

## BC HYDRO'S 2024/25 BUDGET DISCOUNTS DROUGHT WARNINGS

Budget day is an important event for a variety of reasons. For those interested in the finances of BC Hydro it usually marks the release of the public's power utility's year-end forecast for the current year, and the budget forecasts for the next three years.

### The Current Year Forecast

There have been a series of media reports centred on how the drought conditions of the current year have reduced BC Hydro's domestic generation of electricity, forcing the utility to import approximately 8,600 GWh of electricity<sup>1</sup> to meet domestic demand.

The service plan to 2024/25 to 2026/27 shows the water inflows for the 2023/24 year at 78% of the average, with domestic generation (both owned and purchased from independent power producers) down by approximately 10,000 GWh compared to the budget. Imports are forecasted to be 6,000 GWh higher than budgeted, while electricity exports are expected to be 3,200 less than budgeted.<sup>2</sup>

The low water conditions led to a decline in domestic electricity generation and a loss of export revenue. The cost of energy is forecasted to be \$1.1 billion lower compared to the budget, which is primarily due to lower purchases from independent producers. Table 1 shows the 2023/24 forecast compared to the budget. Trade revenues are forecast to decline by \$1,68 billion (80%), while energy costs are forecast to decline by \$1.12 billion (30.6%).

**TABLE 1—CURRENT YEAR OPERATING FORECAST (\$=million)**

	Budget	Forecast	Difference	Per Cent
Revenue Domest.	5,844	5,900	56	1.0
Rebate	--	(340)	(340)	
Trade	2,100	418	(1,682)	(80.1)

<sup>1</sup> Imports of 10,184 GWh less exports of 1,525 GWh, see 2024/25 service plan <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/regulatory-planning-documents/service-plans/bchydro-service-plan-2024-25-2026-27.pdf> p. 29.

<sup>2</sup> The 2023/24 forecast is from the current service plan <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/regulatory-planning-documents/service-plans/bchydro-service-plan-2024-25-2026-27.pdf> p. 29, while the budget is from the previous year's service plan <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/regulatory-planning-documents/service-plans/bchydro-service-plan-2023-24-2025-26.pdf> p. 29.

Total	7,945	5,978	(1,967)	(24.8)
Cost of Energy	3,662	2,541	(1,121)	(30.6)
Amortiz. & Depre.	1,078	1,081	3	0.3
Finance Charges	633	405	(228)	(36.0)
Grants and Taxes	315	310	(5)	(1.6)
Other Admin.	1,549	1,695	146	9.4
Total	7,236	6,033	(1,205)	(16.6)
Net Income	709	(55)	(764)	
Reg. Transfer	3	369	366	
Revis. Net Income	712	314	(398)	

Source: 2023/24 budget from <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/regulatory-planning-documents/service-plans/bchydro-service-plan-2023-24-2025-26.pdf> p. 28; 2024/25 forecast from <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/regulatory-planning-documents/service-plans/bchydro-service-plan-2024-25-2026-27.pdf> p. 28.

### The 2024/25 Forecast

BC Hydro's 2024/25 budget forecast makes the heroic assumption that water inflows to its storage basins will be at 100% of the five-year average. As such, system exports rise by some 1,500 GWh to 3,000 GWh, and imports fall by 3,600 GWh to 6,600 GWh compared to the prior year forecast.

As a result, Table 2 shows Trade revenue increasing by almost \$600 million over 2023/24, while Domestic sales increase by \$276 million. This increase is comprised of sales growth of approximately 1,200 GWh (2.2%), while the average price increases by 2.3%. Finance charges are forecast to increase by \$388 million (up 95.8%) which reflects the higher cost of Site C dam entering service in late 2024.

**TABLE 2—OPERATING BUDGET 2024/25 (\$=million)**

	F2023/24	B2024/25	Difference	Per Cent
Revenue Domest.	5,900*	6,205	305	5.2
Trade	418	1,007	589	140.9
Total	6,347	7,212	865	13.6
Cost of Energy	2,541	2,688	147	5.8
Amortiz. & Depre.	1,081	1,146	65	6.0
Finance Charges	405	793	388	95.8
Grants and Taxes	310	341	31	10.0
Other Admin.	1,695	1,800	105	6.2
Total	6,033	6,768	735	12.2

Rebate	340	--	--	
Net Income	(55)	444	499	
Reg. Transfer	369	268	(101)	
Revis. Net Income	314	712	398	

Note: 2023/24 revenue before rebate of \$340 million.

### The Budget Assumes A Return to More Normal Water Levels

BC Hydro’s budget may be optimistic in its assumption that water levels will mark a return to more generation levels. This is shown in Table 3, where the forecast water inflows to BC Hydro’s storage basins dropped to 78% of the five-year average in 2023/24, but is expected to rebound to 100% in the coming year.

Generation from BC Hydro’s power facilities dropped dramatically in 2023/24, but is expected to rise to near average levels in 2024/25. Large net power exports in 2020/21 and 2021/22 generated a large surplus in the Trade Income deferral account, which is being used to subsidize rates in 2024/25.<sup>3</sup> The drought conditions of 2023/24 required BC Hydro to import large amounts of electricity to meet domestic needs. However, BC Hydro expects the low water conditions to improve in the coming year, as the net imports decline to 3,564 GWh.<sup>4</sup>

**TABLE 3—BC HYDRO WATER INFLOW AND DOMESTIC GENERATION (%)**

	2019/20	2020/21	2021/22	2022/23	f2023/24	b2024.25
Water Inflow %	f93	f110	f99	f97	f78	f100
Syst. Storage %	83	106	f92	f90	unknown	unknown
Own Gen. GWh	40,669	50,056	48,309	46,429	f37,819	f43,166
IPP Purch. GWh	14,474	14,630	16,824	15,408	f13,751	f15,221
Domestic Total	55,143	64,686	65,133	61,837	f51,560	f58,387
Net GWh Export/(Import)	2,025	8,086	5,979	1,634	f(8,659)	f(3,564)

Source: Inflow after 2018/19 from IRP Signpost submission of June 15, 2023, Appendix B p. 22

[https://docs.bcuc.com/documents/proceedings/2023/doc\\_71932\\_b-39-bch-signposts-update.pdf](https://docs.bcuc.com/documents/proceedings/2023/doc_71932_b-39-bch-signposts-update.pdf) pdf 200/368.

Storage from BCUC, BC Hydro F23 to F25 RRA, IR 2.4.0. Owned generation from BC Hydro annual reports.

Forecast for 2023/24 and budget for 2024/25 from the 2024/25 to 2026/27 service plan.

<sup>3</sup>[https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary\\_bc\\_hydro\\_2\\_3\\_percent\\_solution\\_9\\_january\\_2024/pdf/commentary\\_bc\\_hydro\\_2\\_3\\_percent\\_solution\\_9\\_january\\_2024.pdf](https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_bc_hydro_2_3_percent_solution_9_january_2024/pdf/commentary_bc_hydro_2_3_percent_solution_9_january_2024.pdf)

<sup>4</sup> By 2025/26 BC Hydro forecasts net exports of 1,400 GWh, rising to 2,400 GWh by 2026/27. Most of the net increase in exports is the result of the new owned generation from Site C.

The key assumption that precipitation and snowpack levels will return to near normal levels seems to run counter to the experience to date of the current winter snow accumulation. Coastal precipitation levels in December were indicating another summer drought.<sup>5</sup> The most recent Snow Conditions and Water Supply Bulletin reports the provincial snowpack is extremely low, averaging 44 per cent below normal across B.C.<sup>6</sup> Premier Eby expressed serious concern about the potential of an extended drought.<sup>7</sup>

BC Hydro President Chris O’Reilly recently noted that the low water levels were amongst the worse in the power utility’s history:

“We are wary about the potential for extreme weather with climate change and yeah, it’s definitely something where we’re managing and using all the tools we have,” he added. O’Reilly said that will include importing more electricity to help preserve reservoir levels, a strategy that led to high levels of electricity purchases in 2023, but paid off in its ability to deliver electricity through record demand during January’s cold snap. “I do want to say (that) customers should have confidence that we’ll have enough power for them,” O’Reilly said.<sup>8</sup>

What Mr. O’Reilly did not discuss was the potential impact on BC hydro’s finances, and ultimately on the future rates paid by current and future customers. The corporation’s quarterly reports will be closely monitored to determine if the current budget is overly optimistic regarding the return to normal water inflows and system storage.

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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>5</sup> [https://www.capitaldaily.ca/news/experts-expect-mild-winter-conditions-on-island-concerns-for-drought-season-next-year?utm\\_source=CapitalDaily&utm\\_medium=newsletter&utm\\_campaign=dec-10](https://www.capitaldaily.ca/news/experts-expect-mild-winter-conditions-on-island-concerns-for-drought-season-next-year?utm_source=CapitalDaily&utm_medium=newsletter&utm_campaign=dec-10) See also <https://globalnews.ca/news/10292761/minister-confident-bc-prepared-drought/>

<sup>6</sup> <https://vancouversun.com/news/local-news/water-levels-at-two-key-eastern-b-c-dams-below-normal-for-second-year-straight>

<sup>7</sup> <https://vancouversun.com/news/local-news/premier-to-tout-bc-budget-at-vancouver-board-of-trade>

<sup>8</sup> <https://vancouversun.com/news/local-news/bc-hydro-trim-production-drought>