

First Quarter Report

FOR THE THREE MONTHS ENDED JUNE 30, 2004



First Quarter Report

CONTENTS

1. Overview	3
2. Financial	5
3. Performance Measures	18
4. Lines of Business	21
a) Generation	21
b) Distribution	26
c) Engineering Services	35
d) Field Services	38
5. Corporate Highlights	42
e) Safety Performance	42
f) Human Resources	43
g) Regulatory	44
h) Accenture Business Services for Utilities	45
6. British Columbia Transmission Corporation	46

1. Overview

KEY HIGHLIGHTS

Financial

Consolidated net income for the three months ended June 30, 2004, was \$8 million (before deferral account transfers; *see note below**), compared with break-even results for the same period last year. The primary reason for the increase in net income is an increase in margins (revenue less energy costs) of \$21 million. Also contributing to the increase in net income was a decrease of \$12 million in operations, maintenance and administration expenditures. Offsetting these favourable variances are increases in finance charges and amortization expense of \$14 million and \$10 million respectively.

Net income after deferral account transfers is \$52 million for the three months ended June 30, compared with break-even results for the same period last year.

BC Hydro's forecast net income before deferral account transfers for fiscal 2005 is approximately \$275 million. The forecast of \$275 million is a decrease of \$113 million from the forecast of \$388 million in BC Hydro's February 2004 Service Plan and a decrease of \$131 million from the forecast of \$406 million disclosed in BC Hydro's 2004 Annual Report.

The reduction in forecast net income of \$131 million from the 2004 Annual Report is largely due to the impact of lower-than-normal inflows due to drier-than-normal weather. Water inflows are expected to be 87 per cent of normal, compared with the 94 per cent of normal expected in the previous forecast. Lower water inflows reduce the availability of low-cost hydro generation and increase the reliance on other sources of supply. Partially offsetting the impact of lower water inflows are lower-than-expected finance charges, due to lower debt balances at the end of the fiscal 2004 and lower-than-expected amortization expense, due to lower-than-forecast fiscal 2004 capital expenditures.

On April 2, 2004, BC Hydro filed a Revised Evidentiary Update as part of its 2004/2005 and 2005/2006 Revenue Requirement Application. BC Hydro revised its Revenue Requirement Application to propose a rate increase of

8.9 per cent in fiscal 2005, consisting of an interim 7.23 per cent increase effective April 1, 2004, and a further 1.67 per cent to be effective when approved by the British Columbia Utilities Commission (BCUC). If the BCUC does not approve the full amount of the interim increase, the difference will be fully refunded to customers with interest.

BC Hydro is subject to various risks and uncertainties that can cause significant volatility in the earnings. Factors such as the level of water inflows into its reservoirs, market prices for electricity and natural gas, interest rates, foreign exchange rates, weather and regulatory and government policies influence both the operation of the BC Hydro system and its earnings. A reduction in water inflows into reservoirs results in a greater reliance on energy purchases or increased use of the Burrard Generating Station, which can both result in higher costs of energy. As a result of these risks and uncertainties, BC Hydro's net income before deferral account transfers for fiscal 2005 could range from \$195 million to \$435 million under various plausible scenarios.

***Note on Deferral Accounts:**

As disclosed in the Management Discussion and Analysis section in the 2004 Annual Report, the Province issued a Special Directive that directs the BCUC to authorize BC Hydro to establish the Heritage Deferral Account and the Trade Income Deferral Account effective April 1, 2004. These accounts are intended to result in assigning domestic ratepayers the benefit of BC Hydro's low-cost generation assets and related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets (the "Heritage Resources"). As part of the Revenue Requirement Application related to fiscal 2005 and 2006, BC Hydro has applied for the establishment of a Non-Heritage Asset Deferral Account to manage the impact of certain other non-controllable cost variances. The impact of this account would be to defer specific types of cost variances through transfers to/from the accounts by adjustment of net income.

KEY HIGHLIGHTS

Performance Plan

BC Hydro had a successful first quarter as reflected in its performance measures. Five of the six corporate measures reported on either met (3) or exceeded (2) their quarterly targets.

BC Hydro was below its quarterly net income target primarily as a result of higher-than-anticipated energy imports and costs, lower-than-expected residential revenues, due to warmer-than-normal spring temperatures, and higher-than-forecast finance charges as a result of the weaker Canadian dollar.

BC Hydro met its quarterly reliability target, with the average number of hours per interruption less than target and overall system availability better than target.

BC Hydro was above its quarterly safety target, 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.

BC Hydro was above its quarterly strategic workforce planning target, as hiring began sooner than anticipated.

Domestic Supply and Demand

Compared with the first three months of the previous fiscal year, BC Hydro's total electricity revenues were up 208 GWh or 1.8 per cent. Industrial sales were up 220 GWh or 5.8 per cent, Light Industrial sales were up 51 GWh or 1.2 per cent and Residential sales declined by 82 GWh or 2.4 per cent.

The snowpack accumulation through the winter and spring was below normal, both for the large interior basins in the Williston, Kinbasket and Kootenay regions and for Vancouver Island and the Lower Mainland. The weighted BC Hydro total system inflow forecast for the period February through September 2004 is 87 per cent of normal (with a standard error of plus or minus 10 per cent).

The combined storage in BC Hydro reservoirs at June 30, 2004, was nine per cent below average or about 2,500 GWh below the historical average for this time of year. System storage energy on June 30, 2004, was about

four per cent less than the same date last year. With system energy below normal, net energy purchases will be required through to the end of the fiscal year.

Lines of Business

Power Smart continues implementing its comprehensive 10-year plan to reach an annual target of 3,600 GWh per year in new energy savings. For the first quarter of this fiscal year, total cumulative energy was saved at a rate of 1,021 GWh per year, placing Power Smart ahead of the first-quarter target of 1,000 GWh per year, and on track to reach this year's cumulative target of 1,315 GWh per year.

In June, the Natural Resources Canada Office of Energy Efficiency recognized BC Hydro's Power Smart with an award for ENERGY STAR® Market Transformation. BC Hydro was praised for its Power Smart initiatives that encourage residential and business customers to adopt ENERGY STAR® qualified products and other energy-efficient technologies and was named ENERGY STAR® Participant of the Year.

The nine-kilometre 2L33 underground transmission cable installed between Horne Payne substation in Burnaby and Cathedral Square substation in Vancouver was energized successfully on April 29. The 2L33 cable reinforces the aging electrical transmission infrastructure serving the metropolitan Vancouver area.

The relationship between BC Hydro and Accenture Business Services for Utilities continues to mature and was the subject of review at the end of Year 1. Initiatives are being undertaken to address internal client satisfaction and strengthen the outsourcing relationship where opportunities exist.

In May, the federal government announced that funding had been approved for the cleanup of the Rock Bay property in Victoria's inner harbour. The property is owned by BC Hydro and Transport Canada. Joint Indemnification and Implementation Agreements between BC Hydro and Transport Canada were finalized. Remediation of the site will commence in the summer of 2004.

2. Financial

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis reports on BC Hydro's consolidated results and financial position. This discussion should be read in conjunction with the Management Discussion and Analysis presented in the 2004 Annual Report, the 2004 Annual Consolidated Financial Statements of BC Hydro and the interim consolidated financial statements of BC Hydro for the three months ended June 30, 2004 and 2003. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ materially from those contemplated in the forward-looking statements.

Consolidated Results of Operations

Net income of \$8 million before deferral account transfers for the three months ended June 30, 2004, compares with a break-even result in the same period in the previous year. The primary reason for the increase in net income is an increase in margins (revenues less energy costs) of approximately \$21 million. Also contributing to the increase in net income was a decrease of \$12 million in operations, maintenance and administration expenditures. Offsetting these favourable variances are increases in finance charges and amortization expense of \$14 million and \$10 million respectively. These reasons are discussed in more detail below.

OPERATING HIGHLIGHTS

For the Three Months Ended June 30 (Unaudited)

<i>in Gigawatt hours</i>	2004	2003	% change
Electricity Sold			
Residential	3,267	3,349	(2.4)%
Light industrial and commercial	4,137	4,086	1.2%
Large industrial	3,997	3,777	5.8%
Other energy sales	300	281	6.8%
	11,701	11,493	1.8%
Electricity trade	6,906	7,652	
	18,607	19,145	

MANAGEMENT DISCUSSION AND ANALYSIS

Domestic Revenues

Domestic revenues of \$632 million for the three months ended June 30, 2004, were \$49 million higher than the same period in the previous year. This increase is due to the 7.23 per cent interim rate increase effective April 1, 2004, increased consumption in the large industrial sector and a larger customer base.

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 it engages in electricity trade, BC Hydro ensures its ability to meet domestic 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 also include natural gas sales which are related to thermal generation requirements.

Net electricity trade revenues for the three months ended June 30, 2004, were \$186 million, a decrease of \$13 million from the same period in the prior year. The decrease was due to a 10 per cent reduction in sales volumes to 6,906 GWh in the quarter ended June 30, from 7,652 GWh in the same period last year. The effect of lower sales volumes was partly offset by a seven per cent increase in average sales price from \$56 per MWh in the prior year to \$60 per MWh this year. The increase in market prices is caused by several factors including lower energy available from low-cost hydro generation in the region and tighter natural gas supplies. The decrease in sales volumes was due primarily to lower reservoir levels and transmission restrictions between B.C. and the United States.

Energy Costs

Energy costs are comprised of the following sources of supply:

	For the three months ended June 30					
	(\$ in millions)		(in GWh)		(\$ per MWh)	
	2004	2003	2004	2003	2004	2003
Hydro ¹	\$ 48	\$ 49	8,563	8,641	\$ 5.6	\$ 5.7
Purchases from Independent Power Producers and other long-term purchase contracts	77	83	1,225	1,322	62.5	62.9
Other electricity purchases ²	196	188	9,530	10,111	46.1	44.6
Natural gas ³	46	37	93	96	138.7	116.7
Non-integrated	3	3	22	23	150.0	130.4
Transmission charges and other expenses	36	31	—	—	—	—
Total	\$ 406	\$ 391	19,433	20,193	\$ 31.7	\$ 31.1

1 Net of storage exchange due to the Non-Treaty Storage Agreement with Bonneville Power Administration, Kootenay Canal Plant Agreement with Aquila Networks Canada and Keenleyside Entitlement Agreement with Columbia Power Corporation.

2 Other electricity purchases in dollars includes purchases for trade activities shown net of derivatives. Gigawatt hours and \$ per MWh are shown at gross cost.

3 Includes costs of remarketed gas of approximately \$33 million for the three months ended June 30, 2004 compared to \$26 million for the same period for the prior 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

For the three months ended June 30, 2004, energy costs of \$406 million were \$15 million higher compared to the same period in the previous year. The increase in energy costs is primarily due to higher prices for purchased electricity and a reduction in low-cost hydro-generation. The increase in electricity market prices was caused by several factors including lower hydro availability and tighter natural gas supplies. These increases reflect the impact of lower water inflows into the reservoirs which reduced the availability of low-cost hydro-generation and resulted in a greater level of energy imports to meet demand.

Water inflows into BC Hydro's reservoirs were six per cent lower at June 30, 2004, compared to June 30, 2003. This resulted in a reduction in reservoir levels and the volume of low-cost hydro generation. BC Hydro's electricity imports to meet its domestic load requirements for the three months ended June 30, 2004 were 2,520 GWh compared to 1,967 GWh for the same period of the previous year. The decision to import energy instead of utilizing hydro generation is based on many factors, such as the forecast market price of energy in future periods relative to the current period, 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 affected the decision to import energy. BC Hydro currently anticipates importing approximately 6,600 GWh for domestic use this year, approximately 12 per cent of its domestic load.

The combined storage in BC Hydro reservoirs at June 30, 2004, was 91 per cent of average (2003 – 94 per cent) (average storage levels relate to the average

from 1985 to 2003) with the Williston Reservoir on the Peace River system at 94 per cent of average (2003 – 97 per cent) and the Kinbasket Reservoir on the Columbia River system at 76 per cent of average (2003 – 77 per cent).

Operations, Maintenance and Administration

Total operations, maintenance and administration expenditures for the three months ended June 30, 2004 were \$12 million lower than for the same period in the previous year. The primary reason for the decrease is timing of expenditure programs this year compared to the same period in the previous year, lower maintenance expenditures related to thermal generation and completion of major information system projects in the prior year.

Taxes

Taxes, which are comprised of school taxes and grants in lieu of taxes, were \$36 million for the three months ended June 30, 2004. Taxes were similar to the same period in the prior year.

Finance Charges

Finance charges for the three months ended June 30, 2004, were \$14 million higher than for the same period in the previous year. The increase in finance charges is primarily due to lower sinking fund income and to new accounting rules requiring mark-to-market accounting on certain risk management activities.

Amortization Expense

Amortization expense for the three months ended June 30, 2004, was \$10 million higher than for the same period in the previous year. The increase in amortization expense is primarily due to increased amortization expenses for computer projects implemented in the prior year and deferred demand-side management expenditures.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

Cash flow provided by operating activities for the quarter ended June 30, 2004, was \$215 million, equal to the same period in the previous year. Capital expenditures, including demand-side management programs were as follows:

	For three months ended June 30	
(in millions)	2004	2003
Generation replacements and expansion	\$ 23	\$ 23
Transmission lines and substation replacements and expansion	19	29
Distribution improvements and expansion	54	46
General – computers, vehicles, etc.	11	26
Change in working capital related to capital asset expenditures ¹	6	33
Capital asset expenditures per Consolidated Statement of Cash Flows	113	157
Power Smart (Demand-side management)	27	8
Total capital expenditures per Consolidated Statement of Cash Flows	\$ 140	\$ 165

¹ Adjustment from accrual to cash expenditures on the Consolidated Statement of Cash Flows.

The decrease in Transmission lines, substation improvements and expansion is due to timing of construction project schedules this year compared to the same period in the previous year. The increase in Distribution improvements is due to a higher volume of customer construction. The decrease in general expenditures is primarily due to the completion of a major integrated information system in the previous year. The increase in Power Smart expenditures is due to timing of incentive payments based on customer-driven project schedules.

During the three months ended June 30, 2004, BC Hydro issued \$530 million in new bonds. The funds from these issues, together with an increase in revolving borrowings, were used to redeem \$435 million of bonds and to fund the payment to the province and capital expenditures. The net long-term debt balance (net of sinking funds) at June 30, 2004 was \$7,146 million, compared to \$6,900 million at March 31, 2004. The increase in debt was impacted by the weaker Canadian dollar, which increased the Canadian equivalent of U.S. debt, by approximately \$60 million. The Canadian dollar at June 30, 2004, was U.S.\$0.7497, compared with U.S.\$0.7631 at March 31, 2004.

Revenue Requirement Application

On December 15, 2003, BC Hydro submitted its revenue requirement application to the British Columbia Utilities Commission (the "Commission") requesting a general rate increase of 7.23 percent effective April 1, 2004 and a further 2.0 percent increase effective April 1, 2005. On January 23, 2004, the Commission approved the first rate increase of 7.23 per cent on an interim basis effective April 1, 2004. On April 2, 2004, BC Hydro revised its revenue requirement application to propose a rate increase of 8.9 per cent in fiscal 2005 with no increase in fiscal 2006. The incremental rate increase of 1.67 per cent for fiscal 2005 will become effective based on the date of approval by the Commission. A full public hearing began in May 2004 and was completed in June 2004. Subsequent to the hearing BC Hydro and the intervenors filed final arguments with the Commission. A final decision from the Commission is expected by fall 2004. If the Commission does not approve the full amount of the interim increase, the difference will be fully refunded to customers with interest.

MANAGEMENT DISCUSSION AND ANALYSIS

Powerex Legal Proceedings

On October 31, 2003, the U.S. Federal Energy Regulatory Commission ("FERC") Trial Staff cleared Powerex of allegations of inappropriate market behavior and concluded that Powerex played a positive role in the energy market 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 received approval from FERC and calls for further litigation to be suspended pending this approval. However, FERC's approval of the settlement is still subject to rehearing and subsequent appeal to the courts and could be affected by other legal proceedings relating to the California power markets.

As was disclosed in the notes to BC Hydro's 2004 Annual Consolidated 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. Management believes these provisions are sufficient to provide for any remaining exposure.

Deferral Accounts

As disclosed in the Management Discussion and Analysis in the 2004 Annual Report, the Province issued a Special Directive that directs the British Columbia Utilities Commission to authorize BC Hydro to establish the Heritage Deferral Account and the Trade Income Deferral Account effective April 1, 2004. These accounts are intended to result in assigning domestic ratepayers the benefit of BC Hydro's low-cost generation assets and related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets (the "Heritage Resources"). As part of the Revenue Requirement Application related to fiscal 2005 and 2006, BC Hydro has applied for the establishment of a Non-Heritage Asset Deferral Account to manage the impact of certain other non-controllable cost variances. The impact of this account would be to defer specific types of cost variances through transfers to/from the accounts by adjustment of net income.

While the deferral accounts are still under review by the Commission, BC Hydro has recorded the following amounts in the financial statements for the three months ended June 30, 2004.

<i>(in millions)</i>	Balance Sheet	Income Statement Increase (Decrease) net income
Account		
Heritage Deferral Account	\$ (54)	\$ 54
Non-Heritage Asset Deferral Account	(28)	28
Trade Income Deferral Account	38	(38)
Total Deferral Accounts	\$ 44	\$ 44

MANAGEMENT DISCUSSION AND ANALYSIS

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 as disclosed in BC Hydro's 2004 Annual Report. In addition, the impact of the revenue requirement application decision by the Commission on BC Hydro's earnings and operations will not be known until fall 2004.

Management's assessment of business risk/uncertainties is ongoing and the risks/uncertainties to BC Hydro have not changed materially from the Management Discussion and Analysis presented in the 2004 Annual Report.

Future Outlook

BC Hydro's net income for this fiscal year is forecast to be \$275 million before any transfers to/from the deferral accounts. This is a reduction of \$131 million from the 2004 Annual Report and is largely due to the impact of lower-than-normal water inflows which result in higher-than-expected energy purchases and costs. 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, before deferral account transfers, under plausible scenarios is estimated to be between \$195 million and \$435 million.

BC Hydro's forecast net income after deferral account transfers for fiscal 2005 is approximately \$447 million. The forecast of \$447 million is after the impacts of lower water inflows and higher energy purchase prices have been taken into account through the proposed deferral accounts.

FINANCIALS

CONSOLIDATED STATEMENT OF OPERATIONS

for the Three Months Ended June 30 (Unaudited)

	2004	2003
<i>(in millions)</i>		<i>(Restated – Note 3)</i>
Revenues		
Residential	\$ 217	\$ 208
Light industrial and commercial	236	217
Large industrial	144	129
Other energy sales	19	16
Miscellaneous	16	13
	632	583
Electricity trade	186	199
	818	782
Expenses		
Energy costs	406	391
Maintenance	56	58
Operations and administration	90	100
Taxes	36	35
Amortization	108	98
	696	682
Income Before Finance Charges and Deferral Account Transfers	122	100
Finance charges	114	100
Income Before Deferral Account Transfers	8	–
Transfer (to) from: (Note 5)		
Heritage Deferral Account	54	–
Non-Heritage Deferral Account	28	–
Trade Income Deferral Account	(38)	–
Net Income	\$ 52	\$ –

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the Three Months Ended June 30 (Unaudited)

<i>(in millions)</i>	2004	2003
Retained earnings, beginning of period as previously reported	\$ 1,634	\$ 1,609
Note 3: Adoption of new accounting standard for asset retirement obligations	241	229
Retained earnings, beginning of period as restated	\$ 1,875	\$ 1,838
Net Income	52	–
Accrued Payment to the Province	(41)	–
Retained earnings, end of period	\$ 1,886	\$ 1,838

See accompanying notes to the interim consolidated financial statements.

FINANCIALS

CONSOLIDATED BALANCE SHEET

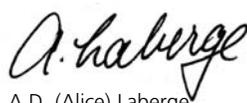
<i>(in millions)</i>	<i>as at June 30</i> 2004 <i>(Unaudited)</i>	<i>as at March 31</i> 2004 <i>(Restated – Note 3)</i>
ASSETS		
Capital Assets		
Capital assets in service	\$ 15,393	\$ 15,307
Less accumulated amortization	6,024	5,922
	9,369	9,385
Unfinished construction	530	515
	9,899	9,900
Current Assets		
Cash and cash equivalents	257	47
Accounts receivable and accrued revenue	333	323
Materials and supplies	88	86
Prepaid expenses	67	108
Unrealized gains on mark-to-market transactions	121	104
	866	668
Other Assets and Deferred Charges		
Loan receivable	3	2
Sinking funds	975	981
Demand-side management programs	182	161
Deferred debt costs	174	150
Deferral accounts (Note 5)	44	–
	1,378	1,294
	\$ 12,143	\$ 11,862
LIABILITIES AND EQUITY		
Long-Term Debt		
Long-term debt net of sinking funds	\$ 7,146	\$ 6,900
Sinking funds presented as assets	975	981
	8,121	7,881
Foreign Currency Contracts	40	63
Current Liabilities		
Accounts payable and accrued liabilities	691	673
Accrued interest	134	115
Accrued Payment to the Province	41	73
Unrealized losses on mark-to-market transactions	123	78
	989	939
Deferred Credits and Other Liabilities		
Asset retirement obligations (Note 3)	16	16
Deferred revenue	273	276
Contributions arising from the Columbia River Treaty	191	193
Contributions in aid of construction	627	619
	1,107	1,104
Retained Earnings	1,886	1,875
	\$ 12,143	\$ 11,862

See accompanying notes to the interim consolidated financial statements.

On behalf of the Board:



L.I. (Larry) Bell
Chair



A.D. (Alice) Laberge
Chair, Audit and Risk Management Committee

FINANCIALS

CONSOLIDATED STATEMENT OF CASH FLOWS

for the Three Months Ended June 30 (Unaudited)

<i>(in millions)</i>	2004	2003 <i>(Restated – Note 3)</i>
Operating Activities		
Net income	\$ 52	\$ –
Adjustments for:		
– Amortization	108	98
– Deferral accounts	(44)	–
– Other non-cash items	46	(18)
	162	80
Working capital changes	53	135
Cash provided by operating activities	215	215
Investing Activities		
Loan receivable	(1)	(2)
Capital asset expenditures	(113)	(157)
Contributions in aid of construction	16	4
Demand-side management programs	(27)	(8)
Cash provided by investing activities	(125)	(163)
Financing Activities		
Bonds:		
– Issued	530	440
– Retired	(435)	(300)
Revolving borrowings	78	152
Sinking funds	30	18
Deferred debt costs	(5)	7
Settlement of interest rate swaps	(5)	–
Cash provided by financing activities	193	317
Payment to the Province	(73)	(338)
Increase in cash and cash equivalents	210	31
Cash and cash equivalents at beginning of period	47	4
Cash and cash equivalents at end of period	\$ 257	\$ 35
Supplemental disclosure of cash flow information		
– Interest paid	\$ 118	\$ 104

See accompanying notes to the interim consolidated financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2004

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 73,000 kilometres of transmission and distribution lines.

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

Note 1: Accounting Policies

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") 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 follow the same accounting policies as the most recent annual consolidated financial statements except for the accounting of asset retirement obligations and hedging relationships as discussed below. 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 2004 Annual Report.

On April 1, 2004, BC Hydro adopted two new accounting standards in accordance with the CICA Handbook. The first, Section 3110 "Asset Retirement Obligations," replaces the provision for Future Removal and Site Restoration that had been recorded in accordance with the previous requirements of CICA Handbook Section

3061. Asset Retirement Obligations are disclosed in Note 3. The second, Accounting Guideline 13 "Hedging Relationships," was adopted with respect to hedging transactions and is disclosed described in Note 4.

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: Asset Retirement Obligations

For fiscal periods to March 31, 2004, BC Hydro recorded a provision for the estimated future costs associated with the retirement and decommissioning of its distribution, transmission and generation facilities in accordance with the previous requirements of CICA Handbook Section 3061. Effective April 1, 2004, BC Hydro adopted the new section (Section 3110 "Asset Retirement Obligations") which addresses accounting and reporting for obligations associated with the retirement of long-lived assets.

This new section amends Section 3061 and applies only to legal obligations associated with the retirement of long-lived assets. BC Hydro is required to record the net present value of a liability at the time it is incurred if an estimate can be determined. When a liability is initially recorded, BC Hydro will capitalize the costs by increasing the carrying value of the long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the asset is amortized over the useful life of the related asset. The change in accounting policy has been applied retroactively with restatement of prior periods.

The change in accounting policy requires BC Hydro to remove the existing provision for future removal and site restoration costs. Asset retirement obligations and associated capital assets will be set up for assets that it is

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2004

legally obligated to retire, with the difference between the existing provision and the net liability created by the new accounting policy being an adjustment to retained earnings. The majority of BC Hydro's facilities have an indeterminate life, and thus a future retirement obligation is not determinable.

The net impacts of this change in accounting policy are summarized below:

for the Three Months Ended June 30

<i>(in millions)</i>	2004	2003
	Increase (Decrease)	
Opening balances		
Retained earnings	\$ 241	\$ 229
Capital assets, net	8	8
Deferred Credits and Other Liabilities	(233)	(164)
Net income	-	4

Note 4: Hedging Relationships

In December 2001, the CICA issued Accounting Guideline 13, "Hedging Relationships". The effective date of this Guideline was deferred to fiscal years beginning on or after July 1, 2003. The Guideline addresses the types of items that qualify for hedge accounting, the formal documentation required to enable the use of hedge accounting and the requirement to evaluate hedges for effectiveness. The Guideline does not specify how hedge accounting should be applied but EIC 128, "Accounting for Trading, Speculative or Non-hedging Derivative Financial Instruments," requires derivatives that are not designated as hedges to be recorded at fair value on the Company's consolidated balance sheet, with changes in fair value recorded in earnings. This Guideline was adopted prospectively effective April 1, 2004, for treasury instruments. The hedge accounting provisions were adopted for energy trading activities in fiscal 2004.

Note 5: Deferral Accounts

During fiscal 2004, the Province issued a Special Directive that directs the British Columbia Utilities Commission (the "Commission") to authorize BC Hydro to establish the Heritage Deferral Account and the Trade Income Deferral Account effective April 1, 2004. These accounts are intended to result in assigning domestic ratepayers the benefit of BC Hydro's low-cost generation assets and related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets (the "Heritage Resources").

Heritage Deferral Account

The Heritage Deferral Account is intended to mitigate the impact of certain variances between the forecast and actual costs of service associated with the Heritage Resources. The impact of this account is to defer the impact of these cost variances through transfers to or from the account by adjustment of net income.

Trade Income Deferral Account

The Trade Income Deferral Account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's electricity trade activities. The impact of this account is to defer the difference between forecast and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the Net Income of Powerex based on Canadian GAAP. The Special Directive provides that in each fiscal year the portion of the variance between forecast and actual Trade Income in excess of \$200 million per year or a loss in Trade Income will not be included in the Trade Income Deferral Account.

Non-Heritage Asset Deferral Account

As part of the Revenue Requirement Application related to fiscal 2005 and 2006, BC Hydro has applied for the establishment of a Non-Heritage Asset Deferral Account to manage the impact of certain other non-controllable cost variances. The impact of this account would be to defer specific types of cost variance through transfers to or from the account by adjustment of net income.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2004

As at June 30, 2004 the deferral accounts on the balance sheet are:

<i>(in millions)</i>	Balance
Account	
Heritage Deferral Account	\$ 54
Non-Heritage Asset Deferral Account	28
Trade Income Deferral Account	(38)
Total Deferral Accounts	\$ 44

Note 6: Commitments and Contingencies

Alcan Inc.:

During fiscal 2002, Enron Corp. ("Enron") and certain of its subsidiaries, including Enron Power Marketing, Inc. ("EPMI"), filed for bankruptcy protection. As a result, Powerex's Power Purchase and Sale Agreement with EPMI terminated, giving rise to a termination payment of US\$100 million becoming due from EPMI. Under a 1997 agreement among Alcan Inc., formerly Alcan Aluminum Limited, ("Alcan"), EPMI, Powerex and BC Hydro, Alcan agreed to remain liable to Powerex for the payment obligations of EPMI.

Alcan did not pay the termination payment when demand was made by Powerex, and the matter was referred to arbitration in the United States. Early in 2003 an arbitration award was issued which required Alcan to pay Powerex US\$100 million within 30 days, with interest accruing thereafter. This amount was not paid and Powerex commenced enforcement proceedings in the British Columbia Supreme Court (the "B.C. Enforcement Proceedings").

The B.C. Enforcement Proceedings were adjourned pending the outcome of an application by Alcan in the U.S. District Court to have the arbitration award set aside.

Alcan's application was subsequently denied and Alcan appealed that decision to the Ninth Circuit Court of Appeals. Despite the appeal, Powerex resumed the B.C. Enforcement Proceedings and its application was heard in April 2004. On June 30, 2004, a judgment was issued in the B.C. Enforcement Proceedings that requires Alcan to pay the US\$100 million plus accrued interest into a trust account. These funds will be available for use by Powerex upon its posting of security satisfactory to Alcan. The B.C. Enforcement Proceedings have been adjourned pending the outcome of Alcan's appeal in the U.S. courts, which is not expected prior to mid-2005.

Any recovery in respect of the arbitration award will be recorded in the financial statements when the uncertainties regarding the case have been resolved.

Other:

There are no other material changes to the commitments and contingencies disclosed in the notes to BC Hydro's 2004 Audited Annual Consolidated Financial Statements.

Note 7: Employee Future Benefits

BC Hydro's cost for employee future benefits for the three months ended June 30 was \$19 million (2003: \$19 million).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2004

Note 8: Segmented Information

Three months ended June 30, 2004

(in millions)	Distribution \$	Transmission \$	Generation \$	Powerex \$	Other \$	Consolidation Adjustments/ Eliminations \$	Total \$
External revenues	615	4	(4)	195	14	(6) ³	818
Inter-segment revenues	44	155	394	147	95	(835)	–
Net income (loss) ⁵	(21)	29	50	45	(7)	(44) ³	52
Total assets	3,497	3,189	4,778	724 ¹	574 ²	(619)	12,143

Three months ended June 30, 2003 (restated)⁴

(in millions)	Distribution \$	Transmission \$	Generation \$	Powerex \$	Other \$	Consolidation Adjustments/ Eliminations \$	Total \$
External revenues	570	3	4	211	10	(16) ³	782
Inter-segment revenues	–	166	343	149	85	(743)	–
Net income (loss)	(90)	46	57	38	14	(65) ³	–
Total assets	3,240	3,094	4,733	522 ¹	633 ²	(478)	11,744

1 Includes inter-segment receivables of \$482 million (\$200 million for three months ended June 30, 2003).

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 Canadian 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.

4 Restated for retroactive application of the asset retirement obligations accounting standard (Note 3).

5 Net income includes deferral account transfers (Note 5).

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 optimizing financial performance to ensure stable earnings.

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 ensuring that the right people are in the right roles at the right time.

Performance Measures, Targets, and Results — Performance measurement, both financial and non-financial, is an integral part of BC Hydro's Strategic Management Process. Performance measures and targets that align with BC Hydro's strategic goals and objectives are set out in the company's February 2004 Service Plan. This section provides BC Hydro's overall performance results for the first quarter, April 1 to June 30, 2004.

The Lines of Business performance is disclosed in the Lines of Business sections of this report.

Legend (for all Performance Measures)

▲	Significantly better than target
●	Meets target (within range)
▼	Significantly below target

Net Income ▼ (in millions)

	Actual	Target
Q1 04/05	\$8	\$36
Q1 03/04	–	\$(83)

Net Income is defined as total revenue less total expenses before transfers to deferral accounts. 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 before transfer to deferral accounts of \$8 million was \$28 million below plan primarily as a result of higher-than-plan imports combined with higher-than-expected energy prices. Partially offsetting this negative variance were higher trade revenues, also due to higher prices. Additionally, residential revenues were below plan as a result of warmer-than-normal temperatures and finance charges were above plan as a result of the weaker Canadian dollar. These results were partially offset by timing differences in Capital (amortization) and Operations, Maintenance, and Administration (OMA) expenditures due to the start dates of some programs and projects.

Net income for the three months ended June 30, 2004, was higher than for the same period last year as a result of higher revenues and lower OMA expenditures, offset partially by higher finance charges.

Reliability ●

ASAI	Actual	Target
Q1 04/05	99.977%	99.970%
Q1 03/04	99.967%	99.970%
CAIDI	Actual	Target
Q1 04/05	2.05 hrs.	2.15 hrs.
Q1 03/04	2.52 hrs.	2.15 hrs.

PERFORMANCE MEASURES — BC HYDRO OVERALL

Reliability is defined in terms of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). These indices are electric utility industry standards that are typically calculated on rolling 12-month periods.

For purposes of these comparisons, the measures have been calculated on the basis of results for the quarter in isolation. This enables BC Hydro to better identify the affect of specific events that adversely impact performance with a view to implementing corrective action where appropriate.

Each measure uses customer-hours lost as a starting point. ASAI looks at customer-hours lost in relation to the total hours available to all customers.

ASAI has been calculated as the percentage of time power is available in the 3-month period, expressed as 2,190 hours.

An ASAI of 99.977 per cent means that power was available for 2,189.50 hours during the 3-month period, i.e., parts of the system were unavailable for an average of 30 minutes per customer in the quarter.

CAIDI is the average hours per interruption based on total hours lost for the specific customers affected by such interruption. For the three months year-to-date, 848,133 customer-hours were lost, representing a six per cent reduction over the corresponding three months for the previous five years (fiscal 1999 to 2003) and a 27 per cent reduction from fiscal 2004. Trees accounted for 20.5 per cent of the customer-hours lost. Other causes included distribution equipment failures (14.5 per cent), motor vehicle accidents (14.0 per cent), adverse weather (9.6 per cent) and source outages (8.3 per cent).

All Injury Frequency ▲

	Actual	Target
Q1 04/05	2.5	2.9
Q1 03/04	3.0	3.1

All Injury Frequency is defined as the total number of employee injuries (Medical Aids and Disabling Injuries) occurring in the 12 months prior to the report date, relative to the number of worked hours in the same period. For this measurement, Medical Aid injuries are

defined as those where a professional medical practitioner has rendered services beyond the level defined as “first aid” in relation to the injury incident, and the employee was not absent from work beyond time lost on the day of the injury. Disabling injuries are defined as those that involve the employee being absent from work beyond the day of the injury. The calculation is based on injuries experienced by BC Hydro over the previous 12 months and is relative to person-hours that have been worked over that same period.

BC Hydro’s safety performance is significantly better than target due to the dramatic improvements achieved in the Field Services Line of Business during the first quarter of fiscal 2005, and the maintenance of low incident rates in all other Lines of Business.

The focus that BC Hydro has placed on safety improvement over the last several years has had a positive impact on safety performance, and this is demonstrated by the company’s favourable placement in the top quartile of peers within the Canadian Electricity Association. BC Hydro’s management and workforce remain committed to achieve further incident reduction and performance improvement through safety leadership activities, employee involvement, personal accountability, planning, training and safe work practices.

Environmental Regulatory Compliance ●

	Actual	Target
Q1 04/05	6 Incidents	7 Incidents
Q1 03/04	3 Incidents	7 Incidents

Fiscal 2004/2005 actual and target results no longer include the British Columbia Transmission Corporation’s (BCTC) externally reportable, preventable environmental incidents. Fiscal 2003/2004 first quarter actual and target results have been adjusted to remove BCTC results, for comparison purposes.

Environmental Regulatory Compliance is defined as the number of externally reportable, preventable environmental incidents. 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.

PERFORMANCE MEASURES — BC HYDRO OVERALL

Results are slightly lower than the apportioned annual target for this quarter, and are within the normal quarter-to-quarter variability observed historically. Of the six incidents (three equipment failure and three human error), none was categorized as “severe.”

Based on fiscal 2004/2005 first quarter results, BC Hydro is on track to meet the Environmental Regulatory Compliance measure annual target.

Conservation Gigawatt Hours ●

	Actual	Target
Q1 04/05	1,021 GWh/year	1,000 GWh/year
Q1 03/04	401 GWh/year	400 GWh/year

Conservation Gigawatt Hours is defined as the cumulative annual 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.

The actual number of 1,021 GWh per year includes discounts for free riders, free drivers and measurement and verification. 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; measurement and verification allows for energy savings that may be lower than initial estimates when actually measured.

Approved Strategic Workforce Positions Filled ▲

	Actual	Target
Q1 04/05	40	18
Q1 03/04	43	41

Approved Strategic Workforce Positions Filled is defined as the number of positions filled under BC Hydro’s Strategic Workforce Planning (SWfP) initiative. SWfP is the

management process for anticipating, scoping and planning the alignment of needed critical workforce capabilities to meet BC Hydro’s strategic business goals. The targets were set based on internally performed needs assessments.

The Approved Strategic Workforce Positions Filled measure is on track to meet the annual target of 71 positions with 56 per cent of SWfP positions filled at the end of the first quarter.

POWEREX

Net Income ▲ (in millions)

	Actual	Target
Q1 04/05	\$45	\$7
Q1 03/04	\$38	\$10

Net Income is defined as total revenue less total expenses. 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 first quarter Net Income is tracking higher-than-plan. While volumes are below plan, profit margins are higher-than-plan due to favourable price spreads in the spot market. Restrictions on transmission lines to California have reduced sales volumes. Although total sales volumes are now forecast to be lower-than-plan, Powerex will likely continue to meet its income target due to higher profit margins.

Transactions per Employee ▲

	Actual	Target
Q1 04/05	190	165

Transactions per Employee is defined as the number of transactions conducted by Powerex, divided by the number of Powerex employees. The increase in actual transactions per employee was due to a larger number of Eastern and Real Time transactions.

4. Lines of Business

GENERATION

Introduction

The Generation Line of Business is responsible for the operation, maintenance and financial performance of BC Hydro's existing integrated electricity generation assets throughout British Columbia. This includes 42 dams, 79 units at 31 hydroelectric generation facilities and nine units at three thermal generation facilities, all of which have been designated by the Provincial Government as Heritage Resources.

Generation maximizes the value of these assets by managing equipment health; managing the safety of dams and associated structures; optimizing water resources, including inflows and storage and the short-term purchase of energy; and managing the trade-offs between financial, environmental and social performance.

System Operation Highlights

BC Hydro monitors the levels at its hydroelectric reservoirs to ensure the most efficient use of stored water to meet domestic load 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).

The snowpack accumulation through the winter and spring was below normal both for the large interior basins in the Williston, Kinbasket and Kootenay regions, Vancouver Island and the Lower Mainland. The weighted BC Hydro total system inflow forecast for the period February through September 2004 is 87 per cent of normal (with a standard error of plus or minus 10 per cent).

The combined storage in BC Hydro reservoirs at June 30, 2004, was nine per cent below average or about 2,500 GWh below the historical average for this time of year. System storage energy on June 30, 2004, was about four per cent less than on the same date last year. With system energy below normal, net energy purchases will be required through to the end of the fiscal year.

Regional Highlights

Peace Region

The installed capacity in the Peace Region totals 3,430 MW, with an average annual energy capability of 16,445 GWh.

Williston Reservoir drafted to a low of about 2,161 feet in late April. As of June 30, 2004, the inflow forecast for Williston reservoir through September 2004 is 89 per cent of normal (with a standard error of plus or minus 13 per cent).

On June 30, 2004, the elevation of Williston Reservoir was 2,186 feet. Williston Reservoir is expected to reach a peak elevation of 2,196 feet during August 2004, about nine feet from full pool.

In October 2003 a winding fault occurred on G.M. Shrum Unit 7, destroying the winding and causing damage to the stator core. Repairs have been completed and the unit was returned to service at the end of June.

Work to refurbish G.M. Shrum Unit 8 is on schedule for completion later this year. As part of this work, the turbine will be replaced under BC Hydro's Resource Smart program, resulting in an increase of 81 GWh of energy at a cost of \$10 million (representing a unit cost of \$12/MWh). A similar work program was completed on Units 6 and 7 in previous years.

The generators at Peace Canyon are showing evidence of premature end of life. BC Hydro sought and received advice from an independent generator designer and an advisory panel of international experts and is now evaluating a proposal from the original equipment manufacturer to repair the generators.

Columbia Region

The installed capacity in the Columbia Region totals 5,255 MW, with an average annual energy capability of 22,966 GWh.

Kinbasket Reservoir drafted to a low of about 2,357 feet in early April. As of June 30 the inflow forecast for Kinbasket reservoir through September 2004 is 89 per cent

GENERATION

of normal (with a standard error of plus or minus six per cent).

On June 30, 2004, the elevation of Kinbasket Reservoir was 2,412 feet. Kinbasket Reservoir is expected to reach a peak elevation of 2,444 feet during August 2004, about 31 feet below full pool. This projected elevation is highly variable, however, and will be impacted by changes in system generation requirements and energy purchases.

Arrow Reservoir is forecast to reach a peak elevation of 1,430 feet in late July 2004.

In June the Columbia Water Use Planning Consultative Committee reached a consensus agreement on a Water Use Plan for Columbia River operations. One of the key contributors to this outcome was the relationships that developed among the more than 40 members of the committee, including federal and provincial regulatory agencies, First Nations, local community stakeholders and BC Hydro. This ends the public consultation phase for all Water Use Plans.

The single largest capital project in the Columbia Region is the seismic upgrade of the Seven Mile Dam. Last fiscal year, steel anchors were installed, tested and fully tensioned in the concrete dam. Construction is continuing on schedule on the spillway tower structures. The seismic upgrade is scheduled to be completed by December 2006.

Acting on advice from an expert advisory panel on the condition of the Mica Generating Station generators, Generation is proceeding with the replacement of the Mica stators (the stationary part of a generator).

Coastal Region

The Coastal 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 with an average annual energy capability of 7,082 GWh. The Coastal Region also includes BC Hydro's three thermal generation facilities, with an installed capacity of 1,004 MW.

As of June 30, 2004, runoff was well below average across coastal facilities, with expected February to September inflows ranging from 73 per cent to

99 per cent of normal. On Vancouver Island, runoff was also well below normal, with an expected February through September total inflow of only 83 per cent of normal for all four Vancouver Island systems combined.

An upgrade of Cheakamus Unit 1 was completed in early May, including the replacement of the turbine under BC Hydro's Resource Smart program. The new turbine provides additional energy of 23 GWh per year at a total cost of \$4.4 million (which represents a unit cost of \$28/MWh). Work originally planned to upgrade Unit 2 during the current fiscal year has been postponed to fiscal 2006.

Coquitlam Dam requires upgrading to meet present earthquake standards. Various remediation options have been investigated and the decision to construct an additional dam downstream from the existing dam was made in the first quarter. The project costs will be about \$40 million and remediation is expected to be complete by the end of 2006. In the interim, the reservoir has been restricted to protect public safety.

GENERATION

Financial Highlights

Interim Report — three months ended June 30

In millions	2004	2003	% change
Revenues	\$ 390.5	\$ 346.8	13%
Expenses	246.5	196.5	25%
Asset Related Expenses (including Finance Charges)	94.2	94.8	-1%
Net income (loss)	\$ 49.8	\$ 55.5	-10%
Capital expenditures			
Sustaining	20.0	25.8	-22%
Growth	3.0	0.8	275%
	\$ 23.0	\$ 26.6	-13%

Highlights Notes:

- Net Income for the three months ended June 30, 2004, was \$49.8 million, compared with plan of \$46.5 million. This seven per cent increase above plan was primarily due to decreased depreciation and finance charges.
- Capital spending of \$23.0 million during the three months ended June 30, 2004, was \$10.0 million or 33 per cent below plan of \$33.0 million. Lower spending was due to design changes and cost savings for the Seven Mile Dam Safety Improvements project (\$3.5 million), timing of capital expenditures during the fiscal year and deferral of some work.

GENERATION

PERFORMANCE MEASURES

Generation's four key goals are:

Strong financial performance — through targeting first-quartile (top 25 per cent) 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 ensuring safety and providing employees with the means to be successful.

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

Net Income ▲ (in millions)

	Actual	Target
Q1 04/05	\$49.8	\$46.5

Net Income is defined as total revenue less total expenses. The target is based on meeting allowed return on equity, as defined in the Heritage Special Directive No. HC-2, and does not reflect any changes that may be necessary resulting from the British Columbia Utilities Commission's pending decision on BC Hydro's Revenue Requirement Application.

Net Income for the three months ended June 30, 2004, was above target, primarily as a result of reduced depreciation and finance charges.

Cost of Heritage Electricity (\$/MWh) ▼

	Actual	Target
Q1 04/05*	\$30.20	\$21.86
Q1 04/05**	\$32.92	\$24.30

* excludes Return on Equity.

**includes Return on Equity as defined in the Heritage Special Directive No. HC-2.

Cost of Heritage Electricity (or Cost per MWh including Electricity Purchases) is defined as all Generation costs, including the cost of electricity purchases, divided by the actual volume of energy supplied to Distribution. It provides an indication of Generation's efficiency of producing and purchasing electricity.

At the end of the first quarter, the Cost of Heritage Electricity was higher than target. This is due to the low inflow forecast resulting in the need for higher than plan electricity purchases (2,520 GWh purchased compared with 1,940 GWh plan) and electricity purchase prices higher than plan (average actual purchase price of \$56.75 compared with plan of \$30.72 per GWh).

Commercial Performance ▲

	Actual	Target
Q1 04/05	99.9%	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. The annual target is based on historical performance (including analysis of planned outages) and assessment of reasonable improvement given investment in assets.

At the end of the first quarter, Commercial Performance was significantly better than target, due to greater than forecast equipment reliability and availability.

Average Number of Forced Outages ▲

	Actual	Target
Q1 04/05	0.65	3.2

The average number of forced outages per unit (count) is defined as the total number of forced outages divided by the total number of units. This is a new measure, which was selected as it provides key information on the success of Generation's asset management programs.

At the end of the first quarter, the average number of forced outages per unit was better than target (on an annualized basis), due to equipment operating more reliably than anticipated.

GENERATION

Resource Smart Energy Gains Put into Service ●

	Actual	Target
Q1 04/05	23 GWh	104 GWh

Resource Smart Energy Gains Put into Service is defined as the projected, long-term average incremental energy gains from existing Generation facilities, which are put into service.

The Resource Smart program gains are forecast to be on target at the end of the fiscal year.

All Injury Safety Performance ▼

	Actual	Target
Q1 04/05	4	9

All Injury Safety Performance is defined as the total number of lost time and medical aid injuries.

As of June 30, 2004, all injury safety performance was poorer than target (on an annualized basis). To improve safety performance, Generation has introduced a "Roadmap to Zero" safety management system that measures, monitors and promotes the active participation of all employees within the business unit.

DISTRIBUTION

Introduction

The Distribution Line of Business is responsible for serving 1.65 million customers and another 6,000 customers in non-integrated areas within B.C. It manages 56,000 km of overhead, underground and submarine distribution lines, 876,000 poles and 344,000 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.
- Define customer experience and work with other BC Hydro lines of business to ensure safe, high quality service.
- Ensure a secure, reliable and sustainable supply of electricity while keeping rates low.
- Provide energy efficiency and conservation services in partnership with service providers.
- Develop new rate structures that will:
 - Enable large electricity customers to choose a supplier other than Distribution.
 - Provide better price signals for conservation and efficiency.
 - Maintain high reliability and energy security.

ELECTRICITY LOAD

BC Hydro System

Energy Sales

BC Hydro provides electrical service to Residential, Commercial and Industrial customers throughout the province of B.C. The majority of customers are served through BC Hydro's integrated electricity system, which covers most of the province. However, the utility also serves customers in non-integrated areas and remote communities.

Overall, sales for the first quarter are tracking slightly above planned sales (the December 2003 forecast). While Residential sales have slowed compared with plan, due to the impact of warmer-than-normal weather, General and Transmission customer sales are tracking above the plan.

BC Hydro is assessing these early trends in sales and reviewing assumptions on the key drivers of the forecast as part of its annual forecasting exercise to determine a revised forecast for the current fiscal year.

BC Hydro Total Electricity Sales – three months ended June 30

Rate Class (GWh)	2004	2003	Variance
Residential	3,267	3,349	(82)
Light Industrial	4,137	4,086	51
Industrial	3,997	3,777	220
Other	300	281	19
Total	11,701	11,493	208

DISTRIBUTION

Compared with the first quarter of the previous fiscal year, BC Hydro electricity sales are up 208 GWh or 1.8 per cent. The largest portion of the sales variance was in the Industrial sector as increased activity saw a 5.8 per cent rise in consumption. Warmer weather this year is a factor that has slowed residential sales.

Peak Demand

BC Hydro is a winter peaking utility driven by residential electric spacing heating. As temperatures moderate in the spring and summer months, the system peak demand is reduced.

During the last quarter of fiscal 2003/2004, BC Hydro reached an all-time record one-hour peak on Monday, January 5, 2004, of 9,619 MW at a daily average temperature of -7.1°C , which was colder than BC Hydro's peak design day temperature of -6.8°C .

On an Integrated System basis, which includes peak sales to other utilities, the actual peak was 10,111 MW, 5.1 per cent above the December 2003 forecast (preliminary adjustments for weather yield a weather-adjusted peak of 9,886 MW for a variance of 2.9 per cent above forecast). BC Hydro is assessing its peak forecast for fiscal 2004/2005 and will be making adjustments to reflect this experience.

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 place. For electricity, the nearest commonly traded delivery point is Mid-Columbia, while for natural gas it is Sumas. Forward prices for 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 include supply, generation costs, demand, and the expected state of the regulatory and market environment. Key drivers for long-run natural gas price forecasts are similar to electricity prices, as they relate to supply and production costs.

Market Conditions

The first quarter of fiscal 2005 can be characterized by the following:

- Natural gas prices reached a high level and remained there with moderate volatility.
- Natural gas storage inventories were near the five-year average, but failed to exert enough downward pressure to move prices away from their high levels.
- Drier conditions in the West decreased hydroelectric generation volumes, but overall generating capacity remained high relative to demand, keeping electricity prices moderate.

Market Outlook

Natural gas forward prices are currently relatively high, as are crude oil prices. While ample inventories of gas in storage exert downward pressure on prices, there is concern that North American production will have difficulty keeping up with demand. A tight supply/demand balance may lead to further increases in gas prices.

Electricity forwards show a similar pattern. While recently built generation capacity has the potential to exert downward pressure on future electricity prices, dry weather is currently exerting upward pressure on Pacific Northwest prices. In the 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.

DISTRIBUTION

RESOURCE ACQUISITION

In March 2004, BC Hydro filed a Resource Expenditure and Acquisition Plan (REAP) with the British Columbia Utilities Commission (BCUC), which summarizes near-term acquisition activities.

The 2004 REAP outlines the energy and committed energy purchase agreements related to calls for energy since 2000, which result in new green and clean supply that contributes to BC Hydro's 10 per cent Green and 50 per cent BC Clean targets for incremental load.

Green Energy

The series of green calls undertaken since fiscal 2000 have resulted in 664 GWh per year of green energy being contracted online to the end of fiscal 2005. This volume represents the output of 12 green energy projects. The Green Energy commitments in 2002 contribute to the BC Clean Energy target established in November 2002.

BC Clean Energy

The BC Clean Energy target (50 per cent of incremental load) is being met with committed efficiency improvements and acquisitions pursuant to calls in 2002. BC Hydro has filed its first report to the provincial government as part of its commitment to meet the 50 per cent BC Clean Energy target, and based on committed efficiency improvements and contracted energy, 52 per cent of incremental energy requirements will be met with clean energy. By the end of fiscal 2004, 614 GWh was in service, representing 20 per cent of the 10-year average target, with the balance on track to meet the target over the term.

Vancouver Island Call For Tenders

The 2004 REAP references the continuation of the Vancouver Island Call for Tenders (VI CFT) and the maintenance of a shelf-ready contingency plan that can be implemented, depending on the outcome of the VI CFT.

The VI CFT issued on October 31, 2003, for capacity and associated energy supply on Vancouver Island, is on track to produce an outcome of between 150 MW to 300 MW of predominantly gas-fired options. Of the 23 bidders who originally registered to participate in the CFT process, 11 bidders were pre-qualified to submit tenders,

which were due on August 13, 2004. Tenders will be evaluated and the outcome will be announced in October, followed by submission of the final documents to the BCUC in November 2004.

Ecologo

BC Hydro has adopted the leading national standard, EcoLogo, to certify its existing and new green energy supply contracted from Independent Power Producers (IPPs). Adopting EcoLogo provides a cost-effective third-party certification of contracted green energy, and ensures that projects comply with the stringent environmental criteria set for renewable low-impact electricity in Canada. It also provides the necessary transparency and credibility to meet customer expectations when purchasing BC Hydro's Green Power Certificate product.

Green Power Certificates

BC Hydro has moved to offer a permanent Green Power Certificate (GPCs) product to its domestic and wholesale trade customers. This initiative supports BC Hydro's efforts to offer customers choice, and helps them to meet their environmental and sustainability objectives.

The Honourable Minister for the Environment, David Anderson, announced BC Hydro's 10-year sale of GPCs to TransLink at the Globe Conference in Vancouver in April 2004.

Power Smart

Power Smart continues implementing its comprehensive 10-year plan to reach an annual target of 3,600 GWh per year in new energy savings, or enough energy to supply about 360,000 additional homes in British Columbia.

For the first quarter of this fiscal year, total cumulative energy was saved at a rate of 1,021 GWh per year, placing Power Smart ahead of the first-quarter target of 1,000 GWh per year, and on track to reach this year's cumulative target of 1,315 GWh per year.

In June, the Natural Resources Canada Office of Energy Efficiency recognized BC Hydro's Power Smart, with an Award for ENERGY STAR® Market Transformation. BC Hydro was praised for its Power Smart initiatives that encourage residential and business customers to adopt ENERGY STAR® qualified products and other energy-

DISTRIBUTION

efficient technologies, and was named ENERGY STAR® Participant of the Year.

Power Smart was one of three organizations shortlisted for the 2004 Marketer of the Year award from the B.C. Chapter of the American Marketing Association (BCAMA). Each year since 1971, the BCAMA honours a local company and marketing department that demonstrates marketing excellence. Power Smart placed second in the final selection.

For business customers

Winners of the BC Hydro 2004 Power Smart Excellence Awards were recognized at an awards ceremony on May 5, 2004. Collectively, the 22 customers saved more than 107 gigawatt hours of electricity this past year, equivalent to nearly \$4 million in annual savings. This year's awards reflected the growing importance of BC Hydro's trade allies in advancing the transformation of the marketplace towards energy efficiency. In addition to customers that are Power Smart Partners and Power Smart Certified Customers, awards were also given to trade allies including manufacturers, retailers and consultants and contractors. Kwantlen University College was recognized as the newest Power Smart Certified Customer.

BC Hydro's new Power Smart Incentive Program (PIP) provides financial incentives to business customers who replace existing inefficient lighting products with energy-efficient lighting technologies. A range of energy-efficient lighting products are eligible for incentives under the program, including T8 lighting, compact fluorescent lighting, light-emitting diode (LED) exit signs and pulse-start metal halide lighting. For example:

- Strata Corporation NW 518, a residential strata, installed 1,174 compact fluorescent light bulbs in the common areas (e.g., hallways) of the building, which resulted in a \$2,348 BC Hydro incentive and has saved them 565,633 kWh per year.
- The Vancouver School Board (School District 39) installed 798 LED retrofit kits in various schools across the district, for a total of 195,733 kWh of savings per year and a \$3,990 BC Hydro incentive.

- The Power Smart Traffic Light Program, completed March 31, 2004, was a great success. Power Smart, together with BC Hydro's municipal customers and the Provincial Ministry of Transportation, worked to upgrade incandescent traffic signals to the more energy-efficient light-emitting diode (LED) traffic signals during the period from 2002 to 2004. Participation was excellent, with 63 out of 65 eligible customers participating, converting 2,984 intersections (99 per cent of B.C. intersections that were qualified for the upgrade).

For residential customers

Power Smart successfully reached its goal to have 365,000 Lower Mainland households redeem their voucher for two free compact fluorescent lights (CFLs). Since October 2003, about half of BC Hydro customers in the Lower Mainland participated in the Power Smart CFL give-away program. Power Smart representatives distributed more than 1.3 million energy-efficient CFLs, including supplementary offers from manufacturers and retailers. Compact fluorescent lights use up to 75 per cent less electricity than standard incandescent lights and last approximately eight times longer. Due in large measure to the CFL give-away program, B.C. retailers have begun to carry more CFLs in more varieties.

The next phase of the CFL give-away program began in June and will run until the end of August and includes the North Okanagan, the Cariboo/Chilcotin, the northern region and the Kootenays.

For the community

The Power Smart Outreach team participated in numerous events, including the Arbour Days Festival, Healthy Kids Day, Whistler Health and Child Care Fair, Walnut Grove Lions Day, Sam Steele Days and the Vancouver and Canadian Northern (Prince George) Children's Festivals.

Power Smart is again sponsoring the HSBC Celebration of Light in Vancouver. Supporting this key cultural event, which attracts more than one million spectators, is an opportunity to give back to the community, while educating the public about energy conservation.

DISTRIBUTION

CUSTOMER SERVICE

Customers

The new customer additions volume is currently being configured with the new Customer Care System (CCS), and a net new customer connections count is therefore not available at this time. However, net new additions has grown significantly over the same period last year, due to the strength of the economy in the southern part of the province and strong housing starts and real estate development. Reports from the Canadian Mortgage and Housing Corporation (CMHC) support this analysis.

Customer Care

The Service Level Chart shows the percentage of calls to the Customer Care line that were answered within the threshold timeframe, for callers requesting to speak to a Customer Services Representative (CSR) and exiting the Interactive Voice Response (IVR) system. With the implementation of the new CCS billing system in December 2003, Distribution and Accenture Business Services for Utilities worked together to define revised service level metrics during the post-implementation and transition period. The service level metric was adjusted to 80 per cent of the calls being answered within 90 seconds during April 2004, and 80 per cent of the calls being answered within 60 seconds during May and June 2004. The service level of 80 per cent of calls being answered within 30 seconds will be reinstated on July 1, 2004.

Total calls answered by CSRs were just over 382,800 for the first quarter. This compares with 437,100 for the same period last fiscal year, a decrease of 13 per cent.

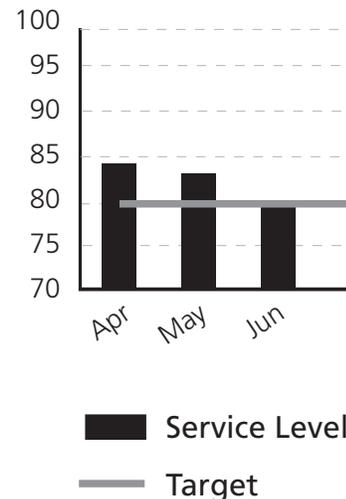
In the first quarter of the current fiscal year, the Call Centre achieved an overall adjusted year-to-date Customer Care Service level of 83 per cent, which compares favourably with the target of 80 per cent.

Customer Satisfaction

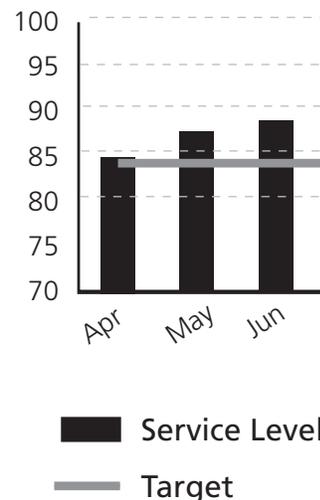
Customer satisfaction with Call Centre transactions is measured by a survey of residential and commercial customers who have completed a recent transaction with the Call Centres. The telephone survey is conducted by an independent third party on a weekly basis and the results aggregated for the month.

Call Centre customer satisfaction year-to-date for the first quarter was 87 per cent, which compares favourably with the target of 84 per cent. This is noteworthy in view of the challenges faced with the CCS conversion and the interim rate increase.

% of Total calls offered that are answered within threshold



% Customers satisfied or better with transactions



DISTRIBUTION

Accenture Business Services

Accenture Business Services for Utilities assumed responsibility for the performance of all Customer Care functions as of April 1, 2003. The following table outlines performance measures for the three months to June 2004.

Critical Service Levels	April	May	June
Deposit 98% of payments within agreed timeline	▲	▲	▲
Answer 80% of Customer Care calls within threshold	▲	▲	▲
No more than 2% Customer Care calls abandoned	▲	▲	▲
96% of meters read in accordance with schedule	▲	▲	N/A ¹
99.85% of meters are read accurately	▲	N/A ¹	N/A ¹
84% of customers calling the Call Centre are satisfied or better	▲	▲	▲
Less than 2 errors per month in disconnect advisory process	▲	▲	▲
Less than 2 errors per month in disconnect accuracy	▲	▲	▲
99% of payments posted accurately	▲	▲	▲
98% of reconciliations of bank deposits posted within 4 days	▲	▲	▲
Receivable dollars in arrears per agreement	N/A ²	N/A ²	N/A ²
# of receivable accounts per arrears	N/A ²	N/A ²	N/A ²
98% of bills mailed next business day	▲	▲	▲

▲ Met or exceeded target ▼ Did not meet target

1 Metrics currently being reviewed for accuracy with Northstar CCS reporting.

2 Metrics and targets currently under review to reconcile with change in Northstar reporting structure.

Project Northstar

The transition period for the new customer information billing system, Northstar, concluded on June 30, 2004. All original service level targets established prior to the Northstar go-live date have been reinstated and ABSU is now subject to normal demerits for non-performance of service level targets.

BC Hydro continues to work with the ABSU Sustainment Team to formalize processes to prioritize and expedite resolution of any new software issues that may arise.

DISTRIBUTION

Reliability ●

ASAI	Actual	Target
Q1 04/05	99.977%	99.970%
Q1 03/04	99.967%	99.970%

CAIDI	Actual	Target
Q1 04/05	2.05 hrs.	2.15 hrs.
Q1 03/04	2.52 hrs.	2.15 hrs.

Reliability is defined in terms of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). These indices are electric utility industry standards that are typically calculated on rolling 12-month periods.

For purposes of these comparisons, the measures have been calculated on the basis of results for the quarter in isolation. This enables BC Hydro to better identify the affect of specific events that adversely impact performance with a view to implementing corrective action where appropriate.

Each measure uses customer-hours lost as a starting point. ASAI looks at customer-hours lost in relation to the total hours available to all customers.

ASAI has been calculated as the percentage of time power is available in the 3-month period, expressed as 2,190 hours.

An ASAI of 99.977 per cent means that power was available for 2,189.50 hours during the 3-month period, i.e., parts of the system were unavailable for an average of 30 minutes per customer in the quarter.

CAIDI is the average hours per interruption based on total hours lost for the specific customers affected by such interruption. For the three months year-to-date, 848,133 customer-hours were lost, representing a six per cent reduction over the corresponding three months for the previous five years (fiscal 1999 to 2003) and a 27 per cent reduction from fiscal 2004. Trees accounted for 20.5 per cent of the customer-hours lost. Other causes included distribution equipment failures (14.5 per cent), motor vehicle accidents (14.0 per cent), adverse weather (9.6 per cent) and source outages (8.3 per cent).

DISTRIBUTION

ASSETS AND FINANCIAL HIGHLIGHTS

Assets

The annual Distribution System improvement Recurring Capital Program addresses capacity constraints, customers' expectations with respect to reliability, power quality, asset health, 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 2004/2005 include replacement of faulted feeder and submarine cables, replacement of failing meters and installation of new feeder circuits in the Surrey, Abbotsford and North Vancouver areas.

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 – three months ended June 30

In millions	2004	2003	% change
External revenues	\$ 614.5	\$ 569.8	7.8%
Inter-segment revenues	\$ 44.0	n/a	100%
Net income (loss)	\$ (20.6)	\$ (90.0)	77.1%

Highlights Notes:

- First-quarter external revenues were \$44.7 million higher than for the same period last year due to the interim rate increase, approved effective April 2004, increased customer growth, and higher sales to pulp and paper customers. This favourable variance was partially offset by warmer-than-average temperatures compared with the prior year.
- First-quarter Heritage energy costs were \$61.5 million higher than for the same period last year due to increased purchases and lower hydro generation resulting from lower water inflows. Non-Heritage energy costs were lower than for the same period last year by \$5.5 million, due to a reduction in purchases from IPPs as a result of maintenance outages at Arrow Lake and ICG. Unplanned cost-of-energy variances of \$82 million were transferred to deferral accounts at the end of the first quarter.
- Net Loss after transfers to deferral accounts was \$20.6 million year-to-date compared with a Net Loss of \$90.0 million for the same period last year, resulting in a favourable variance of \$69.4 million, mainly due to higher revenues, lower energy costs, lower OM&A costs and Finance charges. Energy costs after transfers to deferral accounts were lower than for the same period last year due to lower purchases from Independent Power Producers. OMA costs were \$6.0 million lower, primarily due to reduced Operations and Administration costs for major Information Technology and other projects completed in fiscal 2003/2004, together with an improvement in bad debt write-offs and the transfer of functions out of the Distribution Line of Business since April 2004. This favourable variance was partially offset by a higher level of maintenance program activity and increased routine and storm-related trouble costs. Finance charges were \$4.5 million lower, mainly due to a stronger Canadian dollar and lower interest rates.

DISTRIBUTION

PERFORMANCE MEASURES

Distribution's four key goals are:

Strong financial performance – to manage the business in a commercial and sustainable manner and to manage costs to ensure stable earnings and low-cost energy.

Quality service – to ensure a secure, reliable and sustainable supply of electricity while keeping rates low, to ensure delivery of safe and reliable energy, and to enhance value of service to customers by investigating all opportunities to provide our customers with choice while continuing to focus on customer satisfaction.

Consent to operate – to demonstrate long-term commitment to the people of B.C. through the acquisition of clean energy and other sustainable solutions, and to be environmentally responsible.

Skilled workforce, safe workplace – to address human resource challenges and opportunities to achieve a skilled, safe and committed workforce.

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 (loss) after transfers to deferral accounts ▲
(in millions)

	Actual	Target
Q1 04/05	\$(20.6)	\$(38.8)

Net Income is defined as total revenues less total expenses after transfers to deferral accounts. 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 loss was better than target, primarily as a result of higher revenues and lower cost of energy, OM&A costs, depreciation and amortization and finance charges.

Transfers to deferral accounts for the first quarter were \$54.3 million for Heritage Cost of Energy, and \$27.9 million for Non-Heritage Cost of Energy. The transfer amounts reflect unplanned cost increases in both Heritage and Non-Heritage Cost of Energy.

COMA/Customer ●

(Capital and OM&A Cost per Customer)

	Actual	Target
Q1 04/05	\$66.3	\$65.6

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

COMA/Customer was on target for the first quarter.

ENGINEERING SERVICES

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. First-quarter activities have focused on the delivery of engineering services within scope, schedule and budget and with appropriate quality.

First Quarter Highlights

Coquitlam Dam

Generation, Engineering and the GVRD are working together to define a partnership that will enhance the structural safety of the dam and reservoir. The site investigations have been completed. The project team is collaborating with GVRD's pipeline design team to complete the Environmental Management Plan and submit an Application to Department of Fisheries and Oceans for the project approval. Approval of the application is required to carry out site environmental preparatory work later this summer. Construction is scheduled to commence in 2005.

MICA Generators

Work on the generator stators (the stationary part of a generator) is proceeding on schedule for the target in-service dates of 2006 through 2009. Mica represents a key portion of BC Hydro's generation capability and the existing stators require replacement with a new design due to aging. Three suppliers have been pre-qualified and a Request for Proposals was issued in May 2004. Evaluation of suppliers' experience on previous projects is underway. An Engineering and Mica Generation team worked successfully to plan and execute the field test program. These tests were conducted by Engineering and witnessed by the suppliers. The team minimized unit outage time from the original schedule of nine days to five days.

2L33 Transmission Cable

The 2L33 underground cable was successfully energized on April 29, 2004, one day ahead of schedule. Approximately nine-kilometres of high-voltage cable has been installed between Horne Payne Substation in Burnaby and Cathedral Square Substation in Vancouver.

This project, carried out for BCTC, was completed without any significant safety or environmental incidents. This cable has the capacity to carry one-third of downtown Vancouver's load. The lessons learned from this project will benefit upcoming transmission work required to prepare infrastructure for the 2010 Olympics.

Rock Bay Project

In May, the federal government announced that funding had been approved for the cleanup of the Rock Bay property in Victoria's inner harbour. The property is owned by BC Hydro and Transport Canada. Joint Indemnification and Implementation Agreements between BC Hydro and Transport Canada were finalized. Proposals for transportation and disposition of the special wastes and tenders for site work are currently under evaluation. Remediation of the site will commence in the summer of 2004.

Financial Performance

Key financial metrics for Engineering for first quarter of fiscal 2005 are:

Metric	FY05-Q1
Utilization (hourly)	82.5%
Billable hours	199,000

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).

ENGINEERING SERVICES

Financial Highlights

Interim Report – three months ended June 30

In millions	2004	2003	% change
External revenues	\$ 2.0	\$ 0.5	300%
Inter-segment revenues	\$ 23.0	\$ 22.1	4.1%
Net income (loss)	\$ 0.6	\$ (3.0)	120%

Highlights Notes:

- Net income is higher mainly due to timing differences for internal expenses (Variable Pay). The annual forecast of zero Net Income remains unchanged.
- External Revenues are higher mainly due to revenues from the Vaseux Lake Project.

ENGINEERING SERVICES

PERFORMANCE MEASURES

Engineering's three key goals are:

Maximize financial performance

Improve client focus

Ensure skilled workforce, promote entrepreneurial team

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

Utilization Rate ●

	Actual	Target
Q1 04/05	82.5%	82.5%

Utilization Rate is defined as billable hours divided by total hours worked. Targets have been set based on moving towards first quartile (top 25 per cent) when compared with other engineering firms.

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

Hourly Charge-out Rate ●

	Actual	Target
Q1 04/05	\$97.0	\$97.0

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

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

Client Feedback/Satisfaction N/A

	Actual	Target
Q1 04/05	n/a	6.0+

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; and overall satisfaction.

The Client Feedback/Satisfaction performance measure has been changed. The measure is now a twice-annual comprehensive survey to all key clients. Engineering is currently measuring a baseline with this new format. New targets will be established from this baseline survey. A pulse-check survey will be conducted in October. A final survey that will indicate Engineering performance will be conducted in March 2005.

Engineering continues to serve BC Hydro's quality service objective through its stated Service Plan strategies.

% of Approved EIT and GTT Positions Filled ●

	Actual	Target
Q1 04/05	100%	100%

Percentage 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.

Percentage of EIT and GTT Positions Filled is on target.

FIELD SERVICES

Introduction

Field Services, through its own workforce and the contractors that it administers, provides service restoration, maintenance, construction (civil, electrical and mechanical), telecommunications maintenance, public safety, vehicle and vegetation services to the three BC Hydro Lines of Business – Transmission, Distribution and Generation. Field Services' primary role is to keep the lights on while providing customers with high-quality service at low cost.

First Quarter Highlights

Employee and Customer Safety

Continual improvement in safety remains a top priority for Field Services in fiscal 2005. Acknowledgement for safe work practices and the focus on routine behavioural awareness through the "SAFE START" program, ergonomic interventions through the Electric Power Research Institute (EPRI) report initiative*, and continued day-to-day interaction with all staff has contributed to significant improvements in safety performance.

Field Services has reported five lost time and medical injuries for the first quarter of 2005, down from 22 for the first quarter of last year. This is a 77 per cent reduction and translates into a rolling 12-month Field Services All Injury Frequency (AIF) of 4.1, with a year-to-date AIF of 1.3. There have also been significant reductions in Level 3 Medical Aids, resulting in a 45 per cent reduction over the first quarter last year.

The delivery of public safety programs for schools and first responders continued actively across the province during the first quarter. School safety programs have been delivered to approximately 9,300 students and first responder programs to over 1,200 attendees.

* *Note: To help reduce injuries and consequent health care costs, EPRI evaluated line worker tasks and identified suggested improvements to their current work practices and equipment in a handbook for the Electric Power Industry. Field Services' EPRI Report Review Team meets monthly to systematically review EPRI recommended interventions.*

Building a Strong and Capable Workforce

Field Services continues to invest in building a highly skilled workforce, with trainees accounting for 10 per cent of the regular employee base. Field Services is on track with the fiscal 2005 targeted intake of new apprentices and other trainees. The 2004/2005 Youth Trade Hire program, which was successfully completed this quarter, employed 18 temporary workers for this summer in addition to eight additional Power Line Technician (PLT) graduates from the pre-apprenticeship program.

The Training and Qualification Tracking System (TQTS) in Field Services continues to expand by working with other Lines of Business and adding additional competency-based training, as well as the evaluation and upgrade process for PLT apprentices.

Service Restoration/Customer Reliability

Field Services continues to focus on service restoration and customer reliability as part of its core service offering. Field Services has experienced approximately five per cent fewer trouble calls in the first three months of the year than in the same period last year, primarily due to fewer weather-related outages.

Financial Summary

Field Services has been created as a cost recovery business unit within BC Hydro and for the three months ended June 30, 2004, recoveries have marginally exceeded costs by three per cent. Recoveries reflect services provided to internal BC Hydro Lines of Business as well as to third-party customers external to BC Hydro. Field Services recoveries were \$87.2 million compared with a plan of \$82.9 million. The higher-than-plan recoveries are mainly related to increased volumes of work performed by the Construction Business Unit (CBU) this quarter.

Internal recoveries account for 93 per cent of the total recoveries. Approximately 56 per cent of these recoveries are derived from an internal Field Services trade workforce, with the remaining 44 per cent from external contractor workforces including CBU.

Total Field Services' chargeable hours exceeded plan by 42,000 hours with 465,000 chargeable hours billed to

FIELD SERVICES

date. The chargeable labour utilization (total number of chargeable hours divided by the total number of hours available) is approximately 74 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 – three months ended June 30

In millions	2004	2003	% change
External revenues	\$ 6.3	\$ 4.8	31%
Internal Recoveries	\$ 80.9	\$ 66.3	22%
Net income (loss)	\$ (0.2)	\$ 1.4	-110%

Highlights Notes:

- Increased volumes of work resulted in additional recoveries from Field Services clients.
- A \$2.0 million efficiency credit was issued this quarter.
- Fiscal 2004 actual data excludes Materials Management Business Unit. This division was added to Field Services effective April 1, 2004.
- Revenues/Recoveries figures account for eliminations of intra-company transactions.

FIELD SERVICES

PERFORMANCE MEASURES

Field Services' three key goals are:

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

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

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

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

Utilization Rate ●

	Actual	Target
Q1 04/05	73.7%	75.5%

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. This is a blended Field Services/CBU rate.

The Utilization Rate measure for the first quarter was within five per cent of target.

Hourly Charge-out Rate ●

	Actual	Target
Q1 04/05	\$91	\$95

Hourly Charge-out Rate is defined as the average hourly billing rate, designed to recover all costs of providing the service. Targets have been set based on expected efficiency gains and external benchmarks. This is a blended Field Services/CBU rate.

The Hourly Charge-out Rate measure for the first quarter exceeded target, as CBU, which traditionally charges out at lower rates, contributed more to the increased chargeable hours than planned.

% of Total Planned Work Complete ▼

	Actual	Target
Q1 04/05	91%	100%

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

Performance is below target, mostly due to increased customer-driven work in Distribution that has delayed some Distribution maintenance work programs.

All Injury Frequency ▲

	Actual	Target
Q1 04/05	4.1	4.7

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 significantly better than target for the first quarter, primarily as a result of continued management emphasis on safety.

FIELD SERVICES

Total Trainees – Strategic Workforce Planning ●

	Actual (YTD)	Target (Annual)
Q1 04/05	112	132

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.

Total Trainees Forecast – Interviews are in progress this quarter. It is anticipated that there will be approximately 132 apprentices on the system by fiscal year-end.

5. Corporate Highlights

SAFETY PERFORMANCE

BC Hydro remains committed to being a top-quartile performer within the Canadian Electricity Association (CEA) in occupational safety and health. The standardized measure used by the CEA and BC Hydro to evaluate occupational safety and health is the All Injury Frequency Rate (AIF), which is the total number of disabling and medical treatment injuries per 200,000 hours worked.

BC Hydro's AIF rate continued to improve through this quarter. The current AIF for the last 12 months is 2.5, indicating that BC Hydro is performing better than the fiscal 2005 year-end target of 2.7.

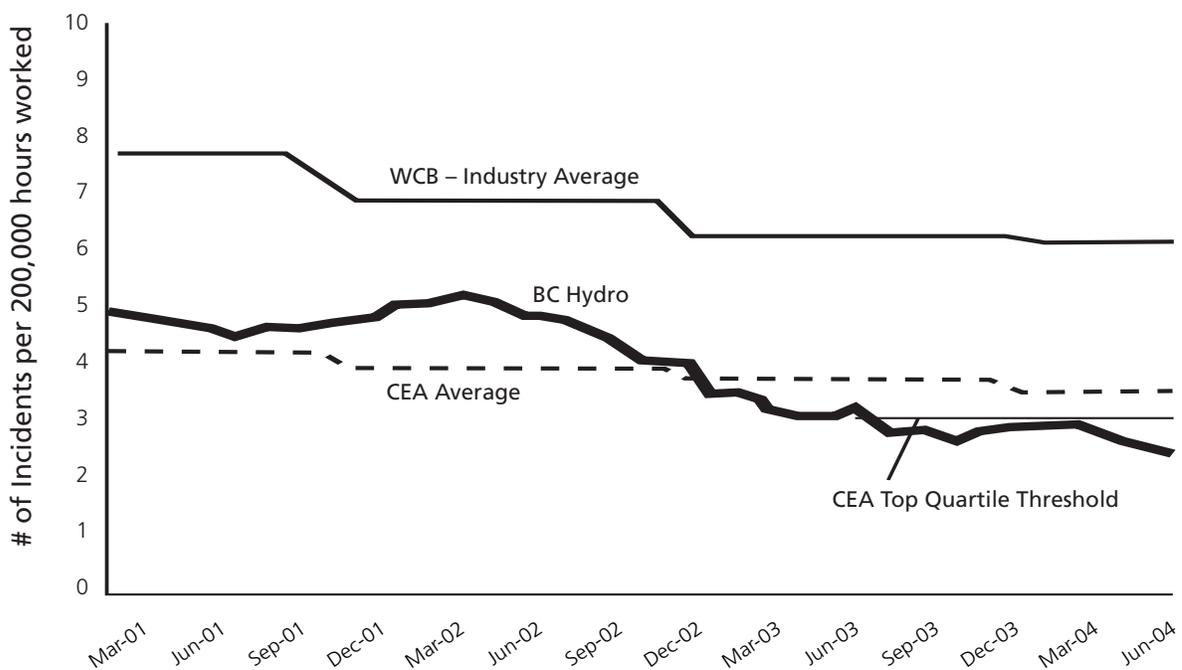
Highlights from this quarter include the completion of the two-year effort to perform safety audits at all BC Hydro operations. These audits were based on compliance with the BC Hydro Safety Management System, and indicate a high level of performance, averaging 80 per cent over the two-year period. BC Hydro line management will use the results of these audits in the continuous improvement of BC Hydro's safety performance. A subsequent, ongoing series of safety audits will be initiated in the fall of 2004,

using performance measures to select the operations to be audited.

Learning from experience is essential to BC Hydro's success. In the first quarter of fiscal 2005, there were 11 incidents causing injury to a BC Hydro worker (down from 21 incidents in the first quarter of fiscal 2004). Each of these incidents, plus 23 additional near-miss incidents where no injury occurred, has been or is being investigated to have corrective actions identified, tracked and implemented. These corrective actions substantially reduce the risk of these incidents recurring.

BC Hydro is committed to continuous improvement in safety and to achieving its goal of zero injuries. These efforts are paying off. Over the past two years 141 fewer employees have been injured on the job.

All Injury Frequency Performance Comparison — BC Hydro • WCB • CEA



HUMAN RESOURCES

To ensure that BC Hydro will be able to sustain its core operations, a strategic workforce planning initiative (SWfP) has been underway since fiscal 2001 to mitigate the impact of retirements and renew critical workforce capability. Each year, initiative funding has been targeted to enable hiring of apprentices and trainees in trades, engineering, technical and management positions. A total of 293 positions were funded in fiscal years 2001 to 2004, bringing the total investment to \$24.8 million. An additional \$10.5 million has been allocated to sustain the SWfP initiative in fiscal 2005.

As shown below, 56 per cent or 40 of the 71 planned positions for the fiscal year were filled during the first quarter.

	Planned Full Year (71)	Filled (40 = 56%)
Generation	10	3
Distribution	17	14
Engineering	12	13
Field Services	32	10
Total Planned & Filled	71	40

Employee attrition (from BC Hydro excluding BCTC), which includes retirements, resignations and other terminations, was running at two per cent or 74 employees at the end of the first quarter. Retirements represented the major component of attrition, with 55 regular employees retiring or completing pre-retirement leaves by the end of the quarter. In total, 636 employees are eligible or will become eligible to retire with unreduced pension in fiscal 2005, but many may choose to defer retirement.

REGULATORY

On May 18, 2004, BC Hydro appeared before its regulator, the British Columbia Utilities Commission (BCUC), for the first time in 10 years at a public hearing to testify to its revenue requirement application. The application filed in December 2003 was supplemented in early April 2004, requesting a further rate increase for fiscal 2005 of 1.67 per cent, to become effective 30 days after the BCUC issues its decision, and requesting no further rate increase for fiscal 2006. This brought the total rate increase that BC Hydro is seeking to 8.9 per cent for fiscal 2005 and zero per cent for fiscal 2006.

The hearing ran 17 days and BC Hydro called several witness panels to address the many issues raised during the course of the information request process. The pre-filed evidence amassed before the hearing started constituted some 13,000 pages. Also at this proceeding, BC Hydro filed its Resource Expenditure and Acquisition Plan (REAP) to satisfy section 45 (6.1) of the Utilities Commission Act and asked the BCUC to consolidate it with the revenue requirements application and review it at the same time.

The hearing concluded on June 10, with a request from the Commission for BC Hydro to update its fiscal 2005 and 2006 financial forecasts to reflect actual loads for fiscal 2004, the provision for VIGP/GSX costs (see below) and any changes to the forecast variables that were updated in February. BC Hydro provided this information with its written Final Argument to the Commission on June 30. BC Hydro's financial statements for fiscal 2004 were provided to the Commission on June 14 in advance of the release of the Annual Report to uphold a commitment made by BC Hydro's CEO at the hearing.

BC Hydro's Final Argument submitted to the BCUC focused on those issues that were contested by intervenors. Argument was made with respect to issues relating to allocating funds between the shareholder and ratepayers or shifts in costs from existing to future ratepayers and issues regarding expenditure levels or efficiency of BC Hydro's management of its business. Testimony was presented outlining the function of the deferral accounts. "Deferral accounts record differences between forecast and actual costs and revenues, typically of a non-controllable nature, and carry these differences

forward to subsequent rate periods." The primary purpose of the deferral accounts is to provide stable rates for customers and avoid the need to build amounts into budgets for unplanned and unexpected events.

Finally, BC Hydro argued that specific expenditures in the REAP for demand-side management and capital works are covered in the revenue requirements application and those aspects of the REAP should be approved for future recovery in rates. Regarding resource acquisition costs, BC Hydro is seeking determinations by the BCUC that the existing Energy Purchase Agreements and the proposed 400 GWh energy call are in the public interest and ought to be recoverable in rates. The iterative processes contemplated for future Integrated Electricity Plan and REAP filings should provide the Commission with sufficient information that a review of individual contracts would be required only in extraordinary circumstances.

A separate application was filed by BC Hydro on May 27, 2004, requesting BCUC approval to establish a designated account to capture VIGP/GSX capital and carrying costs pending the outcome of the current Vancouver Island call for tender process and future regulatory processes for determining the recovery of these costs in rates. On June 10, the BCUC approved this request on the understanding that this does not limit a future prudence review and a possible determination by the BCUC that all capital and carrying costs in the account are imprudent and will not be recovered in rates.

ACCENTURE BUSINESS SERVICES FOR UTILITIES (ABSU)

Overall, BC Hydro continues to receive service on the defined metrics at the levels consistent with, or better than, those received prior to the outsourcing agreement. To date, all critical service levels in Customer Services, Information Technology, Human Resources, Financial Systems, Purchasing, and Building and Office Services have been met.

Financially, the contract is on target. Spending for the first quarter of fiscal 2005 was \$2.2 million or six per cent better than planned (actual \$34.3 million; plan \$36.5 million).

The relationship between BC Hydro and ABSU continues to mature and was the subject of review at the end of Year 1. Initiatives are being undertaken to address internal client satisfaction and strengthen the outsourcing relationship where opportunities for improvement exist.

6. British Columbia Transmission Corporation

Introduction

British Columbia Transmission Corporation (BCTC) is a provincial Crown corporation, separate from BC Hydro, which has full responsibility for operating, maintaining and planning transmission assets. BCTC reports to the Minister of Energy and Mines and is regulated by the British Columbia Utilities Commission. An 11-member BCTC Board has been appointed, and BCTC officially began operations on August 1, 2003.

BCTC ensures open and non-discriminatory access to the B.C. electric transmission grid for all electricity producers. BCTC also directs new investment in transmission infrastructure upon receiving approval from the BCUC. The BCUC continues to regulate the terms and rates for transmission services.

First Quarter Highlights

BCTC

BCTC's Transmission System Capital Plan was filed with the Commission on May 31, 2004. This plan lists recommended growth and sustaining capital investments that BCTC anticipates undertaking on the BC Hydro transmission system over the next 10 years.

In BC Hydro's Revenue Requirement Application for fiscal 2005 and 2006, BCTC was responsible for defending before the BCUC all aspects of the revenue requirement related to operating, maintaining and planning BC Hydro's transmission system, except the cost of owning the transmission assets, which remains BC Hydro's responsibility.

On June 30, BCTC filed a final argument on the BCTC Deferral Account Application with the BCUC.

BCTC has been certified by the North American Electric Reliability Council (NERC) to be an official provider of continuing education courses for operators of electricity systems in North America. With this designation, NERC recognizes BCTC's efforts in maintaining a high level of continued competence in system operations and adherence to NERC and Western Electricity Coordinating Council operating rules.

GridWest (previously RTO West)

During the quarter, BCTC continued to work with nine western U.S. utilities on the development of Regional Transmission Organization (RTO) West, now known as GridWest, including coordination of B.C. operations with the regional organization. If GridWest is formed, it is expected to be fully operational in about four years. BC Hydro also continues to be involved in developing B.C.'s position in the GridWest stakeholder consultations in the Pacific Northwest.

Metropolitan Vancouver Cable Project

As part of BCTC's long-term development plan for metro Vancouver's transmission system, a nine-kilometre, 230 kV underground electrical circuit (2L33) went into service on April 29. Located along a seismically secure route, it reinforces the aging electrical transmission infrastructure serving the metropolitan Vancouver area and has the capacity to carry one-third of downtown Vancouver's load.

Operational Issues

The June wildfire west of Lillooet resulted in damage to several wooden structures of transmission circuits 2L90 and 2L91. However, damage was minimized by spraying fire retardant on the poles, where feasible, and electrical service to customers was not impacted. Both circuits had previously been damaged during the wildfires of 2002. BCTC will be rebuilding 2L90 in September 2004, at which time the undamaged portions of 2L91 will be connected to 2L90, for system enhancement purposes.

BRITISH COLUMBIA TRANSMISSION CORPORATION

Financial Highlights

Interim Report – three months ended June 30

In millions	2004	2003	% change
External revenues	\$ 4.8	\$ 3.1	+55%
Inter-segment revenues	\$ 155.0	\$ 165.3	-6%
Net income	\$ 28.8	\$ 46.1	-38%
Capital expenditures	\$ 23.2	\$ 29.9	-22%

Highlights Notes:

- External revenues were above prior year due to higher Point-to-Point volume (\$1.1 million) and prices (\$0.7 million).
- Inter-segment revenues were below prior year, largely due to lower Point-to-Point revenues (\$7.9 million) and lower network services (\$8.7 million), but were offset by higher Distribution Station Services (\$3.9 million) and other (\$1.4 million).
- Net Income was below prior year due to lower revenues as mentioned above, higher maintenance expenditures and asset related expenses, offset by lower business sustaining costs.
- Capital expenditures were below prior year due to postponement of several major growth and sustaining capital projects and cancellation of \$3.9 million of planned project expenditures as part of the revised May 2004 capital plan.

BRITISH COLUMBIA TRANSMISSION CORPORATION

PERFORMANCE MEASURES

BCTC's objectives are:

- Encourage new generation investment through independent and non-discriminatory access to transmission service.
- Enhance B.C. benefits from electricity trade while maintaining B.C. sovereignty.
- Encourage reliability and security of the transmission system.
- Create the model transmission company.
- Support competitiveness of B.C. industries by facilitating the direct purchase of electricity by large users.

Net Income (in millions) ▲

	Actual	Quarterly Target
Q1 04/05	\$28.8	\$27.8

Net Income is defined as total revenue less total expenses. 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 is ahead of target due to timing of operating, maintenance and administration expenditures (\$5.6 million), which is expected later in the year, and favourable asset-related costs (\$0.9 million), offset by lower revenues of \$5.5 million largely due to lower Point-to-Point transmission volumes.

Transmission Utilization Ratio ●

	Actual	Quarterly Target
Q1 04/05	68.2%	65.0%

Transmission Utilization Ratio is defined as the ratio of total transmission capacity sold to total transmission transfer. This measures how much of the transmission grid's capacity is actually sold to customers, generating additional revenue. This measure is based on a rolling 12-month average. First-quarter results are slightly better than target due to higher transmission reservations by customers.

SAIDI (System Average Interruption Duration Index) ●

	Actual	Quarterly Target
Q1 04/05	1.8	2.2

SAIDI is a statistical measure of transmission-related outages caused by unforeseen events such as equipment failure or weather-related outages based on a rolling 12-month average. The current index is better than target (lower is better). BCTC's maintenance plans are focused on preserving and increasing this improvement for the balance of the year

NERC/WECC Compliance ●

	Actual	Target
Q1 04/05	Full Compliance	Full Compliance

NERC/WECC Compliance is defined as compliance with reliability standards established by the WECC and the security standards established by NERC. The August 14, 2003, East Coast blackout reinforced the urgency of high reliability standards among interconnected electrical systems. Similarly, high vigilance is needed to protect system operations from harm and intrusion.

Number of Preventable Lost-Time Accidents ●

	Actual	Target
Q1 04/05	0	0

A preventable lost-time accident is one in which BCTC and its employees failed to foresee a risk and act to avoid an accident. This measure supports the fundamental BCTC objective of employee safety. The first-quarter results are on target.

BRITISH COLUMBIA TRANSMISSION CORPORATION

Number of Preventable and Reportable Environmental Incidents ●

	Actual	Target
Q1 04/05	0	2 per annum

Preventable environmental incidents are primarily the result of human error, either by BCTC staff or BCTC contractors. This measure supports BCTC's Environmental Responsibility Principles. The first-quarter results are on target.

Completion of Planned Safety and Environment Management Programs ●

	Actual	Target*
Q1 04/05	87%	85%

* Target: 85% of planned activities completed for the year.

BCTC is implementing new safety management and environmental management systems. This measure records managerial progress in completing the annual calendar of system actions that are designed to manage environmental and safety risks and drive continual improvement. The first-quarter results are slightly ahead of target.