

NEW BILL REBATE FURTHER POLITICIZES BC HYDRO'S FINANCES

In one of his first acts after being sworn in as premier, David Eby announced that all residents and businesses (excluding the Large Industrial users) would receive a rebate on their current electricity bills.¹ The rebate of \$100 for Residential customers and \$500 for Commercial customers will include those customers who purchase electricity from FortisBC and municipal utilities, such as New Westminster.

Neither Premier Eby, nor the government news release, mentioned that such a rebate required the approval of the BC Utilities Commission (BCUC), which as the legislative mandate to approve BC Hydro's rates.

A New Regulatory/Deferral Account

On the same day as the rebate was announced the government signed an order (OIC 571/22) which created a new "Customer Credit" regulatory account at BC Hydro, stocked with \$401 million in surplus 2021/22 revenue from a sub-set of BC Hydro's many regulatory/deferral accounts.² Of this total, \$320 million was for the bill rebate, \$74 million was for unbudgeted inflationary pressures, and \$6 million was for a customer emergency account.

Using its authority to direct the BCUC, cabinet allowed the Commission ten days to approve the new regulatory account, together with a detailed allocation methodology for the various entities receiving the rebate funds. The Commission duly complied.³

The new deferral account incorporates budgets for three separate purposes, including the bill rebate. This is different than previous deferral accounts that were established for a single financial purpose, such as pension or debt variances. It is quite possible that most, if not all, of the \$401 million placed in the new regulatory account will be disbursed in the current year. Why establish a deferral account for a single year? Essentially, the new deferral account is a contingency fund.

¹ <https://biv.com/article/2022/11/100-bc-hydro-and-fortisbc-credits-announced-all-bc-households> The government calls the rebate a cost-of-living credit.

² https://www.bclaws.gov.bc.ca/civix/document/id/oic/oic_cur/0571_2022

³ <https://www.ordersdecisions.bcuc.com/bcuc/orders/en/item/521376/index.do>

The Surplus Would Have Reduced Future Rates

Under the current practice for eliminating surplus (credit to the ratepayers) regulatory funds, the prior year's surplus in the cost of energy deferral accounts would have been returned to BC Hydro ratepayers over time by an adjustment to the annual rates. The government chose to advance the full payment to the current year.

Most of the \$401 million surplus assigned to the new regulatory/deferral account came from higher than budgeted profit from the export of excess domestic power (\$277 million higher than the budget). BC Hydro's just released report for the first half of the current year shows this trend continuing, with a \$574 million customer credit in the Trade Income deferral account compared to a full year budget target of \$126 million.⁴

Previous Auditor General Criticized BCUC's Lack of Independence

The BC government must adhere to the International Financial Reporting Standards (IFRS) which form the basis of the national public sector accounting standards. To use regulatory accounting an entity must have its deferral accounts approved and managed by an independent third-party tribunal.⁵

BC Hydro's regulatory accounts must be approved by the BCUC, which (in theory) acts as the independent third-party tribunal. It has the authority to set rates to balance the future financial viability of the monopoly Crown utility against the needs of the ratepayers. "Under the regulatory compact, a public utility is given exclusive rights to sell natural monopoly services to customers, but in return subject their operations and rates to Commission scrutiny. The Commission stands in the place of the competitive market place to ensure, amongst other things, the rates the utility proposes to charge are just and reasonable."⁶

While the BCUC has the statutory authority to oversee the BC Hydro's finances, and to set the annual rates, this power has been seriously eroded by a series of cabinet directives. The limitation on the BCUC's discretion to set annual rates and oversee the regulatory accounts led former Auditor General Carol Bellringer to qualify the government's 2016/17 and 2017/18 financial statements.

This qualification was withdrawn for the 2018/19 statements after the new NDP government eliminated the most egregious points of conflict,⁷ and promised to enhance the Commission's oversight authority, including the determination of BC Hydro's net income target commencing in 2021/22. As the Phase 1 Report on BC Hydro (February 2019) noted; "As an outcome of Phase 1 of the Review, the government will re-empower

⁴ <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/quarterly-reports/bchydro-f23-q2-report.pdf> p. 8.

⁵ IFRS 14; <https://www.iasplus.com/en/standards/ifrs/ifrs14>

⁶ https://docs.bcuc.com/Documents/Arguments/2022/DOC_68919_2022-11-24-AMPC-FinalArgument.pdf p. 3.

⁷ Including the exemption of BC Hydro to have an independent regulator to oversee the regulatory accounts.

the BCUC to set BC Hydro's allowed net income, following a two-year transition period for Fiscal 2020 and Fiscal 2021 where BC Hydro's allowed net income of \$712 million will remain in place.⁸

Ms Bellringer noted these positive changes in her July 2019 explanation as to why she withdrew her qualification of the government's 2018/19 financial statements. Ms Bellringer stated that her withdrawal of the qualification was based on the promised independent "framework" for the BCUC; "Government's plans provide for an appropriate regulatory framework, and allow BCUC to provide the scrutiny and authority required by the accounting standards." Later in the document she again referred to the planned independence of the regulator: "With these changes in government regulation and direction, the removal of the RSRA, and government's commitment to restore the authority of the BCUC [my emphasis], we agree with government's assessment that BC Hydro's use of rate-regulated accounting is now appropriately reflected in the SFS [summary financial statements], and have therefore removed our qualification for this year."⁹

Government Reneges on Promised "Enhanced" Independence

Since the withdrawal of the auditor general's qualification the current government has issued a number of directives to the BCUC which have the effect of renegeing on the promise of enhanced independence.¹⁰

In Direction 8 (OIC 51/19) of February 2019, the BCUC was ordered to set BC Hydro rates to generate a net income of \$712 million for 2019/20 and 2020/21. This control over the net income target (which is included in the government's revenue calculations) was extended by OIC 172/21 in March of 2021 to include the 2021/22 to 2022/23 fiscal years, and then further extended to 2024/25 by another cabinet order (OIC 123/22) in March 2022. These extensions ignored the promised return of this key rate setting authority to the Commission.

On 27 June 2022 (OIC 355/22), the BCUC was ordered to approve a new low carbon electrification and load attraction regulatory account. This account was proposed as part of the three-year rate proposal currently under review by the Commission, but the government decided it would prefer the certainty of a directive to the Commission rather than wait for the outcome of the review.

⁸https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bc-hydro-review/final_report_desktop_bc_hydro_review_v04_feb12_237pm-r2.pdf p. 17.

⁹https://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

¹⁰ The enhanced independence is summarized in the Phase 1 report of the Comprehensive Review of BC Hydro; https://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bc-hydro-review/final_report_desktop_bc_hydro_review_v04_feb12_237pm-r2.pdf p. 2.

The new customer credit regulatory account announced by Premier Eby is just the latest example of the cabinet substituting its political priorities instead of the economic model used by BC hydro's nominal regulator. While Premier Eby began his tenure promising new initiatives, the peremptory directive to the BCUC respecting the customer rebate deferral account follows a well worn path.

Will the Current Auditor General Qualify the Financial Statements?

In my 10 July 2022 paper I asked whether Auditor General Michael Pickup will respond to the challenge posed by the government's continued control over the nominal regulator of BC Hydro.¹¹ The Office of the Auditor General is the external auditor for BC Hydro (another positive legacy of Ms Bellringer), so Mr. Pickup has a direct channel into the accounting practices at our public power utility. One might expect that he would have enough evidence to determine that the BCUC has not been given the authority to act as a third-party overseer of rate regulated accounting at BC Hydro.

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