

**WHY NOT CUT BC HYDRO RATES?**

In the face of a severe economic slowdown caused by the response to the COVID-19 pandemic the provincial government should provide more relief to BC Hydro customers by reducing the required profit (net income) by 50 percent. This would align with the recently announced temporary rate reduction in Ontario, and be of much greater benefit than the planned 90-day payment deferral plan.

**The Ontario Temporary Electricity Rate Reduction**

In response to the call for citizens to remain at home during the COVID-19 crisis the Ontario government announced that Ontario Hydro would eliminate the time-of-use pricing.<sup>1</sup> It will charge residents, farms and small businesses the lowest rate of 10.1 cents per kilowatt hour throughout the day for a 45-day period. The government estimates that the move will save residential hydro customers \$20 per month, small businesses could save \$150, while farms are projected to see savings of more than \$300 per month.<sup>2</sup>

The revenue loss is estimated at approximately \$162 million. The government will add this cost to the \$4.0 to \$5.6 billion annual subsidy it already provides Ontario Hydro to keep rates lower than what would be required to cover the actual costs.<sup>3</sup>

**B.C. Government Orders BC Hydro to Allow Deferrals**

As part of the economic relief package announced on 23 March 2020, BC Hydro customers now have the option to defer bill payments for 90 days or arrange for flexible payment plans with no penalty. The criteria for the existing crisis fund of up to \$600 will be expanded to include customers dealing with job loss, illness or loss of wages due to COVID-19.<sup>4</sup>

Allowing some deferral of monthly electricity bills provides some cashflow relief to businesses and residents, but it presupposes that the income will be available in the near

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<sup>1</sup> The time-of-use daily pricing framework was designed as a conservation measure to flatten usage peaks and thereby avoid acquiring extra capacity for peak periods. BC Hydro uses a two-tier pricing system for residential customers which is based on monthly usage.

<sup>2</sup> <https://torontosun.com/news/provincial/ontario-dropping-time-of-use-hydro-pricing-during-covid-crisis>

<sup>3</sup> <https://www.thestar.com/politics/provincial/2020/01/30/estimated-cost-of-ontarios-hydro-subsidies-jumps-16b.html>

<sup>4</sup> <https://news.gov.bc.ca/factsheets/bc-takes-steps-to-support-people-businesses-during-covid-19-pandemic>

future to pay the deferred costs. The BC plan is not as generous as the Ontario plan which actually reduces the amount to be paid by the customers of Ontario Hydro.

### **Provide Direct Relief by Reducing BC Hydro's Profit Target**

The BC government should order BC Hydro (after making the necessary application to the regulator) to cut the planned \$712 million net income (profit) target for 2020/21 by half. This would provide approximately \$350 million to provide a one-time rate reduction of approximately 7% on an annual basis.

The reduction would be apportioned between residential, commercial and large industrial customers in proportion to their respective shares of BC Hydro's current revenues; approximately \$150 million to offset residential, \$140 million for commercial and \$60 million for large industrial customers. The approximate actual savings per account would be \$80 for residential, \$660 for commercial and \$300,000 for each large industrial account.<sup>5</sup>

The lower net income would reduce the government's revenue target in the 2020/21 fiscal plan, but because none of the net income from BC Hydro is actually transferred to the government there is no real financial loss to the taxpayer.<sup>6</sup>

The current net income target of \$712 million is based on a return on equity (ROE) that is far higher than warranted by the degree of risk to the shareholder associated with BC Hydro's operations.<sup>7</sup> The risk is low because most of the likely cost variances are covered by the vast number of regulatory deferral accounts used to ensure the high net income (as the negative variances are not reflected as reductions to net income).

In fact, BC Hydro also defers variances in revenue (actual to budget) to the Non-Heritage Deferral Account rather than adjusting the net income. Therefore, as a result of the regulatory accounts, it is likely that BC Hydro will still record a high net income despite potential declines in the amount of electricity consumed as a result of declining economic activity due to the COVID-19 containment measures.

### **Summary**

An actual reduction in the payments to BC Hydro is a better response to the economic hardship resulting from the COVID-19 containment measures than a three-month deferral in paying the electricity bill. If the warnings of the Business Council of BC of a major decline in economic output are accurate then the government must be more

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<sup>5</sup> Based on information from BC Hydro's 2018/19 annual report.

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[http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_another\\_perspective\\_22\\_february\\_2020/pdf/commentary\\_another\\_perspective\\_22\\_february\\_2020.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_another_perspective_22_february_2020/pdf/commentary_another_perspective_22_february_2020.pdf)

<sup>7</sup> The ROE is approximately 11% to 12%.

creative in providing economic relief.<sup>8</sup> This includes reducing the electricity costs to medium and large businesses through a reduction in the budgeted profits at BC Hydro.<sup>9</sup> Such a reduction in the planned profits at BC Hydro is long overdue, and should be ordered immediately.

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The writer is a retired senior BC government public servant whose paper describing the BC government's manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

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<sup>8</sup> <https://vancouver.sun.com/news/local-news/b-c-unveils-economic-response-to-covid-19-pandemic/wcm/3fe519b4-8e21-40c6-b364-c1e083147831/>

<sup>9</sup> This includes retaining the productive capacity that will help restore economic activity when the crisis subsides; see <https://www.theglobeandmail.com/business/commentary/article-why-corporate-bailouts-are-about-to-become-a-very-good-thing/>