

LOWER WATER LEVELS HAVE HAD A NEGATIVE FINANCIAL IMPACT ON CROWN UTILITIES DEPENDENT ON HYDROELECTRIC POWER

Like BC Hydro, both Hydro Quebec and Manitoba Hydro are integrated Crown power utilities. Both have both reported significant declines in production, and therefore in the volume of their export sales of electricity, due to lower water levels in 2023. This trend of lower exports is similar to that experienced by BC Hydro. For these two utilities, however, the loss of revenue is directly reflected as a decline in net income, while BC Hydro relies on regulatory accounting to insulate its bottom line from these effects.

Manitoba Hydro

The recent release of the first six months of Manitoba Hydro's financial statements caused a political fracas in that province. The newly elected NDP government had promised to freeze Manitoba Hydro rates as part of its affordability plank in its election platform. However, based on the results for the first six months Manitoba Hydro reduced its initial \$450 million year-end profit forecast to a \$160 million loss.¹

The second quarter report showed a net loss of \$9 million, compared to a \$188 million net income budget (and \$233 million for the previous year).² The primary reason for the loss was a \$155 million loss in net power exports as a result of a 30% (3,600 GWh) decline in electricity exports. Manitoba Hydro explained that dryer weather patterns in the spring and summer resulted in low water levels in its storage dams. This, in turn, led to a 25% drop in power generation compared to what had been budgeted for the period.

The negative Manitoba Hydro year-end forecast was part of a general deterioration in the financial outlook for the government. The new NDP government accused the previous Progressive Conservative government of hiding the true financial picture prior to the general election. Former premier and now opposition leader Heather Stefanson

¹ <https://www.winnipegfreepress.com/breakingnews/2023/11/24/latest-forecast-may-push-back-promised-hydro-rate-freeze#:~:text=The%20Kinew%20government%20may%20put,the%202023%2D24%20fiscal%20year>

² https://www.hydro.mb.ca/docs/corporate/quarterly_report_230930.pdf

denied the accusation and said the NDP was inflation the deficit to claim credit later for a lower actual result.³

The new government said that it expects a multi-year financial plan and forecast from the Crown utility before it proceeds with its election promise to freeze electricity rates.⁴

Hydro Quebec

Dryer weather patterns also had an effect on the generation and export of electricity by Hydro Quebec. In its report for the first nine months of 2023, Hydro Quebec recorded a 32% (9,000 GWh) drop in export sales compared to the same period in 2022.⁵ The drop in sales was attributed to sparse snowpack in the later winter, lower than normal spring run-off, and less than normal summer precipitation in its main catchment areas in norther Quebec.

The lower exports contributed to a \$554 million decrease in net income compared to the same period last year. Hydro Quebec still posted a \$3.0 billion net income for the nine months, which softened the decline in the export profit.

BC Hydro

Dryer and warmer climate conditions for 2023 had a greater impact on BC Hydro's net trade (export) results compared to Manitoba and Quebec. As BC Hydro carefully noted in its second quarter report: "Water inflows to the system for the six months ended September 30, 2023 were significantly below average and lower than the same period in the prior fiscal year. The below average water inflows were due to below average 2022/23 snowpack and persistently dry conditions across BC Hydro's basins over the summer and start of fall."⁶ BC Hydro did not quantify the shortfall.

For the first half of the 2023/24 fiscal year BC Hydro reported a \$1.1 billion decline in net trade income, falling from \$1.18 billion in 2022 to only \$56 million in 2023.⁷ Net export sales of 3,940 GWh in H1 2022/23 became a net import of 5,385 GWh for the same period in the current year, a negative swing of 9,300 GWh!

Unlike Manitoba Hydro and Hydro Quebec, BC Hydro uses a deferral account to which it transfers actual to budget trade income variances. While BC Hydro says that such

³ <https://www.cbc.ca/news/canada/manitoba/manitoba-deficit-billions-1.7049660>

⁴ Times Colonist, December 10, 2023.

⁵ <https://www.hydroquebec.com/about/publications-reports/quarterly-bulletin.html>

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https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_bc_hydro_q2_results_december_2023_1/pdf/commentary_bc_hydro_q2_results_december_2023_1.pdf

⁷ Ibid. This includes the Columbia Treaty entitlement which amounts to +/- 4,700 GWh/year of power that Powerex sells back to American customers.

accounting ensures that ratepayers (eventually) pay actual costs, the immediate effect is to insulate BC Hydro's net income from the vagaries of the market forces.

This accounting practice is designed to smooth revenues and expenditures over a period of years. But it tends to lull the public into a possible false sense of security as to the finances of the public's Crown utility. The reliance on significant amounts of imported electricity to meet domestic requirements for the first half of the current year is an example.

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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 is an intervener in the BC Utilities Commission's reviews of ICBC's and BC Hydro's rate requests.