BC HYDRO’S SECOND QUARTER PERFORMANCE DISAPPOINTS

In mid-December BC Hydro posted its six month (Q2) financial results, which showed a weak performance; see https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/quarterly-reports/f2017-q2-report.pdf

The results were posted without an accompanying media release, nor did any of the major media report on BC Hydro’s performance. This summary reviews the Q2 report (Part A), and attempts to forecast the 2016/17 year-end position (Part B), based on the percentage change from 2015 Q2 to the final 2015/16 results..

SUMMARY

The second quarter results are disappointing. A simple projection to year-end suggests that, despite a 4% increase in rates, the domestic sales will some $300 to $400 million less than budgeted.

The year-end net income of $684, which is now fixed by cabinet order (OIC 590/16), will be achieved because the revenue shortfall will be booked as current revenue and deferred. This increase in the deferral will add to the growth in BC Hydro’s debt. Domestic GWh sales will be some 3,000 less than budgeted; however, cold weather in December may increase heating consumption and close the revenue shortfall gap.

I REVENUE

Part A:

- Rates rose 4% effective 1 April 2016.
- Domestic revenues were down $22m (-1%) before regulatory transfers; revenues were up $66m (+2.9%) after the regulatory transfers of deferred revenue.
- GWh sold were down about 1,670 or (-5.8%); excluding “other” sales the decline was only 480 GWh (-2.1%).
- Trade revenue was essentially flat despite a 25% increase in GWh sold, as prices were down by about 20%.

Part B:

- Despite the 4% rate increase revenues are projected to be $300 to $400 million below the budget plan, but cold weather in December may reduce the shortfall.
- Greater than planned housing starts may also increase domestic revenues compared to the budget.
- The 2016/17 budget[1] assumed domestic sales of approximately 56.800 GWh, while a straight projection would suggest actual sales of 53,700 GWh.

[1] The February service plan and the July F17 to F19 rate request filed with the BC Utilities Commission.

- Trade revenues are projected to be similar to the prior year, as more GWh sales are off-setting a sharp decline in the market price (down 20%).

II ENERGY COSTS

Part A:

- Domestic costs before regulatory transfers are up $32m (+8%) as a result of higher water rentals (which are based on the prior year usage), and an increase in the cost of IPP power (up 4.9% while GWh is down 1%).
- Regulatory transfers are down somewhat from the prior year.
- Trade costs are up $15m (+16%), but down $28m after regulatory transfers.

Part B:

- Despite a slight decline in sales, energy costs are up due to higher water rentals and an increase in the average price of IPP power.
- Trade costs are in line with the prior year due to the regulatory transfer.

REGULATORY/DEFERRAL ACCOUNT BALANCE

- The 2016/17 rate request assumed a decline in the net balance of approximately $220m with an increase in the Rate Smoothing RA offset by declines in energy costs, pensions and finance charges.
- Based on the Q2 results it appears that the net balance in the regulatory accounts will rise by some $300 to $400 million (a swing of $520 to $620 million), due to revenue deferrals to the Non-Heritage Deferral Account, pensions and finance charges.

NET INCOME

- The Q2 shows a decline of $17m, after transfers to revenue and cost deferrals.
- The cabinet-ordered year-end target of $684 million (up $29 million from the previous year) will be achieved, as the revenue shortfall variance will be reported as received and deferred.

CASH FLOW/BORROWING

- Net borrowing is up by about $400 million in Q2 compared to the 2015 Q2.
- Despite a negative free cash flow, the dividend paid to the government ($326m) is greater than the prior year ($264m).
- As was the case for the last six years, the dividend will be funded by borrowing.
- The debt/equity ratio has declined to 82/18 in Q2.

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