

ESTIMATING THE COST OF THE NEWLY ANNOUNCED BC HYDRO REBATE

In his first remarks after his formal swearing-in now Premier David Eby announced that BC Hydro would be providing residents and business with a special one-time rebate (branded as a “cost-of-living credit) to help these clients cope with the rising cost of living. The premier suggested that the rebate was possible because BC Hydro had done well in the previous year, but the profit was actually less than the \$712 million budget.

The rebate will be provided as a bill credit which will apply to all eligible residential and commercial electricity customers, including those who receive their electricity service from FortisBC or a municipal utility. The government media summary stated that residential customers will receive \$100, while light industrial and commercial users will receive an average of \$500.¹

What Will the Rebate Cost?

No details were provided on the estimated total cost of the rebate, although it was suggested that more information would be provided in a week or so. However, it is possible to calculate a reasonably accurate cost based on the client accounts of BC Hydro and FortisBC. In the following summary the BC Hydro client numbers are for 31 March 2022,² while the FortisBC numbers are for 2022 which are from its recent rate application to the BC Utilities Commission (BCUC).³

	Residential @ \$100	Light Ind./Commercial @ \$500
BC Hydro	1,931,000 = \$ 193.1 million	221,600 = \$110.8 million
FortisBC	129,300 = \$ 12.9 million	17,000 = \$ 8.5 million
Total	\$206.0 million	\$119.3 million

The total, excluding the municipal rebate is approximately \$325 million, which is equivalent to the revenue BC Hydro would receive from a rate increase of approximately 5.5%.

¹ <https://news.gov.bc.ca/releases/2022EMLI0064-001735>

² <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/annual-reports/21-22-bc-hydro-annual-service-plan-report-final.pdf> p. 116.

³ https://www.cdn.fortisbc.com/libraries/docs/default-source/about-us-documents/regulatory-affairs-documents/electric-utility/220805-fbc-annual-review-for-2023-rates-application-ff.pdf?sfvrsn=499d8d1f_2 p. 28.

How Will BC Hydro Fund the Rebate?

In the current year the government ordered the BCUC to set BC Hydro's rates to generate a net income (profit) of \$712 million.⁴ The simplest approach would be to reduce the profit target by the amount of the rebate. This would reduce the year-end net income by approximately \$325 million, resulting in a notional shortfall in the revenue component of the government's fiscal plan. There would be no change in the actual cash position because BC Hydro no longer sends an annual dividend (actual cash) to the government.⁵

The second approach would be for the BCUC to approve a new regulatory/deferral account for the amount of the rebate. Recording the rebate in a deferral account allows current customers to receive the financial benefit, while transferring the cost to future generations of ratepayers. It also allows the \$712 million net income target to remain in place and avoids amending the three-year fiscal plan.

The BCUC may reject a proposal to create a new deferral account as it would create intergenerational inequity between current and future ratepayers.

Another Cabinet Directive to the BCUC?

To avoid the potential embarrassment of the regulator not approving a cost-of-living credit deferral account the government will probably continue with its long practice of micromanaging BC Hydro's finances using cabinet orders to the BCUC.

If this is the approach selected to fund the one-time rebate it will again demonstrate the government's contempt for the notion of an independent third-party regulating the monopoly public utility.⁶

©Richard McCandless November 19, 2022. <https://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 was an intervener in the BC Utilities Commission's current review of B.C. Hydro's rate request.

⁴ BC Hydro submitted its rate adjustment proposal for 2022/23 to 2024/25 in September of 2021. The BCUC review has been protracted and may conclude in the spring of 2023.

⁵https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_budget_distortion_february_23_2022/pdf/commentary_budget_distortion_february_23_2022.pdf

⁶

https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_bc_hydro_net_income_directive_11_march_2022/pdf/commentary_bc_hydro_net_income_directive_11_march_2022.pdf and https://www.bcpolicyperspectives.com/media/attachments/view/doc/commentary_bc_hydro_net_income_directive_11_march_2022/pdf/commentary_bc_hydro_net_income_directive_11_march_2022.pdf

