

NOTE 6: CAPITAL MANAGEMENT

Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Capital requirements are consequently managed through the retention of equity subsequent to the Payment to the Province and the imposed requirement of maintaining a debt to equity ratio not exceeding 80:20.

BC Hydro monitors its capital structure on the basis of its debt to equity ratio. For this purpose, BC Hydro defines debt as revolving borrowings and interest-bearing borrowings less investments held in sinking funds and cash and cash equivalents. Effective April 1, 2008, equity for regulatory purposes comprises retained earnings and accumulated other comprehensive income (loss).

BC Hydro manages its capital so as not to exceed the 80:20 debt to equity ratio as defined by the Province. During the year ended March 31, 2010, there were no changes in the approach to capital management.

The debt to equity ratio, based on equity as defined for regulatory purposes, at March 31, 2010 and March 31, 2009 was as follows:

<i>(in millions)</i>	2010	2009
Total long-term debt, net of sinking funds	\$ 10,705	\$ 9,325
Less: cash and cash equivalents	(9)	(190)
Net Debt	\$ 10,696	\$ 9,135
Retained earnings	2,621	2,221
Accumulated other comprehensive income (loss)	53	(42)
Total Equity	\$ 2,674	\$ 2,179
Net Debt to Equity Ratio for Regulatory Purposes	80 : 20	81 : 19

PAYMENT TO THE PROVINCE

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20. The Payment accrued as at March 31, 2010 is \$47 million (2009—\$ nil) and is capped due to the debt to equity ratio.

NOTE 7: AMORTIZATION

<i>(in millions)</i>	2010	2009
Amortization of property, plant and equipment in service	\$ 418	\$ 359
Amortization of intangible assets	42	41
Amortization of deferred contributions	(37)	(33)
Other	22	28
Total	\$ 445	\$ 395

NOTE 8: FINANCE CHARGES

<i>(in millions)</i>	2010	2009
Interest on long-term debt	\$ 502	\$ 504
Foreign exchange (gains) losses	(34)	33
Other	10	(15)
	478	522
Less: Assigned to unfinished construction	(59)	(50)
Total	\$ 419	\$ 472

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

<i>(in millions)</i>	2010				2009 (Revised Note 2)			
	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value
Generation								
Hydraulic	\$ 6,953	\$ 2,089	\$ 520	\$ 5,384	\$ 5,958	\$ 2,067	\$ 354	\$ 4,245
Thermal	450	288	33	195	427	272	11	166
Diesel	56	28	2	30	49	27	5	27
	7,459	2,405	555	5,609	6,434	2,366	370	4,438
Lines	8,289	3,116	414	5,587	7,870	2,986	321	5,205
Substations	3,023	1,340	193	1,876	2,759	1,295	148	1,612
Other								
Land and buildings	516	205	82	393	445	197	49	297
Equipment	199	118	19	100	181	115	6	72
Computer hardware	84	52	73	105	72	45	58	85
Service vehicles	170	67	30	133	148	63	12	97
Sundry	21	10	8	19	21	10	13	24
	990	452	212	750	867	430	138	575
Total	\$ 19,761	\$ 7,313	\$ 1,374	\$ 13,822	\$ 17,930	\$ 7,077	\$ 977	\$ 11,830

On March 5, 2010, BC Hydro purchased a one-third interest in the Waneta dam and generating facility near Trail, B.C. from Teck Metals Ltd. for proceeds of \$825 million plus \$16 million in transaction costs (Waneta Acquisition). At March 31, 2010, BC Hydro has included its one-third interest in the Waneta dam of \$841 million in Generation assets.

NOTE 10: INTANGIBLE ASSETS

<i>(in millions)</i>		2010			2009 <i>(Revised Note 2)</i>		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value	
Subject to Amortization							
Software	\$ 316	\$ 207	\$ 109	\$ 347	\$ 230	\$ 117	
Internally developed software	46	38	8	—	—	—	
Sundry	33	15	18	31	12	19	
	395	260	135	378	242	136	
Not Subject to Amortization							
Land rights	147	—	147	133	—	133	
Total	\$ 542	\$ 260	\$ 282	\$ 511	\$ 242	\$ 269	

NOTE 11: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

<i>(in millions)</i>		2010		2009	
	Carrying Value	Weighted Average Effective Rate ¹	Carrying Value	Weighted Average Effective Rate ¹	
Money market funds ²	\$ —	— %	\$ 2	0.2 %	
Province and BC Crown Corporation bonds	61	5.4 %	74	4.3 %	
Federal and other provincial government securities	35	5.5 %	39	5.0 %	
Total	\$ 96		\$ 115		

¹ Rate calculated on market yield to maturity.

² Money market funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.