

FORMER PREMIER WYNNE DEFENDS PRE-ELECTION MANIPULATION OF ELECTRICITY PRICES: AVOIDS FUNDAMENTAL ISSUES RAISED BY AUDITOR GENERAL

On 3 December 2018 former Ontario premier Kathleen Wynne testified before the special Ontario legislative committee examining ways to improve financial transparency.¹ The committee was examining how her Liberal government ignored generally accepted accounting principles to reduce electricity rates by 25% while claiming a balanced budget for 2017/18.²

The Ontario auditor general and the Ontario financial accountability officer criticized the government's use of a regulatory account to create an asset to offset the additional borrowing required. The borrowed funds would reduce electricity rates in the short-term, but future generations of ratepayers would be required to pay off the debt plus interest costs.³

The use of a regulatory account to record unbilled and uncollected future revenue masked the effect of the borrowed funds and allowed the government to claim that the government's debt was not increasing. The scheme did not help as the Liberals suffered a major loss in the election of 2018, falling from 55 seats to seven seats.

The new Progressive Conservative government accepted the auditor general's recommendations and increased the government's debt and 2018/19 deficit to reflect the elimination of the regulatory account funding originally designed to increase rates in the future.

Auditor General Qualifies Province's Financial Statements

Auditor General Lysyk qualified the province's 2017/18 financial statements in part because of the legislated regulatory account did not meet public sector accounting standards. Regulatory accounts for utilities require the approval of an independent

¹ <https://www.ola.org/en/legislative-business/committees/financial-transparency/parliament-42/transcripts/committee-transcript-2018-dec-03> and https://nationalpost.com/news/politics/ex-ontario-premier-wynne-defends-hydro-rate-cut-to-committee-probing-her-governments-accounting-practices?video_autoplay=true

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http://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_ontario_legislative_committee_11_nov_2018/pdf/commentary_ontario_legislative_committee_11_nov_2018.pdf

³ Because of the financial structure in Ontario the agency used to borrow the revenue shortfall pays a higher interest rate. Over the life of the plan the additional interest cost was estimated at \$4 billion. This additional charge does not apply in this province as B.C. Hydro borrows at the lower provincial rate.

third-party regulator. The Ontario scheme was legislated; therefore, it failed this crucial test. Carol Bellringer qualified the B.C. government's 2017/18 financial statements partly because B.C. Hydro's regulatory/deferral accounts are not approved or supervised by an independent regulator.

The Ontario auditor general also criticized the recording of future revenue as a regulatory asset, stating that this was contrary to GAAP.⁴ Auditor General Bellringer has not cited this reason to qualify the statements, as she relied on the fundamental lack of an independent regulator to condemn the government-mandated accounting system used by B.C. Hydro.

Wynne's Logic Confuses the Fundamental Issue

The former premier took full responsibility for the Fair Hydro scheme, and essentially stated that it was designed to address the public's concern about the rapid increase in electricity prices (primarily caused by previous decisions to move generation from being coal or natural gas based to renewable generation).

She made the distinction between certain costs that would be paid by the taxpayer (the government's operating budget) and the revenue deferral costs to be paid by future ratepayers. The government's focus was clearly on lessening the public anger about the cost of electricity in the run up to the 2018 election. Ms. Wynne replied to a question about subsidizing current ratepayers with the following comment; "I recognized that I was going to be saying to my grandchildren that they were going to be paying for something that their parents couldn't afford to pay the whole freight for right now. That's what I recognized."⁵

The legislative committee did not press Ms. Wynne on the key issues of the lack of an independent regulator approving the new regulatory account, nor the recording of future revenue as an asset to mask the increase in debt. She was able to discuss what costs should be paid from the tax base or the rate base without a more nuanced discussion as to whether the accounting conformed to the established standards.

In earlier testimony Ed Clark, the former CEO of the TD bank and an unpaid advisor to Premier Wynne, had criticized the financing of the revenue deferral, preferring the use of the progressive tax system to pay the debt costs.⁶

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http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_43_22_october_2017/pdf/occasional_paper_no_43_22_october_2017.pdf

⁵ <https://www.ola.org/en/legislative-business/committees/financial-transparency/parliament-42/transcripts/committee-transcript-2018-dec-03>

⁶ https://www.ola.org/en/legislative-business/committees/financial-transparency/parliament-42/transcripts/committee-transcript-2018-nov-26#P76_3548

Applicability to British Columbia

Auditor General Bellringer cited the lack of an independent regulator overseeing B.C. Hydro's regulatory accounts as a reason to qualify the province's 2016/17 and 2017/18 financial statements.⁷

The new NDP government accepted the auditor general's criticism of accounting at B.C. Hydro and set aside \$950 million for the 2017/18 surplus to begin the process of aligning the regulatory accounting to the public sector accounting standards. What this means in practice remains to be explained.

In addition to using regulatory accounts without the approval and oversight of an independent third-party regulator, B.C. Hydro has been recording unbilled and uncollected future revenue for 10 years. By redefining a cost variance as a revenue variance, the utility deferred almost \$1.0 billion in future revenue to the Non-Heritage deferral account from 2008/09 to 2015/16.

The government-mandated Rate Smoothing regulatory account of 2014 allows the government to set B.C. Hydro's electricity rates well below the true cost and still record ethereal future revenue to generate large annual profits (which are recorded as government revenue). By 31 March 2018 the balance in the Rate Smoothing revenue deferral account had reached \$815 million.⁸

The recording of future revenue as an asset means that some operating costs are being transferred to future ratepayers, thereby providing a subsidy to current ratepayers. This was the purpose of the Ontario electricity rate manipulation scheme.

Next Steps

In June 2018, energy minister Michelle Mungall established a senior officials committee to make recommendations to the government about how to keep B.C. Hydro's future rate increases affordable.⁹ The committee was supposed to issue a public report "in the fall" but we now understand that the recommendations will be released early in 2019.

Clearly, if the government is serious about aligning the accounting at B.C. Hydro with the public sector standard the B.C. Utilities Commission's discretionary authority must be restored. In addition, the practice of recording future revenue in an asset account must end and the balance of the Rate Smoothing regulatory account must be paid off.

It now appears that we must await the filing of the B.C. Hydro's 2019 rate request with the Utilities Commission in early February to find out the latest government thinking on

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⁸ <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/annual-reports/BCHydro-Crown-Corporation-2017-18-Annual-Report.pdf> p. 29.

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http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_62_23_september_2018/pdf/occasional_paper_no_62_23_september_2018.pdf

what will be required to satisfy the auditor general. We may even learn what this may cost the taxpayer instead of future ratepayers.

The recent government announcement of a climate action plan also adds questions as to what costs will be paid by the taxpayer and what costs will be assumed by B.C. Hydro's ratepayers.¹⁰

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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.

¹⁰ <https://www.theglobeandmail.com/canada/british-columbia/article-bcs-climate-action-plan-requires-a-green-solution-to-bc-hydros-red/>