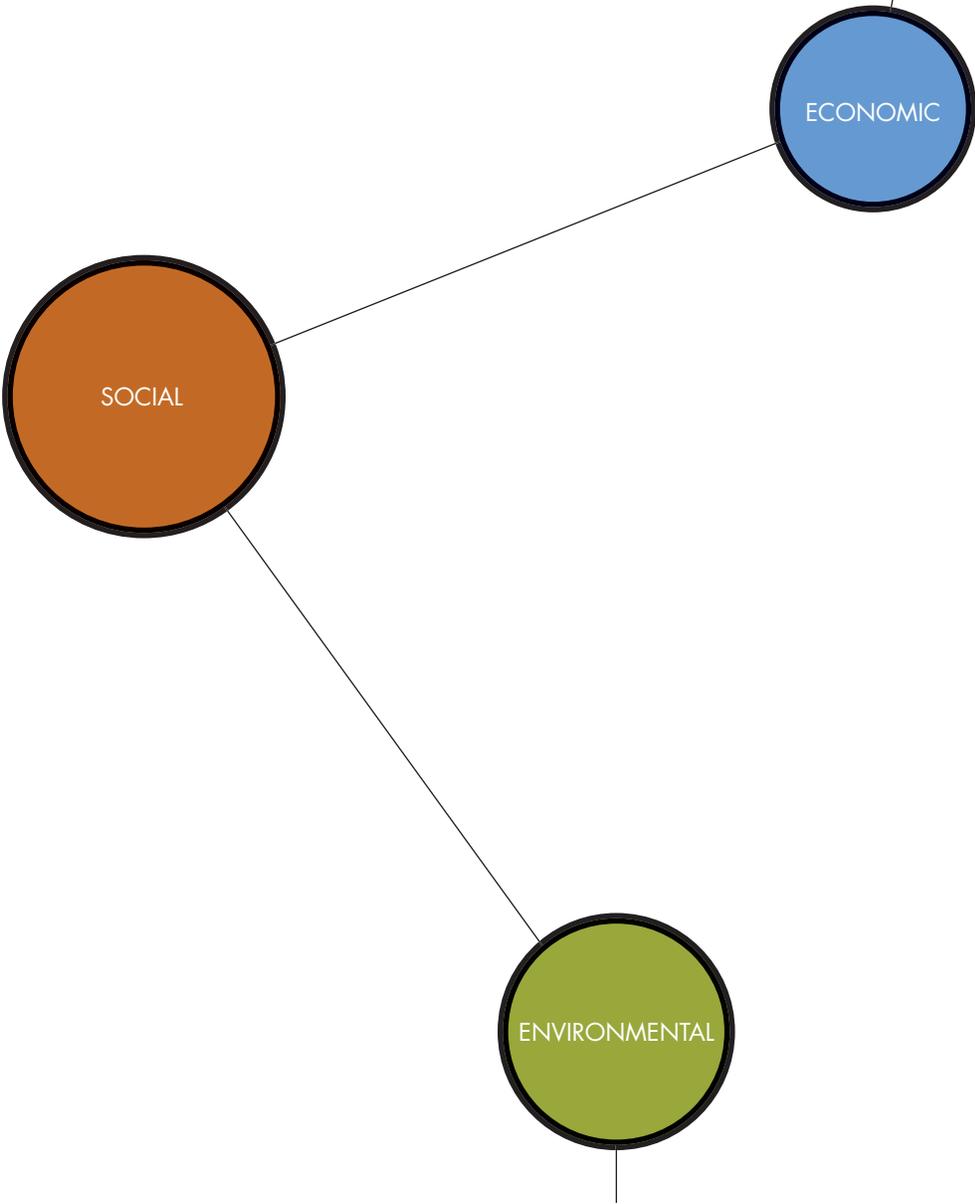


B C H Y D R O ' S



F I R S T Q U A R T E R R E P O R T - F I S C A L 2 0 0 7



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1. Overview

BC Hydro made solid progress in its first quarter. As part of its Fiscal 2006/07 – Fiscal 2008/09 Service Plan released in March 2006, BC Hydro outlined five priority areas of business focus. They include: Reliability for Customers and of Supply, Customer Satisfaction, People, Safety and Financial Targets. BC Hydro made progress on four priorities this quarter. The fifth, Customer Satisfaction, will be measured in September with results available in October. Highlights from the quarter are discussed below.

Integrated Electricity Plan

On March 29, 2006, BC Hydro filed its 2006 Integrated Electricity Plan (IEP) and Long Term Acquisition Plan with the BCUC. The plan outlines forecasted customer demand for BC Hydro's customers' electricity needs over the next 20 years. BC Hydro estimates a gap ranging between 25 and 45 per cent between our current electricity supply and the demand we will face 20 years from now. With demand on the rise, we need to be planning now to ensure that we preserve the natural competitive advantage that reliable electricity has provided to British Columbians for generations.

The resource options available to help fill the emerging supply-demand gap include demand-side management (DSM) programs, conservation, additional purchases from IPPs and significant investments in the province's heritage generating assets. As part of this process, BC Hydro has responded to 1,380 Information Requests regarding the IEP and its Long-Term Acquisition Plan to date.

System Operations

At the end of the first quarter of Fiscal 2007, BC Hydro's system storage was approximately 3,600 GWh above average for this date due to market purchases in the previous fiscal year made to offset lower than normal forecast inflows in Fiscal 2007. As a result of higher storage levels, domestic electricity purchases for this quarter were 2,262 GWh, less than forecast in the budget. Forecast inflows for Fiscal 2007 remain low, at 93 per cent of normal, due to below normal precipitation in both the Williston and Kinbasket basins.

Revenue Requirements Application and Process

On May 25, 2006, BC Hydro submitted its Fiscal 2007/2008 Revenue Requirements Application (RRA) to the BC Utilities Commission (BCUC). This application represents the forecast cost of managing and operating our business for Fiscal 2007 and 2008 and accounts for the requested rate increases for those years. BC Hydro's request for an interim rate increase of 4.65 per cent was approved on June 21, 2006 and took effect on July 1, 2006. On June 22, 2006 BC Hydro began receiving information requests as part of the regulatory review process in which the BCUC, customers and other stakeholders ask questions about the application. A workshop and Negotiated Settlement Process (NSP) before the BCUC will begin on October 16.

Overview

Call For Power

On April 7, 2006 BC Hydro received bids for 53 separate projects from 37 independent power producers in response to the 2006 Open Call for Power, issued in December 2005. The projects submitted by Independent Power Producers include electricity generation from both small and large facilities, and represent a diversity of resource types, including run of river hydro, wind, biomass and coal projects.

BC Hydro has been a net importer of electricity in each of the last five years, and demand is expected to grow significantly in the next 20 years resulting in an estimated gap between supply and demand of 25 to 45 per cent. To meet that demand, BC Hydro has awarded contracts for energy totalling more than the original target. The larger purchase is one step towards closing the gap between demand and supply for electricity expected by 2010, with allowance for possible attrition of some of these projects. Firm energy tendered from large projects from this quarter's Call was approximately 6,500 gigawatt hours (GWh) per year. In July 2006, as part of the plan to continue providing B.C. with secure, reliable electricity, BC Hydro awarded 38 contracts to independent power producers with large and small projects, adding a total of more than 7,000 GWh to Hydro's system by 2010.

Stepped Rates

A stepped rate is a rate that enables customers to pay two different prices for their electricity, depending on their historic use of the resource. Stepped rates encourage customers to conserve electricity and/or invest in more efficient equipment. Stepped rates for BC Hydro's transmission voltage customers took effect on April 1, 2006.

Safety

BC Hydro experienced improvements in its all injury frequency measure this quarter, when compared to the performance in the same period last year. The company also experienced no serious employee accidents this quarter.

In April 2006, the provincial government issued an amendment to the *Safety Standards Act* designed to help local authorities target and shut down marijuana grow operations and address the safety risks posed by grow-ops in residential neighbourhoods. BC Hydro responded to approximately 5,000 police requests for consumption information on a case by case basis in accordance with provisions in the *Freedom of Information and Protection of Privacy Act* that ensures the protection of privacy for BC Hydro customers. With this amendment to the *Safety Standards Act*, BC Hydro will – upon the request of a municipality wishing to undertake a safety-focused grow-op initiative – provide consumption history for all accounts in the jurisdiction which consume an unusually high level of electricity.

Financial Results

BC Hydro's financial performance this quarter showed a significant improvement in income before regulatory accounts compared to the same period last year. Net income was comparable to the prior year. BC Hydro's income before regulatory accounts for the first quarter was \$106 million, compared to a loss of \$42 million in Fiscal 2006. Net income for the first quarter presents a breakeven result compared to net income of \$5 million for the same period last year. The current financial results reflect the impact of increased trade activity combined with lower purchased energy prices, operating costs and finance charges offset by higher amortization than the same period in Fiscal 2006.

Overview

Q1 Performance Results for Service Plan Measures

Performance Measures	Q1 Target	Q1 Actual	YTD Trend	F2007 Annual Plan
SAFETY				
All Injury Frequency (number of injuries per 200,000 hours worked)	2.3	1.4	▲	2.1
Severity (number of days lost due to injury per 200,000 hours worked)	NA ¹	8.0	▲	29
RELIABILITY				
Customer Average Interruption Duration Index (hours)	2.07	2.00	▲	2.15
Average Service Availability Index (%)	99.971	99.977	▲	99.970
Customers Experiencing Multiple Interruptions – more than 4 outages (%)	2.74	0.53	▲	11
Customers Experiencing Long Interruption Durations – longer than 6 hours (%)	4.25	3.38	▲	17
CUSTOMER CONSERVATION AND EFFICIENCY				
Demand-Side Management (gigawatt-hours/year, cumulative)	1,970	1,970	▲	2,500
FINANCIAL TARGETS				
Net Income (\$ millions)	\$(12.5)	\$0.1	▲	\$395
ENVIRONMENTAL IMPACT				
Environmental Regulatory Incidents (number of incidents)	4	6	▼	16
Clean Energy Delivered (percentage of incremental demand since F2003)	19	17	▼	19%

▲ on or better than target ▼ below target

¹ No targets available on a quarterly basis.

Performance results for two of BC Hydro Service Plan measures – Environmental Regulatory Incidents and Clean Energy Delivered – are lower than target for Q1 F2007.

Environmental Regulatory Incidents – BC Hydro recorded three more Environmental Regulatory Incidents in fiscal 2007 when compared to the same period in fiscal 2006, and two more than target. Four of the incidents were caused by human error and two were caused by equipment failure; none were categorized as severe. Incidents recorded for this quarter are on the high end of the quarter-to-quarter variability observed for this measure.

Clean Energy Delivered – Performance results for Clean Energy Delivered are below target as a result of delays in Commercial Operation Dates (COD) for IPPs and BC Hydro Resources Smart projects. Since Fiscal 2003 there has been a significant increase in our demand due to economic activity. In addition, there has been attrition in the volume of BC Clean Energy delivered relative to that contracted. Had the attrition rate been lower for IPPs coming on line, BC Hydro would have imported less energy for domestic needs and our actual percentage would have been closer to target. However, BC Hydro is on track to meet the 50 per cent clean target over the 10-year target period with energy from fiscal 2006 and future calls.

Overview

KEY HIGHLIGHTS

Financial

BC Hydro's financial performance this quarter showed a significant improvement in income before regulatory accounts compared to the same period last year. Net income was comparable to the prior year.

BC Hydro's income before regulatory accounts for the first quarter was \$106 million, compared to a loss of \$42 million in fiscal 2006. Net income for the first quarter presents a breakeven result compared to net income of \$5 million for the same period last year. The current financial results reflect the impact of increased trade activity combined with lower purchased energy prices, operating costs and finance charges offset by higher amortization than the same period in fiscal 2006.

This fiscal year, BC Hydro forecasts income before regulatory accounts of approximately \$384 million, up \$366 million from the forecast included in the 2006 Service Plan. This increase in the forecast income is from a combination of the customer rate increase applied for in May 2006, lower domestic energy cost due to lower market prices for purchased power, offset by increased operating costs, lower amortization expenses and lower finance costs. After taking the regulatory account transfers into consideration, the current forecast net income for fiscal 2007 is \$395 million, compared with \$50 million in the 2006 Service Plan. Based on this forecast, BC Hydro expects to make a \$320 million payment to the Province of B.C. for this fiscal year.

<i>(dollar amounts in millions)</i>	For the three months ended June 30		
	2006	2005	Change
Income (loss) Before Regulatory Accounts	\$ 106	\$ (42)	\$ 148
Net Income	\$ -	\$ 5	\$ (5)
Accrued Payment to the Province	\$ -	\$ 4	\$ (4)
Number of Domestic Customers	1,712,590	1,682,533	30,057
GWh Sold (Domestic)	12,191	12,001	190
Total Reservoir Storage (GWh)	27,481	27,795	(314)

<i>(dollar amounts in millions)</i>	June 30,	March 31,	Change
	2006	2006	
Total Assets	\$ 12,655	\$ 12,704	\$ (49)
Retained Earnings	\$ 1,707	\$ 1,707	\$ -
Debt to Equity ¹	70:30	70:30	-

¹ Based on equity as defined for regulatory purposes

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 2006 Annual Report, 2006 Annual Consolidated Financial Statements of BC Hydro, and the interim consolidated financial statements of BC Hydro for the three months ended June 30, 2005 and 2006.

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

BC Hydro's income before regulatory accounts was \$106 million for the three months ended June 30, 2006 compared to a loss of \$42 million in the same period in fiscal 2006. The improvement was a result of increased trade activity, lower purchased energy prices, operating costs and finance charges partially offset by higher amortization.

There was a breakeven result for the first quarter, compared with net income of \$5 million in the same period in the previous year. The change in net income is due to lower operating costs and finance charges offset by higher amortization charges.

Revenues

For the three months ended June 30	in millions		gigawatt hours	
	2006	2005	2006	2005
Domestic:				
Residential	\$ 226	\$ 218	3,497	3,350
Light industrial and commercial	244	239	4,408	4,295
Large industrial	131	143	3,987	4,033
Other	18	33	299	323
Total Domestic	\$ 619	\$ 633	12,191	12,001
Trade:				
Electricity	\$ 254	\$ 210	10,999	8,281
Gas	116	69	2,206	1,173
Total Trade	370	279	13,205	9,454
Total	\$ 989	\$ 912	25,396	21,455

Total revenue during the first quarter of fiscal 2007 was \$989 million, an increase of 8 per cent over the same period last year. This was primarily the result of an increase in volumes sold in the trade sector. There was increased domestic customer demand in the residential, light commercial and industrial sector compared to the prior year, offset by a reduction in the large industrial sector.

Financial

Domestic Revenues

Total domestic revenues of \$619 million for the first quarter were \$14 million or 2 per cent lower than for the same period in the previous year. Total sales volumes increased by 2 per cent as a result of 30,057 customers added to the system and an increase in average consumption in the residential and light industrial and commercial sectors. The decline in revenue levels in the large industrial sector resulted from lower volumes of sales to the pulp and paper industry. In the first quarter this year, revenues are stated at the currently approved rates and the revenue deficiency arising from rates being increased on July 1 rather than April 1, 2006 have been included in the Fiscal 2007 Revenue Deficiency regulatory asset. The rates applied for in BC Hydro's Fiscal 2007/2008 Revenue Requirements Application (RRA) are in effect starting July 1, 2006, and are considered interim until approved by the BCUC.

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 of 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 requirements can be met.

Total trade revenues for the first quarter were \$370 million, an increase of 33 per cent compared to \$279 million in the prior year. Trade sales volumes of 13,205 GWh increased by 40 per cent from 9,454 GWh in the first quarter of the prior year with the major portion of the increase, 2,718 GWh, being from electricity trading activities. The volume of electricity traded during the quarter was 10,999 GWh compared to 8,281 GWh in the first quarter of fiscal 2006. However, average sales prices for electricity were 19 per cent lower at a gross price of \$49/MWh (Fiscal 2006 - \$61/MWh). The volume of gas sales increased to 2,206 GWh during the first quarter from 1,173 GWh in the prior year as greater trading activity levels continued in that commodity sector. However, the average sales price for gas was 10 per cent lower at a gross price of \$53/MWh (Fiscal 2006 - \$59/MWh).

The decrease in electricity market prices was primarily the result of precipitation and runoff conditions in the Pacific Northwest returning to normal in spring 2006 compared to below average precipitation in April 2005 that led to increased market prices at that time. Gas prices were driven lower than the same period in fiscal 2006 due to healthy gas storage levels.

Financial

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 June 31					
	(in millions)		(gigawatt hours)		(\$ per MWh)	
	2006	2005 ¹	2006	2005 ¹	2006	2005 ¹
Hydro ²	\$ 53	\$ 53	9,117	9,155	\$ 5.81	\$ 5.79
Purchases from Independent Power Producers and other long-term contracts	98	104	1,636	1,601	59.90	64.96
Other electricity purchases - Domestic	64	119	2,262	2,252	28.29	54.62
Thermal	10	13	86	94	116.28	138.30
Transmission charges and other	17	20	25	25	-	-
Total Domestic	\$ 242	\$ 309	13,126	13,127	\$ 18.44	\$23.54
Other electricity purchases – Trade	\$ 60	\$ 83	10,848 ³	8,196 ³	\$35.95	\$46.97
Remarketed Gas	111	71	2,290	1,229	48.47	57.77
Transmission charges and other expenses	69	49	n/a	n/a	n/a	n/a
Total Trade	\$240	\$203	13,138	9,425	43.39	53.58
Total Energy Costs	\$482	\$512	26,264	22,552	\$30.92⁴	\$36.09⁴

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 and Keenleyside Entitlement Agreement with Columbia Power Corporation.
3. Trade cost of energy volumes do not equal trade revenue volumes due to the return of prior years' energy to Powerex. The difference is included in domestic cost of energy volumes.
4. Total cost per MWh includes other electricity purchases at gross cost.

For the first quarter of fiscal 2007 total energy costs of \$482 million were \$30 million or 6 per cent lower than the first quarter last year. The decrease is the result of a decrease in average prices for most sources of energy supply, except for hydro generation, offset by an increased volume of energy supplied at 26,264 GWh, 16 per cent more than the prior year due to increased trade activity.

Domestic Energy Costs

Domestic energy costs were \$67 million lower than the first quarter of fiscal 2006, a decrease of 22 per cent. The change is primarily a result of lower average cost of energy from electricity purchases. Domestic consumption was met by a slightly lower level of hydro generation than last year combined with increased IPP and other energy purchases. Other energy purchases of 2,262 GWh (2005 – 2,252 GWh) were at \$28.29/MWh, significantly lower than the \$54.62/MWh last year reflecting market conditions.

Financial

Trade Energy Costs

Trade energy costs during the first quarter of fiscal 2007 increased by \$37 million, or 18 per cent, compared to the same period last year. This was primarily a result of increased trade activity driving a greater volume of electricity and gas purchases and higher transmission charges, offset by significantly lower average commodity prices. Electricity purchases, at 10,848 GWh, were 32 per cent higher than prior year level at 23 per cent lower average prices. The difference between the electricity trade sales volumes and electricity trade purchase volumes of 151 GWh is the result of Powerex purchasing energy back from BC Hydro in the current fiscal year that BC Hydro had purchased from Powerex in previous fiscal years. The volume of gas purchased for sale to third parties increased significantly from 1,229 GWh to 2,290 GWh for the current year and average gas prices were 16 per cent lower than last year's levels at \$48/MWh.

Water Inflows

Water inflows into BC Hydro's reservoirs were 3 per cent lower during the first quarter in fiscal 2007 compared to the prior year. This resulted in a decrease in the volume of low-cost hydro generation, one factor influencing the level of electricity imports. 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 affect the decision to import energy.

With lower inflows, reservoirs have been managed such that the combined storage in BC Hydro reservoirs at June 30, 2006, was 115 per cent of average compared with 119 per cent of average at June 30, 2005 (average storage levels relate to the average from 1986 to 2006), with the Williston Reservoir on the Peace River system at 110 per cent of average (Fiscal 2006 – 121 per cent) and the Kinbasket Reservoir on the Columbia River system at 122 per cent of average (Fiscal 2006 – 112 per cent).

Operating Costs

Operations costs of \$55 million in the first quarter are comparable to the same period last year and include accretion expense for the First Nation settlement provision.

Maintenance costs of \$65 million in the first quarter are \$2 million higher than in the same period last year. The increase is attributed to higher routine system maintenance costs.

Administration costs of \$33 million for the first quarter are \$8 million lower than in the same period last year. The decrease is a combination of lower environmental provisions, overhead and materials costs offset by higher labour-related and other costs.

Amortization Expense

Amortization expense of \$113 million for the first quarter was \$18 million higher than for the same period in the previous year. A Depreciation Study was completed during fiscal 2006 and resulted in a one-time adjustment to reduce net book values by \$24 million, offset by changes to assets lives that reduced depreciation charges, a higher level of assets in service, and higher dismantling costs.

Financial

Finance Charges

Finance charges of \$99 million for the three months ended June 30, 2006, were \$54 million lower than for the same period in the previous year. During fiscal 2006, BC Hydro hedged \$962 million of its U.S. dollar denominated debt which reduced the exposure to foreign exchange risk in the current quarter compared to the prior year. The Canadian dollar strengthened against the U.S. dollar in the current quarter compared to a weakening of the Canadian dollar in the prior year. These two factors resulted in a \$43 million positive foreign exchange translation variance in finance charges. In addition, positive variance due to mark-to-market losses in the prior year was partially offset by higher short-term interest rates and lower Canadian dollar sinking fund income.

Accounting Policies

There were no accounting policy changes during the first quarter of fiscal 2007.

Regulation

Regulatory 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.

In the Fiscal 2007/2008 Revenue Requirements Application (RRA), filed with the BCUC in May 2006, BC Hydro requested approval of three new regulatory accounts – Large Hydro Investigation Costs, Fiscal 2007 Revenue Deficiency and Depreciation Study adjustments. It also requested that the cost of energy deferral accounts be modified to include the cost of load variance, net of incremental revenues. BC Hydro has received approval from BCUC for the establishment of the Fiscal 2007 Revenue Deficiency Account and is waiting for approval for the others. BC Hydro has prepared its accounts for the quarter under the assumption that approval will be received.

In the first quarter, BC Hydro transferred \$106 million, on a net basis, to regulatory accounts, compared with \$47 million transferred from regulatory deferral accounts in the first quarter of fiscal 2006. The net balance in the regulatory asset and liability accounts as at June 30, 2006, was \$317 million compared to \$230 million at June 30, 2005.

Powerex Legal Proceedings

At June 30, 2006, Powerex was owed US\$ 268 million (CDN\$ 299 million) by the markets operated 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 fiscal 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. 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. FERC issued orders regarding the extent to which sellers' receivables may be offset by refunds to the Cal Px and Cal ISO markets. These FERC orders were before the U.S. appellate courts. On August 2, 2006 the U.S. Court of Appeals for the Ninth Circuit ruled on certain issues in the FERC refund proceedings and remanded these issues to FERC. The actual effect of this remand decision cannot be precisely determined prior to FERC taking action on the remand issues.

Financial

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. Collectively, these proceedings are in various stages. A number of issues and findings are presently on appeal and none have been the subject of final judicial action. Certain issues have been ordered by the U.S. Court of Appeals for the Ninth Circuit to be remanded to the Federal Energy Regulatory Commission (FERC) for further proceedings, but the court's remand order was subject to pending rehearing applications. On July 31, 2006 the U.S. Court of Appeals for the Ninth Circuit denied rehearing and affirmed its remand decision. The effect of this remand on Powerex cannot be precisely determined at this time.

On March 26, 2004, the FERC approved a settlement agreement between the FERC Trial staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. However, at the request of certain parties, this settlement is still subject to rehearing at FERC and FERC's final order may subsequently be appealed to the courts.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a US Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act. The US Court of Appeals for the Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex is seeking appeal of the latter decision and related Ninth Circuit rulings to the US Supreme Court.

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex and BC Hydro. BC Hydro has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be collected may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the collection process.

Liquidity and Capital Resources

Cash flow provided by operating activities for the first quarter was \$90 million, compared with \$113 million for the same period last year. The decrease was primarily due to reduced pricing of energy purchases and reduced finance charges offset by changes in working capital.

The net long-term debt balance at June 30, 2006, was \$6,812 million, compared with \$6,650 million at March 31, 2006. The increase was primarily due to an increase in revolving borrowings of \$245 million offset by a decrease of \$90 million of U.S. debt due to the strengthening Canadian dollar.

Financial

Capital Expenditures

Capital expenditures were as follows:

(in millions)	For the three months ended June 30	
	2006	2005
Generation replacements and expansion	\$ 35	\$ 23
Transmission lines and substation replacements & expansion	33	31
Distribution improvements and expansion	84	58
General, including computers and vehicles	9	13
Change in working capital related to capital asset expenditures ¹	(12)	(2)
Capital asset expenditures per Consolidated Statement of Cash Flows	149	123

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

The increase in generation asset expenditures is due to the commencement of several new projects during the quarter including Coquitlam Dam Seismic Upgrade, the Peace Canyon Turbine Overhaul, Aberfeldie Redevelopment, Spillway Gate Program and the Fire Risk Program. The increase in distribution improvements and expansion for the three month period ended June 30, 2006 is due to a higher volume of new customer construction and connections.

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 first quarter of fiscal 2007, commodity risk continued to be elevated, driven by continued high levels of volatility and pricing in North American natural gas and western North American electricity markets as a result of the spring hydro inflows followed by the onset of the summer cooling season. While BC Hydro's reservoir storage provides some degree of flexibility to manage this risk in the short term, the current market environment continues to 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. Rising Canadian and U.S. interest rates 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 2006 Annual Report.

During the first quarter fiscal 2007 BC Hydro had several filings under review with the BCUC including the Fiscal 2007/2008 RRA, the 2006 Integrated Electricity Plan, the Long-Term Acquisition Plan and the associated 2006 Open Call for Power. BC Hydro has prepared its financial information for the quarter with the assumption that these various filings will be approved as submitted. There are no assurances that such approval will be received, although management has no reason to believe at this time that there will be any material changes to the filings.

Financial

Future Outlook

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each February. BC Hydro's Service Plan filed in February 2006 indicated that income before regulatory accounts for this year was forecast at \$38 million (restated for changes in regulatory disclosure pursuant to Accounting Guideline 19) and net income forecast at \$50 million. BC Hydro prepared an updated forecast in August 2006 that forecasts income before regulatory accounts of \$384 million and net income of \$395 million for fiscal 2007.

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 August forecast update assumes water inflows of 93 percent of average, customer load of 53,142 GWh, average market energy prices of US\$47.3/MWh, a consistent level of operating costs, short-term interest rates of 4.52 per cent and a U.S. dollar exchange rate of US\$0.8896.

Financial

CONSOLIDATED STATEMENT OF OPERATIONS

<i>(Unaudited)</i> <i>(in millions)</i>	For the three months ended June 30	
	2006	2005
Revenues		
Domestic	\$ 619	\$ 633
Trade	370	279
	989	912
Expenses		
Energy costs:		
Domestic	242	309
Trade	240	203
Operations	55	55
Maintenance	65	63
Administration	33	41
Taxes	36	36
Amortization	113	95
	784	802
Operating Income	205	110
Finance charges	(99)	(152)
Income Before Regulatory Accounts	106	(42)
Net change in regulatory accounts (note 4)	(106)	47
Net Income	\$ -	\$ 5

See accompanying notes to the interim consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>(Unaudited)</i> <i>(in millions)</i>	For the three months ended June 30	
	2006	2005
Retained earnings, beginning of period	\$ 1,707	1,688
Removal of British Columbia Transmission Corporation from consolidated accounts (note 7)	-	(24)
Net income	-	5
Accrued Payment to the Province	-	(4)
Retained earnings, end of period	\$ 1,707	\$ 1,665

See accompanying notes to the interim consolidated financial statements.

Financial

CONSOLIDATED BALANCE SHEET

<i>(Unaudited)</i> <i>(in millions)</i>	as at June 30 2006	as at March 31 2006
ASSETS		
Property, Plant and Equipment, net	9,653	9,608
Intangible assets	414	413
Current Assets		
Cash and cash equivalents	11	23
Accounts receivable and accrued revenue	452	446
Materials and supplies	141	135
Prepaid expenses	37	93
Mark-to-market gains	238	277
	879	974
Other Assets and Deferred Charges		
Sinking funds	840	846
Regulatory assets (note 4)	869	863
	1,709	1,709
	\$ 12,655	\$ 12,704
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	\$ 5,064	\$ 5,696
Sinking funds presented as assets	840	846
Long-Term Debt	5,904	6,542
Current Liabilities		
Current portion of long-term debt	1,748	954
Accounts payable and accrued liabilities	761	1,089
Mark-to-market losses	221	301
	2,730	2,344
Other Liabilities		
Regulatory liabilities (note 4)	552	440
Deferred contributions	878	856
Debt issue and related costs	123	125
Other long-term liabilities	539	538
Foreign currency contracts	222	152
	2,314	2,111
Retained Earnings	1,707	1,707
	\$ 12,655	\$ 12,704

Commitments and Contingencies (note 6)

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>	For the three months ended June 30	
<i>(in millions)</i>	2006	2005
Operating Activities		
Net income	\$ -	\$ 5
Regulatory account transfers	94	(57)
Adjustments for non-cash items:		
Amortization of regulatory accounts	12	10
Amortization of property, plant and equipment	104	87
Amortization of intangible assets	9	8
Unrealized foreign exchange translation losses (gains)	(7)	36
Deferred revenue	-	(2)
Amortization of debt issue and related costs	(3)	(2)
Unrealized (gains) losses on mark-to-market	(41)	20
Sinking fund income	(9)	(18)
Employee benefit plan expenses	7	6
Other non-cash items	2	2
	168	95
Working capital changes	(78)	18
Cash provided by operating activities	90	113
Investing Activities		
Property, plant and equipment expenditures	(139)	(117)
Intangible asset expenditures	(10)	(6)
Deferred contributions	29	17
Dismantling costs	(5)	(3)
Proceeds from property sales	1	-
Cash used for investing activities	(124)	(109)
Financing Activities		
Bonds retired	-	(204)
Revolving borrowings	245	536
Sinking fund withdrawals	-	160
Payment to the Province	(223)	(338)
Cash provided by financing activities	22	154
(Decrease) increase in cash and cash equivalents	(12)	158
Cash and cash equivalents, beginning of period	23	17
Cash and cash equivalents, end of period	\$ 11	\$ 175
Supplemental disclosure of cash flow information		
Interest paid	\$ 132	\$ 116

See accompanying notes to the interim consolidated financial statements.

Financial

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2006

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 supply power. BC Hydro's corporate purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation (see note 4) by the British Columbia Utilities Commission (BCUC) which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation and distribution facilities in the Province. BC Hydro also owns transmission facilities in the Province that are operated by British Columbia Transmission Corporation (BCTC), a separate Crown corporation of the province that is independent of BC Hydro.

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 (except for note 2 below) should be read in conjunction with the Annual Consolidated Financial Statements and accompanying notes in BC Hydro's 2006 Annual Report.

These interim consolidated financial statements follow the same accounting policies as those described in BC Hydro's 2006 Annual Report.

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

Note 2: Change in Accounting Estimates

As a result of a depreciation study that was conducted on property, plant and equipment, the estimated useful lives of various assets were changed. The changes in estimates were effective April 1, 2006 and have been accounted for prospectively. These changes in accounting estimates did not have a material impact on the net income during the quarter. The impact in subsequent periods is indeterminable and will depend on the level of future capital expenditures and asset disposals. The revised depreciation rates are subject to approval by the BCUC as part of the Fiscal 2007/2008 RRA.

Note 3: 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.

Financial

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2006

Note 4: Regulation

BC Hydro is regulated by the BCUC, and both entities are subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the BCUC. 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 and the annual payment to the Province. Calculation of its revenue requirements and rates charged to customers are established through applications filed with and approved by the BCUC.

BC Hydro applies various accounting policies that differ from GAAP for enterprises that do not operate in a rate-regulated environment. Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application by approval of the BCUC.

In the Fiscal 2007/2008 RRA, filed with the BCUC in May 2006, BC Hydro requested approval of three new regulatory accounts – Large Hydro Investigation Costs, Fiscal 2007 Revenue Deficiency and Depreciation Study adjustments. It also requested that the cost of energy deferral accounts be modified to include the cost of load variance, net of incremental revenues. BC Hydro has received approval from BCUC for the establishment of the Fiscal 2007 Revenue Deficiency Account and is waiting for approval of the others. BC Hydro has prepared its accounts for the quarter under the assumption that approval will be received.

Regulatory Accounts

New Regulatory Accounts

Large Hydro Investigation Costs

This regulatory asset account holds the costs of evaluating the third generation dam project on the Peace River. If the project is brought into service, BC Hydro would apply to recover the balance of the account over the life of the project.

Fiscal 2007 Revenue Deficiency

The Fiscal 2007 Revenue Deficiency regulatory asset includes the revenue deficiency arising from rates being increased on July 1, 2006, rather than April 1, 2006 and this asset account was approved by the BCUC in June 2006. Any disallowance of fiscal 2007 revenue requirements will be netted against this asset account. BC Hydro will not charge carrying costs to this asset.

Depreciation Study Adjustments

This regulatory asset includes the impact of implementing the changes in average service lives of various assets as outlined in a depreciation study undertaken by BC Hydro during fiscal 2006. The changes resulted in a one-time adjustment to net book values of \$24 million, which will be amortized over F2007 and F2008.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2006

Load Variance

BC Hydro has proposed that the cost of load variance (price and volume), net of incremental domestic revenues, be transferred to the cost of energy deferral accounts (i.e. Heritage Deferral Account and Non-Heritage Deferral Account).

For the above requested changes to the above mentioned regulatory accounts, the expected approval and likelihood of recovery or settlement of related amounts, is affected by risks and uncertainties relating to the ultimate decision of the BCUC and operating results experienced during the year. The potential impact resulting from BCUC's disallowance of this deferral of net income is estimated to be a \$25 million decrease in net income at June 30, 2006.

The following regulatory assets and liabilities have been established through rate regulation or have been applied for. The impact of regulatory accounting has resulted in a decrease to net income of \$106 million (2006 – an increase to net income of \$47 million).

<i>(in millions)</i>	April 1, 2006	Additions	Amortn./ Other	Net change	June 30, 2006	June 30, 2005
Regulatory Assets						
Heritage Deferral Account	\$ 241	\$ (38)	\$ -	\$ (38)	\$ 203	\$ 195
Non-Heritage Deferral Account	205	4	-	4	209	145
BCTC Transition Account	25	-	-	-	25	-
Demand-Side Management Programs	269	7	(8)	(1)	268	207
Foreign Exchange Gains and Losses	2	(7)	(5)	(12)	(10)	30
Large Hydro Investigation Costs	-	1	-	1	1	-
Depreciation Study Adjustments	-	24	(3)	21	21	-
Fiscal 2007 Revenue Deficiency	-	29	-	29	29	-
Deferred Debt Costs	-	-	-	-	-	53
Dam Safety and Site Survey Investigation Costs	-	-	-	-	-	21
First Nation Negotiations, Litigation and Settlement Costs	121	3	(1)	2	123	30
Total Regulatory Assets	\$ 863	\$ 23	\$ (17)	\$ 6	\$ 869	\$ 681
Regulatory Liabilities						
Regulatory Provision for Future Removal and Site Restoration Costs	\$ 226	\$ -	\$ (5)	\$ (5)	\$ 221	\$ 234
Trade Income Deferral Account	214	117	-	117	331	166
Unitized Bond Fund Account	-	-	-	-	-	51
Total Regulatory Liabilities	\$ 440	\$ 117	\$ (5)	\$ 112	\$ 552	\$ 451
Net	\$ 423	\$ (94)	\$ (12)	\$(106)	\$ 317	\$ 230

Financial

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2006

Note 5: Employee Future Benefits

BC Hydro's cost for employee future benefits for the first quarter ended June 30, 2006 was \$17 million (2005 – \$17 million).

Note 6: Commitments and Contingencies

Powerex

At June 30, 2006, Powerex was owed US\$ 268 million (CDN\$ 299 million) by the markets operated 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 fiscal 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. 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. FERC issued orders regarding the extent to which sellers' receivables may be offset by refunds to the Cal Px and Cal ISO markets. These FERC orders were before the U.S. appellate courts. On August 2, 2006 the U.S. Court of Appeals for the Ninth Circuit ruled on certain issues in the FERC refund proceedings and remanded these issues to FERC. The actual effect of this remand decision cannot be precisely determined prior to FERC taking action on the remand issues.

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. Collectively, these proceedings are in various stages. A number of issues and findings are presently on appeal and none have been the subject of final judicial action. Certain issues have been ordered by the U.S. Court of Appeals for the Ninth Circuit to be remanded to the FERC for further proceedings, but the court's remand order was subject to pending rehearing applications. On July 31, 2006 the U.S. Court of Appeals for the Ninth Circuit denied rehearing and affirmed its remand decision. The effect of this remand on Powerex cannot be precisely determined at this time.

On March 26, 2004, the FERC approved a settlement agreement between the FERC Trial staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming practices or concerted partnership practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier of energy and ancillary services to the California market throughout the energy crisis. However, at the request of certain parties, this settlement is still subject to rehearing at FERC and FERC's final order may subsequently be appealed to the courts.

BC Hydro was also joined as a defendant in the California Consumer Class Action lawsuit through cross-claims by other defendants. In response to an application by BC Hydro to be dismissed from the lawsuit, a US Federal District Court judge ruled that BC Hydro is immune from these claims in the United States by virtue of the Foreign Sovereign Immunities Act. The US Court of Appeals for the Ninth Circuit upheld this finding. The court also upheld the District Court's finding that Powerex does not enjoy foreign sovereign entity status and therefore remains a party to the lawsuit, which was ordered to be remanded back to California State Court. Powerex is seeking appeal of the latter decision and related Ninth Circuit rulings to the US Supreme Court.

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NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED) JUNE 30, 2006

Due to the ongoing nature and uncertain status of the regulatory and legal proceedings related to the California power markets, management cannot predict at this time the outcome of the claims against Powerex and BC Hydro. BC Hydro has recorded provisions for uncollectible amounts and legal costs associated with the ongoing legal and regulatory impacts of the California energy crisis during fiscal 2001. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that may ultimately be collected may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the collection process.

There are no other material changes to the commitments and contingencies disclosed in the notes to BC Hydro's 2006 Annual Consolidated Financial Statements.

Note 7: British Columbia Transmission Corporation

The consolidated financial statements of BC Hydro include the accounts of BCTC for the year ended March 31, 2005. BC Hydro removed BCTC from its consolidated accounts effective April 1, 2005 when BCTC was considered operationally and financially independent of BC Hydro.