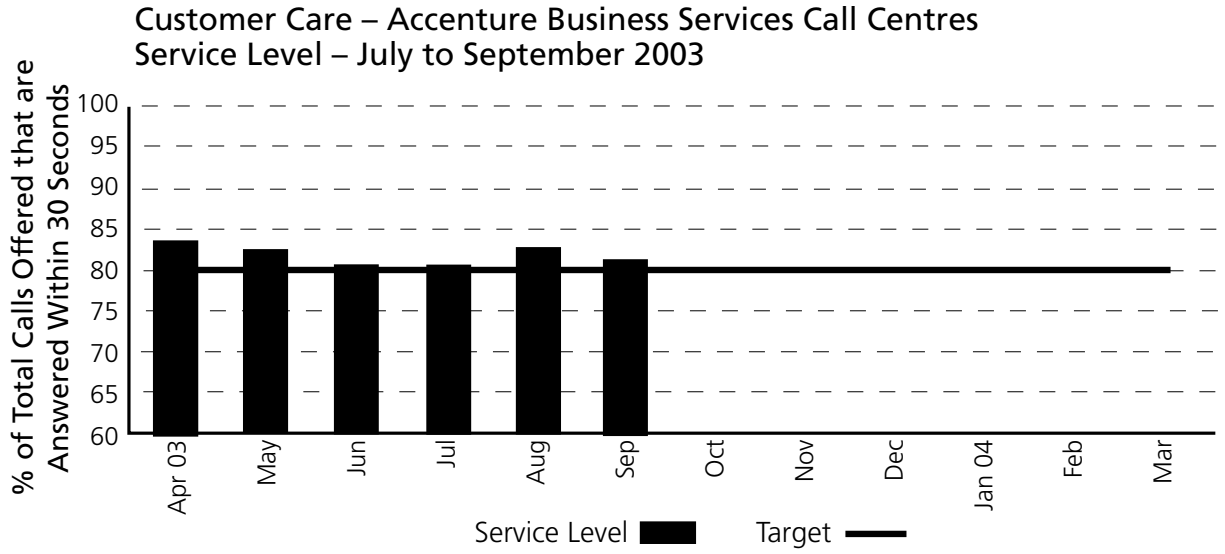
CUSTOMER SERVICE

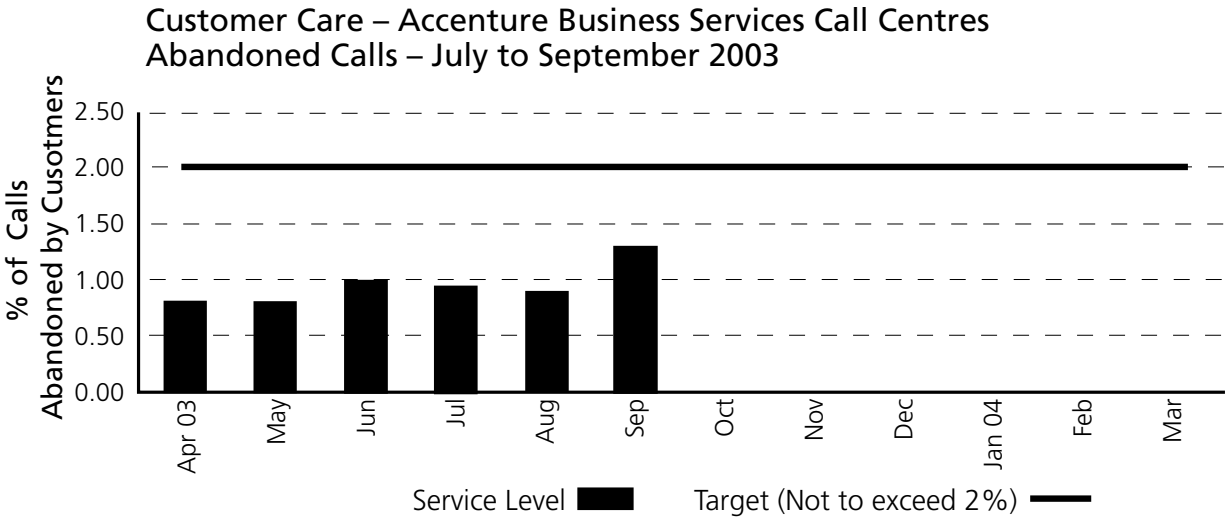
Customers

- Net new customer additions totalled 5,657 for the second quarter, an increase of 12.6 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 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 who hung up before being answered by a CSR.
- The downward trend in call answering service level identified in the first quarter has shown a 1.75 per cent improvement during the second quarter, with Accenture Business Services (ABS) Customer Care continuing to meet or exceed service targets each month. Abandonment levels continue to show a slight increase this quarter and are being monitored.
- In the second quarter of the current fiscal year, the lower call volume trend shown in the first quarter has continued, even with the expansion of the PowerOn outage management system to more communities in the province. Total calls offered to the IVR for the second quarter of the current fiscal year were approximately 582,100, compared with 681,400 for the same period last year. This represents a decrease of 14.5 per cent.
- Total calls answered by CSRs were just over 429,000 for the second quarter. This compares with 452,200 for the same period last fiscal year, a decrease of 5.1 per cent.
- In the second quarter of the current fiscal year, the call centre achieved an overall adjusted Customer Care Service level of 81.4 per cent, which compares favourably against the target of 80 per cent. The adjusted abandonment rate of 1.02 per cent for the quarter also compares favourably with the maximum target of 2.0 per cent.


Customer Care – Accenture Business Services Call Centres
Service Level – July to September 2003
% of Total Calls Offered that are Answered Within 30 Seconds
100
95
90
85
80
75
70
65
60
Apr 03
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan 04
Feb
Mar
Service Level
Target


Customer Care – Accenture Business Services Call Centres
Abandoned Calls – July to September 2003
% of Calls Abandoned by Cusotmers
2.50
2.00
1.50
1.00
0.50
0.00
Apr 03
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan 04
Feb
Mar
Service Level
Target (Not to exceed 2%)

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	July	August	September
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

- Six-month performance measures and targets have been established, with a focus on receivables management processes and objectives. Work has begun on establishing capacity bandwidths and establishing guidelines for work practice changes in ABS.

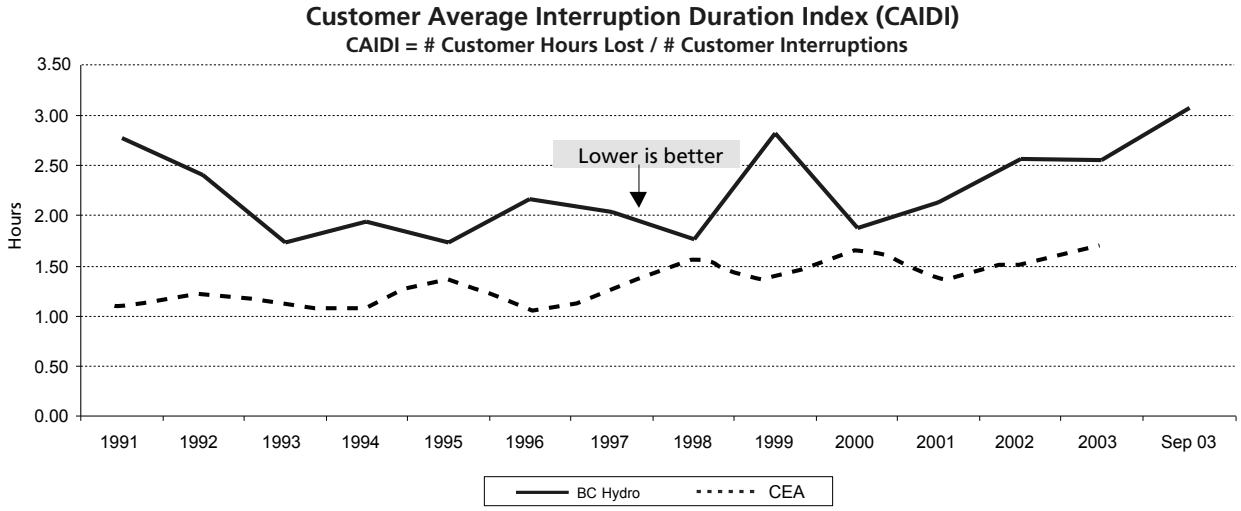
Information Systems & Technology

- Two of the three major IT initiatives, "Portal" (Indus PassPort: Work Management & Supply Chain) and "Finance Business Transformation" (PeopleSoft: Financials and Time Capture), have now been in production for almost six months. Post-implementation stabilization and legacy system decommissioning work will continue on them as planned through fiscal 2004.

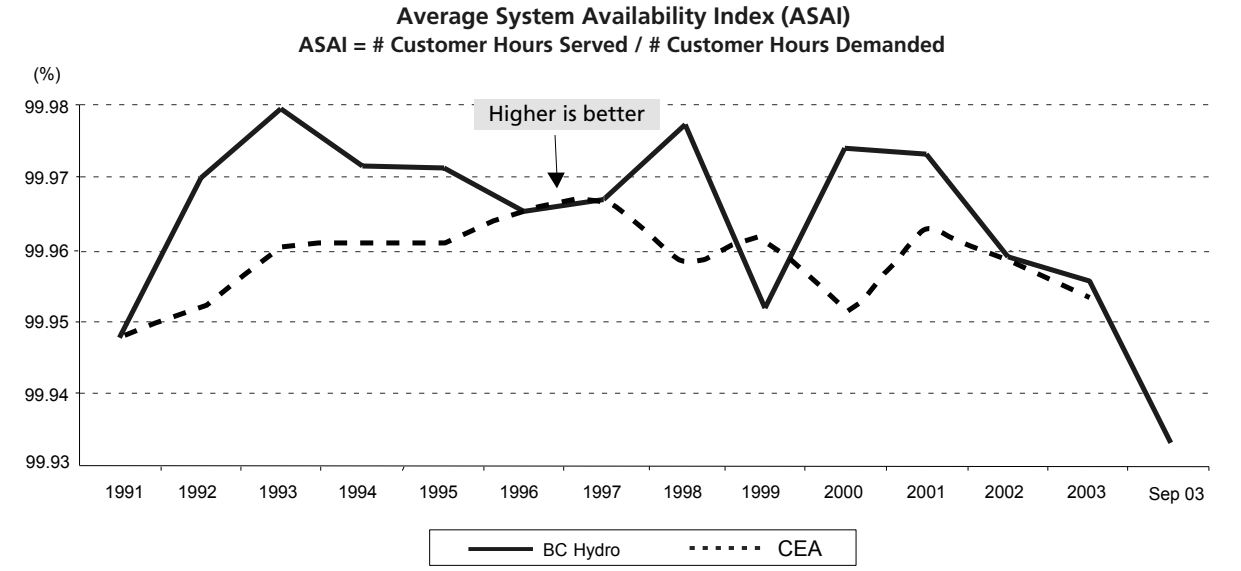
Project NorthStar

- The third initiative "NorthStar" (the implementation of the SAP Customer Care System to replace the legacy CIS billing system) remains on target for a December 2003 implementation. The project continues on budget and schedule, having recently entered the Business Readiness phase. During this phase approximately 1,100 users will be trained in preparation for the final rollout. Customer communication plans have also been completed and activities are underway in this area. Several Customer Care Collection process changes have been implemented during the second quarter in advance preparation for Northstar's implementation. Impacts to customers have been minimal and have been well managed.

Reliability



- Customer average interruption duration index (CAIDI) measures the amount of time an interrupted customer is without power. Although BC Hydro customers have fewer interruptions than the CEA composite, it takes longer to restore service once the interruption has occurred because BC Hydro's service territory is much larger than most of the utilities in the composite. As well, since the majority of the utilities in the composite are municipal utilities operating in a relatively compact service area, their service restoration times, including travel time, tend to be shorter. CAIDI was higher in F1999, F2002 and F2003 due to adverse weather conditions. For the 12 months ending September 30, 2003, CAIDI was higher than target due to a number of weather-related events as well as a major source outage caused by the McLure forest fire on July 31, 2003.



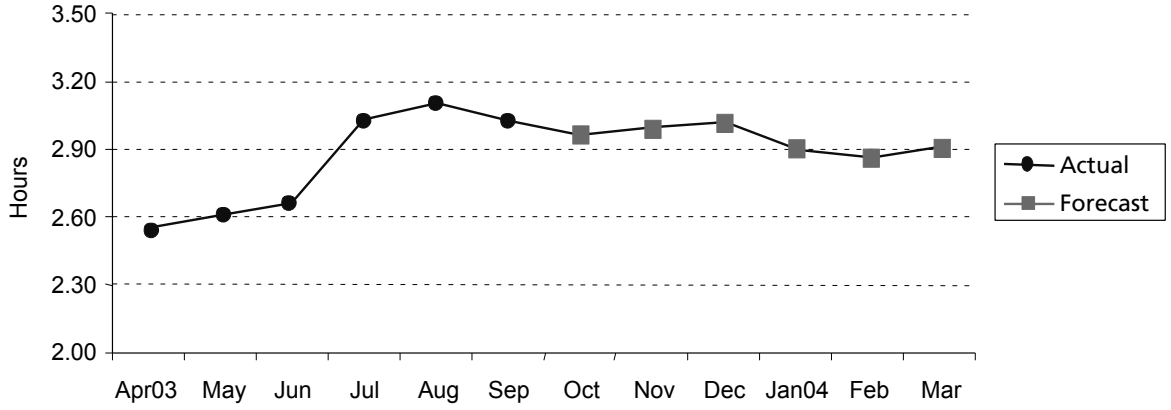
- Average System Availability Index (ASAI) measures the percentage of time during a year that power is available to customers. Since data was first collected in the 1980s, BC Hydro's performance has remained relatively stable and is consistently better than the CEA composite. In recent years, however, while BC Hydro still outperforms the composite, the performance has been uneven due to exceptionally severe storms hitting BC Hydro's service territory in November 1998 and December 2001. ASAI was lower than target for the 12 months ending September 30, 2003 because of a number of weather-related events as well as a major source outage caused by the McLure forest fire. The McLure forest fire that started on July 31 damaged 20 km of transmission line, putting the line out of service to customers in Valemount. Diesel generators were deployed to supply electricity to the customers until transmission service was fully restored on August 21.

Reliability
(12 months year-to-date to September 30, 2003)

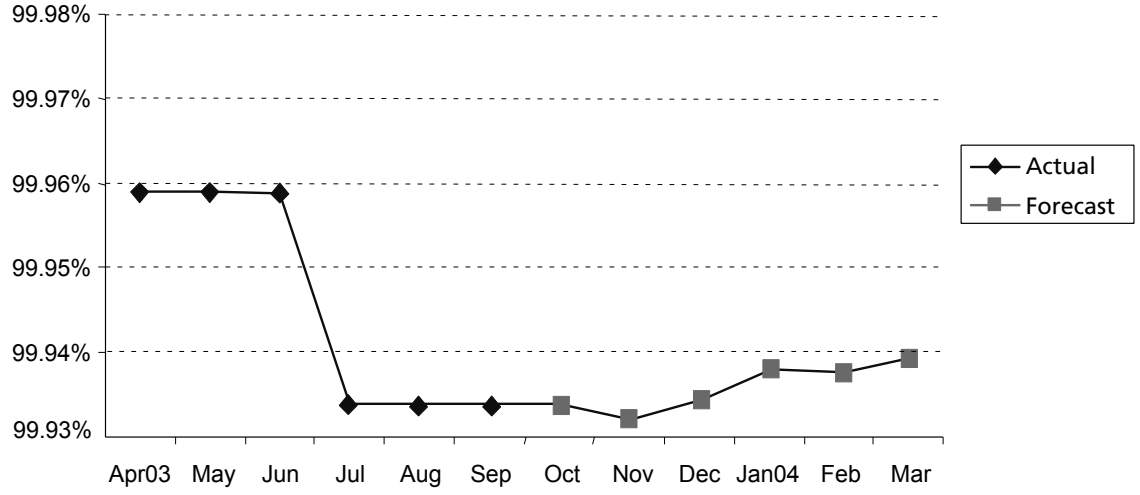
Actual Reliability		Target Reliability
ASAI:	99.934%	99.970%
CAIDI:	3.02 hours	2.15 hours

- For the 12 months ending September 30, 2003, ASAI and CAIDI are below targets due to five major weather events and a major source outage in the Interior caused by the McLure forest fire, which put the transmission line out of service to customers in Valemount and other communities in this transmission sector. These events resulted in much higher-than-expected customer hours lost, relative to the number of customers interrupted. Forecasts for the 12-month rolling average indicates that ASAI and CAIDI will be below target by year end at 99.939 per cent and 2.88 hours respectively.

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 – Six months ended September 30

In millions	2003 actual	2002 actual	% change
External revenues	$ 1,120.3	$ 1,080.9	40.4%
Inter-segment revenues	n/a	n/a	n/a
Net income (loss)	$ (207.7)	$ (2.1)	(205.6)%

Highlights Notes:

- Second-quarter revenues were higher than for the same period last year due to customer growth, customer revenues relating to wholesale customers ($17 million) previously reported in the Generation LoB, extremely warm weather in July and August 2003 affecting the cooling load, and higher sales to pulp and paper customers.
- The large reduction in Net Income ($206 million) was mainly due to an increase in energy and OMA costs, partly offset by higher revenues. The increase in energy costs is largely due to an increase in the price of energy purchases and the increase in volume of energy required to meet demand.
- The $38.2 million increase in OMA from fiscal 2003 to fiscal 2004 is mainly due to reorganization, increased trouble costs due to Interior forest fires, higher Portal and CIS costs due to timing of project work, increased Customer Care costs due to growth, adjustment for prior years' pension costs and depreciation and finance charges now charged to OMA in addition to ABS direct contract charges.

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 our stakeholders and customers.

Quality service – through continuing to better understand customer needs, building on customer relationships, providing differentiated services based on customer needs, and 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
YTD 03/04	$(207.7)	$(267.8)

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
Q2 03/04	$127.4	$130.7

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 new 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 second quarter.

Green Gigawatt Hours ▼

	Actual	Target
Q2 03/04	120 GW·h	135 GW·h

Green Gigawatt Hours is defined as gigawatt hours contracted from green sources that meet purchase price limits. Targets have been set to align with the Government objective of 50 per cent of new electricity supply from clean energy sources.

Green Gigawatt Hours is below target for the year to date as more Independent Power Producers are expected to come on line. It is expected that the annual target of 270 gigawatt hours will be met.

Customer-Based Generation
Gigawatt Hours ▼

	Actual	Target
Q2 03/04	50 GW·h	90 GW·h

Customer-Based Generation Gigawatt Hours is defined as gigawatt hours from customer based sources that meet purchase price limits. Targets have been set to align with the Government objective of 50 per cent of new electricity supply from clean energy sources.

Customer Based Generation Gigawatt Hours is below target for the year to date as two large Customer-Based Generation targets did not come on line until recently. It is expected that the annual target of 160 gigawatt hours will be met.

Introduction

- Engineering provides project management, maintenance, emergency response, design, contracts and construction management services to the Generation and Distribution lines of business, BCTC and selected external clients. Second-quarter activities have focused on the delivery of engineering services within scope, schedule, budget and with appropriate quality.

Seven Mile Unit 4 / Dam Safety Improvement Projects

- Unit 4 commenced commercial generation just prior to arrival of the spring freshet when it could make its greatest annual contribution to the 810 MW plant. Unit 4 commenced its first planned outage on August 11 to complete deficiencies and inspection of the Unit's condition. After 16 weeks of continuous operation, the water passages were in excellent condition.
- Dam Safety Improvements: Peter Kiewit Sons has installed 53 of 57 large-capacity anchors in the dam and is on schedule for completion in late November. The 92-strand anchors being installed at Seven Mile are the largest dam anchors installed in North America to date. In addition, Peter Kiewit Sons has started work on spillway improvements, including replacement of the spillway towers and upgrades to spillway gate mechanical equipment. Demolition of the first of six concrete spillway towers has been completed and construction of the replacement steel structure has started.

2L33 Transmission Cable

- Installation of approximately nine km of high-voltage cable between Horne Payne Substation in Burnaby and Cathedral Square Substation in Vancouver reached a significant milestone with substantial completion of the civil works in September. This work establishes a duct bank between the two stations that allows for installation of the power cable to commence in early October. Civil and electrical work for cable connection is nearing completion at Horne Payne Substation and is underway at Cathedral Square Substation. The project is on track to meet the scheduled April 2004 completion date.

Coursier Dam Decommissioning

- Coursier Dam has been decommissioned for dam safety reasons. Excavation of the dam began in mid-July and dam removal (notch, armouring and channel restoration) was completed in September. On September 20 the cofferdam protecting the excavated notch through the former dam was removed and on September 21 the last of the pumps over the spillway were shut down.

Financial Performance

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

Metric	FY04-Q2	Year to Date
Utilization (hourly)	85.0%	84.8%
Billable hours	200,000	406,000

- 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 LoBs or external clients).

Financial Highlights

Interim Report – Engineering – six months ended September 30

In millions	2003 actual	2002 actual	% change
External revenues	$ 1.3	$ 1.3	–
Inter-segment revenues	$44.8	$ 38.2	17%
Net income (loss)	$(1.7)	$1.1	–250%

Highlights Notes:

- Inter-segment revenues are higher than last year due to higher Billable Hours and because fiscal 2004 revenues include contract hires.
- Net Income is lower mainly due to timing differences for internal expenses (Variable Pay). The annual forecast of zero Net Income remains unchanged.

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
Q2 03/04	84.8%	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 second quarter was on target.

Hourly Charge-out Rate ●

	Actual	Target
Q2 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 second quarter was on target.

Client Feedback/Satisfaction ●

	Actual	Target
Q2 03/04	5.7	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 second quarter was on target.

% of Approved EIT and GTT Positions Filled ▼

	Actual	Target
Q2 03/04	83%	100%

Percent 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.

EIT/GTT hiring has been completed for fiscal 2004. Percent of EIT and GTT Positions Filled is below target as all positions identified 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 (now BCTC), 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 15 reportable incidents over the second quarter of last year, a 29 per cent decrease. This translates into a rolling 12-month Field Services All Injury Frequency (AIF) of 5.1, with a year-to-date AIF of 5.1.
- The delivery of public safety programs for schools and first responders for the first six 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 1,600 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 was successfully installed in Field Services in this quarter. A soft roll-out will see all headquarters enrolled on the system by November, 2003. The system will track all training and 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. For the first six months of fiscal 2004, Field Services has experienced approximately 19 per cent fewer trouble calls than in the same period 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. However, there was a large system event during this quarter that resulted in heavy fire damage to both transmission and distribution circuits, mainly in the south interior of the province. Field Services quickly mobilized its workforce and restored power under some very difficult conditions.

Financial Summary

- Field Services has been created as a cost recovery business unit within BC Hydro and for the six months ended September 30, 2003, recoveries have marginally exceeded costs by 1.7 per cent. Field Services recoveries were $164 million compared with a Plan of $144 million. Recoveries reflect services provided to internal BC Hydro Lines of Business customers as well as third-party customers who are external to BC Hydro. The higher than Plan recoveries are mainly related to increased recoveries on labour, vehicles and materials.

- Internal recoveries account for 95 per cent of the total recoveries. Approximately 63 per cent of these recoveries are derived from an internal, Field Services trade workforce with the remaining 37 per cent from external Contractor workforces.
- Internal workforce chargeable hours are tracking near Plan levels with 956,000 chargeable hours billed. The chargeable hours utilization (total number of chargeable hours divided by the total number of hours available) is approximately 75 per cent. Under current billing practices, management, supervisory and administrative time is not billed separately to customers but is factored into the chargeable hourly rate.

Financial Highlights

Interim Report – Field Services – Six months ended September 30

In millions	2003 actual	2002 actual	% change
External revenues	$ 9.3	$ 1.0	830%
Inter-segment revenues	$155.2	$118.1	31%
Net income (loss)	$ 2.7	$ (1.6)	168%

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
Q2 03/04	75.3%	69.5%

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 second quarter was on target.

Hourly Charge-out Rate ●

	Actual	Target
Q2 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 second quarter was on target.

% of Total Planned Work Complete ●

	Actual	Target
Q2 03/04	100%	98%

Percentage of Total Planned Work Completed is defined as the total actual customer work completed divided by the total planned customer work assigned to Field Services. 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 is on target.

All Injury Frequency ▲

	Actual	Target
Q2 03/04	5.1	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 that have been worked over that same period.

All Injury Frequency was better than target for the quarter primarily as a result of continued 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 about a greater awareness of safety in the field. Overall, the field/crews have a greater awareness of safety issues.

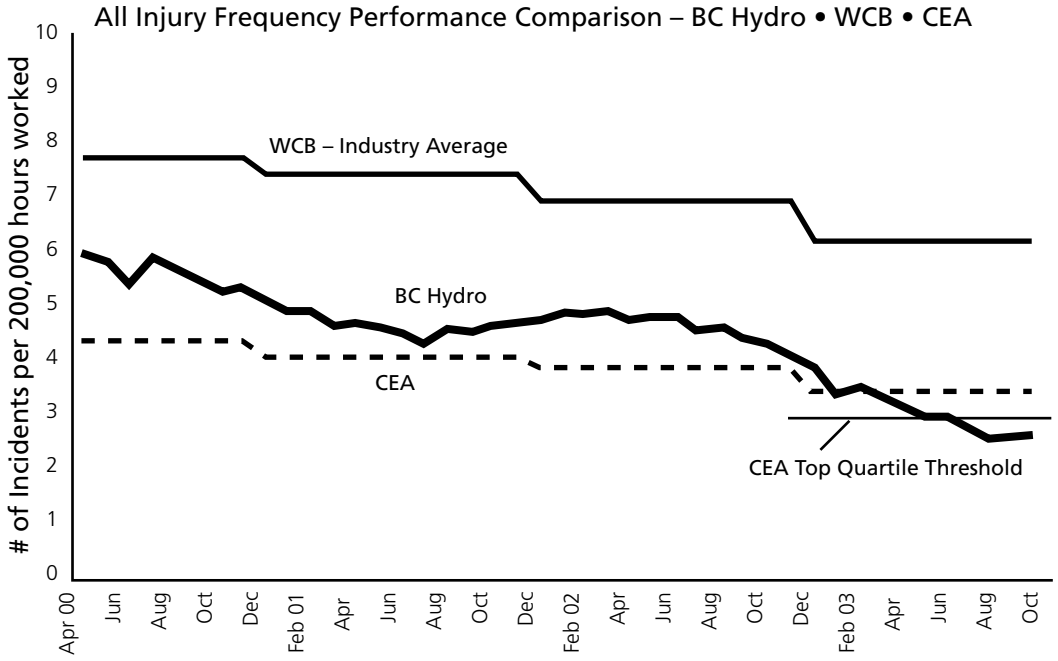
Total Trainees – Strategic Workforce Planning ●

	Actual (YTD)	Target (Annual)
Q2 03/04	97	122

Total Trainees – Strategic Workforce Planning is defined as the number of apprentices/trainees in Field Services who are 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. It is anticipated that a large, planned uptake of new Power Line Technician apprentices in the fourth quarter will result in approximately 120 apprentices on the system by year-end. This year-end forecast will be slightly below the target of 122 due to several early graduations.

- BC Hydro is committed to being recognized as 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.
- The improving trend continues, with steady and dramatic reduction on both injury frequency and severity. During this quarter, the current 2.7 AIF indicates that BC Hydro is once again performing better than the year-end target of 3.1.
- Unfortunately, despite all best efforts, serious injuries still occur. A BC Hydro employee lost his life in a workplace accident at G.M. Shrum Generation Station. On July 23 a worker rebuilding a switch in the 138 kV switchyard, violated the "limits of approach" by getting too close, while examining a similar (but live) switch located nearby. The investigation identified a number of actions that BC Hydro can, and already has taken, to reduce the likelihood of a similar incident happening again.
- BC Hydro remains committed to continual improvement in safety performance and to reaching its goal of zero injuries in the workplace. BC Hydro believes that events such as the tragedy in July can be avoided by a continued and ongoing commitment of the company and its employees.



- 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, just over half (44) of the 80 planned positions for the fiscal year were filled during the first and second quarter.

	Planned Full Year (80)	Filled YTD (44)
Generation	11	9
Distribution	8	7
Engineering	18	15
Field Services	33	10
Transmission (BCTC)	10	3
Total Planned & Filled	80	44

Footnotes
G: recruitment underway for final two positions
D: hiring underway for last position
E: staffing strategy change
FS: hiring targets met for Q1 & Q2
BCTC: no change since last quarter

- Employee attrition (from BC Hydro excluding BCTC), which includes retirements, resignations and other terminations, was running at 3.4 per cent or 119 employees in the second quarter. Retirements represented the major component of attrition, with 88 regular employees retiring or completing pre-retirement leaves by September 30, 2003. In total, 570 employees are eligible or will become eligible to retire with unreduced pension in fiscal 2004, but many will choose to defer retirement.
- In addition, 47 BC Hydro-ABS affected employees have been terminated since April 1, 2003 (retired or were terminated). As of September 29, 2003, there remain an additional 97 BC Hydro-ABS affected employees seconded to ABS, on severance leaves or awaiting collective agreement options.
- 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. The formation of BCTC reduced the number of eligible employees by an additional 39, leaving 570 eligible or becoming eligible this year.
- The Canadian Electricity Association has launched a Human Resources Sector Review to provide an analysis of skills shortages in the electricity industry. A contribution agreement has been signed with Human Resources Development Canada providing $600,000 in funding to develop a current and forward-looking industry profile. This will describe the business/regulatory environment, the impact of technological change, the human resources profile and education and training issues. The study will identify industry best practices and make specific recommendations to address labour market and workforce challenges affecting the industry. BC Hydro has been invited to participate in the Steering Committee for this project as an acknowledged leader among the CEA membership in strategic workforce planning practices. The study will provide the opportunity for BC Hydro to gain a national and industry-wide perspective on issues such as labour availability and benchstrength in order to continue to optimize workforce renewal investments.

ABS Employee Transfers

- ABSBC transferred employees had until September 30, 2003, to file their election forms regarding their BC Hydro pension entitlement earned up to March 31, 2003. The options were:
  Option 1 – Receive a BC Hydro pension (deferred to age 55 or later, or starting immediately if eligible);
  Option 2 – Transfer the lump sum value out of the BC Hydro Pension Plan to a locked-in RRSP (many employees were required to receive some of their payment in cash, due to Income Tax Act rules); and
  Option 3 – Move the pension entitlement to the Accenture Business Services of BC Pension Plan on a seamless basis.

  If a form was not filed, the default was an Option 1 deferred BC Hydro pension.
  Actual elections were made as follows:
  Option 1 – 208 (14%) elected plus 233 (15%) defaulted = 441 (29%)
  Option 2 – 727 (49%)
  Option 3 – 333 (22%)
  Total 1,501

BCTC Employee Transfers

- BCTC transferred employees have until January 31, 2004 to file their election forms regarding their BC Hydro pension entitlement earned up to July 31, 2003. To date, to assist transferred employees with their election, they have had access to a pension transition Web site and received comprehensive, personalized pension transition kits. During October, pension transition information sessions were held throughout the province and the pension election modelling tool went live.

- In mid-June an oral hearing began regarding Vancouver Island Generation Corporation's (VIEC) application to 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 hearing concluded on July 28, 2003 with an oral session on the final arguments submitted by VIEC and intervenors. The Commission issued its decision on September 8, 2003 denying a CPCN on the basis that VIEC had not established that VIGP is the most cost-effective means of reliably meeting Vancouver Island electricity needs. The BCUC accepted the evidence of BC Hydro that there is a capacity shortfall on Vancouver Island starting in the winter of 2007/08. During the hearing, BC Hydro developed its proposal for a Call for Tender (CFT) for capacity and associated energy supply on Vancouver Island, including sale of the VIGP. The Commission encouraged BC Hydro to proceed with the CFT and expects BC Hydro to reapply for a CPCN or Electricity Purchase Agreement (EPA) approval by spring 2004 to resolve the reliability concerns on Vancouver Island.
- On July 30, 2003, the Joint Review Panel (JRP), representing the National Energy Board (NEB) and the Canadian Environmental Assessment Agency, determined that the construction and operation of the Georgia Strait Crossing (GSX) project would not cause significant adverse impacts to the environment. Their report, which sets out the rationale, conclusions and recommendations of the JRP in relation to its review of the project under the Canadian Environmental Assessment Act, has been referred to the federal government for a decision. If that decision is favourable, the JRP will consider the regulatory aspects of the GSX application under the NEB Act and issue a CPCN decision.
- The Heritage Contract and Stepped Rates hearing commenced at the end of July and concluded on September 5, 2003 with the Commission holding an oral session to clarify final arguments submitted by BC Hydro and intervenors. BC Hydro advanced a proposal for a Heritage Contract that would continue to maximize the value of supply from existing low-cost generation to the benefit of BC Hydro's ratepayers and thus satisfy the objectives in the Energy Plan of low electricity rates and secure, reliable supply. This proposal, with one exception, was supported by all of the major stakeholder groups. A high degree of consensus emerged at the hearing regarding the three principles espoused by BC Hydro that form the basis of its proposed stepped rate design. The stepped rate design proposed by BC Hydro is consistent with the Energy Plan's objective that, in achieving conservation and energy efficiency, no individual customers are made worse off by the actions of another existing customer. The Commission submitted its recommendations to the provincial government on the Heritage Contract and Stepped Rates in October.

- On October 4, 2001, BC Hydro issued a formal Request for Expression of Interest (RFEI) to examine business interest in three key BC Hydro Competitive Service areas – Westech, Customer Services and Fleet Services. Over time, this evolved into an agreement with Accenture to establish Accenture Business Services of BC, (ABS) a limited partnership to provide BC Hydro:
  - Customer Services (including the Customer Care Call centre)
  - Westech IT Services
  - Network Computer Services
  - Human Resources
  - Financial Systems
  - Purchasing
  - Building and Office Services
- ABS assumed responsibility for the performance of these functions on April 1, 2003.
- At a high level, the agreement represents a commitment on BC Hydro's part of $1.6 billion over 10 years, at the same time representing contractually committed savings of $250 million over the same time period. BC Hydro may realize up to an additional $180 million over the life of the contract. The contract contains obligations regarding improved performance and service levels, which will increase to first-quartile levels by the end of the third year of the contract. Approximately 1,550 staff transferred to ABS, at their then-current level of remuneration. Collective agreements also travelled with staff to the new company. Assets are still owned by BC Hydro, although managed by ABS.
- The BC Hydro – ABS relationship continues to be positive with BC Hydro receiving service at or above the levels received prior to the outsourcing arrangement; end customer satisfaction with the Customer Care Call Centre has consistently exceeded the established target of 84 per cent over the first six months. Financially, Actual Spending ($74.8 million) for the second quarter exceeded Plan ($73.7 million) by approximately 1.5 per cent ($1.1 million). Actual Spending to Plan is decreasing, however, as Actual Spending for the second quarter is down from the first quarter, which was 5.7 per cent greater than Plan for that period.
- The first year of the outsourcing agreement has been identified as a Transition Year. This year-long Transition Plan remains on track with the majority of key milestones met. Pricing, Communication, Change Management, and Governance frameworks continue to be key areas of focus during this transition year.