



Third Quarter Report

FOR THE THREE MONTHS ENDED DECEMBER 31, 2005



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1. Overview

BC Hydro's purpose is "Reliable Power, At Low Cost, For Generations." BC Hydro is committed to maintaining a reliable power supply over the long term, relying on the benefits of its existing Hydro electrical assets as a key resource. The company has also established 15 long-term goals to support its purpose.

This third quarter report reviews key highlights, outlines achievements and addresses the challenges of the fiscal quarter ending December 31, 2005.

KEY HIGHLIGHTS

Financial

BC Hydro's financial performance this quarter was comparable to the same period last year, after adjusting for the settlement in December 2004 from Alcan of \$137 million.

BC Hydro's net income of \$118 million compares to \$165 million in the same period last year. Income before transfers to regulatory accounts was \$149 million, compared to \$197 million. The prior period results included a one-time settlement from Alcan of \$137 million before regulatory transfers (\$62 million after regulatory transfers) and a \$27.5 million reduction in revenues relating to the customer rate refund for the period April 1 through September 30, 2004. The current financial results reflect the impact of increased customer load and transmission charges, increased trade activity, and lower amortization and finance charges.

BC Hydro recorded net income of \$250 million for the nine months ended December 31, 2005 compared to \$309 million in the prior year. BC Hydro's income before regulatory account transfers was \$322 million, significantly higher than the previous year's amount of \$216 million which included the one-time payment from Alcan

of \$137 million. The financial results were impacted by higher trade activity and lower amortization charges partially offset by the higher cost of energy to supply increased customer load and higher finance charges.

BC Hydro has established various regulatory accounts with approval of the BC Utilities Commission (BCUC). Regulatory accounts allow BC Hydro to defer certain types of revenue and cost variances through transfers to and from the accounts, which have the effect of adjusting net income. The deferral amounts are then included in rates of future periods, subject to approval by the BCUC.

This fiscal year, BC Hydro forecasts net income of approximately \$294 million. This represents a \$44 million decrease from the second quarter forecast and is mainly due to more market energy purchases to meet higher domestic customer demand, increased operating costs and higher amortization expenses.

Based on this forecast, BC Hydro expects to make a \$245 million payment to the Province of B.C. for this fiscal year.

Overview

Financial *continued*

<i>(dollar amounts in millions)</i>	For the three months ended December 31			For the nine months ended December 31		
	2005	2004	Change	2005	2004	Change
Income Before Regulatory Account Transfers	\$ 149	\$ 197	\$ (48)	\$ 322	\$ 216	\$ 106
Net Income	\$ 118	\$ 165	\$ (47)	\$ 250	\$ 309	\$ (59)
Accrued Payment to the Province	\$ 99	\$ 138	\$ (39)	\$ 211	\$ 252	\$ (41)
Number of Domestic Customers	n/a	n/a	n/a	1,697,778	1,668,493	29,285
GWh Sold (Domestic)	14,074	13,669	405	38,067	36,964	1,103
Total Reservoir Storage (GWh)	n/a	n/a	n/a	21,980	22,106	(126)

<i>(dollar amounts in millions)</i>	December 31	March 31	Change
	2005	2005	
Total Assets	\$ 12,179	\$ 12,163	\$ 16
Retained Earnings	\$ 1,703	\$ 1,688	\$ 15
Debt to Equity ¹	70:30	70:30	-

1. Based on equity as defined for regulatory purposes

Performance Plan

BC Hydro has established specific performance measures and targets to track its progress to meet annual targets set out in the BC Hydro Service Plan, Fiscal Year 2005/2006 to 2007/2008. These measures and targets are disclosed to the shareholder, the Provincial Government, and the public in order to evaluate the utility's performance.

BC Hydro had a successful third quarter as reflected in its performance measures. Five of the six corporate measures either met or exceeded their quarterly targets. For more information on BC Hydro's performance results, see the BC Hydro Overall Performance Results section in this report.

System Operations

BC Hydro's flexible hydroelectric system allows the company to store water during periods of high runoff and/or low market prices and to then release this water, generating electricity, during periods of low runoff and/or high market prices. BC Hydro's system storage is currently about 1,300 GWh higher than average for this time of year, and about the same as the system storage level last year at this time. System runoff conditions during the first nine months of this year have been near-normal (99 per cent of average). The January 2006 runoff forecast, based on current snowpack measurements, shows system runoff conditions predicted at 90 per cent of normal for the February to September 2006 period.



Overview

BC Hydro also makes market electricity purchases to meet domestic customer demands when it makes economic sense to do so.

BC Hydro forecasts that it will purchase approximately 5,000 to 6,000 GWh of market electricity this year, or eight to 10 per cent of its domestic energy needs, in order to meet customer demands and manage reservoir levels for fiscal 2007 given the January 2006 runoff forecast.

RESOURCE ACQUISITION

2005 Integrated Electricity Plan

BC Hydro expects to file its Integrated Electricity Plan (IEP), the Long-Term Acquisition Plan (LTAP) and supporting documents with the BCUC in early Spring 2006 after BC Hydro, in conjunction with the Provincial Government, has conducted its review of the IEP.

Open Call for Power

The 2006 Open Call for Power from Independent Power Producers (IPPs) was issued on December 8, 2005 targeting 2,500 GWh/year of new firm electricity. The Open Call for Tenders and Electricity Purchase Agreements were developed with input from First Nations, stakeholders and prospective IPPs through the spring, summer and fall 2005. The goal of the Open Call is to acquire firm electrical energy supply plus associated non-firm electrical energy supply from large projects (10 MW and higher) and approximately 200 GWh/year of electrical energy supply from small projects (0.05 to 10 MW). The Open Call is also targeting that a minimum of 50 per cent of the energy will be from B.C. clean electricity sources. Bids are due on April 7, 2006.

Revelstoke Unit 5 Project

Revelstoke Unit 5 was identified in the 2004 Integrated Electricity Plan as an attractive, low-cost option to provide capacity to BC Hydro's hydroelectric system. The project would provide efficiency improvements, additional system flexibility and meet future dependable capacity demand. Revelstoke was originally designed as a six-unit facility, with installation of units 5 and 6 being deferred until additional capacity was needed.

A fifth generating unit would add 500 MW of capacity to the Revelstoke Dam and Generating Station.

In September 2005, BC Hydro initiated stakeholder engagement, First Nations consultation and regulatory approvals for the proposed addition of a fifth generating unit at the Revelstoke Dam and Generating Station. Assuming successful completion of this process and approval by BC Hydro Board of Directors, on-site construction is scheduled to begin in early 2008 to meet a proposed in-service date of October 2010.

This quarter, a Core Committee was formed to review the project consisting of local, provincial and federal government representatives, First Nations, community groups and residents. Four meetings have been held since November 2005 to learn about the project and work towards mitigation and compensation recommendations. A tender for the turbine and generator was issued in October 2005. The tender was issued to meet the project schedule requirements for this long lead-time equipment.



Overview

ACHIEVEMENTS

California Lawsuits

In October, a California State Court dismissed a Consumer Class Action lawsuit stemming from the energy crisis of 2000/01, on grounds that the U.S. Federal Energy Regulatory Commission, not the California State court, is the proper authority to rule on the merits of the case. While Powerex was not directly a party to this lawsuit, Powerex and BC Hydro were drawn into the case by two other defendants. BC Hydro had earlier been dismissed due to Foreign Sovereign immunity.

In December, a California State Court also dismissed, on the same grounds, the California Attorney General's lawsuit against Powerex that alleged Powerex's electricity sales to the California Power Exchange and the California Independent System Operator during the energy crisis violated state laws against unfair business competition and fraudulent commodity transactions.

Powerex U.S. Export Permit

In November 2005, the U.S. Department of Energy renewed Powerex's export permit enabling the export of electricity from the U.S. to Canada. The permit was renewed for a five-year period giving Powerex greater certainty in its future trade activities with the U.S.

Resource Expenditure and Acquisition Plan

The Resource Expenditure and Acquisition Plan (REAP) contains BC Hydro's planned capital expenditures and demand-side management (DSM) expenditures for the next two fiscal years and the company's planned resource acquisition expenditures over the next four fiscal years. This is the planning document prepared by BC Hydro to satisfy the requirements of section 45 (6.1) of the Utilities Commission Act and intended for review and approval by the BCUC. On October 12, 2005 the BCUC approved a negotiated settlement regarding BC Hydro's 2005 REAP. A Negotiated Settlement Process is an alternative to the traditional regulatory process. Where appropriate, a pre-hearing negotiation is used for

all interested parties to reach agreement on issues that otherwise would be examined at a public hearing. Settlement of issues can significantly reduce hearing time and costs. The outcome of the REAP Negotiated Settlement Process was that BC Hydro's key customer groups and other interested parties endorsed the fiscal 2006 Open Call for Power with certain modifications, allowing the company to move forward to obtain electrical energy from IPPs to help meet the Province's future energy needs.

Power Smart Initiatives

Power Smart launched a Windows Rebate Initiative for residential customers in partnership with the B.C. Ministry of Energy, Mines and Petroleum Resources. The initiative encourages customers and home builders to purchase Energy Star labeled windows, which are up to 50 per cent more energy-efficient than standard windows. Power Smart also launched a Compressed Air Initiative targeting savings among industrial customers and delivered six stepped-rate workshops to help transmission customers prepare for the April 2006 start of this new rate. As well, Power Smart launched an energy efficiency training program for commercial building operators in partnership with Douglas College.

Power Smart – Large Project Incentives

The Large Project Incentive (LPI) program is designed to help BC Hydro customers implement large energy efficiency and load displacement projects to acquire a steady and reliable source of energy. This program provides funding for projects requiring an incentive greater than one million dollars, or a load displacement project at any capital contribution level.

In October 2005, the second LPI program request for proposals (RFPs) closed. Four project proposals were submitted totalling 191.2 GWh/year and requesting a total incentive value of \$23.0 million (excluding GST). Two of the submitted projects are load displacement totalling 138.3 GWh/year, while the other two are energy efficiency projects for 52.9 GWh/year. All four RFPs submitted in the second call have been approved. All load displacement projects are subject to BCUC approval before contracts can be finalized.



Overview

CHALLENGES

Safety

This quarter, BC Hydro's Safety Trend Review, a review of BC Hydro's overall safety performance, was launched and resulted in a number of initiatives being proposed across the company. This was a review that incorporated information from all sectors of BC Hydro operations about factors that might be at the root of serious injury incidents that have occurred in recent years. BC Hydro aims to have the safest work environment compared to the best performers in any industry, and that none of BC Hydro's employees will have a serious safety injury. Over the last few years there has been a significant reduction in the overall number of employees injured on the job, but at the same time there have still been a number of very serious injuries which involved contact with energized electrical equipment.

As part of this review, five safety-related initiatives were begun to assist in building a sustainable safety culture. One initiative involved managers spending more time in the field supervising staff. Two new safety training initiatives also began in early December 2005. The first was focused on ensuring all crew leaders and first line operational managers understand their safety roles and responsibilities, and have the proper training and skills to implement key safety leadership behaviours in the workplace. The other initiative focussed on communications protocols and roles and responsibilities between B.C. Transmission's Control Centre operators and BC Hydro field staff.

Customer Reliability

Reliability performance in this quarter was better than target due to the absence of major weather events. Although there were several windstorms during November and December, they were not widespread in terms of customer impacts.

However, there were some other factors that affected the overall reliability. In November 2005, BC Hydro conducted voltage conversion work in Richmond to assist with load redistribution from the Richmond Substation to the Steveston Substation. The project required two scheduled four-hour outages to some local residents and businesses, and will help to ensure fewer overloads in the future. More conversion work in Richmond will resume in the spring.

On December 26, 2005, a retaining wall at a construction site in downtown Vancouver gave way, breaking water and sewage pipes, and destroying electrical, fibre optic and telephone underground cables. Eight large buildings lost power. BC Hydro employees responded quickly to assess the situation. Power was restored to the affected customers within five to 20 hours through a combination of splicing and recapping the severed cables and building a temporary overhead distribution system from a neighbouring circuit. Permanent cable repairs will be made when the excavation shoring and roadway are replaced.

2. Performance Measures

BC HYDRO OVERALL

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 the company's strategic goals and objectives are set out in the BC Hydro Service Plan Fiscal Years 2005/2006 to 2007/2008, "Reliable Power, At Low Cost, For Generations." This section of the report provides an overview of BC Hydro's third quarter performance towards meeting BC Hydro Service Plan annual targets. Third quarter results cover the period October 1 to December 31, 2005.

Legend (for all Performance Measures)

▲ Significantly better than target

● Meets target (within range)

▼ Significantly below target

▼ NET INCOME

(Dollars in millions)

Annual Target - \$411 million

	3-Month Actual	3-Month Target
Q3 05/06	\$ 118	\$ 147
Q3 04/05	\$ 165	\$ 152

Net Income is defined as total revenue less total expenses after transfers to/from regulatory accounts.

Net income was \$29 million lower than target for the three months ended December 31, 2005. The decrease in Q3 05/06 was the result of the higher energy cost to meet increased customer load offset by increased trade activity.

Net Income was \$118 million for Q3 05/06, compared with \$165 million in Q3 04/05. The prior period included a one-time \$62 million (\$137 million before regulatory transfers) settlement from Alcan and a \$27.5 million reduction in domestic revenues relating to the customer rate refund for the period from April 1 through September 30, 2004. The change in net income is due to higher energy costs to meet increased customer load partially offset by increased trade activity, and lower amortization and finance charges.

▲ RELIABILITY

Annual Targets - ASAI: 99.970; CAIDI: 2.15

Average System Availability Index (ASAI)

(Percentage)

	3-Month Actual	3-Month Target *
Q3 05/06	99.960	99.936
Q3 04/05	99.957	99.941

Customer Average Interruption Duration Index (CAIDI)

(Hours)

	3-Month Actual	3-Month Target *
Q3 05/06	2.54	3.02
Q3 04/05	2.57	2.91

* Target is based on 5-year average.

Reliability is defined as a combination of Average System Availability Index (ASAI) and Customer Average Interruption Duration Index (CAIDI). ASAI refers to the percentage of time power is available. CAIDI describes the average number of hours per interruption. CAIDI is the ratio of total customer hours lost divided by total customer interruptions. These indices are electric utility industry standards.

Q3 05/06 ASAI and CAIDI were better than targets based on the five-year (Fiscal 2001 to Fiscal 2005) average due to the absence

Performance Measures

of major weather events. Although there were several windstorms during November and December, they were not widespread in terms of customer impacts. Leading causes of customer hours lost in this quarter were trees (40 per cent), distribution equipment failures (15 per cent), motor vehicle accidents (10 per cent) and adverse weather (nine per cent). Leading causes of customer interruptions were trees (36 per cent), source outage (14 per cent) and distribution equipment failures (13 per cent). Tree-related outages accounted for a higher proportion of customer hours lost and customer interruptions in this quarter due to the windstorms during November and December.

Reliability performance in fiscal 2006 third quarter was better than the same quarter in fiscal 2005 as a 12 per cent reduction in customer hours lost, relative to an eight per cent reduction in customer interruptions resulted in shorter service interruption per affected customer.

● DEMAND-SIDE MANAGEMENT

(GWh/year)

Annual Target – 586 GWh/year

	3-Month Actual	3-Month Target
Q3 05/06	54	50
Q3 04/05	102	100

Demand-Side Management (DSM) is defined as the annual gigawatt-hours (GWh) saved as a result of economic demand-side management (conservation, energy efficiency and load displacement). The name of this measure has been changed from Conservation to Demand-Side Management (DSM) to align with BC Hydro's other DSM reporting and filings.

DSM electricity savings in Q3 05/06 (54 GWh/year) are above target (50 GWh/year) due to a number of industrial customer energy efficiency projects coming online in December 2005 and, in part, to the continuation of the successful residential sector Refrigerator Buy Back program beyond its planned end date.

Actual DSM electricity savings in Q3 05/06 are roughly half those in Q3 04/05, reflecting the expected lower levels of savings in all three sectors. In the commercial and industrial sectors, planned and actual program activity and associated electricity savings are lower this year compared to last year due to a combination of customer and DSM program factors such as fewer or smaller remaining opportunities to save electricity among selected market segments and revised forecasts of programs' electricity savings based on new information on actual program performance.

In the residential sector fiscal 2006 does not reflect some electricity savings, included in fiscal 2005, that cannot be reliably estimated until evaluation studies are completed later in 2006. The savings are a result of market effects that are attributable to BC Hydro's DSM programs (e.g. consumers purchasing energy efficient products as a result of the program but without participating in the program).

Fiscal 2005 actual performance has been revised from 70 GWh per year to 102 GWh per year based on program evaluation studies completed since the release of the Third Quarter Report for December 2004. The conclusion of these studies indicated that DSM savings were higher than the original estimates in early 2005.

● ENVIRONMENTAL REGULATORY COMPLIANCE

(Number of Incidents)

Annual Target – 17 incidents

	3-Month Actual	3-Month Target
Q3 05/06	4	4
Q3 04/05	1	7

Environmental Regulatory Compliance (ERC) is defined as the number of externally reportable, preventable environmental incidents. An Environmental Incident is one that has caused, or has the potential for causing impacts to the environment. For this type of measure there is an inherent risk of unreported incidents. BC Hydro has reviewed its controls to ensure that all applicable incidents are reported.

Performance Measures

ERC performance results for Q3 05/05 are on target and within normal quarter-to-quarter variability. Of the four incidents reported this quarter (one equipment failure and three human error) none were categorized as "severe". Based on year-to-date results, BC Hydro is on track to meet the ERC annual target.

▲ ALL INJURY FREQUENCY

Annual Target – 2.3

	3-Month Actual	3-Month Target
Q3 05/06	2.0	2.3
Q3 04/05	2.5	2.8

All Injury Frequency is defined as the total number of employee injury incidents (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 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 where the employee is absent from work beyond the day of injury.

Q3 05/06 performance marks the lowest incident rate for any third quarter in history. In comparing the Q3 05/06 to the same quarter in 04/05, progress on various staff training initiatives underway at BC Hydro are believed to be helping to reinforce appropriate execution of the safety aspects of the work.

The Q3 04/05 actual performance reported in the Third Quarter Report ended December 2004 has been adjusted slightly reflecting some late additions of incidents that were either upgraded from First Aid, or became official safety incidents when the Work Safe B.C. case review decision clarified status.

▲ APPROVED STRATEGIC WORKFORCE PLANNING POSITIONS FILLED

(Number)

Annual Target - 70

	3-Month Actual	3-Month Target
Q3 05/06	5	4
Q3 04/05	17	16

Approved Strategic Workforce Planning Positions Filled is defined as the number of positions filled under BC Hydro's Strategic Workforce Planning (SWfP) initiative. SWfP a systematic, fully integrated process that involves proactively planning to avoid future skill shortages or surpluses and ensures the supply of talent needed to support business strategy.

Q3 05/06 performance is above target due to a change in the predicted number of SWfP positions required since the release of the Service Plan. An increase in retirement uptake and conservative SWfP hiring practices has resulted in a shortfall of skilled labour to fill vacancies in critical business areas. To mitigate this impact, the planned SWfP hires were increased to a total of 84 from the target of 70 in the Service Plan. The predominant difference results from the timing of the Power Line Technician (PLT) Apprentice hires. In 04/05, all 15 PLT apprentices were hired in Q3, while in 05/06 the majority of PLT apprentices were hired at the end of Q2.

Based on current results, it is expected that the Approved SWfP Positions Filled will be 16 above target by year-end, which is positive progress towards mitigating BC Hydro's current increased retirement risk.



Performance Measures

GREENHOUSE GAS EMISSIONS

(CO₂ Equivalent)

BC Hydro Direct GHG Emissions	Q3 05/06	Q3 04/05
BC Hydro Thermal Facilities	60	108
Fugitive Sulphur Hexafluoride (SF ₆)	17	16
Buildings	1	0
Vehicles	4	4
Indirect GHG Emissions		
B.C.- based Independent Power Producers	305	312
Customer-based Generation and Load Displacement	72	N/A
Totals		
GHG Emissions	459	440
Total Domestic Sales (GWh)	14,074	13,715
Average GHG Intensity (t/GWh)	33	32

Notes:

- All units in thousands of carbon dioxide equivalent tonnes - Kt CO₂e unless otherwise indicated.
- Total Domestic Sales (GWh) for the period are defined for purposes of this target and may differ from the actual GWh sold (Domestic) as reported elsewhere in this report.

Greenhouse Gas Emissions (GHG) are defined as emissions of the six major classes of GHGs as identified by Environment Canada (CO₂, CH₄, N₂O, SF₆, PFCs, HFCs) attributable to electricity generated in B.C.

Q3 05/06 GHG emissions from thermal facilities are down compared to the same period in 04/05 due to a reduced level of operations. However, total indirect GHG emissions are up over 04/05 due to increased thermal generation from purchased electricity. Overall, GHG emissions are up slightly over the same quarter in 04/05 as a result of the increased emissions from purchased electricity.



3. Financial

MANAGEMENT DISCUSSION AND ANALYSIS

The following section provides a discussion and analysis of BC Hydro's consolidated results and financial position. This section should be read in conjunction with the Management Discussion and Analysis presented in the 2005 Annual Report, 2005 Annual Consolidated Financial Statements of BC Hydro, and the interim consolidated financial statements of BC Hydro for the three and nine months ended December 31, 2004 and 2005.

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.

Last year's comparatives include the accounts of British Columbia Transmission Corporation (BCTC), a Crown corporation of the Province. Effective April 1, 2005, accounts of BCTC were removed from the consolidated accounts of BC Hydro when BCTC was considered operationally and financially independent of BC Hydro.

Consolidated Results of Operations

BC Hydro's income before regulatory account transfers was \$149 million in the third quarter compared to \$197 million in the same period last year. The prior period included a one-time \$137 million settlement from Alcan and a \$27.5 million reduction in revenues related to the customer rate refund for the period April 1 through September 30, 2004. The reason for the resulting significant change was increased trade activity and lower amortization and finance charges partially offset by the higher cost of energy and transmission charges required to meet increased domestic volume.

Net income was \$118 million for the third quarter, compared with \$165 million in the same period in the previous year. The prior period included a one-time \$62 million (\$137 million before regulatory transfers) settlement from Alcan and a \$27.5 million reduction in domestic revenues relating to the customer rate refund for the period from April 1 through September 30, 2004. The change in net income is due to higher energy costs to meet increased customer load partially offset by increased trade activity and lower amortization and finance charges.

Income before regulatory account transfers of \$322 million for the nine months ended December 31, 2005, compares with \$216 million for the same period in the previous year that included a one-time settlement from Alcan of \$137 million. The increase is due to lower energy costs, as hydro generation replaced more expensive market energy purchases, and higher trade activity offset by the higher transmission charges. Lower amortization expense compared to last year was offset by higher finance charges.

BC Hydro's net income was \$250 million for the nine months ended December 31, 2005, compared with \$309 million in the same nine-month period in the previous year. The decrease is primarily a result of the net income impact of the \$62 million (after regulatory transfers) Alcan settlement recorded in December 2004, but is also the result of higher cost of energy to supply increased customer load and higher finance charges offset by lower amortization expense.



Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Revenues

For the three months ended December 31	in millions		gigawatt hours	
	2005	2004	2005	2004
Domestic:				
Residential	\$ 305	\$ 286	4,793	4,620
Light industrial and commercial	246	238	4,459	4,496
Large industrial	149	135	4,220	4,023
Other energy sales	42	33	601	530
Total Domestic	\$ 742	\$ 692	14,073	13,669
Trade	558	278	6,689	7,362
Total	\$ 1,300	\$ 970	20,762	21,031

For the nine months ended December 31	in millions		gigawatt hours	
	2005	2004	2005	2004
Domestic:				
Residential	\$ 731	\$ 701	11,316	10,825
Light industrial and commercial	728	713	13,183	12,893
Large industrial	439	427	12,369	12,060
Other energy sales	99	99	1,198	1,186
Total Domestic	\$ 1,997	\$ 1,940	38,066	36,964
Trade	1,323	746	23,206	22,665
Total	\$ 3,320	\$ 2,686	61,272	59,629

Domestic Revenues

Domestic revenues of \$742 million for the third quarter were \$50 million higher than for the same period in the previous year. Compared to the third quarter last year, total sales volumes increased by six per cent as a result of 8,452 customers added to the system. In addition, with continued strong economic conditions in the Province, activity in the large industrial sectors also contributed to increased total sales volumes. In the third quarter last year, revenues were reduced by a \$27.5 million rate refund paid to customers resulting from the final decision of the BCUC for the period from April 1 through September 30, 2004.

Domestic revenues of \$1,997 million for the nine months ended December 31, 2005 were \$57 million higher than the same period in the previous year. The primary reasons are a \$39 million increase related to increased consumption and the addition of new customers in all sectors.



Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Trade Revenues

BC Hydro's electricity system is interconnected with systems in Alberta and the western United States. Interconnection facilitates sales and purchases of electricity outside British Columbia. Energy trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro. 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 can be met.

Trade revenues for the third quarter were \$558 million compared with \$278 million in the same period in the prior year. The increase is due to higher average sales prices, which increased 58 per cent to \$98/MWh from \$62/MWh, compared with the same period last year. Unseasonably warm weather in the Eastern U.S. and the Southwest areas during the third quarter kept sales prices high. In addition, increases in oil and natural gas prices due to supply interruptions in the U.S. Gulf Coast also contributed to high sales prices. The increase is offset slightly by lower sales volumes that decreased nine per cent compared with the same period last year. Revenues have also increased as a result of gas sales to third parties.

Trade revenues for the nine months ended December 31, 2005 were \$1,323 million compared to \$746 million in the same period last year. The increase is due to a 27 per cent increase in average sales prices (\$80/MWh compared with \$63/MWh in the same period last year) and a two per cent increase in sales volumes. The increase in average sales prices is due to warmer weather and increasing overall energy prices due to supply interruptions as noted above. Revenues have also increased as a result of gas sales to third parties.

Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Energy Costs

Energy costs are influenced primarily by the volume of energy consumed by customers, the mix of sources of supply and market prices of energy. The mix of sources of supply is influenced by variables such as the current and forecast market prices of energy, water inflows, reservoir levels, energy demand and environmental and social impacts. Energy costs are made up of the following sources of supply:

	For the three months ended December 31					
	(in millions)		(gigawatt hours)		(\$ per MWh)	
	2005	2004 ¹	2005	2004 ¹	2005	2004 ¹
Hydro ²	\$ 79	\$ 62	13,703	11,662	\$ 5.77	\$ 5.32
Purchases from Independent Power	128	111	1,768	1,837	72.40	60.42
Producers and other long-term contracts						
Other electricity purchases - Domestic	114	97	749	1,751	152.20	55.40
Thermal	18	22	103	113	175.38	194.69
Transmission charges and other expenses	27	2	21	37	-	-
Total Domestic	\$ 366	\$ 294	16,344	15,400	\$ 22.41	\$19.09
Other electricity purchases - Trade	\$ 194	\$ 136	6,009	6,987	\$ 73.89	\$52.81
Remarketed Gas	146	45	-	-	-	-
Transmission charges and other expenses	50	30	n/a	n/a	n/a	n/a
Total Trade	\$ 390	\$ 211	6,009	6,987	82.21	57.11
Total Energy Costs	\$ 756	\$ 505	22,353	22,387	\$ 38.47³	\$31.13³

	For the nine months ended December 31					
	(in millions)		(gigawatt hours)		(\$ per MWh)	
	2005	2004 ¹	2005	2004 ¹	2005	2004 ¹
Hydro ²	\$ 206	\$ 163	35,516	29,343	\$ 5.76	\$ 5.55
Purchases from Independent Power	347	293	5,243	4,843	66.18	60.91
Producers and other long-term contracts						
Other electricity purchases - Domestic	215	377	3,432	6,645	62.65	56.73
Thermal	45	60	294	497	153.06	120.72
Transmission charges and other expenses	77	10	52	78	-	-
Total Domestic	\$ 890	\$903	44,537	41,406	\$ 19.98	\$21.81
Other electricity purchases – Trade	\$ 466	\$314	20,481	21,601	\$ 50.05	\$46.75
Remarketed Gas	305	100	-	-	-	-
Transmission charges and other expenses	151	104	n/a	n/a	n/a	n/a
Total Trade	\$ 922	\$518	20,481	21,601	\$ 72.31	\$53.15
Total Energy Costs	\$1,812	\$1,421	65,018	63,007	\$ 36.47³	\$33.38³

1. Prior year has been restated to reflect split between domestic and trade activities.

2. Includes net storage exchange due to Non-Treaty Storage Agreement with Bonneville Power Administration, Kootenay Canal Plant Agreement with Fortis, BC and Keenleyside Entitlement Agreement with Columbia Power Corporation.

3. Total cost per MWh includes other electricity purchases at gross cost.



Financial

MANAGEMENT DISCUSSION AND ANALYSIS

In the third quarter, BC Hydro's total energy costs of \$756 million were \$251 million higher than in the same period last year. Domestic energy costs of \$366 million in the third quarter were \$72 million higher than for the same period last year. The change is a result of the increased volume to supply additional customer load, higher prices for purchased energy plus transmission charges. Trade energy costs of \$390 million for the third quarter were \$179 million higher than for the same period last year. The increase is a result of significantly higher unit prices for trade purchases and \$121 million of higher gas purchases and transmission charges. These increases were offset by lower trade purchase volumes. Transmission charges for domestic and trade sectors in the prior period were included in operations costs.

For the nine months ended December 31, 2005, total energy costs of \$1,812 million were \$391 million higher than the same period last year. Domestic energy costs were \$13 million lower compared with the same period last year. The change is a result of the increased volume to supply increased customer load with a greater reliance on low-cost hydro generation rather than purchased energy offset by transmission charges, previously included in operations costs. Trade energy costs increased by \$404 million for the nine month period ending December 31, 2005. The increase was primarily due to \$252 million increased cost of gas purchases and transmission charges, with the remaining increase resulting from energy purchases at higher unit prices.

Imports for domestic use were 749 GWh in the third quarter, compared with 1,751 GWh for the same period last year. Trade net exports were 679 GWh this quarter compared with net exports of 329 GWh in the third quarter last year. For the nine months ended December 31, 2005 imports for domestic use were 3,432 GWh compared with 6,645 GWh and trade net exports were 2,725 GWh compared to 1,017 GWh for the same period in the previous year. BC Hydro based its decision to export energy and use domestic hydro generation on a number of factors, including 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, were also considered in the decision.

At December 31, 2005, the combined storage in BC Hydro's reservoirs was 108 per cent of normal (the basis period being from fiscal years 1986 through 2005) compared with 109 per cent of normal in the previous year. Water inflows into BC Hydro's reservoirs were five per cent higher at December 31, 2005, compared with December 31, 2004 and are forecast to be 99 per cent of normal for fiscal 2006.



Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Costs

Operations costs of \$45 million in the third quarter are \$8 million lower than in the same period last year. Operations costs for the nine months ended December 31, 2005 are \$131 million, or \$22 million lower than in the same period last year. Decreases in both periods are attributed to the reclassification of transmission charges to cost of energy as a result of the deconsolidation of BCTC.

Third quarter maintenance costs of \$63 million are comparable to the same period last year. Maintenance costs for the nine months ended December 31, 2005 of \$192 million are \$12 million higher than in the same period in the prior year. The increase is mainly due to BCTC charges as a result of the deconsolidation.

Administration costs of \$38 million for the third quarter are \$6 million higher than in the same period last year. Administration costs for the nine months ended December 31, 2005 of \$108 million are \$15 million higher than in the same period last year. The increase is mainly due to an increase in environmental remediation and other legal provisions.

Amortization Expense

Amortization expense of \$104 million for the third quarter was \$8 million lower than for the same period in the previous year. Amortization expense of \$312 million for the nine months ended December 31, 2005, was \$16 million lower than for the same period in the previous year. The decrease is mainly due to a reduction in the amortization rate of certain assets as directed by the BCUC, which occurred in the second half of fiscal 2005. In addition, BCTC amortization that is no longer consolidated was also a further reason for the change. These decreases were offset by amortization resulting from an increase in new assets in service.

Finance Charges

Finance charges of \$107 million for the three months ended December 31, 2005, were \$3 million lower than for the same period in the previous year. The decrease in finance charges is primarily due to a lower average volume of debt partially offset by higher short-term interest rates and lower U.S. dollar sinking fund income.

Finance charges of \$333 million for the nine months ended December 31, 2005, were \$8 million higher than for the same period in the previous year. The increase in finance charges is primarily due to higher U.S. short-term interest rates and lower U.S. dollar sinking fund income. These were partially offset by a lower average volume of debt.



Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Accounting Policies

There were no accounting policy changes during the third quarter of fiscal 2006

Regulation

Regulatory Deferral Accounts

BC Hydro has established various regulatory accounts with approval of the BCUC. Regulatory accounts allow BC Hydro to defer certain types of revenue and cost variances through transfers to and from the accounts which have the effect of adjusting net income. The deferral amounts are then included in rates of future periods, subject to approval by the BCUC.

As disclosed in the Management Discussion and Analysis section in BC Hydro's 2005 Annual Report, BC Hydro established three deferral accounts in fiscal 2004: the Heritage Deferral Account, Non-Heritage Deferral Account, and Trade Income Deferral Account. These accounts enable BC Hydro to assign domestic ratepayers the benefit of low-cost generation assets (the Heritage Resources) and other related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets.

Effective April 1, 2005, BC Hydro established the BC Transmission Corporation (BCTC) Transition Deferral Account, following regulatory approval of BCTC's revenue requirement application. This account intends to capture the difference between the cost of transmission services included in BC Hydro's rates and BCTC's rates.

In the third quarter, BC Hydro transferred \$34 million, on a net basis, to these regulatory deferral accounts, compared with \$42 million transferred from these regulatory deferral accounts in the third quarter of fiscal 2005. The total balance in the regulatory deferral accounts as at December 31, 2005, was \$80 million. BC Hydro intends to apply to the BCUC to recover these amounts through future rates it charges customers.

Regulatory Provision for Future Removal and Site Restoration Costs

Effective April 1, 2004, BC Hydro was required to establish a regulatory provision for future removal and site restoration costs not covered by the asset retirement obligation standards. The BCUC established this requirement as part of the BC Hydro's Revenue Requirement Application. An initial amount for this provision was established at \$250 million. Costs of dismantling capital assets will be applied to this provision if they do not otherwise relate to an asset retirement obligation under Section 3110 of the CICA Handbook. During the third quarter, \$3 million of costs were transferred to this provision. During the nine months ended December 31, 2005, a total of \$9 million of costs was transferred.



Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Energy Procurement

Vancouver Island Generation Project

On June 17, 2005, BC Hydro announced the termination of the energy purchase agreement with Duke Point Power Limited Partnership, who had been selected to provide a new source of electricity supply on Vancouver Island from a gas-fired combined cycle plant to be located near Nanaimo. The project had been repeatedly delayed through various court appeals, resulting in management's assessment that the risks around timely completion of the project were too great to ensure the reliability of future electricity supply. BC Hydro is currently assessing various alternative sources of supply for Vancouver Island.

BC Hydro has fully provided for all costs of this project and believes the current provision is adequate with respect to any potential losses related to this project, including any related contingencies.

Powerex Legal Proceedings

At December 31, 2005, Powerex was owed US\$268 million (CDN\$312 million) by the California Power Exchange (Cal Px) and the California Independent System Operator (Cal ISO) related to Powerex's electricity trade activities in California during 2001. As a result of payment defaults by a number of California utilities in 2001, the Cal Px and Cal ISO were unable to pay these amounts to Powerex. In addition, certain California parties requested the Federal Energy Regulatory Commission (FERC) consider whether refunds should be made to the Cal Px, the Cal ISO and the California Department of Water Resources by various suppliers, including Powerex. The FERC is calculating the extent to which sellers' receivables may be offset by refunds to the Cal Px and Cal ISO markets, while FERC's refund orders themselves are before U.S. appellate courts.

Since 2000, Powerex has been named, in some cases along with other energy providers, as a defendant in a number of lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescission based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and that the energy prices were not just and reasonable. Powerex is generally satisfied with the findings and decisions of the FERC and various courts to date. FERC has found that Powerex was a valuable and reliable supplier and the courts have found that FERC is the appropriate forum for these issues to be determined. However, all these cases remain open to further procedural action and appellate review, thus the final outcomes still retain a degree of uncertainty. Powerex will continue to vigorously defend its position that its electricity transactions in California have been conducted in accordance with the rules and approved tariffs of the California markets.

Powerex U.S. Export Permit

In November 2005, the U.S. Department of Energy renewed Powerex's export permit enabling the export of electricity from the U.S. to Canada. The permit was renewed for a five-year period giving Powerex greater certainty in its future trade activities with the U.S.

Financial

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

Cash flow provided by operating activities for the third quarter was \$318 million, compared with \$339 million for the same period last year. Cash flow provided by operating activities for the nine months ended December 31, 2005, was \$626 million, compared with \$489 million for the same period in the previous year. The increase was primarily due to a reduction in net energy purchases.

During the nine months ended December 31, 2005, BC Hydro issued \$400 million of new bonds. The funds from these issues were used to decrease revolving borrowings, fund the Payment to the Province and capital expenditures. The net long-term debt balance at December 31, 2005, was \$6,607 million, compared with \$6,627 million at March 31, 2005.

Capital Expenditures

Capital expenditures, including demand-side management programs, were as follows:

(in millions)	For the three months ended December 31		For the nine months ended December 31	
	2005	2004	2005	2004
Generation replacements and expansion	\$ 38	\$ 33	\$101	\$ 89
Transmission lines and substation replacements and expansion	46	30	110	83
Distribution improvements and expansion	64	61	187	175
General	13	10	42	30
Change in working capital related to capital asset expenditures ¹	(1)	5	2	7
Capital asset expenditures per Consolidated Statement of Cash Flows	160	139	442	384
Power Smart (Demand-Side Management)	11	11	60	51
Total capital expenditures per Consolidated Statement of Cash Flows	\$ 171	\$ 150	\$ 502	\$ 435

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

In the nine months ended December 31, 2005, an increase in capital expenditures for transmission lines and substation replacements and expansion is due to timing of construction project schedules and emergency expenditures. The increase in distribution improvements and expansion for the three and nine month periods ended December 31, 2005 is due to a higher volume of new customer construction and connections. New Information Technology projects and vehicle purchases have increased general expenditures for the nine month period ended December 31, 2005. The increase in Power Smart expenditures for the three and nine month periods ended December 31, 2005 is due to the completion of a large project last year and timing of incentive payments based on customer-driven project schedules.



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MANAGEMENT DISCUSSION AND ANALYSIS

Risk Management

BC Hydro faces risks specific to its business that could significantly impact its ability to achieve its short- and long-term goals. While risks cannot be eliminated, BC Hydro's strategies aim to minimize or mitigate them with a specific risk management process that is applied to day-to-day business activities as well as to specific projects and initiatives. BC Hydro's Chief Risk Officer is responsible for overseeing risk management activities and ensuring strong oversight by the Risk Management Committee. BC Hydro's Board of Directors also plays a key role in the risk management process, as the board must understand the risks being taken by BC Hydro and ensure these are appropriately managed.

During the third quarter of fiscal 2006, commodity risk continued to be elevated, driven by continued high levels of volatility and pricing in North American natural gas markets as a result of supply disruptions and the onset of the winter heating season. While BC Hydro's reservoir storage provides some degree of flexibility to manage this risk in the short term, if the current market environment continues, it would further increase uncertainty around the cost of energy BC Hydro imports to meet domestic demand. This situation has been accentuated by the increasing domestic demand for power resulting from the strong economic environment in British Columbia. Interest rates continue to rise for both Canadian and U.S. funds. This increases the cost of BC Hydro's short-term borrowings and increases the refinancing risk associated with long-term debt. Management's assessment of risk is ongoing. Other risks to BC Hydro have not changed materially from the Management Discussion and Analysis in the 2005 Annual Report.

Future Outlook

The Budget Transparency and Accountability Act requires BC Hydro to file a Service Plan each February. BC Hydro's Service Plan filed in February 2005 indicated that income before regulatory deferral account transfers for this year was forecast at \$395 million and net income forecast at \$411 million. BC Hydro filed an updated Service Plan in September 2005 that forecasts income before regulatory account transfers of \$329 million and net income of \$376 million for fiscal 2006.

BC Hydro's earnings can fluctuate significantly due to various non-controllable factors such as the level of water inflows, customer load, market prices for electricity and natural gas, weather temperatures, interest rates and foreign exchange rates. The September 2005 Service Plan update assumes water inflows of 95 per cent of average, customer load of 51,323 GWh, average market energy prices of US\$54/MWh, a consistent level of operating costs, short-term interest rates of 2.96 per cent and a U.S. dollar exchange rate of US\$0.82.

Forecast updates as of January 2006 indicate water inflows of 99 per cent of average for fiscal 2006 and 90 per cent of average for fiscal 2007 based on January 2006 water inflow forecasts, resulting in higher net market energy purchases in the remainder of 2006 and in fiscal 2007 to manage this shortfall. Average market energy prices are forecast to increase to US\$62/MWh for fiscal 2006 and US\$66/MWh for fiscal 2007. As a result, the forecast income before regulatory accounts for fiscal 2006 is \$220 million with forecast net income of \$294 million.

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CONSOLIDATED STATEMENT OF OPERATIONS

(Unaudited)	For the three months ended December 31		For the nine months ended December 31	
(in millions)	2005	2004	2005	2004
Revenues				
Domestic	\$ 742	\$ 692	\$ 1,997	\$ 1,940
Trade	558	278	1,323	746
	1,300	970	3,320	2,686
Expenses				
Domestic energy costs	366	294	890	903
Trade energy costs	390	211	922	518
Operations	45	53	131	153
Maintenance	63	62	192	180
Administration	38	32	108	93
Taxes	38	36	110	107
Amortization	104	112	312	328
	1,044	800	2,665	2,282
Operating Income	256	170	655	404
Finance charges	(107)	(110)	(333)	(325)
Payment from Alcan Inc.	-	137	-	137
Income Before Regulatory Account Transfers	149	197	322	216
Transfers (to) from Regulatory Accounts (Note 3)				
Heritage Deferral Account	(38)	17	(32)	154
Non-Heritage Deferral Account	77	27	6	58
Trade Income Deferral Account	(81)	(86)	(76)	(129)
BCTC Transition Deferral Account	8	-	21	-
Regulatory provision for future removal and site restoration costs	3	10	9	10
	(31)	(32)	(72)	93
Net Income	\$118	\$165	\$ 250	\$ 309

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(Unaudited)	For the nine months ended December 31	
(in millions)	2005	2004
Retained earnings, beginning of period	\$ 1,688	1,875
Net Income	250	309
Transfer to Regulatory provision for future removal and site restoration costs	-	(250)
Deconsolidation of BCTC (Note 8)	(24)	-
Accrued Payment to the Province	(211)	(252)
Retained earnings, end of period	\$ 1,703	\$ 1,682

See accompanying notes to the interim consolidated financial statements.

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CONSOLIDATED BALANCE SHEET

<i>(Unaudited)</i> <i>(in millions)</i>	as at December 31 2005	as at March 31 2005
ASSETS		
Capital Assets		
Capital assets in service	\$ 15,952	\$ 15,792
Less accumulated amortization	6,538	6,293
	9,414	9,499
Unfinished construction	626	483
	10,040	9,982
Current Assets		
Cash and cash equivalents	47	37
Accounts receivable and accrued revenue	533	398
Materials and supplies	96	91
Prepaid expenses	47	149
Mark-to-market gains	312	185
	1,035	860
Other Assets and Deferred Charges		
Sinking funds	778	948
Demand-Side Management programs	246	207
Regulatory accounts (Note 3)	80	155
Deferred debt costs	-	10
Foreign currency contracts	-	1
	1,104	1,321
	\$ 12,179	\$ 12,163
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	\$ 5,762	\$ 5,821
Sinking funds presented as assets	778	948
Long-Term Debt	6,540	6,769
Foreign Currency Contracts	156	87
Current Liabilities		
Current portion of long-term debt	892	843
Accounts payable and accrued liabilities	749	753
Accrued interest	111	116
Accrued Payment to the Province	211	339
Mark-to-market losses	323	183
	2,286	2,234
Deferred Credits and Other Liabilities		
Asset retirement obligations	17	15
Deferred debt costs	74	-
Regulatory provision for future removal and site restoration (Note 3)	228	238
Deferred revenue	318	297
Contributions in aid of construction	680	651
Contributions arising from the Columbia River Treaty	177	184
	1,494	1,385
Retained Earnings	\$ 1,703	1,688
	\$ 12,179	\$ 12,163

Commitments and Contingencies (Notes 5 and 7)

See accompanying notes to the interim consolidated financial statements.

Approved on behalf of the Board:

L.I. (Larry) Bell
Chair

W.C. (Wanda) Costuros
Chair, Audit and Risk Management Committee

Financial

CONSOLIDATED STATEMENT OF CASHFLOWS

<i>(Unaudited)</i> <i>(in millions)</i>	For the three months ended December 31		For the nine months ended December 31	
	2005	2004	2005	2004
Operating Activities				
Net income	\$ 118	\$ 165	\$250	\$309
Regulatory account transfers	34	42	81	(83)
Transfer to regulatory provision for future removal and site restoration	(3)	(10)	(9)	(10)
Income before regulatory account transfers	149	197	322	216
Adjustments for non-cash items:				
Amortization of capital assets	104	112	312	328
Amortization of deferred debt costs	3	4	11	12
Deferred revenue	23	25	20	22
Unrealized (gains) losses on mark-to-market	(10)	(4)	14	24
Sinking fund income	(10)	(12)	(31)	(35)
Employee benefit plan expenses	6	10	19	29
Other non-cash items	4	5	3	1
	120	140	348	381
Working capital changes	49	2	(44)	(108)
Cash provided by operating activities	318	339	626	489
Investing Activities				
Capital asset expenditures	(160)	(139)	(442)	(384)
Contributions in aid of construction	21	11	57	46
Demand-side management programs	(10)	(11)	(60)	(51)
Proceeds from property sales	2	-	2	-
Dismantling costs	(3)	(10)	(9)	(10)
Cash used for investing activities	(150)	(149)	(452)	(399)
Financing Activities				
Bonds:				
Issued	-	-	400	540
Retired	(100)	(17)	(616)	(523)
Revolving borrowings	(38)	(31)	126	51
Sinking funds	-	8	194	60
Deferred debt costs	-	-	90	(5)
Settlement of derivative contracts	-	4	-	11
Cash provided by (used for) financing activities	(138)	(36)	194	134
Payment to the Province	-	-	(338)	(73)
Increase in cash and cash equivalents	30	154	30	151
Cash and cash equivalents, beginning of period (Note 8)	17	44	17	47
Cash and cash equivalents, end of period	\$ 47	\$ 198	\$ 47	\$ 198
Supplemental disclosure of cash flow information				
Interest paid	\$ 122	\$106	\$ 375	\$ 369

See accompanying notes to the interim consolidated financial statements.



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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) DECEMBER 31, 2005

Purpose

British Columbia Hydro and Power Authority (BC Hydro), was established in 1962 as a Crown corporation of the Province of British Columbia (the Province) by enactment of the Hydro and Power Authority Act. As directed by the Hydro and Power Authority Act, BC Hydro's mandate is to generate, manufacture, distribute and sell power, to upgrade its power sites, and to purchase power from or sell power to a firm or person. BC Hydro's purpose is to provide "Reliable Power, at Low Cost, for Generations." BC Hydro is subject to regulation by the British Columbia Utilities Commission (BCUC), which, among other things, approves the rates BC Hydro charges for its services.

Note 1: Accounting Policies

The 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. BC Hydro follows certain accounting practices that reflect the effects of regulation, and differ from the accounting practices for enterprises that do not operate in a rate-regulated environment. These interim consolidated financial statements and the notes should be read in conjunction with the Annual Consolidated Financial Statements and accompanying notes in BC Hydro's 2005 Annual Report.

These interim consolidated financial statements follow the same accounting policies as those described in BC Hydro's 2005 Annual Report.

The prior year's comparatives include the accounts of British Columbia Transmission Corporation (BCTC), a Crown corporation of the Province. The accounts of BCTC were removed from the consolidated accounts of BC Hydro effective April 1, 2005, when BCTC was considered operationally and financially independent of BC Hydro (see Note 8).

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 BC Hydro's operations, the interim consolidated statement of operations is not indicative of operations on an annual basis. Seasonal impacts of weather, including its impact on water inflows, energy consumption within the region and market prices of energy, can have a significant impact on BC Hydro's operating results.

Note 3: Regulation

BC Hydro is regulated by the BCUC, and they are both subject to general or special directives and directions issued by order of the Province. Orders in council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity, calculation of its revenue requirements, rates charged to customers and the annual Payment to the Province. BC Hydro's regulatory accounting practices are consistent with these regulatory requirements.

Regulatory Accounts

The regulatory accounts include the Heritage Deferral Account, the Non-Heritage Deferral Account, and the Trade Income Deferral Account. These accounts are intended to result in assigning domestic ratepayers the benefit of BC Hydro's low-cost generation assets (the Heritage Resources) and other related activities, as well as an appropriate share of risks associated with the ownership and operation of these assets.

During the first quarter of fiscal 2006, consistent with a BCUC directive, BC Hydro established the BCTC Transition Deferral Account. Balances in this account arise as a result of the BCUC's approval of BCTC's transmission services revenue requirement application. Amounts are deferred with respect to differences in the cost of transmission services included in BC Hydro's rates compared with the amounts charged by BCTC under its revenue requirements application. BC Hydro intends to apply to the BCUC to recover these amounts through future rates.



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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) DECEMBER 31, 2005

The balances included in the regulatory accounts are as follows:

<i>(in millions)</i>	December 31	March 31
	2005	2005
Heritage Deferral Account	\$113	\$138
Non-Heritage Asset Deferral Account	143	131
Trade Income Deferral Account	(198)	(114)
BCTC Transition Deferral Account	22	–
	\$ 80	\$155

The deferral accounts include interest of \$12 million (March 31, 2005 - \$6 million), calculated on the month-end balance of the account at BC Hydro's average cost of borrowing.

Regulatory Provision for Future Removal and Site Restoration Costs

As part of its October 2004 decision related to BC Hydro's Revenue Requirements Application, the BCUC ordered the establishment of a regulatory provision for future removal and site restoration (FRSR) costs. This account was established by a one-time transfer of \$250 million from retained earnings. The account will be applied to mitigate the impact of asset dismantling and disposal costs that are not otherwise related to an asset retirement obligation. At December 31, 2005, the balance of the regulatory provision for FRSR costs was \$228 million (March 31, 2005 – \$238 million).

Note 4: Employee Future Benefits

BC Hydro's cost for employee future benefits for the third quarter was \$22 million (2004 – \$19 million). The cost for employee future benefits for the nine months ended December 31, 2005, was \$56 million (2004 – \$56 million).

Note 5: Commitments and Contingencies

There are no material changes to the commitments and contingencies disclosed in the notes to BC Hydro's 2005 Annual Consolidated Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) DECEMBER 31, 2005

Note 6: Segmented Information

Three months ended December 31, 2005 (in millions)

	Generation	Transmission	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	6	3	726	556	42	(33) ³	1,300
Inter-segment revenues	286	145	71	160	80	(742)	–
Net income (loss)	45	39	38	101	1	(106) ³	118

Three months ended December 31, 2004 (in millions)

	Generation	Transmission ⁴	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	2	3	683	278	8	(4) ³	970
Inter-segment revenues	256	151	192	130	62	(791)	–
Net income (loss)	(40)	30	233	192	(13)	(237) ³	165

Nine months ended December 31, 2005 (in millions)

	Generation	Transmission	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	12	10	1,956	1,321	123	(102) ³	3,320
Inter-segment revenues	916	431	204	315	244	(2,110)	–
Net income (loss)	130	106	10	168	5	(169) ³	250
Total assets	4,519	2,706	3,962	1,191 ¹	743 ²	(942)	12,179

Nine months ended December 31, 2004 (in millions)

	Generation	Transmission ⁴	Distribution	Trade	Other	Consolidation Adjustments/ Eliminations	Total
	\$	\$	\$	\$	\$	\$	\$
External revenues	(2)	10	1,905	746	41	(14) ³	2,686
Inter-segment revenues	1,026	461	280	448	257	(2,472)	–
Net income (loss)	58	84	222	280	(11)	(324) ³	309
Total assets	4,608	3,022	3,609	1,009	576 ²	(853)	11,971

1. Includes inter-segment receivables of \$125 million (\$123 million for the nine months ended December 31, 2004).
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. Includes the accounts of BCTC, which were removed from the consolidated accounts of BC Hydro effective April 1, 2005.



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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) DECEMBER 31, 2005

Note 7: Vancouver Island Generation Project

As disclosed in BC Hydro's 2005 Annual Report, on June 17, 2005, BC Hydro announced the termination of the energy purchase agreement with Duke Point Power Limited Partnership (DPP). DPP had been selected through an evaluation process to provide a new source of electricity supply on Vancouver Island from a gas-fired combined cycle plant to be located near Nanaimo. The project had been repeatedly delayed through various court appeals, resulting in management's assessment that the risks around timely completion of the project were too great to ensure the reliability of future electricity supply.

As at the date of termination, the total amount spent by BC Hydro on the Vancouver Island Generation Project totalled approximately \$70 million and the carrying value of these assets after provisions was nil.



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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) DECEMBER 31, 2005

Note 8: British Columbia Transmission Corporation

The prior year's consolidated financial statements include the accounts of BCTC, a Crown corporation of the Province. The accounts of BCTC were removed from the consolidated accounts of BC Hydro effective April 1, 2005, when BCTC was considered operationally and financially independent of BC Hydro. BC Hydro will continue to own the transmission system assets and will be responsible for funding all future additions and sustaining investments in these assets based on the directions from BCTC in its capacity as asset manager.

The comparative amounts in the consolidated financial statements of BC Hydro include the following balances related to consolidation of BCTC:

CONSOLIDATED BALANCE SHEET, AS AT MARCH 31, 2005

(in millions)

Cash and cash equivalents	\$ 20
Accounts receivable and prepaid expenses	10
Capital assets in service, net of depreciation of \$22	53
Unfinished construction	9
Total Assets	\$ 92
<hr/>	
Accounts payable and accrued liabilities	\$ 28
Loan payable to BC Hydro	7
Long-term debt	30
Deferred credits and other liabilities	3
Total Liabilities and Deferred Credits	\$ 68
Total Retained Earnings	24
Total Liabilities and Equity	\$ 92

CONSOLIDATED STATEMENT OF OPERATIONS

<i>(in millions)</i>	For the three months ended December 31, 2004	For the nine months ended December 31, 2004
Domestic revenue (virtually all charged to BC Hydro)	\$ 22	\$64
Operating costs	16	47
Amortization	4	12
Finance Charges	1	2
Total expense	21	61
<hr/>		
Net income for the period	\$ 1	\$ 3

The deconsolidation of BCTC from the consolidated accounts of BC Hydro is reflected at carrying values. The impact of deconsolidation of BCTC, totalling \$24 million, on BC Hydro's consolidated retained earnings represents a payment of cash to the Province totalling \$20 million that was provided to BCTC during fiscal 2004, plus undistributed earnings of BCTC of \$4 million since its date of incorporation.