

BC HYDRO SEEKS TO DELAY CUT TO PROFIT

Part way into the review of its 2021/22 rate request BC Hydro has asked the BC Utilities Commission to delay any reduction to its high profit (net income) target for the coming 2021/22 fiscal year. Instead, it is requesting another regulatory account to defer returning any reduction in the rates charged until the next rating period, which could span three years.¹

On December 2020, BC Hydro applied to the BCUC for a 1.16% rate increase for the coming fiscal year, includes a net income target of \$712 million. Two months later, it amended the application to request that any reduction in the net income (and therefore in the rate change) be deferred and returned to customers in the next rating period, which could extend from 2023 to 2026.

BC Hydro did not provide a detailed rationale for seeking to delay a possible reduction to its high profit target through a deferral account. It is probable that it is attempting to protect the proposed \$712 million net income target because this amount is incorporated into the government's 2021/22 revenue budget which will be announced on April 20, 2021. The net income (or loss) from BC Hydro and ICBC do not affect the government's borrowing requirements as no cash is transferred.²

BC Hydro's Excess Profits

In a January 2021 paper, I described how the BC government has manipulated BC Hydro's net income by directing the nominally independent regulator to set the annual rate changes to achieve a set return on equity (ROE) and latterly a fixed financial target.³

The government ignored the BCUC's benchmark ROE target of 8.75% and imposed a higher rate. From 2013/14 to 2019/20 this target rate ranged from approximately 11.8% to 10.3% on an inflated "deemed" equity. Table 1 shows the target or budgeted ROE (using deemed equity) compared to the actual ROE based on the actual equity from the prior fiscal year. The table also shows the target of budgeted amounts in millions compared to the actual results.

¹ https://www.bcuc.com/Documents/Proceedings/2021/DOC_61151_B-4-BCH-responses-to-BCUC-IR1.pdf

²

https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_icbc_net_income_november_24_2019/pdf/commentary_icbc_net_income_november_24_2019.pdf

³

https://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_75_bch_roe_7_january_2021/pdf/occasional_paper_no_75_bch_roe_7_january_2021.pdf

Table 1 –RETURN ON EQUITY (ROE) AND NET INCOME (\$=million)

	2015/16	2016/17	2017/18	2018/19*	2019/20
Budget ROE %	11.84	11.83	11.60	11.23	10.33
Actual ROE %	16.00	15.20	16.25	(6.67)	12.59
Net Income--Budget	651.9	684.0	698.4	712.0	712.0
Net Income--Actual	655.0	683.5	684.0	(428.2)	704.9

Source: Budgeted ROE from BC Hydro RRA IR1, CEC 55.3; and actual derived from BC Hydro annual reports.

Note: 2018/19 loss reflects the closure of the Rate Smoothing deferral account.

BCUC to Review Capital Targets and Return on Equity

On 18 January 2021, the BCUC announced that it would review the current cost of capital and the return on equity targets for regulated utilities in the province.⁴ This review would encompass the previous reviews of 2013, and the summary review of 2016. The 2013 review resulted in the benchmark ROE of 8.75% which would have been the benchmark for BC Hydro.

The current low interest rates, combined with the extensive use of deferral accounts to protect the net income, would strongly suggest a much lower ROE for BC Hydro for 2021/22 and future years. This is discussed further in Occasional Paper No. 75.⁵

The relatively rapid timetable for the review should ensure that a new ROE would be in place for BC Hydro before the 2022/23 fiscal year. It would also be possible to lower the net income target for the coming year, and by doing so add a fiscal stimulus to ratepayers, or pay down some of the deferred balances.

Whether the BCUC accepts BC Hydro's suggestion of postponing any reduction until some future rating period remains to be seen.

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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 current reviews of ICBC's and B.C. Hydro's rate requests.

⁴https://www.bcuc.com/Documents/Proceedings/2021/DOC_60592_A-1-GCOC-Proceeding-Notice.pdf

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https://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_75_bch_roe_7_january_2021/pdf/occasional_paper_no_75_bch_roe_7_january_2021.pdf