

BC UTILITIES COMMISSION'S DECISION ON BC HYDRO RATES

Yesterday, the BC Utilities Commission released its decision on BC Hydro's extended F17 to F19 rate application and related matters.¹ The BCUC confirmed its interim rate increases of 4% for 2016 and 3.5% for 2017. It rejected the NDP government's ill-considered request for a rate freeze for 2018, as there was no justification under the cost for service model to set the rate increase lower than the maximum allowed under the restrictive 2014 cabinet order.²

Energy minister Mungall expressed disappointment in the Commission's decision, but immediately outlined plans for financial relief targeted at low income customers.³ Her comment that the 3% lift was a BC Liberal rate increase is strange, given that the NDP has retained the previous government's dubious "rate smoothing" deferral account, which is being used to lower the 2018 indicated rate increase from 9% to 3%, with the balance being funded by debt.

The Rate Smoothing Regulatory Account (RSRA) is the key to the previous government's 10-year financial plan, as it allows the recording of future unbilled and uncollected revenue to inflate BC Hydro's annual profits (and the government's revenue) while adding to BC Hydro's debt liability faced by future generations of customers.⁴

During the BCUC review it was revealed that BC Hydro had also been deferring unbilled and uncollected revenue in the Non-Heritage Deferral Account; by 31 March 2016 some \$1.0 billion had been deferred.

The auditor general of Ontario has made it clear that a similar rate smoothing scheme that relies on recording future revenue in that province does not conform to generally accepted accounting principles. The BC auditor general has declared that because the BC Utilities Commission is not independent, as required by the accounting standard for adopting regulatory/deferral accounts, the additions to BC Hydro's regulatory accounts should be reversed.⁵

¹ http://www.bcuc.com/Documents/Proceedings/2018/DOC_50971_03-01-2018_BCH_F17-19_RRA_Decision_WEB.pdf

² Direction 7 limited the increases for the three years to 4%, 3.5% and 3%.

³ <http://vancouver.sun.com/news/politics/b-c-utilities-commission-rejects-b-c-hydro-rate-freeze>

⁴ The Liberal 10-year financing plan shows the balance in the RSRA rising to almost \$1.6 billion by 2020/21, and then eliminated over the next three years with an average annual rate increase of only 2.6%. This plan is highly questionable yet when questioned BC Hydro stated that it was "on track" to accomplish this feat.

⁵ http://www.bcuc.com/Documents/Arguments/2018/DOC_50568_01-11-2018_McCandless_Final%20Argument.pdf

The BCUC did not comment on Auditor General Bellringer's opinion about the government's misuse of the accounting rules, nor her intention of assuming the external audit function at BC Hydro.

Reduce BC Hydro's Profit?

It would appear from the minister's comments that the government will not freeze the 2018 rates by lowering the government-mandated \$712 million net income.⁶ Apparently, it prefers to use the deferral accounting, which increases BC Hydro's debt, to provide relief for favoured customer groups. The same deferral accounting that proved such a temptation to the previous government and led directly to the financial "mess" at BC Hydro.

BC Hydro's Finances "A Mess"

Minister Mungall, in her post-decision comments, stated that BC Hydro's finances were a mess.⁷ It is not apparent to this observer what the government intends to do to clean up the mess, as a proper accounting would require a more honest approach with both ratepayers and taxpayers.

If the government is serious about restoring public confidence in the financial statements of our public power utility it should reduce the number of accounts and the amount of expenditures deferred. And there would be no revenue deferrals.

This would significantly lower BC Hydro's currently inflated net income, and its assets and equity. This more honest presentation of BC Hydro's finances would promote greater public trust in our public institutions.

Impact on Government Revenue – A Digression

A more honest presentation of BC Hydro's finances will result in a significant drop in BC Hydro's net income. Because national public-sector accounting rules require the net income from self-sustaining Crown corporations (known as government business enterprises) be included in the total government revenue, the government revenue and surplus would decline.

The government should undertake a review of the effect of the national accounting standard on the presentation of the government's revenue and surplus position. The national standard assumes that all the net income is transferred to the government, but for BC Hydro and ICBC this is clearly not the case.

In fact, ICBC's forecast operating loss of \$1.3 billion for 2017/18 (and almost \$0.7 billion for 2018/19) has forced the government to show the budgeted revenue and surplus before and after the net loss for ICBC.

⁶ In the BC Hydro accounting system the net income is fixed, while the variable is the RSRA. The net income was fixed by a cabinet order of the previous government.

⁷ <http://vancouversun.com/news/politics/b-c-utilities-commission-rejects-b-c-hydro-rate-freeze>

If only the cash transfer from BC Hydro and ICBC was recorded, as shown below, the government's surplus or deficit position in the three-year fiscal plan would be significantly different.

**Fiscal Plan Excluding ICBC and BC Hydro Net Income and Dividend
(\$=million)**

		f2017/18	B2018/19	P2019/20	P2020/21
1	Surplus pre-ICBC	1,447	903	302	204
2	Less BCH net inc.	(698)	(712)	(712)	(712)
3	Plus BCH dividend	159	59	--	--
4	Surplus Adjusted	908	250	(410)	(508)
5	Surplus in Budget	151	219	281	284

Excluding the net income (or loss) from BC Hydro and ICBC but including BC Hydro's cash transfer (the dividend which is being phased-out), changes the government's net surplus/deficit as shown on line 4. This provides a more accurate picture of the government's cash position for each year, and its borrowing requirements.

The BC Utilities Commission is to be congratulated for its thoughtful decisions, and its warnings respecting the risks of achieving the 10-year plan targets. We can now look forward to the promised review of the finances of BC Hydro, and the government's plans to restore public trust in the financial management and accounting at our public power utility.

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