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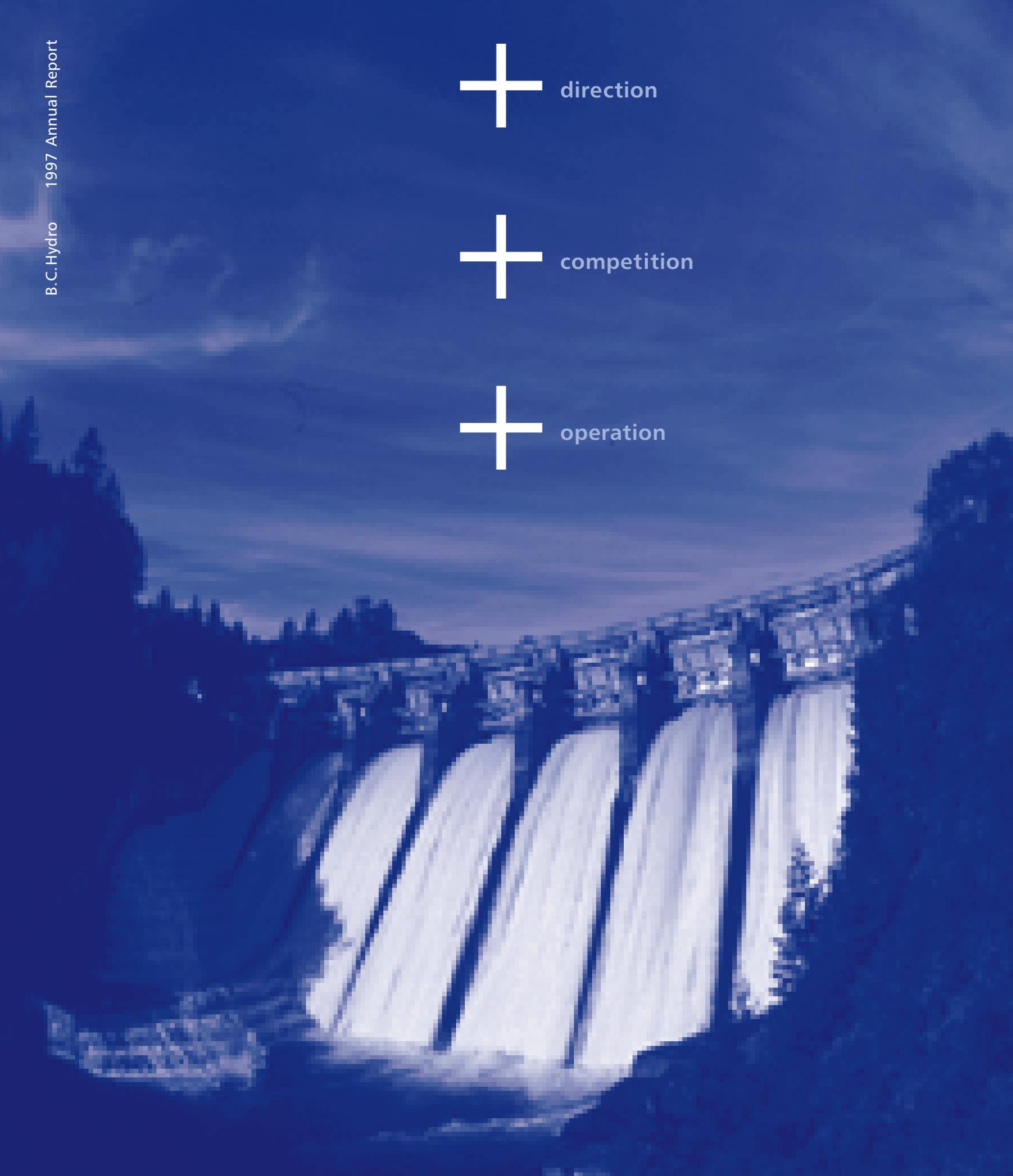
direction

+

competition

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operation



This annual report addresses key issues for B.C.Hydro in the areas of :

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Cover: Ruskin Dam, downstream of Stave Falls
Power Plant – controlled release of water.

British Columbia Hydro and Power Authority is a provincial Crown corporation. The third largest electric utility in Canada, B.C.Hydro serves more than 1.5 million customers in an area containing over 94 per cent of British Columbia's population. Between 43 000 and 54 000 gigawatt-hours of electricity are generated annually, depending upon prevailing water levels, with more than 80 per cent produced by major hydroelectric generating stations on the Columbia and Peace rivers. Electricity is delivered to customers through an interconnected system of over 72 000 kilometres of transmission and distribution lines. B.C.Hydro's Board of Directors is appointed by the Lieutenant Governor in Council and is responsible for the overall direction of the company.

strategic direction

local and international competition

socially responsible operation



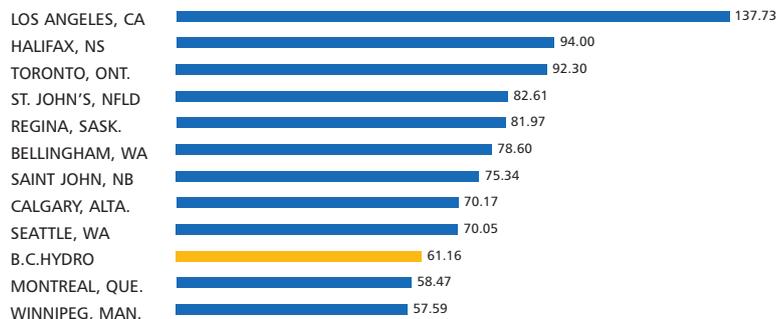
Key Financial & Operating Comparatives

Financial Comparatives		1997	1996	1995
millions of dollars unless otherwise stated				
Revenues		\$ 2,403	\$ 2,269	\$ 2,287
Net income		\$ 339	\$ 150	\$ 162
Capital assets		\$ 9,187	\$ 9,179	\$ 9,137
Net long-term debt		\$ 7,392	\$ 7,608	\$ 7,705
Deferred credits and other liabilities		\$ 976	\$ 938	\$ 900
Retained earnings		\$ 1,201	\$ 1,141	\$ 1,106
Capital and deferred expenditures		\$ 351	\$ 397	\$ 471
Debt to equity		78:22	79:21	79:21
Return on equity (%)		16.00	7.38	8.22
Interest coverage		1.51	1.17	1.19
Operating Comparatives				
Number of customers		1 502 640	1 473 146	1 439 204
Installed generating capacity (MW):				
Hydroelectric		9 746	9 716	9 706
Thermal		1 083	1 135	1 132
Peak one-hour demand (MW)		8 267	8 451	8 168
Average annual kW•h use per residential customer		10 735	10 409	10 309
Average number of customers per employee		252	237	223
Domestic sales (GW•h)		44 658	44 395	43 054
Electricity trade sales (GW•h)		9 826	2 427	3 927
Electricity sold per employee (GW•h)		9.23	7.67	7.45

Bill Comparison – Residential

as at February 8, 1997

for 1000 kW-h per month (\$Cdn)



Sources of Energy Supply

(in %)

Hydro

IPPs

Energy purchases

Burrard gas purchases



B.C.Hydro's future success requires building on relationships with our customers, our employees, our shareholder, our stakeholders and the public. The relationship between Hydro and our shareholder guides the corporation, sets the broad direction and assigns responsibility and accountability.

There is more and more competition in the North American electric industry. As new technology and competition reduce the cost of energy, customers want access to those lower prices and competitors are courting our customers. B.C.Hydro can and will compete in that environment, and intends to lead the market.

We must maintain effective operation of our facilities – our dams, reservoirs, power plants, substations and transmission and distribution lines – while minimizing their impact on the environment.



Employees

Has employee morale been affected by the events of the past couple of years?

Environment

How does B.C.Hydro incorporate environmental protection into its operations?

Aboriginal Relations

How are B.C.Hydro's relationships with the First Nations of the province?

BCHIL

What is the present status of B.C.Hydro International and its power project in Pakistan?



It has indeed been a rough period for employees in terms of the extensive publicity about some of the issues and challenges that the company has had to deal with. But employees are responding positively and morale will continue to improve as the company moves forward and regains its sense of direction.

We have developed and implemented a series of management systems to fully integrate environmental considerations into our decision-making processes and operating activities. We are entrenching these standards and procedures throughout our company and continuing to develop new initiatives. We consult with other stakeholders including local residents, community interest groups, First Nations, and federal, provincial and municipal governments so we can identify and address site-specific environmental concerns in our operations. For example, the Water Use Planning process for our Alouette installations, initiated in 1996, resulted in agreement on water flow changes to benefit fisheries interests. Public discussion of Water Use Plans for other facilities is continuing. For a full review of our environmental policies and performance, please refer to our 1996-97 Report on the Environment.

Hydro has a significant number of transmission lines that pass through reserves, so it is in effect a tenant and First Nations are the landlords. Any company which uses natural resources needs to have good relationships with First Nations or it has a serious business problem. Hydro recognized this several years ago and established an aboriginal relations department. This has helped the company develop a variety of partnership activities with First Nations, including providing business opportunities, sponsoring sports and cultural activities and developing cross-cultural training for our own employees and those of other Canadian businesses. Hydro's aboriginal relations department is, and is seen to be, one of the most progressive, effective, well-respected organizations of its type in Canada.

BCHIL now has a single Canadian partner in the Raiwind project, SNC-Lavalin. This Canadian company has experience in power projects, off-shore contracting expertise, a long-standing positive relationship with B.C.Hydro, and a strong presence in British Columbia. This will enable BCHIL to use its world-class consulting expertise, not its capital, in off-shore projects and focus on leveraging B.C.'s significant technical and operating expertise to the benefit of economic development in the province.

Bennett Dam

Have the sinkholes at W.A.C. Bennett Dam been repaired?

Downton Reservoir

What was the result of investigations into the deep drawdown of the Downton Reservoir that occurred in May 1996?

Power Smart

What is happening with Power Smart?

A large, stylized white graphic consisting of a capital letter 'Q' followed by a plus sign '+'. The 'Q' is rendered in a classic, slightly calligraphic serif font with a small tail at the bottom right. The plus sign is a simple, bold, sans-serif cross. The entire graphic is centered in the lower right portion of the page.

Yes, and the dam has returned to normal operation. Round-the-clock surveillance and monitoring activities are being carried out to ensure the continued safety and integrity of the dam. A video prepared by Hydro employees as part of the sinkhole public information program received awards from the Public Relations Society of Canada and the Public Relations Society of America.

A report by an independent consulting fisheries biologist and Hydro's own internal review both indicated there is no conclusive evidence to suggest substantial fish mortality was caused by the drawdown. The drawdown was needed to conduct a mandatory inspection of intake gates at La Joie Dam. Proper operation of the gates is essential to both public and employee safety. The consultant's report stated that Downton, a small reservoir on the Bridge River about 100 kilometres west of Lillooet, likely supports more fish now than the upper Bridge River did prior to construction of the dam. This incident raised significant public concerns, however, and as a result Hydro has committed \$630,000 to mitigation activities.

Power Smart is alive and well. Support for its energy efficiency ethic from customers, government and the industry has established high-efficiency products as new standards in the energy market. This maturing of the market has enabled Power Smart to shift its focus from programs based on financial incentives to user-pay products and services, while cooperating closely with key customer sectors on conservation initiatives.



“B.C.Hydro’s future success will require building on the relationships with our shareholder, our stakeholders and the public.”

Brian R.D. Smith Chair



This year’s report outlines B.C.Hydro’s future direction – one that anticipates greater competition and adjusts B.C.Hydro’s operations accordingly.

In December 1996 I announced the appointment of Michael Costello as President and Chief Executive Officer. B.C.Hydro is fortunate to have someone of Michael’s calibre and experience leading the organization into the next century. The many challenges of competition, resource management and future direction require the type of leadership that Michael has demonstrated repeatedly throughout his career.

B.C.Hydro’s future success will require building on the relationships with our shareholder, our stakeholders and the public. These relationships will guide the corporation, setting the broad direction and assigning responsibility and accountability for results.

B.C.Hydro operates in a complex environment with many, and sometimes conflicting, obligations. To be accountable, we must be clear about our objectives, our strategies, the costs involved and the results expected by our shareholder, our customers and the public. And, like all corporations, B.C.Hydro must build and maintain public support for its commercial operations.

Those operations are becoming more challenging as the North American electric industry becomes more and more competitive. Along with competition, new technology is reducing the cost of energy. Customers want lower prices and competitors want our customers.

Although B.C.Hydro has traditionally operated in a monopoly environment, I believe that the corporation has the resources, and its people the skills and determination, to compete in the emerging energy market. And that is our vision: to transform B.C.Hydro into a competitive commercial Crown corporation which creates superior value for our customers and our shareholder.

A handwritten signature in black ink, which reads "Brian R.D. Smith". The signature is written in a cursive, flowing style.

The past year has been very challenging for B.C.Hydro – and very enlightening for me as President and Chief Executive Officer. A number of significant issues have been addressed, but many remain.

Our biggest challenge deals with the future – the rapid changes taking place in the energy industry throughout North America. Anticipating and preparing for the future is essential if B.C.Hydro is to provide superior value to our customers, our employees, our shareholder and, ultimately, the public. I look forward to guiding the organization through the many changes now taking place and positioning it for success in the evolving energy industry.

In British Columbia, our first priority will continue to be to meet the reliability and service obligations to our traditional customers, in an efficient and effective way.

As customer choices grow, we will continue to improve the quality and range of products and services, both as a source of additional revenue and to improve our relationships with customers. As new markets open up in neighboring jurisdictions, and those in B.C. become more competitive, we will focus on those markets, customers, products and services where B.C.Hydro can add value and generate reasonable returns. We will also play an active role in helping shape market structure and regulatory changes to ensure fairness, enhance B.C.Hydro's value, and protect the interests of our customers.

Market changes will not diminish B.C.Hydro's commitment to protect and enhance water, air and land resources. We will continue to balance environmental, social and economic responsibilities with our need to serve the province's energy requirements. And in the future, our stakeholders will play an increasingly important role in resource management decisions. Joint efforts will include the Water Use Plan process initiated this past year to help find a better balance for sharing water resources at or near our 34 facilities. Fish, an important provincial resource, are a critical consideration throughout the process and will be key in the management of our operations. Responsible resource management is an integral part of Hydro's preparation for the new challenges which lie ahead.

In closing I would like to thank all our employees for their efforts during the past year. It has been a difficult year for many. And many challenges remain. I am optimistic and confident that B.C.Hydro can meet these challenges and, together, lead the company into the next century.



A handwritten signature in black ink that reads "Michael Costello". The signature is written in a cursive, flowing style.

“Anticipating and preparing for the future is essential if B.C.Hydro is to provide superior value to our customers, our employees, our shareholder and, ultimately, the public.”

Michael Costello President and CEO, B.C.Hydro

Financial Returns Balanced with Public Benefit Initiatives

Our financial results will be balanced with non-financial value we offer the province.

Our shareholder expects us, as a Crown corporation, to provide non-financial returns as well as financial returns. Some benefits of Hydro's public policy initiatives include service to non-integrated areas, uneconomic extensions, non-power operating decisions at hydroelectric facilities, economic development activities, and providing the same rates to all regions.

Our immediate priorities include managing water for multiple uses, balancing the interests of hydroelectric power with the needs of fish for the water resource, managing public and employee health and safety, and working with aboriginal peoples.

Improved Financial Performance

B.C. Hydro will continue improving its financial performance.

Our net income for the year ended March 31, 1997, was up \$189 million from the previous year and our return on equity more than doubled, to 16.00 from 7.38 per cent.

The increase in net income resulted primarily from increased electricity trade and lower finance charges. Higher short-term electricity trade sales reflected aggressive marketing efforts to export surplus energy resulting from higher-than-average water inflows and the drawdown of Williston Reservoir, a precautionary measure in response to two sinkholes detected in W.A.C. Bennett Dam. The increase in net income was partially offset by expenditures related to the sinkholes, higher energy costs, and a voluntary early retirement package offered to employees in January 1997.

Finance charges decreased, primarily as a result of an active debt management program to take advantage of lower short-term interest rates during the year. Other factors were the refinancing of \$800 million in callable U.S. debt at significantly lower interest rates and an active sinking fund investment strategy.

Operations, maintenance and administration cost per kilowatt-hour was reduced by 11 per cent to 0.76 cents from 0.85 cents the previous year, despite \$28 million in costs related to sinkholes at W.A.C. Bennett Dam, reflecting ongoing efforts to improve efficiency.

Hydro's strategic business units have been improving the way they operate in response to increased competition and new customer expectations. Each group has been identifying and implementing changes in business processes to better serve customers. A business process is a series of activities which produce a product or service for customers and adds value to the corporation. Business process improvements reduce the time taken to process work orders, purchase orders and payments, to deliver services, to answer customer calls, and to update customer and other accounts. The goal is higher customer satisfaction.

Hydro paid \$744 million to provincial and municipal governments for the year ended March 31, 1997. These payments benefit all British Columbians, contributing to funding for schools, hospitals, municipal services and other provincial and local activities. The payments include: \$296 million to the province for water rentals (charges for water used in hydroelectric generation); \$279 million to the province in the form of a dividend; \$141 million shared between the province, municipalities and regional districts for school taxes and grant-in-lieu of general taxes on Hydro facilities, and \$28 million in Corporation Capital Tax.

Total payments made by Hydro to the provincial government are \$708 million, or 3.4 per cent of the entire provincial budget.

Transmission and Distribution Systems Withstand Major Disturbances

Hydro experienced the worst winter storms in many decades, stretching employee and contractor resources beyond the normal call of duty to respond to customer outages.

Average system reliability performance, measured by the time power is available, remained high at 99.966 per cent, mainly as a result of vegetation management work performed over the past four years on the distribution system.

The transmission system withstood two major disturbances on the western North American electric system during the summer of 1996 which affected more than nine million customers outside British Columbia.

Creating a Diverse Workforce

Hydro's commitment to employment equity is demonstrated through its Corporate Equity Plan, which provides a framework for developing and achieving employment equity and diversity.

The plan was prepared by representatives from each business unit and the company's two unions, the International Brotherhood of Electrical Workers Local 258 and the Office and Professional Employees International Union Local 378.

- The three key areas of focus are: to achieve equitable representation; to develop equitable systems; and to ensure a supportive work environment.

Under the umbrella of the corporate plan, each business unit has developed its own equity plan to support and complement these areas of focus. A long-term goal of the plan is to create a workforce that reflects the diversity of British Columbia's population. Hydro does not set targets or group hiring "quotas." Instead, we hire the best-qualified candidates while respecting union agreements and equity considerations.

Hydro offers cross-cultural awareness training for both its own employees and for other groups and individuals to help establish mutually beneficial business relationships with aboriginal people. During the year approximately 1200 employees and 1400 external clients received the training.

New Focus for Corporate Communications

The success of Hydro's activities, and its ability to proceed to meet the challenges and opportunities of the future, requires proactive communications.

Key objectives are to build and maintain public support by increasing public understanding of Hydro's activities.

Proactive, meaningful, candid and timely communications will guide our relationships with the media, stakeholders, customers and the public. And, with each other.

Keeping Hydro employees informed about important issues is essential. Building employees' understanding of the emerging competition and Hydro's response to it will enhance their ability to make appropriate and timely decisions. Internal communications are being modernized with increased emphasis on electronic newsletters and an Intranet service. Internet sites for external communications are being expanded in coordination with our business units.

Moving Forward Together

Management leadership, and a commitment to working with our employees and unions, is the key to facing future challenges.

Difficult choices and decisions are being made regarding the future evolution of our operations and activities.

Many unanswered questions remain and, naturally, create sensitivities or unease.

However, through a continuing and growing dialogue, and mutual commitments to working together and moving forward, B.C. Hydro will continue to build on its provincial legacy and continue to hold its rightful position in our province. This is what our employees want – and deserve.

Competition and Retail Access

B.C. Hydro faces increasing competition in generating and marketing electricity and electricity services. Wholesale wheeling, where one utility transports its power to another utility through the lines of a third utility for a fee, is well under way.

The introduction of "open transmission" access allows other utilities access to our transmission system and allows our wholesale customers access to alternative suppliers.

The next development may be retail competition, known variously as retail wheeling, direct retail access or simply direct access. Under retail competition, the end user is given the choice of electricity supplier and thus access to market-based prices. Consumers purchase power from their local utility or from other suppliers and use the local utility's transmission and distribution system to receive that power. As with wholesale access, customers pay for use of the local utility's wires through rates designed to recover the costs involved.

Interest in retail access has been spurred by increased competition for markets and products as a result of globalization. Electricity prices now are part of the competitive mix and those prices are fluctuating, especially here in the Pacific Northwest where there is an energy surplus.

In March 1997 the provincial government appointed Dr. Mark Jaccard, former chair of the British Columbia Utilities Commission, to head a task force to make recommendations for eventual electricity market reforms in the province. Hydro is participating in the task force process.

Advances in Transmission Services, Marketing and Customer Service

Hydro's flexible and adaptable response to the changing nature of the electricity market has resulted in a number of advances in transmission services, marketing and customer service.

Utilities Commission, approved our application to provide wholesale transmission services, confirming Hydro as the first Canadian electric utility to offer open access to its transmission system on a non-discriminatory basis.

The decision means that other utilities in B.C., independent power producers, Alberta producers who wish to transmit power through this province, and other parties wishing to import electricity into B.C. all can use these services on the same basis as our own Power Supply group.

Shortly afterwards, the Commission approved our application to provide unbundled services to industrial customers. Those customers now have access to market-based electricity prices through an optional Real-Time Pricing rate for a one-year trial period and a modified interruptible standby rate. Principles for a generic curtailable load option also were accepted. These Industrial Service Options were proposed by Hydro following detailed consultation with the more than 80 customers affected.

For residential customers, the provincial government announced a three-year rate freeze retroactive to April 1, 1996. This will in effect be a six-year rate freeze, as there have been no general rate increases since April 1, 1993. Rates will not be increased for commercial or industrial customers either, though there will continue to be some rate adjustments as tailored service options are introduced. Hydro's continuing administrative and efficiency measures are expected to offset any revenue impacts from the rate freeze.

Energy Efficiency and Energy Services

Since Power Smart started in 1988, standards, regulations and legislation have combined with customer demand to transform the market to high-efficiency equipment and buildings, effectively "raising the bar." Power Smart programs offering financial incentives to encourage customer investment in energy efficiency now are being phased out in favor of user-pay products and services.

At the same time, Hydro has worked to develop closer relationships with customers in the provision of energy services. In cooperation with the B.C. and Yukon Hotels Association, a feasibility study was carried out to help monitor and manage energy consumption and a Power Smart Green Hotels program was established to provide recognition for hotels instituting energy efficiency and environmentally beneficial features.

In cooperation with the Electric Power Research Institute, Hydro sponsored seminars on new technologies in drinking water treatment and health care to provide customers with technical information that can benefit them in their businesses.

Subsidiaries Market Power and Consulting Services Beyond Provincial Borders

Powerex is B.C.Hydro's electricity trade subsidiary, responsible for buying and selling surplus electricity in the western provinces and western United States. Powerex sells both surplus B.C.Hydro electricity and energy it purchases from others to maximize the value of Hydro's electric system and earn revenues for Hydro and the Province of British Columbia. During the past year Powerex's revenues and net income more than doubled, with approximately 25 per cent of its sales based on the reselling of third-party power purchased specifically for trade.

In late 1996 Powerex developed an aggressive five-year marketing plan based on the expectation of receiving Power Marketing Authorization from the U.S. Federal Energy Regulatory Commission (FERC). FERC's rejection in February 1997 of Powerex's initial application was a short-term setback for enhanced trade, but a re-filing in mid-1997 is expected to be successful.

As the western North American marketplace continues to evolve, Powerex will be a key player through targeted marketing to key customer groups. Powerex also intends to build on its experience in the Power Pool of Alberta to expand sales into the California pool when it begins operating in 1998.

B.C.Hydro International Limited (BCHIL) is a B.C.Hydro subsidiary which offers consulting expertise in asset management, operations and maintenance, training and energy conservation/demand-side management, as well as specialized technical products in select Canadian and international markets.

Hydro has been a leader among Canadian utilities in recognizing the potential of the international market in general and the Asia Pacific region in particular, providing technical expertise and other power services to many nations around the globe for the past 15 years.

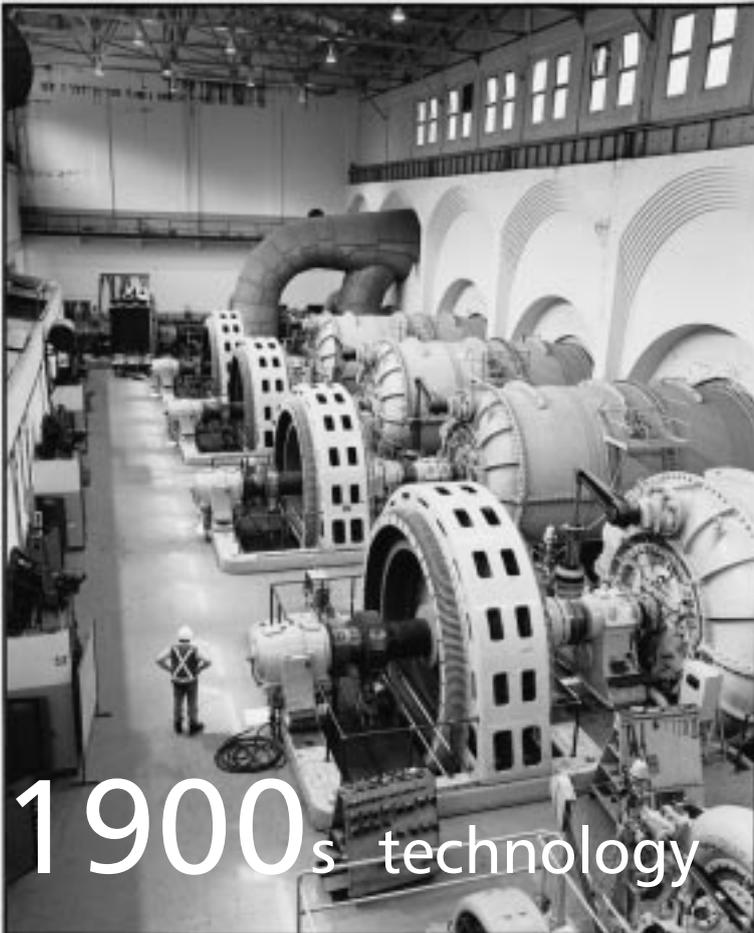
BCHIL's objectives are to leverage the technical and managerial expertise and the international reputation of B.C.Hydro to bring economic development opportunities to British Columbia. BCHIL will use its expertise, not capital, to develop international opportunities and earn a return to Hydro.

Powertech Labs a subsidiary formed in 1989 from B.C.Hydro's research and development unit, recorded its first profitable year. The company's mandate is to provide strategic research and technology to help clients find practical solutions to complex technical problems, and in doing so to cover the cost of its operation. It now has become self-sufficient, recording a profit of about \$700,000 from revenues of \$12.6 million in the year ended March 31, 1997.

Powertech's success is attributed to its diversified customer base. For its first five years of operation, 70 per cent of Powertech's business came from B.C.Hydro; today, only about 30 per cent of total revenues come from Hydro work. The company's client base now includes manufacturers and utilities from all over the world, with more than 50 per cent of the revenue coming from outside Canada. Powertech also provides services to non-traditional customers in industries such as mining, oil and gas, pulp and paper, and forestry.

Powertech's services cover seven core areas: power system performance; equipment performance; condition assessment; maintenance engineering; materials technology; environmental services; and alternate energy technologies.

Westech Information Systems provides computer systems development and integration consulting services to B.C.Hydro as well as to other clients in the public and private sectors. The annual revenues from external clients of \$6 million represented more than 22 per cent of total revenues of \$25 million. Westech also sold its mobile computing business to Zoll Medical Corporation of Burlington, Mass., for \$2 million.



1900s technology

2000 +

Work continued on replacement of the 80-year-old powerplant at Stave Falls, 65 kilometres east of Vancouver. The project will increase reliability and quality of electric service while providing jobs and economic benefits over a three-year construction period.

Rates and Regulatory Activities

Round-table consultations were held during January, February and March 1997 as part of the process of revising B.C. Hydro's extension policy in line with guidelines issued by the B.C. Utilities Commission in September 1996.

Consultation Activities

Hydro continues to carry out a broad spectrum of public consultation and other activities involving various groups and agencies who have an interest in our activities and operations.

Following discussions with local residents, the Peace River Regional District and Ministry of Environment representatives, Hydro initiated a voluntary program of property purchase and floodproofing measures in South Taylor. Property there is at risk of occasional flooding when the Peace River freezes at Taylor. These properties are in the 200-year flood plain and are also subject to flooding from ice events.

Stl'atl'imx Nation bands have a number of long-standing grievances related to Hydro developments in the Lillooet area. The bands say the four hydroelectric power facilities and more than 200 kilometres of transmission lines there have impaired their ability to practice their culture and traditions safely. In October 1996 Hydro began negotiations with representatives of nine Stl'atl'imx Nation bands from the region to seek a resolution.

During the year Hydro received a Climate Change Voluntary Challenge and Registry Award from the Canadian Ministry of Natural Resources for demonstrating exceptional leadership in working to reduce greenhouse gas emissions. Hydro has also joined the Greenhouse Emissions Management Consortium, a non-profit alliance of leading Canadian energy companies taking action to develop voluntary and market-based approaches to managing such emissions.

Customer sectors represented included regional and municipal governments, First Nations, real estate development, agriculture, commercial and industrial. A proposed new test to determine customer contributions to system extensions was filed in January 1997 and was under review by the Commission at year-end. The objective is to have customer contributions meet that portion of the cost of extensions which exceeds estimated revenues.

A new Real-Time Pricing tariff which had received interim approval earlier in 1996 was approved in July 1996 on a one-year trial basis. It allows industrial customers access to market-based rates for loads incremental to a baseline that is determined for each customer. Consumption below the baseline is charged at embedded cost rates.

Following a lengthy public hearing, Hydro submitted a Wholesale Transmission Service application to the BCUC in September 1996. It was revised in February 1997 following workshops which provided an opportunity for intervenors to question Hydro.

A reduced rate was introduced temporarily in June and July 1996 during precautionary spills related to sinkholes discovered at the W.A.C. Bennett Dam. The rate was well received by industrial customers, who requested it be made permanent. In response, Hydro filed a special rate in January 1997 which enables transmission voltage customers to take advantage of market prices by reducing their self-generation and purchases from Hydro.

Water Licences at Hydroelectric Developments to be Reviewed; New Water Use Plans Slated

Water licences at all 34 existing B.C. Hydro hydroelectric facilities will be reviewed to ensure that environmental, social and economic values are considered.

Reviews will be conducted at 10 priority sites over the next three years, leading to new Water Use Plans and, where necessary, revisions to water licences. The 10 priority developments are: Ash River; Bridge River; Buntzen; Campbell River; Cheakamus River; Jordan River; Puntledge River; Shuswap Falls; Stave River and Walter Hardman.

Hydro's Electric System Operations Review, completed in 1994, had identified a need for more focus on impacts to fish and aquatic habitat. A Water Use Plan was drafted in 1996 to support Hydro's application for renewal of its water licence for the Alouette River on the Stave system. Hydro will work with government agencies, First Nations, community groups and other stakeholders to develop the new Water Use Plans. Community public consultations will be an integral part of the process.

In making its announcement, the government noted that Hydro has been responsive to concerns and is in compliance with all its water licences. However, interim orders clarifying terms and conditions of the licences will be issued where they are deemed to be inadequate or unclear.

Transmission Upgrades

Improvements were made to the Chapmans capacitor station, near Spuzzum in the Fraser Canyon, increasing the reliability of the 500-kilovolt transmission system which brings power from Peace River generating plants to the Lower Mainland.

Work continued at Vancouver Island Terminal, near Duncan, and Arnott substation in Delta on improving the reliability of the high-voltage direct current transmission system that delivers a substantial portion of the electricity used by customers on Vancouver Island.

A project to reinforce existing transmission, substation and distribution capacity on Vancouver Island was begun in the Nanaimo area. Consultation with stakeholders continued in the Courtenay-Comox-Campbell River area and in Qualicum Beach.

Distribution capacity was increased at Como Lake substation in Coquitlam, Highland substation near Merritt, Prevost substation in North Cowichan and Whalley substation in Surrey. Service from the integrated electric system was extended to Field, northeast of Golden near the B.C.-Alberta border, under a cost-sharing agreement involving residents, a federal-provincial infrastructure program, B.C. Telephone Company and Hydro. Hydro bought out the distribution system operated by the former supplier and retired its diesel generating plant.

Electric System Expands to Meet Growing Customer Requirements

A number of additions and improvements to Hydro's electrical system were advanced during the past year to help meet customers' growing requirements for electricity.

Contracts worth \$23 million were awarded to construct portions of the Stave Falls powerplant replacement project in Mission, 65 kilometres east of Vancouver. The project, expected to be completed in late 1999, will provide an estimated 600 person-years of employment to Lower Mainland residents and inject an estimated \$30 million into the region's economy. It will use existing water from the Stave reservoir to increase reliability and service capacity from 52 to 90 megawatts, equivalent to serving an additional 8000 homes annually for a total of 35 000 homes each year.

A 10-year, \$90 million agreement for supply and refurbishing of distribution transformers was signed with a supplier whose proposal included the establishment of a new transformer manufacturing and overhaul plant in Chilliwack. The plant employs six to eight people initially and its staff is expected to grow to between 40 and 50 employees over the term of the contract.

Bennett Dam Returns to Normal Operation After Sinkholes are Repaired

The W.A.C. Bennett Dam returned to normal operation, without special restrictions on operating level, following completion of repairs to two sinkholes.

The sinkholes, discovered in June and September 1996 respectively, presented a unique management challenge that was met promptly and thoroughly. Immediately following discovery of the first sinkhole, a communications centre was established to keep people in the Peace River region fully informed about the situation.

A panel of two expert external consultants was established to form a safety advisory board. Working with the Water Comptroller's staff and B.C. Hydro engineers, the board reviewed and then endorsed Hydro's investigation and surveillance procedures. It then recommended the method used to repair the softened areas of the dam, which was to inject grout, a mixture of silt, sand and gravel, under pressure into the loose core material beneath.

After the first sinkhole was discovered, and in view of high seasonal inflows into the reservoir, Hydro conducted a precautionary spill at Bennett and Peace Canyon dams between June and August 1996. The drawdown also necessitated maximum generation at the two Peace River generating stations at a low-demand time of year. However, aggressive marketing resulted in sales of the extra energy totaling \$30 million, recouping a significant portion of the estimated \$53 million in costs during fiscal 1997 and 1998 on the sinkhole investigation, surveillance and remediation.

Subsequent investigation of the dam in its entirety disclosed that the sinkholes were associated with the methods used to install bench mark tubes in the dam, and no sources of sinkholes were discovered other than those associated with the bench mark tube installation methods.

Round-the-clock monitoring and surveillance indicates that the dam continues to operate in a safe manner.

In addition to completing the repairs, Hydro will ensure the safety and integrity of the dam through:

- water injection tests to make sure the drainage blanket can safely discharge the maximum credible seepage through the dam;
- studies of improvements to the dam drainage system that would increase the drainage capacity, and implementation of improvements as required;
- continued intensive surveillance and monitoring of the dam's condition and testing of the drainage system's performance;
- semi-annual status reports to the provincial Ministry of Environment, Lands and Parks on the dam's performance; and

a continuing public information program to keep those affected by the dam informed about its operations.

Hydro also will obtain the provincial Comptroller of Water Rights' approval for all improvements to the dam.

Sinkhole Video Nets Two Awards

A video produced as part of the sinkhole public information program won two public relations

The nine-minute video highlighted investigation and surveillance efforts. It was distributed to downstream residents, local municipal councils and other stakeholders, as well as through regional video stores and public libraries.

The video was awarded a 1997 Bronze Anvil by the Public Relations Society of America for innovation in public relations. It also won an award of merit in the audio-visual category from the Canadian Public Relations Society 1997 National Awards Competition.

Burrard Plant Improvements Continue

Work continues on improving and modernizing the Burrard Generating Station in Port Moody to address environmental concerns to ensure that it is available to meet our electricity needs.

The Burrard Generating Plant near Port Moody is an important part of B.C.Hydro's electrical system.

As well as being located in the Lower Mainland where electricity demand is greatest, it is fueled by natural gas and is not dependent on water conditions. It also enables Hydro to use Burrard at times to refill reservoirs, providing more water for fish and power.

Improvements have been under way in recent years to modernize Burrard and ensure that it remains a viable source of domestic energy for many years to come.

Grants in lieu of taxes to Port Moody average about 1.5 million dollars per year. The Burrard plant employs 80 full-time staff. The Burrard upgrade project is estimated to provide 1000 person years of construction employment if all six generating units are upgraded.

Selective catalytic reduction (SCR) technology now has been installed on the second and third of the plant's six generating units, reducing emissions of nitrogen oxides (NOx) by 90 per cent. Thus half the plant now operates with SCR technology, which uses a catalyst to convert ammonia and NOx into nitrogen gas and water vapor.

A dechlorination system was installed which has lowered the amount of chlorine in the plant's cooling water to below detectable levels. A two-year study to assess the impact of the warmer cooling water on the Inlet's water temperature was developed in consultation with federal and provincial environment ministries, the federal Department of Fisheries and Oceans (DFO), the City of Port Moody and local environmental groups. It is being carried out as a joint venture between DFO and Hydro.

The option of repowering the Burrard plant using combined-cycle natural gas turbines continues to be reviewed. Any decisions will be based on full community consultation and environmental review.

A new public community liaison committee with key groups from the Port Moody area has been formed to keep the public informed and involved in the work going on at Burrard. Topics of discussion include the repowering option, the water temperature impact study, electricity trade, natural gas supply to Burrard, cogeneration opportunities and emergency response plans.

Management Discussion & Analysis

Results of Operations

Highlights	(millions of dollars unless otherwise stated)	
	1997	1996
Net income	\$ 339	\$ 150
Revenues	\$ 2,403	\$ 2,269
Capital and deferred expenditures	\$ 351	\$ 397
Capital assets	\$ 9,187	\$ 9,179
Net long-term debt	\$ 7,392	\$ 7,608
Return on equity	16.00%	7.38%
Debt to equity	78:22	79:21
Number of customers	1 502 640	1 473 146
Rate increase	0%	0%

B.C.Hydro's net income of \$339 million for the year ended March 31, 1997, was \$189 million higher than 1996. The increase in net income was principally due to an increase in both electricity trade and domestic revenues, and decreased finance charges. These favorable factors were partially offset by costs relating to an Early Retirement Incentive Program, increased depreciation and energy costs, and higher operations, maintenance and administration costs as a result of significant non-recurring costs incurred during the year.

A combination of factors led to increased electricity trade sales in fiscal 1997. A high level of inflows into B.C.Hydro's reservoirs resulted in spill conditions which were mitigated by increasing generation and selling the excess energy on the electricity trade market. In June 1996, the first of two sinkholes was discovered in the crest of the W.A.C. Bennett Dam. As a precautionary measure, the provincial Comptroller of Water Rights directed B.C.Hydro to draw down the water level in the Williston reservoir. This draw down also contributed to increased short-term electricity trade sales. The increased generation and sales resulted in higher overall energy costs than the prior year, but a reduced unit cost of energy as a higher proportion of energy requirements was met using low-cost hydro generation. Operations, maintenance and administration costs during the year were adversely impacted by investigation, surveillance and remediation costs totaling \$28 million associated with the sinkholes.

Customer growth resulted in higher residential and light industrial and commercial revenues compared with the previous year. Colder weather conditions in 1996/97 also contributed to the increase in revenues from residential customers. These increases were partially offset by reduced large industrial revenues and sales to other utilities.

Lower short-term interest rates and refinancing of U.S. debt at a lower rate were the primary reasons for a decrease in finance charges. Capital gains in the U.S. sinking fund and a lower volume of debt also contributed to the reduction.

Revenues

RESIDENTIAL

Residential revenues of \$866 million were \$44 million, or 5.4 per cent higher than the previous year. Weather conditions averaged 8 per cent colder than last year in the Lower Mainland, Northern and Vancouver Island regions increasing revenues by approximately \$26 million. More than 26 000 residential customers were added to Hydro's system during fiscal 1997 contributing approximately \$18 million to revenues.

LIGHT INDUSTRIAL AND COMMERCIAL

Light industrial and commercial revenues of \$809 million increased by \$19 million, or 2.4 per cent, over 1996. Most of this increase resulted from customer growth, with a total of 2479 new customers added during the year.

LARGE INDUSTRIAL

Large industrial revenues were \$471 million compared with \$492 million the previous year. Mine closures, temporary pulp and paper plant shutdowns and decreased sales to chemical customers, partially due to reduced demand for chemicals by the pulp and paper industry, resulted in lower revenues in fiscal 1997. The implementation of the Real-Time Pricing option, effective January 31, 1996, also resulted in lower large industrial revenues. Under Real-Time Pricing, industrial customers pay the standard tariff rate for their historic electricity use and market-based prices for energy consumption above that level. This provides customers with the ability to reduce their costs by altering their energy use patterns. In limited cases, where they could not otherwise remain competitive in British Columbia, customers have been allowed access to market-based prices for energy consumption above 50 per cent of their historic use.

ELECTRICITY TRADE

Electricity trade revenues of \$164 million increased by \$113 million compared with the previous year. A high volume of surplus energy was available for sale in the electricity trade market as a result of 17 per cent higher than average inflows into the reservoirs and from the draw down of the Williston Lake reservoir as a precautionary measure due to the sinkholes detected at W.A.C. Bennett Dam. Total short-term sales increased from \$23 million on sales of 1743 GW•h in 1996 to \$138 million on sales of 8993 GW•h in 1997. The average price for short-term sales increased 14.1 per cent from \$13.50 per MW•h in 1996 to \$15.40 per MW•h in 1997. Long-term revenues decreased from \$28 million on sales of 684 GW•h in 1996 to \$25 million on sales of 833 GW•h in 1997.

Electricity Trade Revenues

(in \$ millions)



Energy Costs	(millions of dollars)		(gigawatt-hours)		(cents per kW•h)	
	1997	1996	1997	1996	1997	1996
Hydro	\$ 296	\$ 239	53 768	42 029	.55	.57
Thermal	9	52	428	3 502	2.06	1.48
IPP purchases	90	89	1 587	1 585	5.65	5.62
Non-integrated	14	13	226	188	6.33	6.91
Other energy purchases	85	95	3 769	3 879	2.26	2.45
Other	20	11				
	\$ 514	\$ 499	59 778	51 183	.86	.97

Energy costs of \$514 million increased by \$15 million, or 3.0 per cent, compared with the previous year. This compares with a 16.4 per cent increase in sales volumes. High reservoir levels earlier in the year, greater water inflows into the reservoirs and the required draw down of Williston Lake reservoir allowed B.C.Hydro to use a greater proportion of low-cost hydro generation to meet its energy requirements. The increased use of hydro generation allowed for reductions in short-term energy purchases and curtailed use of the Burrard Thermal Generating Station which resulted in a significantly lower average unit cost of energy compared with fiscal 1996.

Operations, Maintenance and Administration Operations, maintenance and administration (OMA) expenses of \$415 million were \$17 million higher than 1996. OMA costs increased primarily because of \$28 million of costs incurred in relation to two sinkholes discovered at W.A.C. Bennett Dam. B.C.Hydro carried on 24-hour surveillance for precautionary reasons while conducting extensive investigations into the cause and extent of the damage. Repair work on the sinkholes commenced in March 1997 and was completed in May. A long-term monitoring plan to provide continuing assurance of the dam's safety has been presented to the Water Comptroller. Aside from costs associated with the sinkholes, OMA expenses declined by 2.8 per cent, or \$11 million, despite more than 29 000 new customers being added to the electric system during 1997. The savings reflect Hydro's continuing efforts to manage costs and to be one of the most efficient utilities in North America.

Depreciation and Amortization Depreciation and amortization was \$322 million compared with \$307 million for the previous year. The increase reflects more assets in service primarily due to customer growth and consequent system reinforcements. The \$15 million increase in depreciation and amortization also includes \$3 million due to additional expenditures on demand-side management programs.

Finance Charges	(millions of dollars)		
	1997	1996	Change
	\$ 625	\$ 746	\$ 121
Changes:			
Interest rates			\$ 115
Volume of debt			28
Interest on federal sales tax refund			(10)
Sinking funds			(7)
Other			(5)
			\$121

Lower short-term borrowing rates, the refinancing of \$800 million U.S. debt at a lower rate and a lower average volume of net debt were the primary reasons for a \$121 million decrease in finance charges. U.S. bonds with original interest rates ranging from 15.0 to 15.5 per cent were refinanced with bonds ranging from 6.5 to 7.25 per cent. Canadian interest rates on variable rate debt declined 36.6 per cent from an average of 7.4 per cent in 1996 to 4.69 per cent in 1997. In addition, \$17 million of capital gains were realized in the U.S. sinking fund.

Early Retirement Incentive Program

In January 1997, B.C.Hydro implemented a voluntary Early Retirement Incentive Program (ERIP) which provided eligible employees the opportunity to retire on more favorable terms than under normal conditions. The estimated one-time cost of this program is \$19 million. Annual cost savings as a result of ERIP are expected to be approximately \$6 million per year.

Capital Expenditures

B.C.Hydro's capital expenditures, excluding demand-side management programs, such as Power Smart, totaled \$328 million in 1997 compared with \$364 million for the previous year. One half of these expenditures, \$164 million, were required for distribution system expansion and improvements to service customer growth. A total of \$64 million was incurred on generation upgrade, replacement and safety projects while \$53 million was spent on other substation, transmission line, and control and communications projects. Generation upgrade costs include \$22 million for the Burrard Thermal Upgrade Project, a necessary expenditure to comply with environmental requirements and to help supply future load. The 1997 expenditures at Burrard Thermal primarily relate to the upgrade of one of the six generating units including installation of a selective catalytic reduction system, replacement of high-pressure heaters and rehabilitation of the boiler and control systems. Asbestos abatement and environmental system upgrading and rehabilitation costs are also included in the 1997 expenditures. This work completed upgrading of the second unit. Upgraded units are achieving a 90 per cent reduction in emissions of oxides of nitrogen (NOx), a 10 MW per unit increase in generation output, a 4 per cent improvement in thermal efficiency and a 15 per cent increase in unit availability. The generation upgrade costs also include \$17 million for the Stave Falls Powerplant Replacement. Work on this project began in November 1995 and is expected to be completed in late 1999. The 75 year-old powerplant is being rebuilt to improve reliability and increase output. The new powerhouse will provide electrical service to an additional 8000 homes.

Long-Term Debt

Long-term debt, net of sinking funds and temporary investments, was \$7,392 million as at March 31, 1997, compared with \$7,608 million as at the end of the prior year. Cash flow from operations was more than enough to cover capital expenditures and the Payment to the Province allowing for the \$216 million reduction in net long-term debt by the end of the year.

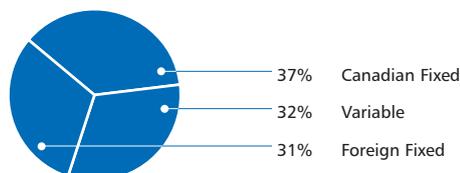
Debt issues for 1997 totaled \$727 million, while redemptions amounted to \$1,724 million. These redemptions were partially prefunded with a U.S. \$500 million debt issue in fiscal 1996. Refinancing of debt during fiscal 1997 resulted in significant reductions in finance charges. A total of U.S. \$800 million U.S. bonds were refinanced at rates ranging from 6.5 per cent to 7.25 per cent compared with their original rates of 15.0 per cent to 15.5 per cent. Canadian bonds, totaling \$475 million and with interest rates ranging from 8.7 per cent to 10.25 per cent, were also called and refinanced at substantially lower rates.

B.C.Hydro used swaps during fiscal 1997 to rebalance its debt portfolio to take advantage of favorable interest rates. Variable rate debt was increased by converting fixed rate obligations into floating rate obligations as interest rates declined over the year. At March 31, 1997, floating, or variable, rate debt was 32 per cent of total net debt compared with 25 per cent in the previous year.

Financing activities during the year allowed Hydro to reduce the weighted average interest rate on its long-term debt to 8.5 per cent at March 31, 1997, compared to 9.7 per cent a year earlier and resulted in \$84 million in interest savings over the previous year.

Net Debt Portfolio: Interest Rate & Foreign Exchange Exposure

Net debt as at March 31, 1997



Payment to the Province

(millions of dollars unless otherwise stated)

	1997	1996
Actual rate of return	16.00%	7.38%
Allowed rate of return ¹	14.81%	15.91%
Payment to the Province	\$ 279	\$ 115

¹ B.C.Hydro's allowed 1995 rate of return was approved by the BCUC in its decision of November 24, 1994. The 1997 and 1996 rates of return were calculated by B.C.Hydro using the same method as 1995, but no application has been made to the BCUC to confirm these rates.

The "Payment to the Province" was \$279 million for fiscal 1997 compared with \$115 million for the previous year due to a \$189 million increase in net income. For the fiscal years 1997 to 1999, Special Directive No.2, which defines the calculation of the Payment to the Province, has been amended to require B.C.Hydro to calculate its payment based on 85 per cent of distributable surplus, regardless of the actual rate of return on equity. Without the amendment, 85 per cent of earnings above the allowed 14.81 per cent return on equity would have been transferred to a Rate Stabilization Account rather than being paid to the Province.

In addition to the above payment, B.C.Hydro paid \$465 million in water rentals, school taxes, grants and capital tax to provincial and municipal governments in fiscal 1997.

Outlook

Electricity Industry

The electric utility industry is continuing to change at an unprecedented rate with the traditional monopoly environment making way for increased competition. To date, competition for B.C.Hydro has been limited to direct competition for export sales and indirect competition for retail sales to customers with alternatives such as more efficient technology, fuel switching and self-generation. B.C.Hydro now also faces competition for sales to its two wholesale customers within B.C. with the filing of new Wholesale Transmission Service tariffs. Competition for retail customers, while not directly available in B.C. at this time, is quickly becoming a reality in other jurisdictions. Large electricity consumers are competing in global markets and are looking for opportunities to lower their electricity costs. The B.C. government has announced its interest in examining retail competition within B.C. and has appointed a task force which will provide recommendations and options to the government on potential changes to the electricity market. B.C.Hydro, as well as other industry stakeholders, are taking an active role in advising the task force. A preliminary report is to be produced by the task force this fall and a final report is due December 31, 1997.

Corporate Strategy

As the industry becomes increasingly competitive, B.C.Hydro must focus on optimizing value to its customers and shareholder. This means ensuring retention of existing customers as well as developing new sources of revenues and increasing the productivity of spending.

The evolution of electricity markets outside the province has produced many firms that will compete for B.C.Hydro's traditional customers should the opportunity arise. Prices will continue to be a driving force in attracting customers. Aside from price, a key factor for consumers is the range of products and services from which they can choose. B.C.Hydro's competitive position will largely be determined by the prices, products and services that it is able to offer. B.C.Hydro will pursue a strategy of building customer loyalty by strengthening customer relationships and developing and providing energy-related value-added products.

Currently under review, our new Strategic Business Plan will help guide the corporation through the many changes taking place in the electricity industry and will help to position Hydro to take advantage of opportunities as they arise.

To enhance financial efficiency and productivity B.C.Hydro will continue to improve the efficiency of its business processes, reduce operating costs and finance charges, and increase the productivity of existing and new assets. B.C.Hydro will look for opportunities to make investments and purchases which support profitable growth and fix, sell or close under-performing products, services or businesses.

A more competitive environment also increases the importance of managing the different business risks inherent in the marketplace. B.C.Hydro is currently conducting a comprehensive evaluation of risks impacting its business, assessing the level of risk that is acceptable and will implement strategies to manage evolving business risks.

B.C.Hydro is organized into three distinct functional business units – Power Supply, Transmission and Distribution, and Marketing and Customer Services. This structure facilitates placing responsibility with the people who are most knowledgeable about each of the key functions of B.C.Hydro. In order to ensure that each group acts in the benefit of B.C.Hydro and its stakeholders as a whole and to encourage a focus throughout the organization on optimizing value to the shareholder, B.C.Hydro is in the process of implementing shareholder value added (SVA) as a performance measurement tool. SVA measures financial returns to a shareholder. It is calculated as net operating profit less a capital charge for the value of assets used. To enhance SVA, returns must be greater than risk-adjusted returns offered by other investments. The implementation of this performance measure will help to ensure that B.C.Hydro is clearly focused on the key drivers of its business that lead to the creation of value for its stakeholders.

Revenue and Expenses – Three Year Forecast

Despite no planned rate increases, B.C.Hydro expects to continue to achieve strong financial results as net income is expected to remain high over the next three years.

Domestic revenues are expected to increase by an average of 2.8 per cent annually over the next three years mainly as a result of higher revenues from population growth and from the metal mining sector due to the start up of three new mines. The continuous shift towards a more service-based economy, growth in tourism and a growing demand for commercial floor space is also expected to increase revenues.

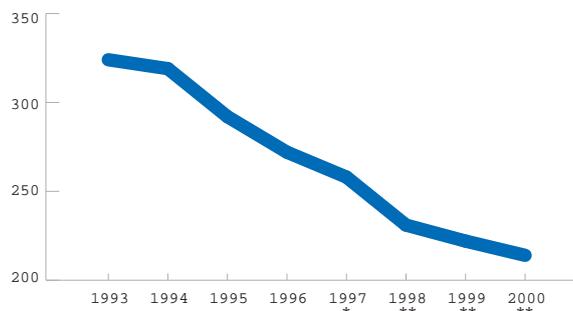
Fiscal 1997 electricity trade sales were unusually high as a result of an abundance of surplus energy for sale due to the significantly higher than average inflows into reservoirs during the year and the drawdown of the Williston Reservoir level due to the sinkholes at the W.A.C. Bennett Dam. A marketing strategy that places an increased focus on buying and reselling energy in addition to selling surplus from B.C.Hydro's system is expected to result in the increases in fiscal 1999 and 2000.

Energy costs are estimated to increase by 29 per cent over the next three years as the demand for energy will continue to exceed the capacity available from the existing Hydro system and purchases from more expensive energy suppliers will be required to meet domestic demand. System requirements not met through hydro generation or firm purchase commitments are fulfilled through the operation of the Burrard Thermal Generating Station and other discretionary energy purchases.

Operations, maintenance and administration (OMA) expenditures are expected to be significantly below the fiscal 1997 level for each of the next three years. Reduced costs, as a result of efficiency gains and the completion of a seven year project to reduce backlog maintenance, are expected to offset increases due to inflation and the higher cost of serving an increased customer base. Fiscal 1997 costs were unusually high due to approximately \$28 million in investigation, surveillance and remediation costs associated with two sinkholes discovered at W.A.C. Bennett Dam.

OMA Per Customer

(in 1997 dollars)



* Excludes \$28 million in costs related to sinkholes at W.A.C. Bennett Dam
** Denotes forecasted years

Capital Expenditures

Capital expenditures, excluding demand-side management programs, are planned at approximately \$400 million per year for the next three years. The capital investments, primarily related to transmission, generation and distribution system expansions and improvements, are necessary to meet expected growth in energy demand. Planned electric system projects include further work on the replacement of the 85 year old Stave Falls hydroelectric station near Mission in the Fraser Valley which is scheduled to come into service in 1999. Planned capital projects also include the installation of a third selective catalytic reduction unit as part of the ongoing upgrade project at Burrard Thermal.

Long-Term Debt

Cash generated from operations is expected to exceed funding requirements for investment in fixed assets and the Payment to the Province in fiscal 1998, 1999 and 2000. As a result, long-term debt, net of sinking funds and temporary investments, is expected to decline over the next three years from a level of \$7,392 million at the end of fiscal 1997 to \$7,021 million by the end of fiscal 2000. U.S. debt of \$450 million, carrying an interest rate of 12.5 per cent, is expected to be called in fiscal 1999 and replaced with new issues bearing lower interest rates. The reduced volume of debt and lower interest rates are expected to result in a decline of over 4 per cent in finance charges by fiscal 2000 compared with fiscal 1997.

1997 Consolidated Financial Statements

Management Report

The consolidated financial statements of British Columbia Hydro and Power Authority are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada, consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 7, 1997. The consolidated financial statements have also been reviewed by the Finance Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

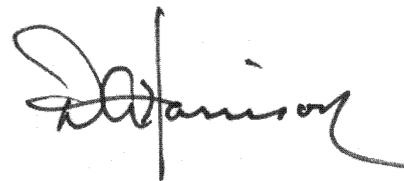
Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel, and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Finance Committee.

The financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles. The Report of the Auditors, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Finance Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Finance Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility, and to review the financial statements before recommending approval by the Board of Directors. The internal and external auditors have full and open access to the Finance Committee, with and without the presence of management.



Michael Costello
President and Chief Executive Officer



David A. Harrison
Senior Vice-President,
Corporate & Financial Affairs
and Chief Financial Officer

Vancouver, Canada
May 7, 1997

Report of the Auditors

The Lieutenant Governor in Council, Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 1997 and the consolidated statements of operations, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 1997 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Vancouver, Canada
May 7, 1997

Consolidated Statement of Operations for the years ended March 31

(in millions)	1997	1996
Revenues		
Domestic		
Residential	\$ 866	\$ 822
Light industrial and commercial	809	790
Large industrial	471	492
Other energy sales	67	78
Miscellaneous	26	36
	2,239	2,218
Electricity trade	164	51
	2,403	2,269
Expenses		
Energy costs (Note 2)	514	499
Operations, maintenance and administration	415	398
Taxes (Note 3)	169	169
Depreciation and amortization (Note 4)	322	307
	1,420	1,373
Income Before Finance Charges and Early Retirement Incentive Program		893
896		
Finance charges (Note 5)	625	746
Income Before Early Retirement Incentive Program	358	150
Early Retirement Incentive Program (Note 6)	19	-
Net Income	\$ 339	\$ 150

for the years ended March 31

(in millions)	1997	1996
Retained earnings, beginning of year	\$ 1,141	\$ 1,106
Net income	339	150
Payment to the Province (Note 1)	(279)	(115)
Retained earnings, end of year	\$ 1,201	\$ 1,141

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet as at March 31

(in millions)	1997	1996
ASSETS		
Capital Assets (Note 7)		
Capital assets in service	\$ 13,188	\$ 12,957
Less accumulated depreciation	4,183	3,974
	9,005	8,983
Unfinished construction	182	196
	9,187	9,179
Current Assets		
Temporary investments	44	16
Accounts receivable and accrued revenue	402	385
Materials and supplies	72	78
Prepaid expenses	61	109
	579	588
Other Assets and Deferred Charges		
Investments (Note 8)	12	8
Sinking funds (Note 9)	995	1,726
Demand-side management programs	227	233
Deferred debt costs (Note 10)	456	390
	1,690	2,357
	\$ 11,456	\$ 12,124
LIABILITIES AND EQUITY		
Long-term debt net of sinking funds	\$ 7,222	\$ 7,462
Sinking funds presented as assets	995	1,726
Long-Term Debt (Notes 11,12)	8,217	9,188
Foreign Currency Contracts (Note 12)	121	54
Current Liabilities		
Current portion of long-term debt	214	162
Accounts payable and accrued liabilities	312	316
Accrued interest	136	210
Accrued Payment to the Province	279	115
	941	803
Deferred Credits and Other Liabilities		
Provision for future removal and site restoration costs		59
46 Deferred revenue	146	130
Contributions in aid of construction	513	495
Contributions arising from the Columbia River Treaty	258	267
	976	938
Retained Earnings	1,201	1,141
	\$ 11,456	\$ 12,124

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Brian R.D. Smith, Q.C.
Chair

Gordon Green
Chair, Finance Committee

Consolidated Statement of Changes in Financial Position for the years ended March 31

(in millions)	1997	1996
OPERATING ACTIVITIES		
Net income	\$ 339	\$ 150
Depreciation and amortization (Note 4)	332	317
Other non-cash items	28	38
	699	505
Working capital changes	122	(145)
Funds provided by operating activities	821	360
INVESTING ACTIVITIES		
Loan receivable	–	115
Investments	(4)	(8)
Capital asset expenditures	(328)	(364)
Contributions in aid of construction	48	51
Net proceeds from property sales	2	–
Demand-side management programs	(23)	(33)
Funds used for investing activities	(305)	(239)
FINANCING ACTIVITIES		
Bonds, notes and debentures		
– issued	727	885
– retired	(1,724)	(554)
Revolving borrowings	(69)	(162)
Repurchased debt	180	–
Sinking funds	731	(148)
Deferred debt costs	(54)	(22)
Funds used for financing activities	(209)	(1)
PAYMENT TO THE PROVINCE (Note 1)	(279)	(115)
INCREASE IN FUNDS	28	5
FUNDS AT BEGINNING OF YEAR	16	11
FUNDS AT END OF YEAR	\$ 44	\$ 16

Funds consist of temporary investments.

See accompanying notes to consolidated financial statements.

Significant Accounting Policies

PURPOSE

British Columbia Hydro and Power Authority ("B.C.Hydro"), established in 1962 as a Crown corporation of the Province of British Columbia (the "Province") by enactment of the Hydro and Power Authority Act, has a corporate mission to support the development of the Province through the efficient supply of electricity. B.C.Hydro is subject to regulation (see Note 1) by the British Columbia Utilities Commission (the "Commission") which, amongst other things, approves the rates B.C.Hydro charges for its services.

CONSOLIDATION

The consolidated financial statements include the financial statements of B.C.Hydro and its principal wholly-owned subsidiaries British Columbia Hydro International Limited, British Columbia Power Exchange Corporation, Powertech Labs Inc. and Westech Information Systems Inc.

REVENUES

Domestic revenues comprise sales to customers within the Province and sales of firm energy to those outside the Province under long-term contracts which are reflected in B.C.Hydro's domestic load requirements. Other sales outside the Province are classified as electricity trade.

Revenue is recognized on the basis of cyclical billings and also includes electricity deliveries not yet billed.

FOREIGN CURRENCY TRANSLATION

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian currency at the rate of exchange prevailing at the balance sheet date.

Gains and losses arising from the translation of long-term debt are deferred and amortized over the remaining term of the debt. Annual amortization is determined using a reverse sum-of-remaining-years amortization method, with straight-line amortization in the last four years.

Where foreign currency denominated long-term debt is refinanced in the same currency, any unamortized foreign currency translation gains and losses associated with the refinanced debt are amortized over the shorter of the term to maturity of the new debt or the refinanced debt. Where partial refinancing occurs in the same currency, the unamortized foreign currency translation gains or losses continue to be deferred and amortized on a pro rata basis. Where foreign currency denominated long-term debt is refinanced in a different currency, any unamortized foreign currency translation gains or losses are included in finance charges at the refinancing date.

DEPRECIATION

Capital assets in service are depreciated on an individual or a pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives of B.C.Hydro's main classes of capital assets are:

Generation	
Hydraulic	50 - 100 years
Thermal	20 - 45 years
Distribution	30 - 50 years
Transmission lines	40 - 100 years
Substations	20 - 50 years
Buildings	40 - 45 years
Equipment	4 - 20 years
Service vehicles	7 - 20 years

FINANCE CHARGES CAPITALIZED

Finance charges are capitalized on construction in progress at rates equivalent to B.C.Hydro's average annual cost of borrowing (1997 – 8.23%; 1996 – 9.25%).

CAPITAL ASSETS

Capital assets in service are recorded at cost which includes materials, direct and indirect labor, an appropriate allocation of administration overhead, and finance charges capitalized during construction. Capital assets in service include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Unfinished construction consists of construction in progress and the unamortized balance of studies and abandoned or indefinitely postponed projects. The balance includes materials, direct and indirect labor, finance charges capitalized and an appropriate allocation of administration overhead. Costs are transferred to capital assets in service when the asset is substantially complete and capable of operation at a significant level of capacity.

Costs of studies and abandoned or indefinitely postponed projects are deferred and amortized on a straight-line basis over five years where it is management's intention to recover the costs through future rates.

TEMPORARY INVESTMENTS

Temporary investments consist of cash and short-term investments held by the Province and are valued at the lower of cost and market value.

MATERIALS AND SUPPLIES

Materials and supplies are valued at average cost less provisions for decline in value.

DEMAND-SIDE MANAGEMENT PROGRAMS

Demand-side management programs comprise Power Smart and other energy incentive programs.

Expenditures on Power Smart, including materials, direct labor and applicable portions of administration charges, equipment costs, program advertising and incentives, are deferred and amortized on a straight-line basis over 10 years, except for project feasibility studies which are expensed as incurred.

Incentives provided to assist in the construction of third-party electric generation facilities are deferred and amortized on a straight-line basis over the expected period of operation of the facilities.

DEFERRED DEBT COSTS

Discount and issue costs arising from debt issues are amortized on a straight-line basis over the remaining term of the debt. Premiums on repurchased debt are amortized on a yield basis over the estimated term to settlement of the debt. Premiums arising on the call of existing debt are amortized over the term to maturity of the new debt.

DERIVATIVE FINANCIAL INSTRUMENTS

B.C.Hydro uses derivative financial instruments, principally interest rate and foreign currency swaps, options and forward rate agreements, to manage interest rate and foreign exchange risks related to debt. Derivative financial instruments are always associated with a related risk position.

Payments and receipts under interest rate swap contracts are recognized as adjustments to finance charges. Gains and losses on terminated derivative interest rate or foreign currency swaps, options and forward rate agreements are deferred and amortized over the remaining term of the related contract. Swaption premiums paid, including associated costs incurred during the term of the option, are deferred and amortized to income over the lesser of the term of the debt or term of the related swap.

SINKING FUNDS

Sinking funds are held as individual portfolios or units in a pooled bond fund. Securities included in an individual portfolio are recorded at cost, adjusted by amortization of any discounts or premiums arising on purchase on a yield basis over the estimated term to settlement of the security. Realized gains and losses are included in sinking fund income. Unrealized gains and losses are not recognized. Foreign currency translation gains and losses are deferred and amortized over the weighted average term to maturity of the related debt.

Units in the pooled bond fund are recorded at cost, adjusted by amortization of any realized and unrealized gains and losses on a straight-line basis over the weighted average term to maturity of the related debt.

FUTURE REMOVAL AND SITE RESTORATION COSTS

Provisions for the costs net of expected recoveries for future removal and site restoration arising on the retirement of capital assets are made where appropriate. These costs are charged to depreciation expense on a straight-line basis over the expected useful lives of the related assets. Provisions required are revised periodically in accordance with changes in B.C.Hydro's assumptions and estimates underlying the calculations and with experience arising from the removal of capital assets.

DEFERRED REVENUE

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these Agreements, B.C.Hydro is required to deliver a pre-determined amount of electricity each year for an 80-year period ending in fiscal 2066. In return B.C.Hydro receives approximately U.S. \$22 million each year for a 35-year period ending in fiscal 2020 and U.S. \$100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

CONTRIBUTIONS

Contributions in aid of construction are amounts paid by certain customers toward the cost of capital assets required for the extension of services. These amounts are amortized over the expected useful life of the related assets at a rate equal to the corresponding annual provision for depreciation.

Contributions arising from the Columbia River Treaty relate to three dams built by B.C.Hydro in the mid-1960s to regulate the flow of the Columbia River. Under the Treaty, half the additional electricity generated at downstream plants in the United States resulting from the improved river control belongs to the Province. Under a separate agreement, the Province sold its share of additional electricity to a group of American electric utilities for three periods of 30 years ending in fiscal 1998, 1999 and 2003. The proceeds received were contributed to B.C.Hydro to assist in financing the dams' construction. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the Treaty.

PENSION COSTS AND OTHER POST-RETIREMENT BENEFITS

Pension costs include the current service cost of pension benefits for the year determined by the accrued benefits method prorated on term of service. Pension costs also include amortization of:

- past service benefits and plan enhancements;
- experience gains and losses; and
- the plan surplus existing in fiscal 1987 when the current pension accounting policy was introduced.

Amortization is on a straight-line basis over the expected average remaining service life of pension plan members.

The cost of pension benefits is determined periodically by an independent actuary. Pension fund assets are valued using market-related values.

B.C.Hydro provides certain health care and insurance benefits to its retired employees. The cost of providing these benefits is recognized for accounting purposes as the retirees receive the benefits.

ENVIRONMENTAL EXPENDITURES AND LIABILITIES

Environmental expenditures are incurred specifically to maintain or enhance the quality of the natural and social environment, or to minimize any adverse impact thereon. Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued when environmental expenditures relating to activities of B.C.Hydro are considered likely and the costs can be reasonably estimated.

Notes to Consolidated Financial Statements

Note 1: Regulation

B.C.Hydro is regulated by the Commission, and they are both subject to general or special directions issued by order of the Province. Under Orders in Council dated November 13, 1992, the Province issued Special Directive No. 2 to B.C.Hydro and Special Direction No. 8 to the Commission. Special Directive No. 2 and Special Direction No. 8 have been amended by an Order In Council dated April 3, 1997 and the Tax and Consumer Rate Freeze Act which took effect January 1, 1996.

PAYMENT TO THE PROVINCE

Under Special Directive No. 2, B.C.Hydro is required to make an annual Payment to the Province on or before June 30 of each year, with respect to the financial results of the most recently completed fiscal year. The payment equals 85% of B.C.Hydro's distributable surplus, increased or decreased by the amount of any transfer from or to the Rate Stabilization Account as appropriate, provided the debt:equity ratio of B.C.Hydro after deducting the payment is not greater than 80:20.

Under an Order In Council dated April 3, 1997, transfers to and from the Rate Stabilization Account as per Special Directive No. 2 will not apply for the three fiscal years ended March 31, 1999. This account will remain at a nil balance while this Order In Council is in effect. As at March 31, 1997 there was a nil balance in the Rate Stabilization Account.

Prior to the issuance of the Order In Council dated April 3, 1997, transfers to or from the Rate Stabilization Account were made on the following basis: when B.C.Hydro earned a return on equity in excess of that allowed by the Commission, a transfer was made from unappropriated retained earnings to the Rate Stabilization Account for an amount equal to 85% of the difference between the earned and allowed distributable surplus for the year.

When B.C.Hydro earned a return on equity below that allowed by the Commission, a transfer was made from the Rate Stabilization Account to unappropriated retained earnings for an amount equal to 85% of the difference between the earned and allowed distributable surplus for the year subject to the Rate Stabilization Account remaining positive, allowing the Payment to the Province to be increased to the required amount.

Distributable surplus is defined in the Special Directive as consolidated net income, adjusted by deducting finance charges capitalized during the year net of depreciation charged on capitalized finance charges. Equity is defined as the sum of retained earnings, deferred revenue, contributions arising from the Columbia River Treaty and contributions in aid of construction at the end of the fiscal year. Debt is defined as the sum of revolving borrowings, bonds, notes and debentures, net of related sinking funds, temporary investments and repurchased debt at the end of the fiscal year. These definitions also apply to Special Direction No. 8.

REVENUES

Under Special Direction No. 8, the Commission is required to ensure electricity rates are sufficient to allow B.C.Hydro to achieve an annual rate of return on equity equal to the return allowed, on a pre-income tax basis, by the most comparable investor-owned energy utility regulated under the Utilities Commission Act. Average electricity rate increases for each year are limited to the projected rate of inflation for British Columbia plus two percentage points.

The Tax and Consumer Rate Freeze Act allows no increases in rates charged to residential customers for the period from April 1, 1996 to March 31, 1999.

RETURN ON EQUITY, RATE CHANGES AND APPLICATIONS

Fiscal 1997:

B.C.Hydro filed an updated Wholesale Transmission Services Application with the Commission on February 17, 1997 to address the incremental cost of transmission facility transfer capability and transmission revenue requirements. Interim approval was granted effective April 1, 1997 and a hearing has been scheduled for September 1997.

The Industrial Service Options Rate Design Application to provide large industrial customers with an optional Real-Time Pricing Option which would allow these customers access to market based pricing, and to provide an Optional Curtailable Service Pricing option, was approved by the Commission on July 17, 1996, and this was effective January 31, 1996. This approval is subject to further review by the Commission on July 17, 1997.

The annual rate of return on equity calculated for 1997 is 14.81% (1996 – 15.91%).

Fiscal 1996:

B.C.Hydro filed an Industrial Service Options Rate Design Application with the Commission on January 22, 1996. Interim approval for the Real-Time Pricing option was granted by the Commission effective January 31, 1996.

B.C.Hydro filed a Wholesale Transmission Services Application on November 10, 1995 to provide wholesale transmission and related services. Proposed rates were approved by the Commission effective January 31, 1996.

Note 2: Energy Costs

(in millions)	1997	1996
Water rentals paid to the Province	\$ 296	\$ 239
Electricity purchases	183	188
Fuel	15	58
Transmission charges and other expenses	16	10
Compensation and mitigation costs	4	4
	\$ 514	\$ 499

Electricity trade energy costs included above are \$90 million (1996 – \$40 million) which include specific purchase arrangements to supply electricity trade sales, or where no such arrangements are in place, the energy costs are determined by assigning the highest unit cost of non-firm energy supply to electricity trade revenues. All remaining energy costs are classified as domestic.

Note 3: Taxes

(in millions)	1997			1996		
	Province	Municipalities and Regional Districts	Total	Province	Municipalities and Regional Districts	Total
Capital tax	\$ 28	\$ –	\$ 28	\$ 29	\$ –	\$ 29
School taxes	68	34	102	69	33	102
Grants and other	3	36	39	3	35	38
	\$ 99	\$ 70	\$ 169	\$ 101	\$ 68	\$ 169

All school taxes paid to municipalities and regional districts are remitted to the Province. As a Crown corporation, B.C.Hydro is exempt from federal and provincial income tax.

Note 4: Depreciation and Amortization

(in millions)	1997	1996
Depreciation of capital assets in service	\$ 308	\$ 297
Amortization of contributions arising from the Columbia River Treaty and contributions in aid of construction		(39)
(40) Amortization of studies and abandoned or indefinitely deferred projects		12
12 Amortization of demand-side management programs	29	26
Future removal and site restoration costs	22	22
	332	317
Less classified as operations, maintenance and administration	(10)	(10)
	\$ 322	\$ 307

Note 5: Finance Charges

(in millions)	1997	1996
Interest on bonds, notes and debentures	\$ 761	\$ 878
Interest on revolving borrowings	23	37
Amortization of deferred debt costs:		
Foreign exchange losses	5	4
Discount and issue costs	11	9
Premium on repurchased debt	9	13
Gains on settlement of swaps	(2)	(6)
Other	2	10
	809	945
Less income from:		
Sinking funds	(111)	(118)
Repurchased debt	(37)	(50)
Interest rate and foreign currency swaps	(18)	(1)
Temporary investments	(5)	(2)
Federal sales tax refund interest	-	(10)
	(171)	(181)
	638	764
Less finance charges capitalized to unfinished construction	(13)	(18)
	\$ 625	\$ 746

Included in the above is \$516 million (1996 – \$494 million) in interest paid to the Province, consisting of interest on bonds, notes, debentures and revolving borrowings. As all temporary investments and sinking funds are held in trust by the Province, interest earned on these items is received through the Province.

Note 6: Early Retirement Incentive Program

During fiscal 1997 B.C.Hydro offered an early retirement incentive program to all employees meeting certain criteria for age and service. This program was offered to enhance B.C.Hydro's flexibility in meeting its changing operating environment. The program was accepted by 344 eligible employees and the related costs were charged to income in fiscal 1997.

Note 7: Capital Assets

(in millions)	1997				1996			
	Capital Assets in Service	Accumulated Depreciation	Unfinished Construction	Composite Depreciation Rate	Capital Assets in Service	Accumulated Depreciation	Unfinished Construction	Composite Depreciation Rate
Generation								
Hydraulic	\$ 5,024	\$ 1,263	\$ 51	1.4%	\$ 4,997	\$ 1,193	\$ 47	1.4%
Thermal	287	169	10	2.5	266	165	5	2.0
	<u>5,311</u>	<u>1,432</u>	<u>61</u>		<u>5,263</u>	<u>1,358</u>	<u>52</u>	
Distribution	2,613	752	71	2.5	2,504	743	81	2.4
Transmission lines	2,514	888	15	2.1	2,510	844	17	2.0
Substations	1,747	703	18	3.0	1,703	651	26	3.1
Other								
Land and buildings	418	76	5	2.5	419	68	10	2.3
Equipment	451	265	12	8.3	424	248	10	8.9
Service vehicles	94	56	–	7.9	94	53	–	8.1
Sundry	40	11	–	3.6	40	9	–	3.5
	<u>1,003</u>	<u>408</u>	<u>17</u>		<u>977</u>	<u>378</u>	<u>20</u>	
Total	\$13,188	\$ 4,183	\$ 182		\$12,957	\$ 3,974	\$ 196	

Note 8: Investments

(in millions)	1997	1996
Equity investment in B.C.Hydro International Power Development Corporation, at cost	\$ 4	\$ 4
Loans receivable from B.C.Hydro International Power Development Corporation	5	4
Investment in IPC International Power Corp, at cost	3	–
	<u>\$ 12</u>	<u>\$ 8</u>

British Columbia Hydro International Limited (“BCHIL”), a wholly-owned subsidiary of B.C.Hydro, holds a 40% equity interest in B.C.Hydro International Power Development Corporation (“BCHI Power”) and accounts for this investment using the equity method. During the year BCHIL purchased 46% of the shares of IPC International Power Corp (“IPC”), the holder of the remaining 60% interest of BCHI Power. BCHIL sold this interest in IPC to an independent third party for U.S. \$3 million in April 1997.

BCHI Power, through subsidiary companies, has invested approximately U.S. \$9 million to purchase approximately 33% of the shares of Southern Electric Power Company Limited (“SEPCOL”). SEPCOL, a company incorporated in Pakistan, was formed to build, own and operate the Raiwind power project (“Raiwind project”).

BCHI Power is providing construction management services to the Raiwind project. BCHI Power will also provide operations and maintenance services for a 10-year period upon the Raiwind project being commissioned, which is expected to be in December 1997. B.C.Hydro, as part of its commitment to the Raiwind project, will provide certain of the services committed by BCHI Power. Construction of the Raiwind project is anticipated to cost U.S. \$120 million.

The loans receivable, due in fiscal 1999, comprise a \$3 million note bearing interest at the average prime rate for Canadian dollar commercial loans and a U.S. \$1 million note bearing interest at the average prime rate for U.S. dollar commercial loans. In certain circumstances, BCHI Power may be subject to additional funding of up to U.S. \$8 million in the event of cost overruns and non-performance.

Note 9: Sinking Funds

Sinking funds are held by the Trustee (the Minister of Finance and Corporate Relations for the Province) for the redemption of long-term debt. Sinking funds consist of securities and short-term investments issued or guaranteed by the provincial or federal governments of Canada

or by the government of the United States, paper issued by approved banks and high-grade commercial paper. Sinking fund income is recorded as a reduction of finance charges.

Sinking Funds

(in millions)	1997			1996		
	Individual	Pooled	Total	Individual	Pooled	Total
Sinking funds, beginning of year	\$ 1,061	\$ 665	\$ 1,726	\$ 684	\$ 907	\$ 1,591
Instalments	243	46	289	548	53	601
Income ¹	52	59	111	42	76	118
Debt reduction	(925)	(206)	(1,131)	(200)	(371)	(571)
Foreign exchange ²	(630)	(101)	(731)	390	(242)	148
Change in sinking funds	(630)	(101)	(731)	377	(242)	135
Sinking funds, end of year	\$ 431	\$ 564	\$ 995	\$ 1,061	\$ 665	\$ 1,726

¹ Unamortized deferred gains related to pooled bond funds as at March 31, 1997 are \$54 million (1996 – \$45 million), comprising \$51 million realized (1996 – \$37 million) and \$3 million unrealized (1996 – \$8 million).

² Pooled sinking funds do not contain foreign currency denominated securities.

The sinking fund balances at the balance sheet date include the following investments:

(in millions)	1997		1996	
	Carrying Value	Weighted Average Effective Rate ¹	Carrying Value	Weighted Average Effective Rate
Money market unitized funds ²	\$ 413	4.9%	\$ 101	3.4%
Province of B.C. and B.C. Crown corporation bonds	467	9.2	752	5.7
Federal and other provincial government securities	114	6.7	253	6.4
High-grade commercial paper	–	–	532	5.4
U.S. dollar treasury notes	1	5.6	88	6.9
	\$ 995		\$ 1,726	

¹ Rate calculated on market yield to maturity.

² Investments held in money market unitized funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.

Fair value information for sinking funds is presented in Note 13.

Note 10: Deferred Debt Costs

(in millions)	1997	1996
Unrealized foreign exchange losses	\$ 282	\$ 251
Discount and issue costs	163	95
Premium on repurchased debt	13	31
Swaption	–	12
Unamortized losses (gains) on settlement of swaps	(2)	1
	\$ 456	\$ 390

Note 11: Long-Term Debt

B.C.Hydro's long-term debt comprises bonds, notes and debentures, substantially all of which have annual sinking fund requirements (see Note 15), and revolving borrowings obtained under a borrowing agreement with the Province. B.C.Hydro's debt is either held or guaranteed by the Province.

Under the Hydro and Power Authority Act, B.C.Hydro is subject to a borrowing limit of \$8,800 million after deduction of sinking funds but prior to deduction of repurchased debt. As at March 31, 1997, B.C.Hydro's total debt under the borrowing limit totaled \$7,615 million (1996 – \$7,983 million).

During fiscal 1997, B.C.Hydro issued bonds and debentures totaling \$727 million (1996 – \$885 million) with a weighted average effective interest rate of 5.7% (1996 – 7.0%) and a weighted average term to maturity of 24.4 years (1996 – 26.4 years). As at March 31, 1997, there were 48 Canadian dollar (1996 – 53), 9 U.S. dollar (1996 – 11) and 6 Japanese yen (1996 – 5) bond, note or debenture issues outstanding.

Long-term debt, net of repurchased debt totaling \$179 million (1996 – \$359 million), expressed in Canadian dollars, is summarized in the following table by year of maturity.

(in millions)	1997				1996	
	Canadian	Foreign ¹	Total	Weighted Average Interest Rate ²	Total	Weighted Average Interest Rate ²
Maturing in fiscal:						
1997	\$ –	\$ –	\$ –	– %	\$ 50	8.8%
1998	140	112	252	5.4	267	6.5
1999	102	–	102	9.8	102	9.8
2000	267	326	593	5.0	638	6.2
2001	79	208	287	5.6	79	12.5
2002	284	–	284	10.1	–	–
Total 1997 - 2002 (1 - 5 years)	872	646	1,518	6.4	1,136	7.1
6 - 10 years	1,890	964	2,854	8.6	3,271	9.1
11 - 15 years	377	313	690	8.8	966	8.8
16 - 20 years	350	415 ³	765	11.3	1,745 ³	13.4
21 - 25 years	616	–	616	10.7	600	10.7
26 - 30 years	400	692	1,092	7.6	1,082	7.6
Over 30 years	–	415	415	7.4	–	–
Bonds, notes and debentures	4,505	3,445	7,950	8.5	8,800	9.7
Revolving borrowings	460	21	481	3.5	550	5.8
	\$ 4,965	\$ 3,466	8,431		9,350	
Less:						
Current portion			214		162	
Long-term debt			\$ 8,217		\$ 9,188	

¹ Foreign debt is translated into Canadian dollars at the exchange rates in effect at the balance sheet date.

² The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and notes and the current interest rate in effect at March 31 for floating-rate bonds and notes, all before considering the effect of derivative financial instruments used to manage interest rate risk.

³ Net of repurchased debt of \$179 million (1996 - \$359 million).

The current portion of long-term debt represents the amount of maturing debt which management does not intend to finance from the issue of bonds, notes, debentures or further revolving borrowings extending beyond the next fiscal year.

Total long-term debt, sinking funds and foreign currency contracts are stated in the following table showing the Canadian dollar equivalent of the currency in which they are payable.

Outstanding	(in millions)		1997				1996	
	In	At the closing exchange rates	Foreign	Sinking Funds	Principal Outstanding	Principal	Principal	
	Currency Units	at the balance sheet date ¹	Currency Contracts		Before Hedging	After Hedging	After Hedging	
Canadian	\$ 4,965	\$ 4,965	\$ –	(\$ 561)	\$ 4,404	\$ 5,182	\$ 5,483	
U.S.	\$ 1,957	2,708	–	(430)	2,278	2,375	2,195	
Yen	¥ 67,766	758	121	(4)	875	–	–	
Long-term debt		\$ 8,431	\$ 121	(\$ 995)	\$ 7,557	\$ 7,557	\$ 7,678	

¹ Foreign debt is translated into Canadian dollars at the exchange rates in effect at the balance sheet date.

² Net of repurchased debt of \$129 million in U.S. currency units.

FOREIGN DEBT MANAGEMENT

As at March 31, 1997, B.C.Hydro had hedged U.S. dollar debt, including sinking funds and repurchased debt, totaling U.S. \$440 million with a Canadian dollar equivalent of \$580 million (1996 – U.S. \$1,041 million with a Canadian dollar equivalent of \$1,366 million), resulting in a net foreign currency exposure of U.S. \$1,716 million (1996 – U.S. \$1,611 million) with a Canadian dollar equivalent of \$2,375 million (1996 – \$2,195 million).

REVOLVING BORROWINGS

The authorized borrowing limit under the borrowing agreement is \$2.0 billion, with interest charged based on prevailing money market rates. Revolving borrowings outstanding at March 31, 1997 have a weighted average remaining term to maturity of 60 days (1996 – 65 days).

REDEEMABLE BY THE BOND HOLDER

Certain debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance and Corporate Relations for the Province contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. At March 31, 1997 this debt amounted to \$359 million (1996 – \$377 million), net of related sinking funds, with maturity dates ranging from 1998 to 2010 (1996 – 1998 to 2010).

REDEEMABLE BY B.C.HYDRO

B.C.Hydro debt issues totaling \$833 million (1996 – \$1,381 million), net of related sinking funds and repurchased debt, with coupon rates ranging from 10.0% to 14.5% (1996 – 8.7% to 15.5%), are callable at B.C.Hydro's option with call dates ranging from June 4, 1997 to January 15, 2004 (1996 – April 15, 1996 to January 15, 2004). These debt issues are redeemable at their par value plus a call premium ranging from 0% to 4.1% (1996 – 0% to 6.6%) of the face value of the debt.

EXCHANGEABLE DEBT

B.C.Hydro 9.75% debentures, maturing May 15, 2001, in the principal amount of \$283 million, are exchangeable at the holders' option for an equal principal amount of 9.95% debentures maturing May 15, 2021, during the period March 15 to April 15 of each year from 1997 to 1999.

EXTINGUISHED DEBT

As at March 31, 1997, a total of \$10 million (1996 – \$78 million) of B.C.Hydro debt together with related securities used to extinguish the debt, has been removed from B.C.Hydro's consolidated balance sheet and is considered extinguished for financial reporting purposes.

Note 12: Derivative Financial Instruments

B.C.Hydro employs derivative financial instruments such as interest rate and foreign currency swaps, options and forward exchange contracts to manage exposure to fluctuations in interest and foreign exchange rates. Derivative financial instruments are always associated with a related risk position. Derivative financial instruments are held with the Province, which enters into such agreements with third parties on B.C.Hydro's behalf. B.C.Hydro mitigates risks associated with these instruments through Board-approved policies, limits on the use of and the amount of exposure arising from these instruments, as well as internal monitoring and compliance reporting to senior management.

Under an agreement with the Province, B.C.Hydro also indemnifies the Province for any losses incurred from contracts entered into by the Province on B.C.Hydro's behalf. B.C.Hydro does not anticipate any losses due to the indemnity.

The following interest rate contracts were in place at March 31, 1997 and 1996, with a carrying value of nil at both dates. Average variable rates are based on the effective rates at the balance sheet date and vary over time.

(in millions)	1997	1996
Receive-Fixed Swaps		
Notional amount	\$ 1,250	\$ 725
Weighted average receive rate	7.52%	9.08%
Weighted average pay rate	4.16%	7.29%
Remaining terms	3.0 years	2.8 years
Receive-Floating Swaps		
Notional amount	\$ 675	\$ 1,110
Weighted average receive rate	5.19%	5.55%
Weighted average pay rate	6.97%	6.83%
Remaining terms	6.0 years	9.2 years
Currency Coupon Swap		
Notional pay (\$Cdn.)	-	\$ 116
Notional receive (\$U.S.)	-	\$ 100
Weighted average receive rate	-	15.00%
Weighted average pay rate	-	16.05%
Remaining terms	-	1 month
Swaptions Purchased		
Notional amount	-	\$ 273
B.C.Hydro pays fixed rate if option exercised	-	8.10%
Expiry date of swaption	-	July, 1996

"Notional amount" for a derivative instrument is defined as the contractual amount on which payments are calculated.

The following foreign currency contracts with a carrying value of \$121 million (1996 – \$54 million) were in place at March 31, 1997 and 1996. Such contracts are used to hedge foreign dollar principal and interest payments.

(in millions)	1997	1996
Forward Exchange Contracts		
B.C.Hydro receives foreign currency:		
Notional amount	Cdn. \$ –	Cdn. \$ 63
United States dollar – weighted average exchange rate	–	1.36
Remaining term	–	2 months
Cross Currency Swaps		
B.C.Hydro receives foreign currency:		
United States dollar – notional amount	U.S. \$ 50	U.S. \$ 50
United States dollar – weighted average exchange rate	1.38	1.38
Remaining term	7.2 years	8.2 years
Japanese yen – notional amount	¥ 67,770	¥ 49,131
Japanese yen – weighted average exchange rate	77.93	72.15
Remaining term	2.9 years	3.9 years
B.C.Hydro pays foreign currency:		
United States dollar – notional amount	U.S. \$ 70	U.S. \$ 70
United States dollar – weighted average exchange rate	1.41	1.41
Remaining term	7.2 years	8.2 years

“Notional amount” for a derivative instrument is defined as the contractual amount on which payments are calculated.

CREDIT RISK

Derivative financial instruments include an element of risk in the event of failure by one counterparty to meet its obligations. B.C.Hydro is exposed to counterparty risk as a result of indemnifying the Province for losses incurred on contracts entered into by the Province on B.C.Hydro’s behalf. B.C.Hydro manages credit risk by authorizing the Province to deal only with Canadian and international institutions with high credit ratings as determined by Board-approved policies, and by monitoring the credit risk and credit standing of counterparties on a regular basis. B.C.Hydro manages its credit exposure so that there is no substantial concentration of credit risk with a single counterparty.

Note 13: Fair Value of Financial Instruments

At March 31, 1997 and 1996, B.C.Hydro's financial instruments included temporary investments, accounts receivable and accrued revenue, accounts payable and accrued liabilities, accrued interest, accrued Payment to the Province, long-term debt, and interest rate and foreign exchange derivative financial instruments.

The fair value of B.C.Hydro's financial instruments approximates carrying amounts where applicable, except as shown in the table below:

(in millions)	1997		1996	
	Carrying Value ¹	Fair Value ²	Carrying Value ¹	Fair Value ²
Bonds, notes and debentures	\$ (8,129)	\$ (8,879)	\$ (9,159)	\$ (9,826)
Repurchased debt	179	200	359	409
Revolving borrowings ³	(481)	(481)	(550)	(550)
Long-term debt before current portion	(8,431)	(9,160)	(9,350)	(9,967)
Sinking funds	995	1,054	1,726	1,765
Derivative financial instruments				
Foreign currency contracts	(121)	(67)	(54)	(6)
Interest rate swaps	Nil	29	Nil	9

¹ Bracketed amounts represent liabilities.

² Market rates and prices used in determining fair value are at the closing balance sheet date.

³ Due to the short term nature of revolving borrowings, fair value approximates carrying value.

Carrying value represents the amount which is recorded in B.C.Hydro's financial statements using generally accepted accounting principles.

The fair value of bonds, notes and debentures, sinking funds and repurchased debt reflects changes in the general level of interest rates that have occurred since inception. The fair value of bonds, notes and debentures is determined by discounting the expected future cash flows of this debt at market rates for debt with similar terms and conditions. The fair value of sinking fund assets and repurchased debt is determined by discounting the expected future cash flows of these assets at market rates for assets with similar terms and conditions.

The fair value of a derivative financial instrument reflects the amount that B.C.Hydro would receive (or pay) to terminate these instruments at the balance sheet date. The fair value of over-the-counter derivative contracts is determined using pricing models, which take into account market prices and contractual prices of the underlying instruments, as well as time value, yield curve and volatility factors underlying the positions.

Note 14: Pension Costs and Other Post-Retirement Benefits

B.C.Hydro provides a defined benefit pension plan to virtually all employees. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. B.C.Hydro contributes amounts as prescribed by an independent actuary.

The pension costs for the year were actuarially determined for accounting purposes using the following significant assumptions which take into consideration the long term nature of the plan:

- rate used to discount future pension benefits – 7.5% (1996 – 7.5%)
- rate used to estimate interest cost – 7.5% (1996 – 7.5%)
- rate used to estimate return on investments – 7.5% (1996 – 7.5%)
- rate used to escalate salaries – projected inflation + 1.5% (1996 – projected inflation + 1.5%)
- estimated average remaining service life of pension plan members – 12 years (1996 – 12 years)

The most recent valuation is based upon a projection to March 31, 1997 of actuarial results as at December 31, 1994 with respect to accrued pension benefits, and to December 31, 1996 with respect to pension fund assets.

(in millions)	1997	1996
Pension Fund Assets		
Balance, beginning of year	\$ 1,228	\$ 1,118
Employee contributions	15	15
Employer contributions	21	21
Benefits paid	(58)	(56)
Earnings and changes in unrealized investment gains and losses	158	130
Balance, end of year	\$ 1,364	\$ 1,228
Comprised of:		
Assets available for basic pension benefits	\$ 1,213	\$ 1,108
Assets reserved for future indexing	151	120
	\$ 1,364	\$ 1,228
Accrued Pension Benefits		
Balance, beginning of year	\$ 1,125	\$ 1,071
Benefits accrued during the year	36	36
Interest on accrued benefits	81	74
Benefits paid	(58)	(56)
Balance, end of year	\$ 1,184	\$ 1,125
Excess of Pension Fund Assets over Accrued Pension Benefits	\$ 180	\$ 103

Pension costs for the year totaled \$9 million (1996 – \$17 million). In addition to pension benefits, B.C.Hydro provides certain health care and insurance benefits to retired employees. The cost of these benefits totaled \$3 million in 1997 (1996 – \$3 million).

Note 15: Commitments and Contingencies**ENERGY PURCHASE COMMITMENTS**

B.C.Hydro has entered into contracts to purchase energy to meet a portion of its expected annual electricity requirements. The minimum obligations to purchase electricity under these contracts have a total net present value of approximately \$2,200 million, with payments for the next five years being approximately (in millions): 1998 – \$134; 1999 – \$142; 2000 – \$188; 2001 – \$231; 2002 – \$227.

Included in the \$2,200 million is approximately \$500 million relating to a contract to purchase and deliver natural gas at market prices over 20 years. The remaining net present value of minimum obligations relate to commitments to purchase electricity under pre-determined price contracts.

SINKING FUND COMMITMENTS

Substantially all of B.C.Hydro's debt issues have annual sinking fund requirements. The annual sinking fund cash requirements for the next five years are (in millions): 1998 – \$54; 1999 – \$46; 2000 – \$45; 2001 – \$42; 2002 – \$37.

CONTINGENCIES

B.C.Hydro recognizes contingencies as liabilities when they are considered likely and can be reasonably estimated. Other significant contingencies are disclosed in the notes to the financial statements until such time as the outcome or the potential cost can be better determined. While the nature of contingencies makes evaluation highly judgmental, B.C.Hydro is not aware of any matters which could reasonably be expected to have a material impact on its results of operations or financial position that are not already reflected in these financial statements, except as noted below:

ENVIRONMENTAL

As part of its normal operations B.C.Hydro conducts exploratory surveys of its operating facilities to determine the extent of any possible soil contamination. These studies are not in response to any governmental or regulatory directives and the study costs are not material to operations or cash flows. As of March 31, 1997 B.C.Hydro believes it has appropriately recorded all liabilities related to environmental expenditures which are likely and can be reasonably estimated.

Note 16: Comparative Information

Certain amounts in the 1996 financial statements have been reclassified to conform to the presentation used in 1997.

Financial & Operating Statistics

Financial Statistics for the years ended or as at March 31

(millions of dollars)	1997	1996	1995	1994	1993
Revenues	\$ 2,403	\$ 2,269	\$ 2,287	\$ 2,185	\$ 2,178
Expenses					
Energy costs	514	499	511	426	372
Operations, maintenance and administration	415	398	409	425	406
Taxes	169	169	171	170	152
Depreciation and amortization	322	307	287	295	273
Finance charges	625	746	724	679	674
	2,045	2,119	2,102	1,995	1,877
Restructuring costs	19	0	23	¹ 0	0
	2,064	2,119	2,125	1,995	1,877
Net Income	\$ 339	\$ 150	\$ 162	\$ 190	\$ 301
Capital Assets					
At cost	\$ 13,370	\$ 13,153	\$ 12,859	\$ 12,526	\$ 12,153
Less: Accumulated depreciation	4,183	3,974	3,974	3,722	3,501
	3,247				
Net Book Value	\$ 9,187	\$ 9,179	\$ 9,137	\$ 9,025	\$ 8,906
Capital asset expenditures	\$ 328	\$ 364	\$ 412	\$ 430	\$ 514
Less: Contributions in aid of construction	48	51	51	56	48
Net Capital Asset Expenditures	\$ 280	\$ 313	\$ 361	\$ 374	\$ 466
Net Long-Term Debt²	\$ 7,392	\$ 7,608	\$ 7,705	\$ 7,575	\$ 7,213

Unit Revenue and Cost

per kilowatt-hour sold	1997	1996	1995	1994	1993
Domestic revenues	5.01¢	5.00¢	4.98¢	4.97¢	4.77¢
Domestic energy costs	0.95	1.04	0.97	0.88	0.66
Operations, maintenance and administration	0.93	0.90	0.95	1.01	0.97
Taxes	0.38	0.38	0.40	0.40	0.36
Depreciation and amortization	0.72	0.69	0.67	0.70	0.65
Finance charges	1.40	1.68	1.68	1.62	1.60
	4.38	4.69	4.67	4.61	4.24
Restructuring costs	0.04	0.00	0.05 ¹	0.00	0.00
Total expenses	4.42	4.69	4.72	4.61	4.24
Domestic income	0.59¢	0.31¢	0.26¢	0.36¢	0.53¢

¹ Costs for early retirement incentives, severance and moving related to the January 1995 corporate restructuring.

² Consists of long-term debt net of sinking funds including current portion less temporary investments.

Operating Statistics for the years ended or as at March 31

	1997	1996	1995	1994	1993
Installed Generating Capacity (megawatts)					
Hydroelectric ¹	9 746	9 716	9 706	9 706	9 706
Thermal	1 083	1 135	1 132	1 132	1 129
Total	10 829	10 851	10 838	10 838	10 835
Peak One-Hour Demand					
Integrated System (megawatts)	8 267	8 451	8 168	8 059	8 156
Customers					
Residential	1 331 094	1 304 148	1 273 658	1 235 705	1 197 076
Light industrial and commercial	168 457	165 978	162 620	158 570	154 864
Large industrial	87	89	85	82	83
Other	2 960	2 901	2 819	2 781	2 750
Electricity trade	42	30	22	16	22
Total	1 502 640	1 473 146	1 439 204	1 397 154	1 354 795
Electricity Sold (gigawatt-hours)					
Residential	14 167	13 442	12 957	12 442	12 600
Light industrial and commercial	15 201	14 823	14 542	14 086	14 070
Large industrial	14 175	14 569	13 812	14 178	13 785
Other	1 115	1 561	1 743	1 312	1 588
Domestic	44 658	44 395	43 054	42 018	42 043
Electricity trade	9 826	2 427	3 927	2 645	5 643
Total	54 484	46 822	46 981	44 663	47 686
Domestic Change Over Previous Year (%)0.6					
Revenues (millions)		3.1	2.5	(0.1)	3.7
Residential	\$ 866	\$ 822	\$ 792	\$ 762	\$ 744
Light industrial and commercial	809	790	774	751	718
Large industrial	471	492	466	475	441
Other energy sales	67	78	85	73	76
Domestic electric	2,213	2,182	2,117	2,061	1,979
Miscellaneous	26	36	28	29	27
Domestic	2,239	2,218	2,145	2,090	2,006
Electricity trade	164	51	142	95	172
Total	\$ 2,403	\$ 2,269	\$ 2,287	\$ 2,185	\$ 2,178
Average Revenue (per kilowatt-hour)					
Residential	6.1¢	6.1¢	6.1¢	6.1¢	5.9¢
Light industrial and commercial	5.3	5.3	5.3	5.3	5.1
Large industrial	3.3	3.4	3.4	3.4	3.2
Other	6.0	5.0	4.9	5.6	4.8
Electricity trade	1.7	2.1	3.6	3.6	3.0
Average Annual Kilowatt-Hour Use Per Residential Customer					
		10 735	10 409	10 309	10 216
648					10
Lines In Service					
Distribution (kilometres)	54 765	54 488	53 733	53 097	52 219
Transmission (circuit kilometres)		17 800	17 790	17 790	17 460
458					17
Employees²					
Regular	5 129	5 284	5 404	5 290	5 016
Temporary	690	704	813	1 109	1 159
Total	5 819	5 988	6 217	6 399	6 175

¹ Maximum sustained generating capacity.² Prior year headcount has been restated to show active employees only.

Total Requirements for Electricity and Sources of Supply for the years ended March 31

	Installed Generating Capacity (Megawatts)	1997		1996		1995	
		Gigawatt- hours	%	Gigawatt- hours	%	Gigawatt- hours	%
Requirements							
Domestic	10 829	44 658	74.7	44 395	86.8	43 054	84.0
Electricity trade		9 826	16.4	2 427	4.7	3 927	7.7
		54 484	91.1	46 822	91.5	46 981	91.7
Line loss and system use		5 294	8.9	4 361	8.5	4 267	8.3
		59 778	100.0	51 183	100.0	51 248	100.0
Sources Of Supply							
Hydroelectric generation							
Gordon M. Shrum	2 730	17 099	28.6	10 413	20.4	11 738	22.9
Revelstoke	1 843	9 681	16.2	7 221	14.1	7 012	13.7
Mica	1 736	8 926	14.9	6 151	12.0	5 778	11.3
Peace Canyon	700	4 268	7.2	2 584	5.1	2 973	5.8
Kootenay Canal	549	3 367	5.6	3 548	6.9	2 796	5.4
Seven Mile	594	3 248	5.4	3 729	7.3	2 472	4.8
Bridge River	480	2 341	3.9	2 466	4.8	2 453	4.8
Other	1 114	4 404	7.4	5 583	10.9	4 699	9.2
	9 746	53 334	89.2	41 695	81.5	39 921	77.9
Thermal generation							
Burrard	912	428	0.7	3 502	6.8	3 812	7.4
Other	171	66	0.1	65	0.1	65	0.1
Purchases							
Firm		3 681	6.2	4 009	7.8	4 504	8.8
Non-firm		1 835	3.1	1 578	3.1	2 029	4.0
Exchange net		434	0.7	334	0.7	917	1.8
	10 829	59 778	100.0	51 183	100.0	51 248	100.0

B.C.Hydro Performance Report

April 1, 1996 - March 31, 1997

Financial / Operational Account

Operating Results (\$ millions)

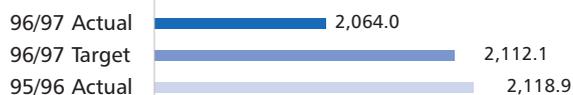
Total Revenue



Total Revenue includes residential, light industrial and commercial, large industrial, other energy sales, miscellaneous revenue, and electricity trade as reported in the B.C.Hydro Consolidated Net Income Statement.

Revenues were higher than Target and the prior year ("Prior") primarily due to higher short-term electricity trade sales. B.C.Hydro took advantage of the required draw down of Williston Lake Reservoir as a result of the sinkholes at W.A.C. Bennett Dam and the higher than average inflows into its reservoirs to generate and sell excess electricity in the export market.

Total Expenditure

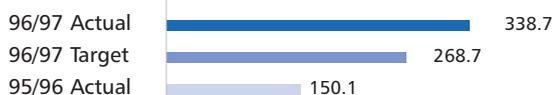


Total Expenditure includes energy costs, operations, maintenance, administration, taxes, depreciation and amortization and finance charges as reported in the B.C.Hydro Consolidated Net Income Statement.

Expenditures were lower than Target and Prior primarily due to reduced finance charges of \$111 million from Target and \$121 million from Prior as a result of B.C.Hydro's debt management strategies which took advantage of lower short-term interest rates experienced in Fiscal 1996/97. This was partially offset by the following:

- Investigation, surveillance and remediation costs of \$28 million related to the sinkholes at the W.A.C. Bennett Dam
- Higher energy costs due to increased generation activity resulting from the sinkholes situation (See "Revenues")
- Estimated costs of \$19 million accrued for the Early Retirement Incentive Program (ERIP), a voluntary early retirement package offered in January 1997 to eligible B.C.Hydro employees

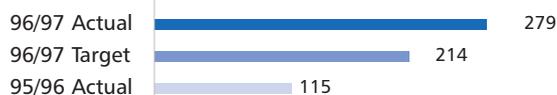
Net Income



Net Income is as reported in the B.C.Hydro Consolidated Net Income Statement and is calculated as revenues less expenditures.

Net Income was \$70 million higher than Target and \$189 million higher than Prior due to higher electricity trade revenues and lower finance charges. (See "Revenues" and "Expenses.")

Dividends Paid



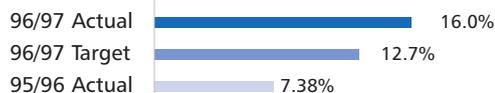
The dividend represents amounts paid to the Provincial Government based on Special Directive No. 2 to B.C.Hydro. Payment is made annually on or before June 30 in respect of the financial results of the most recently completed fiscal year. It is calculated as 85 percent of distributable surplus subject to certain minimum financial standards. Distributable surplus is defined as Consolidated Net Income, adjusted for interest during construction and related depreciation.

The dividend based on the fiscal year ended March 31, 1997, is \$279 million and is due to the Provincial Government on or before June 30, 1997. This amount is higher than the previous year's dividend of \$115 million due to increased net income. (See "Net Income.")

Financial / Operational Account

Assets and Liabilities

Return on Equity



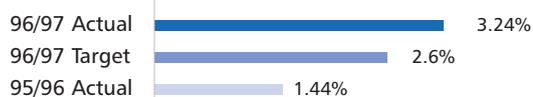
Return on Equity is calculated as Net Income divided by Ending Equity.

Ending Equity = Retained Earnings + Deferred Credits

Deferred Credits = Deferred revenue + Contributions arising from the Columbia River Treaty + Contributions in aid of construction

Return on Equity is higher than Target and Prior due to higher Net Income. (See "Net Income.")

Return on Assets



Return on Assets is calculated as Net Income divided by total assets. The target has been calculated for comparative purposes as Target Net Income for Fiscal 1996/1997 of \$268.7 million divided by Actual total assets as of March 31, 1996, of \$10, 398.3 million.

Return on assets is higher than Target and Prior due to higher Net Income.
(See "Net Income.")

Debt-Equity Ratio



The Debt-Equity Ratio is calculated as $(\text{Debt} / \text{Debt} + \text{Equity}) \times 100$: $(\text{Equity} / \text{Debt} + \text{Equity}) \times 100$

Debt = Bonds + Notes + Debentures + Revolving borrowings – Sinking funds – Term debentures – Repurchased debt – Temporary investments

Equity = Retained Earnings + Deferred Credits

Deferred Credits = Deferred revenue + Contributions arising from the Columbia River Treaty + Contributions in aid of construction

Interest Coverage Ratio



The Interest Coverage Ratio is calculated as:

$[\text{Domestic Income before financing charges} + \text{net electricity trade income} + \text{other income}] / [\text{finance charges} + \text{interest capitalized during construction}]$

The Interest Coverage Ratio is higher than Target and Prior due to higher Net Income and lower finance charges.

Financial / Operational Account

Productivity Measures

System Unit Cost per kilowatt-hour (kW•h)



System Unit Cost is calculated as:

Total expenses / Total kW•h of electricity sold

Total expenses = cost of energy [domestic and electricity trade] + operations, maintenance and administration [OMA] + asset-related expenses [taxes, depreciation and finance charges]

Total kW•h of electricity sold = electricity sold domestically + electricity exported (electricity trade)

System Unit Cost is lower than Target and Prior due to lower finance charges and higher electricity trade sales volume (caused by increased electricity generation from drawdown of Williston Reservoir due to the sinkholes).

Operations, Maintenance & Administration cost per kW•h



OMA per kW•h is determined by dividing total volume of kW•h sold [domestic and electricity trade] into the sum of operations, maintenance and administration expenses.

OMA per kW•h is the same as Target because OMA cost and total volume of kW•h sold were higher than Target proportionally (they were both higher than Target by 7% due to sinkhole costs). OMA per kW•h is lower than Prior due to higher volume of kW•h sold.

Environmental Account

Resource Conservation Measures

Demand-Side Management (cents per kW•h)



Demand-Side Management (DSM) is determined by dividing Power Smart costs incurred in the year (excludes amortization of prior year's DSM costs) by the Present Value of energy savings to be derived from the expenditures made that year.

DSM cents per kW•h saved were better than Target due to program costs for 96/97 being just over half of Target, whereas the savings were close to Target. DSM costs were lower than Prior due to lower program costs.

Customer Service Account

Service Quality Measures

Average System Availability Index (ASAI)



ASAI is the percentage of total time that power is available to customers.

ASAI is lower than Target and Prior due primarily to outages caused by severe winter storms during Fiscal 1996/97.

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A

Gayle Stewart

John Stubbs

Erda Walsh

William F.W. Yee

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K. Gordon Green

Joe Houssian



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D



A

B

D chair



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Gwen L. Johansson

Eduard M. Lavalle

Sophie Pierre

Jim Sinclair



C

E chair



B



B

C chair



C



A

B chair



D



D



B

D

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- B Corporate Resources
- C Environment and Aboriginal Relations
- D Finance
- E Peace River / Williston Reservoir Advisory

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Chair

Michael Costello
President and Chief
Executive Officer



Darlene M. Barnett

Senior Vice-President
Marketing and Customer
Services

(also continues as Vice-President,
Legal Services and General Counsel
until later this year)

David A. Harrison

Senior Vice-President
Corporate and Financial Affairs
and
Chief Financial Officer

Gail P. Sexsmith

Vice-President
Human Resources

P. Donald Swoboda

Senior Vice-President
Power Supply

Ronald J. Threlkeld

Senior Vice-President
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J. Gary Rodford

Director
Executive Operations

Shawn C. Thomas

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Myra E.M. Watson
Acting Corporate Secretary

Debbie C. Lamming
Assistant Corporate Secretary

Anthony T. Morris
Controller

Anthony R. Guglielmin
Treasurer

Subsidiaries 1997

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David A. Harrison
Robert J. Steele
William F.W. Yee

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Sherman D. Kwan
Vice-President
BCH Systems

Geoffrey M. Yendole
Vice-President
BCH Systems

Gabriel G. O'Reilly
Vice-President
HR and Administration

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Robert A. Fairweather
Jack Gerow
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Kenneth G. Peterson
Brian R.D. Smith
Jim Sinclair
Gayle L. Stewart

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Chair

Kenneth G. Peterson
President

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Prabha Kundur
P. Donald Swoboda
Ronald J. Threlkeld
Erda Walsh

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Prabha Kundur
President

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K. Gordon Green
Eduard M. Lavalle
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John O. Stubbs
P. Donald Swoboda

Officers*

Michael Costello
Chair

P. Donald Swoboda
President

James E. Gemmill
Vice-President
Operations and Consulting Services

* The following officers serve in these positions for each of the four subsidiaries:

Myra E.M. Watson
Secretary

Debbie C. Lamming
Assistant Secretary

British Columbia Cataloguing in Publication Data
B.C.Hydro.

Annual report. - 1st (1962/63)-
Annual.

Title from cover.

Merger of: British Columbia Power Commission.

Annual report of the British Columbia Power Commission and British Columbia Electric Company.
Annual report.

Report year ends March 31.

ISSN 0521-0577 = Annual report - British Columbia Hydro and Power Authority

1. B.C.Hydro Periodicals. 2. Electric utilities - British Columbia - Periodicals. 3. Public utilities - British Columbia - Periodicals. I. title.

HD2768.C35874 354.711'008'72 C76-081258-6





We will continue to balance environmental, social and economic responsibilities with our need to serve the province's energy requirements. –

Stave Falls Powerplant replacement project to be completed 1999