

B.C. HYDRO'S Q2 RESULTS: VOLUME OF POWER SOLD FALLS WHILE DEBT CLIMBS

Recently, B.C. Hydro posted its second quarter financial report for the current fiscal year.¹ The public power utility reported small changes in revenue and expenditure compared to the prior year's equivalent period. Because B.C. Hydro uses regulated accounting to practically guarantee the annual net income specified by cabinet (\$712 million for 2018/19), the reported revenue and expenditures must be viewed with caution.

The report gave no insight into how the government plans to reform the corporation's "prescribed" accounting to meet Canadian public sector accounting standards, nor did it provide any outlook as to the 2019 rate increase.

Domestic and Surplus Sales

A review of the electricity (GWh) sold shows that Q2 Domestic sales were some 1,700 GWh less than the prior year due to a decline in the amount of surplus power sold. This was probably due to lower water inflows into the reservoirs during the first six months of 2018 compared to the prior year.²

Table 1 shows that the true Q2 Domestic sales were only 1.4% higher than the sales for 2015, despite a strong economy and high levels of employment. Including surplus sales drops the total "domestic" sales by 2,606 GWh, or 9.1%.³

Table 1—Domestic Q2 GWh Electricity Sold 2015 and 2018.

	2015	2018	Difference	Per Cent
Residential	7,100	7,231	131	1.8
Light Ind. & Commercial	9,009	9,180	171	1.9
Large Industrial	6,771	6,779	8	0.1
Total Domestic	22,880	23,190	310	1.4
Contract and Surplus Sales	5,647	2,731	(2,916)	(51.6)
TOTAL DOMESTIC	28,527	25,921	(2,606)	(9.1)

Source: B.C. Hydro quarterly reports

Table 2 shows the change in electricity generated by owned power generators and that purchased from Independent Power Producers (IPPs) and other suppliers.

¹ <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/quarterly-reports/f19-q2-report.pdf>

² Ibid., p.

³ B.C. Hydro includes surplus sales (excess water behind the dams) as domestic sales.

Table 2—Domestic Q2 GWh Electricity Produced 2015 and 2018.

	2015	2018	Difference	Per Cent
Owned Generation	23,439	18,916	(4,523)	(19.3)
Indep. Power Producers	7,640	8,576	936	12.3
Other incl Trade	(92)	581	673	na
Total	30,987	28,073	(2,914)	(9.4)

Source: B.C. Hydro quarterly reports

In recent years the IPP-supplied power had been displacing the publicly-owned power.⁴ The IPP purchases for 2018 increased by only 0.6% over the purchases for 2017 due to the dry summer conditions. This emphasizes the fragility of this run of river power source compared to hydroelectric dams.

Trade Sales

Total trade revenue was \$487 million, an increase of \$98 million or 25 per cent compared to the same period in the prior fiscal year. The increase in trade revenue was primarily due to higher average energy prices as the GWh traded dropped by 21.6%.⁵

Change in Regulatory Accounts Balance

The net balance in the regulatory accounts as of 30 September 2018 was \$4.84 billion. This was approximately \$610 million less than the \$5.45 billion reported as of 31 March 2018, due to an accounting change of \$315 million, increasing some regulatory liabilities and the amortization payments of approximately \$200 million.

There was no mention of the \$950 million 2017/18 funded prospective adjustment. B.C. Hydro did not alter the deferral accounts summary to reflect this adjustment.

Capital Expenditures and Debt Management

During the first six months B.C. Hydro spent \$2.52 billion on capex, or \$1.3 billion when the one-time \$1.22 billion payment for the Waneta Dam acquisition is excluded. This is approximately \$180 million, or 11.5%, more than the Q2 for 2017/18. The expenditures on Site C were higher by \$220 million (total of \$535 million).⁶

The Q2 net debt was \$21.925 billion, or \$4.462 billion more than the net Q2 debt of 2015. Excluding the Waneta purchase the increase was \$3.242 billion, arise of 18.6% in three years.

⁴ See Table 3.2 in

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_61_13_september_2018/pdf/occasional_paper_no_61_13_september_2018.pdf

⁵<https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/quarterly-reports/f19-q2-report.pdf> p. 4.

⁶ Ibid., p. 13.

Interest paid totalled \$408 million, \$59 million (16.9%) more than for Q2 2015.

Implications

The quarterly report made no reference to the recommendations of the committee of senior officials that minister Mungall convened in late June. At the time she stated that the committee would make recommendations in the fall on options to keep future electricity rate increases affordable. No further public statements have been made since the initial announcement.

In late August, finance minister James announced that the government agreed with auditor general Bellringer's qualification of the province's financial statements, partly because B.C. Hydro's accounting did not conform to public sector accounting standards. A "prospective adjustment" of \$950 million was created from the 2017/18 surplus to begin to reform B.C. Hydro's accounts.⁷

The Q2 report assumed business as usual respecting the regulatory accounting, including the addition of \$141 million in unapproved and unbilled revenue through the government-mandated Rate Smoothing deferral account.

Summary

B.C. Hydro's Q2 report contained few surprises and no insights as to how the government intends to respect the auditor general's concerns about the accounting, while still attempting to keep electricity rates affordable.

It seems that we must wait for the filing of the 2019 rate increase request with the B.C. Utilities Commission in February to ascertain how the government intends to resolve this dilemma.

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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 has been an intervener in the BC Utilities Commission's recent reviews of both ICBC's and BC Hydro's rate requests.

7

http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_63_1_october_2018/pdf/occasional_paper_no_63_1_october_2018.pdf