



**British Columbia Transmission**  
**CORPORATION™**

## Audited Financial Statements

March 31, 2007

Vancouver, Canada  
May 23, 2007

## MANAGEMENT REPORT

The financial statements of British Columbia Transmission Corporation (BCTC) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles, 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 financial statements have been properly prepared within the framework of the accounting policies summarized in the financial statements and incorporate, within reasonable limits of materiality, all information available at May 23, 2007. The financial statements have also been reviewed by the Audit Committee and approved by the Board of Directors.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safe-guarded 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 Audit Committee.

The financial statements as at March 31, 2007, and for the year then ended have been examined by an independent external auditor. The external auditor's responsibility is to express his opinion on whether the financial statements, in all material respects, fairly present BCTC's financial position, results of operations, retained earnings and cash flows in accordance with Canadian generally accepted accounting principles. The Auditor's Report, which follows, outlines the scope of his examination and his opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit Committee, comprised of directors who are not employees, meets regularly with the external auditor, the internal auditor and management to satisfy itself that each group has properly discharged its responsibility 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 Audit Committee, with and without the presence of management.



Jane Peverett  
President and CEO



Brian Gabel  
Vice President, Corporate  
Services and CFO

Vancouver, Canada

May 23, 2007



Report of the  
Office of the Auditor General  
of British Columbia

*To the Members of the Board of  
British Columbia Transmission Corporation, and*

*To the Minister of Energy, Mines and Petroleum Resources,  
Province of British Columbia:*

I have audited the balance sheet of *British Columbia Transmission Corporation* as at March 31, 2007, and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects, the financial position of *British Columbia Transmission Corporation* as at March 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Victoria, British Columbia  
May 23, 2007*

Errol S. Price, CA  
Deputy Auditor General

## BALANCE SHEET

<i>as at March 31 (in thousands)</i>	2007	2006
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,299	\$ 36,038
Short term investments (Note 4)	7,350	7,242
Accounts receivable	5,156	3,899
Prepaid expenses (Note 7)	1,900	1,360
Due from BC Hydro (Note 9)	-	21,590
Deferral accounts (Note 5)	14,751	-
	<b>42,456</b>	<b>70,129</b>
<b>Other Assets</b> (Note 6)	<b>708</b>	<b>344</b>
<b>Prepaid Expense - Long Term</b> (Note 7)	<b>2,309</b>	<b>3,234</b>
<b>Property, Plant and Equipment</b> (Notes 3 and 8)	<b>100,102</b>	<b>63,628</b>
	<b>\$ 145,575</b>	<b>\$ 137,335</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Current Liabilities</b>		
Current portion of obligations under capital lease (Note 13)	\$ 107	\$ 99
Accounts payable and accrued liabilities	27,051	14,663
Accrued interest	376	376
Deferred revenue	1,692	1,439
Deferred leasehold inducements	1,518	1,752
Due to BC Hydro (Note 9)	16,490	-
Deferral accounts (Note 5)	-	23,393
	<b>47,234</b>	<b>41,722</b>
<b>Accrued Employee Benefits</b> (Notes 3 and 10)	<b>21,467</b>	<b>19,873</b>
<b>Asset Retirement Obligation</b> (Note 11)	<b>927</b>	<b>883</b>
<b>Long Term Debt</b> (Note 12)	<b>30,088</b>	<b>30,140</b>
<b>Obligations Under Capital Lease</b> (Note 13)	<b>6,840</b>	<b>6,947</b>
	<b>106,556</b>	<b>99,565</b>
<b>Shareholder's Equity</b>		
Share capital (Note 14)	20,000	20,000
Retained earnings	19,019	17,770
	<b>39,019</b>	<b>37,770</b>
	<b>\$ 145,575</b>	<b>\$ 137,335</b>

### Commitments and contingencies (Note 19)

See accompanying notes to the financial statements.

Approved on behalf of the Board:



R.T.F. (Bob) Reid  
Chair of the Board



John Gill  
Chair, Audit Committee

## STATEMENT OF OPERATIONS

<i>For the years ended March 31 (in thousands)</i>	<b>2007</b>	2006
<b>Revenue</b>		
Tariff (Note 9)	\$ 68,001	\$ 79,194
Asset management and maintenance (Note 9)	87,300	90,200
Service fees and other (Note 9)	32,148	34,738
Investment Income	2,375	1,214
	<b>189,824</b>	205,346
<b>Expenses</b>		
Cost of market (Note 15)	4,965	4,539
Operations, maintenance and administration (Note 9)	168,219	157,280
Taxes and grants	304	265
Depreciation and amortization (Note 3)	14,162	19,707
Finance charges (Note 16)	1,229	1,994
	<b>188,879</b>	183,785
<b>Income before Deferral Account Transfers</b>	<b>945</b>	21,561
Deferral Accounts (Note 5)	1,797	(8,100)
<b>Net Income</b>	<b>\$ 2,742</b>	\$ 13,461

## STATEMENT OF RETAINED EARNINGS

<i>For the years ended March 31 (in thousands)</i>	<b>2007</b>	2006
<b>Retained Earnings, beginning of year</b>	\$ 17,770	\$ 4,309
Prior period adjustment (Note 20)	(1,493)	-
Net income	2,742	13,461
<b>Retained Earnings, end of year</b>	<b>\$ 19,019</b>	\$ 17,770

See accompanying notes to the financial statements.

## STATEMENT OF CASH FLOWS

<i>For the years ended March 31 (in thousands)</i>	<b>2007</b>	2006
<b>Operating Activities</b>		
Net income	\$ 2,742	\$ 13,461
Adjustment for non-cash items:		
Write-off of long-term receivable	-	985
Depreciation and amortization	14,162	19,707
Other amortization expense included in operations, maintenance and administration	683	806
Accrued employee benefits changes	1,594	1,153
	<b>19,181</b>	<b>36,112</b>
Changes in non-cash working capital:		
Accounts receivable and prepaid expenses	(1,797)	(1,360)
Due from (to) BC Hydro	36,587	(17,222)
Accounts payable	12,388	4,444
Accrued interest and deferred revenue	253	830
Deferral accounts	(38,144)	23,393
	<b>9,287</b>	<b>10,085</b>
<b>Cash provided by operating activities</b>	<b>28,468</b>	<b>46,197</b>
<b>Investing Activities</b>		
Capital asset expenditures	(50,636)	(20,773)
Short term investments	(108)	2,854
Addition to long term prepaid expense	-	(443)
Other assets, net of repayment	(364)	32
<b>Cash used for investing activities</b>	<b>(51,108)</b>	<b>(18,330)</b>
<b>Financing Activities</b>		
Accrued employee benefits payment from BC Hydro	-	1,358
Leasehold inducement	-	291
Principal payments of obligations under capital lease	(99)	(93)
<b>Cash (used for) provided by financing activities</b>	<b>(99)</b>	<b>1,556</b>
<b>(Decrease) Increase in Cash</b>	<b>(22,739)</b>	<b>29,423</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>36,038</b>	<b>6,615</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 13,299</b>	<b>\$ 36,038</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ 1,450	\$ 1,489

See accompanying notes to the financial statements.

**Note 1: Nature of Operations**

The British Columbia Transmission Corporation (“the Company” or “BCTC”) is a provincial Crown corporation incorporated on May 2, 2003 under the BC *Business Corporations Act*. The Company is authorized by the *Transmission Corporation Act* (May 29, 2003) and the Key Agreements designated by the Lieutenant Governor in Council (November 20, 2003) pursuant to that Act to plan, operate and manage the British Columbia Hydro and Power Authority’s (BC Hydro) electric transmission system. As part of the British Columbia Energy Plan, the Company’s mandate is to plan, operate and manage BC Hydro’s transmission assets and provide open and non-discriminatory access to BC’s electric transmission system. BCTC reports to the Minister of Energy, Mines and Petroleum Resources and is regulated by the British Columbia Utilities Commission (the Commission).

**Note 2: Significant Accounting Policies**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in Canada (GAAP) and are expressed in Canadian dollars.

***Use of Estimates***

Management has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare these financial statements in conformity with Canadian generally accepted accounting principles. Actual results could differ from these estimates.

***Regulation***

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline AcG-19 “*Disclosures by Entities Subject to Rate Regulation*” which provides disclosure requirements for rate-regulated entities.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash and units in money market funds with original maturity dates of less than 90 days from the original date of acquisition. Cash and cash equivalents are valued at the lower of cost and fair value.

***Short Term Investments***

Short term investments consist of units in bond pooled funds which invest in government securities or securities guaranteed by government. Units in the pooled funds are recorded at the lower of cost and fair value.

***Property, Plant and Equipment***

Property, plant and equipment are recorded at cost. During the construction of new assets, direct costs plus a portion of overhead costs and related financing costs are capitalized. Construction is transferred to property, plant and equipment in service when the asset is substantially complete and available for use. Upon retirement or disposal, any gain or loss is charged to depreciation and amortization.

Depreciation commences in the month after an asset is put into service. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	45 years
Computer hardware and software	3 – 10 years
Communication equipment	7 – 30 years
Furniture and equipment	5 – 35 years
Leasehold improvements	10 years

***Asset Retirement Obligations***

A provision for the future removal and site restoration costs arising on the retirement of capital assets is made where there is a statutory, contractual or legal obligation upon retirement. When the liability is initially recorded, the costs are capitalized to the carrying cost of the asset. Over time, the liability is accreted to its present value and the capitalized cost is amortized on a straight-line basis over the estimated useful life of the asset.

***Impairment of Long-lived Assets***

Property, plant and equipment and long-term prepaid expenses (long-lived assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment loss is calculated by deducting the estimated fair value of the asset from its carrying value.

***Leases***

Leases are classified as capital or operating depending upon the terms and conditions of the contracts.

Asset values recorded under capital leases are amortized on a straight-line basis over their estimated useful lives. Obligations recorded under capital leases are reduced by lease payments net of imputed interest.

***Deferred Revenue***

Deferred revenue consists principally of amounts received under Preliminary Study Agreements to investigate the requirements for interconnecting independent power generation facilities to the transmission system. The amounts received are deferred and included in income when earned.

***Leasehold Inducements***

Leasehold inducements are monies advanced on an operating lease for premises by the property owner. Inducements are amortized over the period of the lease and reduce lease expenses.

***Revenue Recognition***

BCTC earns revenues under the Open Access Transmission Tariff (OATT). OATT revenue is recognized on an accrual basis as services are provided. Tariffs are applicable to network integration transmission services, point-to-point and ancillary services.

Revenues earned through the provision of non-tariff services to BC Hydro for asset management and maintenance, generation related transmission asset management, and generation dispatch are recognized on a straight-line basis over the term of the contract.

Revenues earned through the provision of non-tariff services to BC Hydro for distribution operations and substation distribution asset management are recognized on an accrual basis as services are provided.

Other non-tariff services include engineering services provided to third parties and are recognized on an accrual basis as services are provided.

***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 dollars at the rate of exchange prevailing at the balance sheet date. Foreign exchange gains and losses are included in the determination of net income.



## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

### ***Pension and Other Retirement Benefit Plans***

The actuarial determination of the accrued benefit obligation for pensions and other retirement benefits uses the projected benefit method prorated on service, which incorporates management's best estimate of future salary levels, health care cost escalation, retirement ages of employees and other actuarial factors. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period, from differences in actuarial experience versus the assumed experience or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The average remaining service period of the active employees is 10 years.

### ***Comparative Figures***

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

## **Note 3: Change in Accounting Estimates**

### **Depreciation**

As a result of a depreciation study that was conducted on property, plant and equipment, the estimated useful lives of various assets were changed. The changes in estimates were effective April 1, 2006 and have been accounted for prospectively. These changes in accounting estimates did not have a material impact on the net income during the year. The impact in subsequent periods is indeterminable and will depend on the level of future capital expenditures and asset disposals. The revised depreciation rates have been approved by the Commission on November 9, 2006 as part of the Negotiated Settlement Agreement on the Fiscal 2006/2007 Transmission Revenue Requirement.

### ***Pension and Other Retirement Benefit Plans***

As a result of updated membership information and assumptions that were included in the actuarial valuation as at December 31, 2005, the pension and post-retirement expenses have increased \$1.0 million over the previous estimate. The impact to subsequent periods is indeterminable and will depend on factors such as discount rates, realized return on plan assets, rate of compensation increases, and medical benefit cost increases.

## **Note 4: Short Term Investments**

<i>(\$ in thousands)</i>	<b>2007</b>	2006
Investments		
Short term bond unitized fund	<b>\$ 3,611</b>	\$ 3,553
Index government bond units	<b>3,739</b>	3,689
<b>Total</b>	<b>\$ 7,350</b>	<b>\$ 7,242</b>

Short term investments are recorded at the lower of cost and fair value.

## **Note 5: Regulation**

Effective April 1, 2005, BCTC is regulated by the Commission which approves the Company's revenue requirement, rates, tariffs and capital expenditures following open, public processes.

BCTC operates under cost of service regulation as prescribed by the Commission. The Company applies to the Commission for the approval of rates recovering an annual revenue requirement. For the year ended March 31, 2007, BCTC earned transmission revenues under tariffs that were projected to recover a 13.10% (F2006 - 13.51%) return on deemed equity. Special Direction No. 9 sets out BCTC's deemed equity structure for the purpose of setting rates.

Currently, BCTC maintains Commission approved deferral accounts for OATT related revenue, emergency maintenance costs, cost of market, and regulatory expenditures. The deferral accounts accumulate the difference between the Commission approved amounts and the actual revenues and costs for recovery from/refund to customers through future rates. The period over which these deferral accounts will be recovered is indeterminable. In the absence of rate regulation, these accounts would not exist.

### **Revenue Deferral Account**

As outlined in the Master Agreement between BCTC and BC Hydro and designated by the Lieutenant Governor in Council on November 20, 2003, BCTC administers OATT for transmission services to recover its own costs as well as costs incurred by BC Hydro. BCTC therefore bears the financial responsibility for funding any short falls or receiving surpluses in the total OATT Revenue Requirement for each fiscal year. The Commission has approved the establishment of the Revenue Deferral Account and other regulatory mechanisms to recover revenue shortfalls or refund revenue surpluses from customers. Consequently, BCTC's deferral account includes a portion pertaining to BC Hydro's Revenue Requirement for transmission services.

BCTC's Revenue Deferral Account captures annual variances between the forecast OATT revenues approved by the BCUC and the actual revenues for both BCTC and BC Hydro. BCTC reports the full amount of its own OATT revenue in Tariff revenue on the statement of operations. Any variance from forecast OATT revenues are deducted from earnings and recorded in the balance sheet deferral account. BC Hydro records its portion of the approved OATT revenues in its financial statements and these revenues are not recorded in the statements of BCTC. However any variance between BC Hydro's actual OATT revenues and BC Hydro's approved OATT revenue is recorded in BCTC's deferral account and an equivalent amount accrued as a receivable or payable to BC Hydro. The Revenue Deferral Account also includes variances relating to BCTC's ancillary service.

### **Emergency Maintenance Deferral Account**

Captures the variances between forecast and actual non-capital emergency maintenance expenditures incurred as a result of unanticipated major equipment failures, extreme weather, wildfires or similar events.

### **Cost of Market Deferral Account**

Captures variances between forecast and actual Cost of Market expenditures. Cost of Market Expenditures include:

- Congestion management expenses relating to the purchase of operating reserves, transmission location credits, unscheduled flow mitigation and operating agreements between control areas, and
- Ancillary services expenses BCTC incurs for all generation-based ancillary services that BCTC, in turn, sells to customers on a cost flow through basis.

## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

### Regulatory Expense Deferral Account

Captures the variances between forecast and actual regulatory costs. These costs include BCTC's counsel, experts and staff, hearing costs associated with the applications and interveners costs as approved by the Commission.

### Grid West Expense Deferral Account

Captures the variances between forecast and actual expenditures. These costs include BCTC's counsel, consultants, travel and other out-of-pocket expenses. This deferral account was closed at the end of F2006 following the dissolution of the Grid West Corporation and wind-up of its affairs.

The balances at March 31, 2007 included in the regulatory deferral accounts are as follows:

2007 (\$ in thousands)	March 31, 2006		BCTC's	BC Hydro's	Net interest	March 31, 2007 Balance
	Balance	Refunded	Revenue Requirement	Revenue Requirement		
Revenue	\$ (18,386)	\$ 19,030	\$ 2,769	\$ 12,665	\$ (311)	\$ 15,767
Emergency Maintenance	(1,320)	1,389	796	-	(52)	813
Cost of Market	(1,263)	1,307	(1,862)	-	(107)	(1,925)
Regulatory Expense	(1,730)	1,814	94	-	(82)	96
Grid West Expense	(694)	728	-	-	(34)	-
Total	\$ (23,393)	\$ 24,268	\$ 1,797	\$ 12,665	\$ (586)	\$ 14,751

The interest recorded in each of the Deferral accounts was based on BCTC's weighted average cost of debt for F2007 4.22%, (F2006 - 4.22%).

BCTC applied and received an Accounting Order from the Commission to reduce BCTC's retained earnings and reduce accounts receivable in F2007 to prevent an unintentional double-recovery of costs (Note 20).

### Note 6: Other Assets

(\$ in thousands)	2007	2006
Mortgages receivable	\$ 699	\$ 330
Deferred debt costs	9	14
	\$ 708	\$ 344

BCTC has an Employee Housing Assistance Program, which grants five-year housing loans to employees. At March 31, 2007, there were five employee mortgages outstanding (2006 – two employees). These loans were issued at market rates and are secured by a second mortgage registered against their property. At the expiry of the mortgage term, the employees have the option to renew the mortgage for an additional five-year term.

**Notes to the Financial Statements** *For the Years Ended March 31, 2007 and 2006*
**Note 7: Prepaid Expenses**

The long term prepaid expense balance as at March 31, 2007 relates to an initial asset utilization fee paid in 2004 to BC Services Asset Corporation (SAC), a subsidiary of BC Hydro, pursuant to an agreement of key principles and terms with BC Hydro, upon which the current Master Services Agreement would be split between Accenture Business Services and BC Hydro and BCTC respectively. This fee is amortized over the utilization period of the related SAC assets, which is estimated to be 3.7 years remaining.

<i>(\$ in thousands)</i>	<b>2007</b>	2006
SAC Asset utilization fee payment	\$ 3,274	\$ 4,208
Less: long term prepaid expense	<b>(2,309)</b>	(3,234)
SAC short term prepaid expense	<b>965</b>	974
Other short term prepaid expenses	<b>935</b>	386
Short term prepaid expense	<b>\$ 1,900</b>	\$ 1,360

**Note 8: Property, Plant and Equipment**

<b>2007</b>			
<i>(\$ in thousands)</i>	Cost	Accumulated Depreciation	Total
Bentall Centre and Edmonds location:			
Buildings under capital lease	\$ 7,297	\$ (877)	\$ 6,420
Computer hardware and software	26,558	(9,035)	17,523
Communication equipment	421	(110)	311
Furniture and equipment	2,594	(567)	2,027
Leasehold improvements	2,707	(747)	1,960
	<b>39,577</b>	<b>(11,336)</b>	<b>28,241</b>
Other locations:			
Buildings	6,304	(4,164)	2,140
Computer hardware and software	20,803	(18,982)	1,821
Communication equipment	25,523	(18,167)	7,356
Furniture and equipment	3,668	(2,890)	778
Asset retirement obligation cost	142	(137)	5
Contribution in Aid of Construction	(144)	100	(44)
	<b>56,296</b>	<b>(44,240)</b>	<b>12,056</b>
	<b>95,873</b>	<b>(55,576)</b>	<b>40,297</b>
Unfinished construction	59,805	-	59,805
Total	<b>\$ 155,678</b>	<b>\$ (55,576)</b>	<b>\$ 100,102</b>

**Notes to the Financial Statements** For the Years Ended March 31, 2007 and 2006

2006

(\$ in thousands)

	Cost	Accumulated Depreciation	Total
<b>Bentall Centre and Edmonds location:</b>			
Buildings under capital lease	\$ 7,297	\$ (614)	\$ 6,683
Computer hardware and software	19,651	(6,254)	13,397
Communication equipment	420	(67)	353
Furniture and equipment	2,595	(391)	2,204
Leasehold improvements	2,660	(381)	2,279
	<u>32,623</u>	<u>(7,707)</u>	<u>24,916</u>
<b>Other locations:</b>			
Buildings	6,304	(2,294)	4,010
Computer hardware and software	19,848	(17,272)	2,576
Communication equipment	25,521	(12,848)	12,673
Furniture and equipment	3,668	(1,428)	2,240
Asset retirement obligation cost	142	(133)	9
Contribution in Aid of Construction	(144)	72	(72)
	<u>55,339</u>	<u>(33,903)</u>	<u>21,436</u>
	87,962	(41,610)	46,352
Unfinished construction	17,276	-	17,276
<b>Total</b>	<b>\$ 105,238</b>	<b>\$ (41,610)</b>	<b>\$ 63,628</b>

The assets at the existing control centres are being replaced by the System Control Modernization Project and are depreciated over the earlier of the remaining life or the period to October 2008 and are shown under "Other Locations".

**Note 9: Transactions with Related Parties**

- (a) BC Hydro pays the Company for the cost of system operation and asset management services and other services as follows:

(\$ in thousands)	2007	2006
Revenues from BC Hydro		
Tariff revenue	\$ 59,358	\$ 71,705
Asset management and maintenance	87,300	90,200
Service fees and other	31,014	32,705
<b>Total revenues from BC Hydro</b>	<b>\$ 177,672</b>	<b>\$ 194,610</b>

- (b) The amounts due (to) from BC Hydro as at March 31 are as follows:

(\$ in thousands)	2007	2006
Tariff billing distributed to BC Hydro (less than) in excess of their Revenue Requirement	\$ (12,285)	\$ 15,304
Accrued tariff billing receivable	10,514	13,148
Service fees and cost recoveries	4,623	6,654
Services performed by BC Hydro and subsidiaries	(19,342)	(13,516)
<b>Total due (to) from BC Hydro</b>	<b>\$ (16,490)</b>	<b>\$ 21,590</b>

## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

- (c) Included in the operations, maintenance and administration expense is \$78,485,000 (2006 - \$75,956,000) for services purchased from BC Hydro and subsidiaries and \$7,293,000 (2006 - \$5,763,000) of labour overhead cost recoveries from BC Hydro. Included in capital expenditures is \$947,000 (2006 - \$395,000) for services purchased from BC Hydro.
- (d) Included in due from BC Hydro and deferred revenue is \$1,199,000 (2006 - \$ 986,000) of engineering and other services from BC Hydro in relation to systems studies.
- (e) In December 2003, the Company entered into lease contracts with BC Hydro for control centre buildings and land (see Note 13). Two building leases valued at BC Hydro's net book value of \$7,297,000 are accounted for as capital leases. These amounts have been included in the financial statements as capital assets and obligations under capital lease. At March 31, 2007, the balance of the obligations under capital lease was \$107,000 (2006 - \$99,000) current and \$6,840,000 (2006 - \$6,947,000) non-current. Included in finance charges is \$514,000 (2006 - \$521,000) of interest expense relating to the capital leases. Other land and building leases with BC Hydro are accounted for as operating leases. Included in the operations, maintenance and administration expense is \$200,000 (2006 - \$200,000) for these operating leases.

### Note 10: Accrued Employee Benefits

<i>(\$ in thousands)</i>	<b>2007</b>	2006
Registered pension plan (see Note 18)	<b>\$ (2,117)</b>	\$ (800)
Supplemental pension plan (see Note 18)	<b>3,557</b>	2,320
Total Accrued benefit liability	<b>1,440</b>	1,520
Post-retirement benefit costs (see Note 18)	<b>9,750</b>	8,490
Time bank liabilities	<b>10,277</b>	9,863
	<b>\$ 21,467</b>	\$ 19,873

The defined benefit costs for the year ended March 31, 2007 were \$4,893,000 (2006 - \$3,217,000).

### Note 11: Asset Retirement Obligation

On April 1, 2004, the Company recorded an asset retirement obligation (ARO) for the system control centre facility as it is legally required to remove the facility at the end of its useful life (estimated to be October 2008) and to restore the site to its original condition in accordance with the lease agreement. The system control centre facility was placed in service by BC Hydro in 1974. This asset was transferred to the Company on December 1, 2003 under the Asset Lease, License and Transfer Agreement. The ARO liability for this facility is estimated to be \$1,000,000 at the end of October 2008. The present value of this ARO liability, calculated to be \$795,000, was recorded in April 2004 using a credit adjusted risk free rate of 5.9%. BC Hydro paid the Company \$778,000 for its share of the ARO liability.

The liability was as follows:

<i>(\$ in thousands)</i>	<b>2007</b>	2006
ARO liability – beginning of period	<b>\$ 883</b>	\$ 842
Accretion expense	<b>44</b>	41
ARO liability – end of period	<b>\$ 927</b>	\$ 883

## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

### Note 12: Long Term Debt

In May 2004, the Company issued a debenture, series BCTR-CD-6(1) to the Province of British Columbia with a face value amount of \$30,000,000, a coupon rate of 4.3% and an effective interest rate of 4.1%. The balance at March 31, 2007 consists of the face value of the debenture, \$30,000,000 and \$88,000 of unamortized premium (2006 – face value of the debenture, \$30,000,000 and \$140,000 of unamortized premium). The debenture is due on December 18, 2008 with interest payable semi-annually in June and December of each year.

The Company currently has no short term borrowings. Under the terms of an agreement with the Province of British Columbia, the Company is authorized to borrow up to \$25,000,000 under the short-term commercial paper program. Interest is charged at the prevailing money market rates. In addition, the Company has available a \$5,000,000 demand revolving line of credit with a chartered bank.

### Note 13: Obligations Under Capital Lease

The Company has land and buildings under capital and operating leases with BC Hydro. The capital leases are for the Lower Mainland and South Interior Control Centres (LMCC and SICC), issued at varying rates of interest of 7.319% and 7.366% per annum compounded monthly and terms of 25 years and 31 years. The System Modernization Control Project is scheduled to go into service in October 2008, which may only affect the LMCC lease. The financial statement impact of the LMCC capital lease is not determinable at this time. The future minimum payments under capital lease with BC Hydro are approximately as follows:

<i>(\$ in thousands)</i>	Capital Leases
2008	\$ 614
2009	614
2010	614
2011	614
2012	614
2013 and subsequent years	12,052
Total future minimum payments	15,122
Less imputed interest	(8,175)
Capital lease liability	6,947
Less: current portion	(107)
Long term portion of capital lease	\$ 6,840

The Company and BC Hydro are in discussions regarding the LMCC lease which the Company proposes to surrender the lease to BC Hydro without payment of any amount for the value of the building as set out in Section 7.5 of the LMCC Building Lease. The timeframe for surrender is to be mutually agreed between the parties and is not determinable at this time.

## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

### Note 14: Share Capital

#### Authorized Share Capital

The Company is authorized to issue 10,000,000 common shares without par value.

#### Common Shares

	2007		2006	
	Shares	Amount	Shares	Amount
Issued at incorporation	1	\$ 1	1	\$ 1
Issued pursuant to Subscription Agreement for cash consideration	1	20,000,000	1	20,000,000
Issued and Outstanding	2	\$ 20,000,001	2	\$ 20,000,001

The Province of British Columbia owns both common shares.

### Note 15: Cost of Market

Cost of market expenses include ancillary service and congestion management costs. Ancillary service costs include scheduling, system control and dispatch, reactive supply and voltage control, regulation and frequency response, energy imbalance, operating reserves and loss compensation. Ancillary service costs are needed with transmission service to maintain reliability within and among the control areas affected by the transmission service. Congestion management costs relate to the purchase of operating reserves, transmission locational credits, unscheduled flow mitigation, and operating agreements between control areas. Congestion management costs are incurred to maximize the transmission capacity available to be contracted by customers.

<i>(\$ in thousands)</i>	2007	2006
Congestion Management	\$ 816	\$ 916
Ancillary Services	4,149	3,623
	\$ 4,965	\$ 4,539

### Note 16: Finance Charges

<i>(\$ in thousands)</i>	2007	2006
Interest on debenture	\$ 1,249	\$ 1,250
Interest on capital leases	514	521
Interest on deferral accounts	586	436
Interest on other	314	95
Less: Interest capitalized to construction	(1,434)	(308)
	\$ 1,229	\$ 1,994

### Note 17: Financial Instruments and Concentration of Risk

#### Fair values

At March 31, 2007, the Company's financial instruments included cash and cash equivalents, short term investments, accounts receivable, other receivables, accounts payable and accrued liabilities, accrued interest, due to BC Hydro, accrued employee benefits, asset retirement



## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

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obligation, long-term debt, and obligations under capital lease. The fair values of the Company's financial instruments approximate carrying amounts unless otherwise disclosed.

### **Credit Risk Management**

BCTC is directly exposed to counterparty credit risk as a result of providing transmission and related services to its customers. BCTC's customers are utilities and their affiliates in the western United States and western Canada. Credit risk is managed by authorizing transactions with only credit-worthy counterparties as determined by BCTC management approved procedures and by monitoring the credit risk and credit standing of customers on a regular basis.

### **Foreign Currency Risk**

BCTC's short-term investments are denominated in Canadian dollars and are not exposed to foreign exchange fluctuations.

### **Interest Rate Risk**

For short term investments, interest rate risk is minimized by investing in short-term fixed income pooled funds which are comprised of Government of Canada and provincial short-term paper. BCTC's investments are managed by bcIMC. The long-term debt bears a fixed interest rate for the loan. Consequently, the long-term debt risk exposure is minimal.

### **Note 18: Employee Benefit Plans**

The Company provides a defined benefit registered pension plan to all employees ("Pension Plan"). 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. The Company contributes amounts as prescribed by an independent actuary towards the cost of providing basic benefits under the plan.

In addition, the Company provides a supplementary pension arrangement that provides additional pension benefits to employees to the extent that their benefits under the registered pension plan are constrained by the maximum pension limits under the *Income Tax Act*. For the purposes of this report, the Supplemental Plan includes the minimum pension guarantee provided by BCTC to five (5) former employees of BC Hydro with prior service under one of the BC public service pension plans, as well as certain enhanced benefits payable to BCTC employees at the Vice-President level and above.

The Company provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least ten years of service and qualify to receive pension benefits.

The Company has measured its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31, 2007. The most recent actuarial valuation of the Pension Plan for funding purposes was as of December 31, 2005, prepared by Mercer Human Resource Consulting. The next actuarial valuation of the Pension Plan for funding purposes is as at December 31, 2008.

## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

On March 31, 2006 a transfer of \$408,964 was made from the Registered Plan to the BC Hydro Pension Plan in respect of 7 employees who elected to transfer their accrued pension from BCTC to BC Hydro in accordance with the Inter-Plan Pension Transfer Agreement.

On April 13, 2006 a transfer of \$102,884 was made from the BC Hydro Pension Plan to the Registered Plan in respect of 4 employees who elected to transfer their accrued pension from BC Hydro to BCTC in accordance with the Inter-Plan Pension Transfer Agreement.

On December 21, 2006 a transfer of \$502,367 was made from the BC Hydro Pension Plan to the Registered Plan in respect of 3 employees who elected to transfer their accrued pension from BC Hydro to BCTC in accordance with the Inter-Plan Pension Transfer Agreement. On that same date, a cash payment of \$674,053 was made by BC Hydro to BCTC in respect of obligations under the Supplemental Plan assumed by BCTC in respect of an employee who elected to transfer his accrued pension from BC Hydro to BCTC in accordance with the Inter-Plan Pension Transfer Agreement. This cash payment is not a plan asset under CICA 3461 as the Supplemental Plan is not a funded arrangement.

Additionally, during the period ended March 31, 2006, \$140,000 was transferred to the BC Hydro Pension Plan in relation to non-pension post-retirement benefits for employees who transferred from BCTC to BC Hydro.

Total cash payments for employee future benefits for 2007 consisting of cash contributed by the Company to its funded pension plan, cash payments directly to beneficiaries for its unfunded other benefit plans was \$4,445,000 (2006 - \$2,572,000).

### Elements of defined benefit costs

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Company current service cost				
Basic benefits	\$ 3,216	\$ 1,961	\$ 550	\$ 332
Indexing benefits	291	266	-	-
Interest cost	2,219	1,729	609	548
Actual return on plan assets	(4,198)	(3,179)	-	-
Special termination benefits	-	110	-	-
Actuarial loss (gain) on accrued benefit obligation	4,040	4,579	473	979
Costs arising in the period	\$ 5,568	\$ 5,466	\$ 1,632	\$ 1,859
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets	1,987	1,427	-	-
Actuarial gain	(3,940)	(4,575)	(354)	(960)
Net periodic pension cost recognized	\$ 3,615	\$ 2,318	\$ 1,278	\$ 899

### Weighted-average assumptions for expense

	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Discount rate	5.4%	6.0%	5.4%	6.0%
Expected long-term rate of return on plan assets	7.0%	7.0%	-	-
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Weighted average health care trend rate - initial	-	-	5.4%	5.8%
Weighted average health care trend rate – ultimate rate reached after 2011	-	-	4.0%	4.0%

**Notes to the Financial Statements** For the Years Ended March 31, 2007 and 2006

## Weighted-average assumptions for disclosure

	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Discount rate	5.25%	5.4%	5.25%	5.4%
Rate of compensation increase	3.5%	3.5%	3.5%	3.5%
Weighted average health care trend rate - initial	-	-	5.1%	5.4%
Weighted average health care trend rate – ultimate reached after 2015	-	-	4.0%	4.0%

## Change in accrued benefit obligation

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Accrued benefit obligation at beginning of period	\$ 45,801	\$ 6,410	\$10,522	\$ 8,816
Obligation assumed from (transferred to) BC Hydro	870	28,518	-	(140)
Additional obligation due to special benefit granted to certain employees	58	-	-	-
Company current service cost				
Basic benefits	3,216	1,961	550	332
Indexing benefits	291	266	-	-
Interest cost	2,219	1,729	609	548
Actual return on plan assets – indexing benefits	1,049	1,046	-	-
Employee contributions				
Basic benefits	1,373	1,249	10	4
Indexing benefits	287	265	-	-
Benefits paid	(826)	(332)	(28)	(17)
Special termination benefit	-	110	-	-
Actuarial loss	3,982	4,579	473	979
Accrued benefit obligation at end of period	\$ 58,320	\$ 45,801	\$12,136	\$ 10,522

## Change in plan assets

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Fair value of plan assets at beginning of period	\$ 40,563	\$ 5,577	\$ -	\$ -
Assets transferred from BC Hydro	196	27,020	-	-
Actual return on plan assets				
Basic benefits	4,196	3,179	-	-
Indexing benefits	1,049	1,046	-	-
Company contributions				
Basic benefits	4,135	2,293	18	13
Indexing benefits	292	266	-	-
Employee contributions				
Basic benefits	1,373	1,249	10	4
Indexing benefits	287	265	-	-
Benefits paid	(826)	(332)	(28)	(17)
Fair value of plan assets at end of period	\$ 51,265	\$ 40,563	\$ -	\$ -

## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

### Reconciliation of funded status to accrued benefit asset

(\$ in thousands)	Pension Plans		Other Benefit Plans	
	2007	2006	2007	2006
Funded status - excess (deficit) at end of period	\$ (7,055)	\$ (5,238)	\$(12,136)	\$(10,522)
Employer contributions after measurement date	-	-	-	-
Unamortized net actuarial loss	5,615	3,718	2,386	2,032
Accrued benefit liability	\$ (1,440)	\$ (1,520)	\$ (9,750)	\$ (8,490)

### Pension Plan assets by asset category

	2007	2006
Equity securities	54%	54%
Debt securities	44%	44%
Cash and short term	2%	2%
Total	100%	100%

Assumed cost trend rates have a significant effect on the amounts reported for the other benefit plans. A 1% change in assumed cost trend rate would have the following effects for 2007:

(\$ in thousands)	1% Increase	1% Decrease
Total of service and interest cost	\$ 336	\$ (242)
Accrued benefit obligation	\$ 2,829	\$ (2,199)

### Note 19: Commitments and Contingencies

- (a) The Company has land and buildings under operating leases with BC Hydro. As well, the Company has entered into agreements with BC Hydro to purchase engineering and field services. The future minimum payments under operating leases and service agreements with BC Hydro are approximately as follows:

(\$ in thousands)	Operating Leases	Service Agreements
2008	\$ 200	\$ 42,850
2009	145	42,850
2010	36	42,850
2011	36	34,280
2012	36	25,710
2013 and subsequent years	698	25,710
Total future minimum payments	\$ 1,151	\$ 214,250

Since 2004, an agreement has been in place between BC Hydro, BCTC and Accenture Business Services (ABS) through which BCTC takes services and pays prices under the Master Services Agreement (MSA) between ABS and BC Hydro. BCTC will continue to take services under this agreement. Since this agreement has been in place there has been no interruption of service to BCTC.

## Notes to the Financial Statements *For the Years Ended March 31, 2007 and 2006*

The Company subleased an operating lease from BC Hydro for land associated with the system control centre. With the implementation of the SCMP project, the system control centre will be replaced. The Company and BC Hydro plan to begin negotiations with the landlord regarding the operating lease.

The future minimum payments on the ten-year lease for Bentall office premises are approximately as follows:

<i>(\$ in thousands)</i>	
2008	\$ 2,438
2009	2,543
2010	2,610
2011	2,626
2012	2,628
2013 to 2014	3,942
	<b>\$ 16,787</b>

- (b) BCTC has entered into several construction contracts totalling \$43,800,000 relating to the System Control Modernization Project.
- (c) As part of the Certificate of Public Convenience and Necessity (CPCN) approval for the Vancouver Island Transmission Reinforcement (VITR) project, there is an incentive and penalty mechanism for managing the project cost. The cost of the project approved by the Commission is \$248,800,000. Under the incentive and penalty mechanism, if the project cost exceeds \$259,000,000, the Company would incur a penalty of 25% of the Company's forecasted approved return on deemed equity for F2009, which is approximately \$1,800,000. Conversely, if project cost is below \$241,500,000, the Company would receive an incentive payment of \$1,800,000. Currently, it is not determinable if the project cost will exceed the penalty threshold.

### **Note 20: Prior Period Adjustment**

In the approved F2005/2006 Revenue Requirement application, the Company included \$1,493,000 of maintenance work as part of OMA costs recovered from customers through rates. The actual costs were funded and capitalized as BC Hydro Transmission capital in F2005/2006 as it was determined that the work performed extended the life of the assets. This will result in an unintentional double recovery of the same costs from customers over the assets' useful life. As agreed during the Negotiated Settlement process, the Company applied and the Commission approved Accounting Order G-11-07 to eliminate the potential double recovery. The Accounting Order requires the Company to recognize the \$1,493,000 as a prior period adjustment.