

## BC HYDRO DRAWS ON ACCUMULATED TRADE PROFITS TO MODERATE LARGE RATE INCREASES

On 30 October 2023, BC Hydro filed an application with the BC Utilities Commission (BCUC) to use the accumulated Trade profits to moderate anticipated rate changes in 2024/25 and 2025/26.<sup>1</sup> The current BCUC decision would commit the majority of the accumulated Trade profits to offsetting an anticipated 6.4% initial rate increase for 2024/25, resulting in a net 5.9% rate reduction.

Table 1 shows this net reduction for 2024/25 (F25). However, the following year an initial major rate increase of 8.3%, together with a deferral account surcharge/rate rider (DARR) results in a projected net rate increase of 12.1%. The Trade surcharge is TIRR.

**TABLE 1—MARGINAL CHANGE IN RATE BY FACTOR (%)**

	<b>F2025</b>	<b>F2026</b>	<b>F2027</b>	<b>F2028</b>	<b>F2029</b>
Rate Increase	6.4	8.3	1.3	3.5	2.4
DARR	(2.5)	7.5	--	(2.5)	(1.5)
TIRR	(10.0)	(4.4)	(1.0)	5.8	1.6
Bill Impact	(5.9)	12.1	0.2	7.4	2.3

Source: [https://docs.bcuc.com/documents/proceedings/2023/doc\\_74756\\_b-1-bch-f2025-darr-tirr-application.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_74756_b-1-bch-f2025-darr-tirr-application.pdf) p. 3.

The BCUC decision was based on dated information produced during an extended review of BC Hydro's rate request for 2022 to 2024. The new BC Hydro proposal was based on the most recent data available.<sup>2</sup> It would defer the return of most of the Trade surplus to ratepayers to 2025/26, thereby smoothing the rate volatility between 2024/25 and 2025/26 (and later years). The effect of the smoothed 2.3% approach is shown on Table 2.

**TABLE 2—BC HYDRO PROPOSED MARGINAL CHANGE BY FACTOR (%)**

<b>(%)</b>	<b>F2025</b>	<b>F2026</b>	<b>F2027</b>	<b>F2028</b>	<b>F2029</b>
Rate Increase	6.4	8.5	1.3	3.5	2.2
DARR	(1.5)	7.5	--	(2.5)	(2.0)

<sup>1</sup> Technically. The request was to amend a previous BCUC decision respecting the 2024/25 rate increase.

<sup>2</sup> [https://docs.bcuc.com/documents/proceedings/2023/doc\\_75536\\_b-4-bch-bcuc-ir1-responses-public.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_75536_b-4-bch-bcuc-ir1-responses-public.pdf) pdf 3/40.

See also

[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](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)

TIRR	(2.3)	(13.0)	0.8	1.4	2.0
Bill Impact	2.3	2.3	2.3	2.3	2.3

Source: [https://docs.bcuc.com/documents/proceedings/2023/doc\\_74756\\_b-1-bch-f2025-darr-tirr-application.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_74756_b-1-bch-f2025-darr-tirr-application.pdf) p. 9.

The actual request would result in a modification to the BCUC’s rate decision for 2024/25. In theory, by agreeing to the BC Hydro proposal for 2024/25 the regulator would not be bound BC Hydro’s plan for the next few years. In reality, the key objective of rate stability would be difficult to ignore.

### **Initial Rate Increase**

Between 2024/25 and 2025/26, BC Hydro’s initial forecast is for a cumulative increase of some 15.4% (or approximately \$900 million). The main reasons for this increase are inflationary pressures on wages and other costs, the cost of the Site C dam which is becoming operational and included in the rate calculation, and the loss of revenue and the extra cost of power caused by the effects of low water levels on BC Hydro’s finances.

BC Hydro states that the addition of Site C into the rate calculation adds new costs, including the majority of \$194 million in amortization costs and \$397 million in finance charges.<sup>3</sup> BC Hydro anticipates that much of the new Site C power will be exported in the initial years, but specific GWh forecasts were not included in the request.

### **Deferral Account Rate Rider (DARR)**

The DARR is a rate surcharge used to either return funds owed to ratepayers, or to charge extra to pay down deferred revenue or expenditures where the rates initially charged were too low.

The main reason for the forecast 7.5% marginal change in the DARR for 2025/26 is the forecast loss of approximately \$1.5 billion accumulated in the Non-Heritage Deferral Account (NHDA) as of 31 March 2025. This shortfall (owed by ratepayers) is primarily the result of the low water conditions in 2024/25 and 2025/26, where BC Hydro was forced to import electricity thus incurring unplanned expenditures. In its submission BC Hydro redacted specific details on the extent of the forecast losses (which are transferred to the NHDA to protect the government-mandated net income target).<sup>4</sup> BC Hydro claimed that publicly releasing this high-level summary could hamper future pricing negotiations to import power, potentially resulting in higher prices.<sup>5</sup>

<sup>3</sup> [https://docs.bcuc.com/documents/proceedings/2023/doc\\_75536\\_b-4-bch-bcuc-ir1-responses-public.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_75536_b-4-bch-bcuc-ir1-responses-public.pdf) pdf 8/40.

<sup>4</sup> [https://docs.bcuc.com/documents/proceedings/2023/doc\\_75536\\_b-4-bch-bcuc-ir1-responses-public.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_75536_b-4-bch-bcuc-ir1-responses-public.pdf) pdf 12/40

<sup>5</sup> Ibid., pdf 11/40; “The public version of this attachment has been redacted to maintain confidentiality over commercially sensitive information. Additional information that is not commercially sensitive has also been

The planned DARR of 5% will generate some \$900 million in additional revenue from 2025/26 to 2026/27, with a further \$270 million in the last two years of BC Hydro's forecast.

Thus, Table 2 shows that without the offset of the Trade surplus the marginal rate change for 2024/25 would have been 4.9% (approximately \$300 million), rising to 16% (approximately \$960 million) in 2025/26.

### **Trade Income Deferral Account (TIDA) Rebate**

The forecast for the Trade income is the key to BC Hydro's proposal and its multi-year rate forecast. BC Hydro forecasts that if the BCUC accepts the 2.3% rate proposal the TIDA will end 2024/25 with a large net liability owed to ratepayers. Most of this liability will be committed to moderating the large rate increase forecasted for 2025/26. BC Hydro has also incorporated a higher Trade profit target (\$475 million vs \$244 million) based on the 2029 to 2023 actual average.<sup>6</sup> This may overstate future Trade profits if prices and sales volumes decline.

It is ironic that the drought conditions result in BC Hydro importing higher cost electricity, Powerex produces significant profits by selling this power to BC Hydro. The losses and profits do not net to zero as BC Hydro can no longer generate surplus domestic power for export to partially offset its higher energy costs.

### **Rate Affordability**

In announcing the planned 2.3% rate increase for 2024/25, minister responsible Josie Osborne emphasized that the rates were relatively affordable; "With costs rising across the country at rates that are unsustainable for many people, it's more important than ever for us keep the cost of clean electricity down," she was quoted saying in a government press release.<sup>7</sup> As proof, the government stated

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redacted in order to prevent readers from being able to mathematically determine the value of the commercially sensitive information. BC Hydro requests that the information be held confidential until BC Hydro files its next revenue requirements application in approximately February 2025. Public disclosure of the redacted confidential information before that period would harm our negotiating position in commercial markets and ultimately harm our customers. BC Hydro will make the un-redacted version of the response available to interested parties with a legitimate interest in seeing it, upon signing the BCUC's form of undertaking."

<sup>6</sup> [https://docs.bcuc.com/documents/proceedings/2023/doc\\_75536\\_b-4-bch-bcuc-ir1-responses-public.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_75536_b-4-bch-bcuc-ir1-responses-public.pdf) Pdf 18/144.

<sup>7</sup> <https://news.gov.bc.ca/releases/2023EMLI0062-001683>

that BC Hydro's cumulative rate increases over the last seven years was below the change in inflation for the same period.<sup>8</sup>

Nowhere in the government's announcement of the 2.3% rate proposal was there any mention of the large cost impact of Site C, nor of the financial losses resulting from the drought conditions. The implication was that the 2.3% rate proposal was the result of prudent management rather than the prior years' surplus power and high prices generating large Trade surpluses.

### **Next Actual and Forecast Reports**

The actual financial results and the GWh data for 2023/24 will not be available until the audited financial statements are released in August 2024. We may see a high-level forecast of BC Hydro's 2023/24 year-end results and its three-year plan in the 2024/25 to 2026/27 service plan. This is expected to be released on 22 February 2024 with the provincial budget.

Specific detail on the effect of the low water on BC Hydro's finances, and the value of the Trade surplus offsets, will have to wait until perhaps February 2025, when BC Hydro plans to file a new three-year (2025/26 to 2028/29) rate request with the BCUC.<sup>9</sup> The delay to February 2025 may be required if the BCUC proceeds with its ill-advised adventure in performance-based rate setting.

In summary, using the accumulated Trade surplus to effect BC Hydro's 2.3% rate smoothing solution would appear to be warranted. Unfortunately, the information provided in the 30 October 2023 submission, and the BCUC information requests, does not provide a fulsome explanation of the impact of the drought conditions on domestic electricity generation. A clear presentation of BC Hydro's water flow and reservoir levels for the current year and the next two to three years is required to present a complete picture.

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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.

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<sup>8</sup> <https://vancouversun.com/news/local-news/b-c-hydro-asks-for-2-3-rate-increase-to-start-spring-2024> Such a simplistic comparison is meaningless.

<sup>9</sup> [https://docs.bcuc.com/documents/proceedings/2023/doc\\_75536\\_b-4-bch-bcuc-ir1-responses-public.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_75536_b-4-bch-bcuc-ir1-responses-public.pdf) Pdf 22/40.

