

BC HYDRO'S AGGRESSIVE REVENUE TACTICS

In September 2016, the Wells Fargo bank was fined \$185 million by the US government's consumers' protection bureau for allowing its employees to create fake customer accounts to meet revenue quotas; <http://money.cnn.com/2016/09/08/investing/wells-fargo-created-phony-accounts-bank-fees/>

In recent days, the Toronto Dominion bank has been under scrutiny for pressing its employees to meet customer revenue targets. It seems that the TD bank is not unique in using these practices. The federal financial consumer agency has now launched an investigation into these practices in Canada; <https://www.bloomberg.com/news/articles/2017-03-15/canada-banks-under-review-on-reports-of-high-pressure-tactics>

Increasing the top line revenue usually translates into higher profits, allowing for increased dividends and a higher share price.

THE BC HYDRO MODEL

The BC government, however, has a more direct way to increase BC Hydro's net income without the bother of creating fictitious accounts, or pressuring customers to buy more services. Because of this government's unique accounting rules customized for BC Hydro,¹ our public power utility enhances its actual annual revenue through a transfer from two deferral accounts.²

The effect of the additional revenue, together with the expenditure variance deferrals, is to insulate BC Hydro's net income from any risk due to fluctuations in the demand for electricity, or in the cost of providing the power.

In Ontario, electricity rates are established by a truly independent regulator. The rapid increase in costs has been reflected in a rising price for electricity, which forced the government to subsidize consumers with taxpayer funds. By using deferral accounting in the absence of an independent regulator,³ the government has kept the true cost of electricity hidden from the public.⁴

From 2012 to 2016, BC Hydro has recorded approximately \$850 million in unbilled revenue in the Non-Heritage deferral account, and \$287 million more in the Rate Smoothing deferral account. For the next five years, BC Hydro plans to add a further \$1.3 billion to the latter account.⁵

The effect of this revenue creation scheme is to inflate the true revenue received, and to guarantee the achievement of the high net income targets established by cabinet order. The net income is recorded as government revenue, thereby ensuring a surplus budget. Of course, the accountants cannot pretend that

¹ See

http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_21_30_january_2017/pdf

² The annual revenue shortfall between the forecast requirement and the revenue generated from the government-mandated rate increase is recorded in the Rate Smoothing deferral account, while the variance between the forecast revenue requirement and the actual amount billed is recorded in the Non-Heritage deferral account.

³ The government exempted BC Hydro from this requirement in 2011, see

⁴ See <http://policyoptions.irpp.org/magazines/march-2017/how-bc-politicized-electricity-rates/>

⁵ BCUC, BC Hydro F17to F19 RRA, Table 7-2.

this is revenue, so the annual net amounts in the deferral accounts add to BC Hydro's growing debt burden.

The government believes that relying on the deferral of expenditure variances, and more recently revenue variances, to keep rate increases at moderate levels is the safer course to follow. Otherwise, as energy minister Bill Bennett said in 2013, the necessary rate increase would have a "horrible impact on ratepayers" and that would result in "blood on the streets, I'm sure."⁶

In 2011, the government was under severe pressure concerning the abuse of the deferral accounts at BC Hydro, especially as the performance bonuses of the senior management were directly tied to the easily achieved net income. The net balance in the deferral accounts in 2011/12 was \$2.68 billion.

Today, the level of public concern about the financial manipulation at BC Hydro seems diminished, despite the net balance deferred by March 31, 2016 reaching \$5.91 billion.⁷

Clearly, the government has found that by creating a unique accounting regime for BC Hydro, one which transforms debt to equity and allows paper profits through the recording of unbilled revenue, it has avoided the public scrutiny of its electricity policy now being faced by the Ontario government. It has also avoided the more obvious questionable revenue generation methods employed by the major banks to increase their profits.

With actions gamed for their effect, rather than the harder accountability that comes with transparency, the tough-minded decisiveness at the center of both good government and sound business gets subtly corrupted. Ron Suskind, *Confidence Men*, p.258.

Richard McCandless March 15, 2017. <http://www.bcpolicyperspectives.com/>

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

⁶ *Hansard*, July 17, 2013, p. 644.

⁷ The net balance in the deferral accounts is treated as assets, which increase BC Hydro's equity. By the end of 2015/16 there was 1.3 times more in net deferrals than the total equity; put another way, without the deferral of expenditure variances and unbilled revenue BC Hydro would be insolvent.