

WILL THE ELECTION RESULTS END THE POLITICIZATION OF BC HYDRO AND ICBC?

ETHICS AND ACCOUNTABILITY ARE KEY TO GOOD PUBLIC POLICY

The Green Party currently holds the balance of power, and now must make the transformation from opposition critic to assisting a new administration in dealing with the multitude of issues faced by any government. Even if the NDP loses the Courteny-Comox riding to the Liberals, the support of the three Green members will be important in steering the Liberal government toward “good public policy” as defined by the Greens.

The Liberal party clearly lost the election. Despite a relatively strong economy, and the usual fear campaign of a vote for the NDP is a vote for economic ruin, the Liberal vote share dropped from 44.1% in 2013 to 40.9% in 2017. The loss in the Lower Mainland was more pronounced. The NDP support held at close to 40% (higher in the Lower Mainland), while the Green party support rose from 8.2% in 2013 to 16.7% on May 9th.

Kevin Falcon, a former Liberal finance minister, lays part of the blame for the Liberal defeat on the government being too concerned with its re-election, rather than promoting sound public policy.¹

The corrosive effect of gearing decisions to the need to retain power is more wide spread than just campaign financing, as discussed by Gary Mason.² It has permeated and weakened policy development through the government.

Martyn Brown, the former chief of staff to premier Gordon Campbell, stated that in recent years the Liberal government had lost its moral compass. A change in attitude and policy was needed to bring about a better BC, and the NDP would provide that change.³

The 2017 election may mark a new stage in the re-alignment of the political parties in this province. Much depends on whether the Green leadership decides that the Liberal party should retain the Treasury benches, or whether it is time for a truly new approach.

¹ <http://vancouversun.com/news/politics/voters-punished-b-c-liberals-for-too-much-politics-not-enough-leadership-says-former-minister>

² <http://www.theglobeandmail.com/opinion/the-greens-could-clean-bcs-dirty-political-ecosystem/article34958842/>

³ <http://www.straight.com/news/906006/martyn-brown-one-voice-change-bc-election>

POWER CORRUPTS

Lord Acton said, “Power tends to corrupt, and absolute power tends to corrupt absolutely.”

All governments eventually lose touch with the electorate, and are replaced with new people with new ideas. These changes are generally positive, as the new perspective tends to refresh the machinery of government. Most new ministers find that the actual administration of government is more complex than perceived from the outside, and this is truer for those who have not previously been in government or spent some time in opposition.

The recent election provides an opportunity for the NDP, supported by the Green members, to effect some fundamental reforms in the conduct of public administration in this province. It is an opportunity demonstrate that bringing forward good public policy can be more than an election promise.

GREEN PLATFORM ALIGNS MORE CLOSELY WITH THE NDP

As potential king (or Queen) makers, the Green leadership is acutely aware that their platform aligns more closely with the NDP ideals, particularly on fundamental matters of reforming party finances and promoting a fairer distribution of economic benefits. On many other matters the two are also closely aligned.⁴

National Green party leader Elizabeth May have stated that the election was a vote for change, clearly implying that the Green party would support an NDP government.⁵ Other observers had agreed.

GOOD PUBLIC POLICY – ENDING PRETEND AND EXTEND AT BC HYDRO AND ICBC.

In 2001, the newly elected Liberal government vowed to take politics out of the management of BC Hydro and ICBC.⁶ The BC Utilities Commission’s authority to set BC Hydro’s rates was restored, and it was also assigned the authority to set the rates for ICBC’s compulsory Basic insurance.

Following the 2009-10 recession, the government became more active in the financial affairs of both major public corporations. Their profits helped bolster the government’s

⁴ See <http://vancouversun.com/news/local-news/b-c-election-2017-where-the-greens-align-or-dont-with-the-ndp-and-liberals-on-20-hot-topics>

⁵ <https://www.hilltimes.com/2017/05/10/b-c-election/106587>

⁶ In the case of ICBC see,

http://www.bcpolicyperspectives.com/media/attachments/view/doc/article_bc_studies_icbc_2013/pdf

revenues, and their cash transfers reduced the government's direct borrowing requirements.

From 2010, when the government began to appropriate ICBC's Optional insurance surplus capital, to 2012, when the government took direct control of BC Hydro's annual rate setting authority,⁷ the priority was to use the two Crowns to help steady provincial government's finances. This pattern of control was strengthened in the following years.

In 2013, cabinet imposed limits on the annual change in Basic insurance rates, and announced a 10-year financing plan for BC Hydro. Again, BC Hydro's rate increases would be suppressed and the profits enhanced through deferring cost over-runs and revenue shortfalls. Prescriptive cabinet orders in March 2014, included the requirement that the Utilities Commission approve a highly dubious "rate smoothing" deferral account, thereby allowing BC Hydro to count future unbilled revenue. This device allowed the government to continue to suppress electricity rates while reporting higher yearly profits as government revenue (and to extract dividends which added to BC Hydro's debt).

The government's politicization of the finances of BC Hydro and ICBC has come at the expense of future customers in a classic pretend and extend gambit.

BC Hydro customers now face a much higher debt liability, due in part to the \$3.2 billion increase in the net deferral balance between 2011/12 and 2015/16. The recent massive capital expenditure program, and the premature Site C project, may result in a down-grade to the province's credit rating.

At ICBC, the failure to curb the growth in Basic claims costs, and the government's suppression of the growth in Basic rates, has reduced the corporations once healthy capital reserves to below the regulatory minimum levels for 2016/17. A major rate shock for 2017 seems unavoidable.⁸

The government has been loath to disclose the true state of the financial deterioration at these two vital public corporations. Under cabinet orders the BC Hydro rate increases are capped at 3.5% for this year, and 3% for 2018, when increases in the range of 10% to 12% are required. In December 2016, the government imposed a 4.9% increase in Basic insurance rates for 2016, effectively ending the Utilities Commission's review of the Basic insurance financing. Had the Optional capital subsidy been excluded, ICBC estimated that a 15% increase in Basic rates would have been required.

The government's manipulation of the finances of the two public corporations has been incremental, and therefore has generally occurred out of the glare of the media spotlight.

⁷ This would not be permitted under the rate regulated accounting rules, but the government exempted BC Hydro from this bothersome accounting requirement in 2011.

⁸ http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_28_30_march_2017/pdf

Late in the election, however, the Liberal party claimed that a four-year rate freeze could cost BC Hydro some \$1.2 billion in foregone revenue, or the equivalent of a 28% rate increase. A freeze on Basic insurance rates would result in a loss of some \$2.0 billion, or the equivalent of a 75% rate increase. This disclose, meant to damage the NDP, provided the public with a glimpse of what the years of rate suppression have really meant (although the Liberal numbers were likely understated⁹).

The election result provides an opportunity of a new NDP government to order an in-depth independent examination of the books of both BC Hydro and ICBC, and to thereby begin to restore both corporations to a healthier financial condition.

This important project will take time and involve some painful public policy trade-offs between sharing the financial burden between the taxpayers and the ratepayers. It will also require the government to review past policy choices effecting the future cost of electricity. It will also require the government to devote more resources to traffic safety education and enforcement initiatives, and to review the current coverage limits, to address the soaring cost of injury claims.

Maintaining the status quo, even with a green tinge, will not achieve the goal of advancing good public policy and improving the public's trust in government.

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

⁹ https://thetyee.ca/Opinion/2017/05/01/Rate-Increases-BC-Hydro-ICBC/?utm_source=daily&utm_medium=email&utm_campaign=020517