

## FACT CHECK – LIBERAL PARTY ESTIMATES BC HYDRO RATE INCREASE

### TRUE RATE INCREASE HIGHER THAN LIBERALS DISCLOSE

#### Background:

On April 19, 2017 finance minister de Jong stated that a four-year freeze on BC Hydro rates would amount to \$1.2 billion in foregone revenue, which presumably would increase the corporation's debt.<sup>1</sup>

He intimated that if this increase was not approved BC Hydro's debt would increase by an equivalent amount. This increase, when combined with other NDP proposals, would result in a downgrade to the province's credit rating.

In July 2016, BC Hydro submitted its 2016/17 to 2018/19 rate proposal to the BC Utilities Commission for approval. By various cabinet orders the Commission cannot increase rates by more than 4% for 2016, 3.5% for 2017 and 3% for 2018. The corporation's net income was also fixed by cabinet order for these years.

BC Hydro stated that the average rate increase for 2019 and 2010 would be 2.6%.

#### A Closer Look at BC Hydro's Plan<sup>2</sup>

In 2014, the cabinet ordered BC Hydro to count future unbilled revenue in a new "Rate Smoothing" deferral account. This account allows BC Hydro to inflate its annual revenue to account for the difference between the revenue generated by the allowed rate increase and that required by BC Hydro to meet its expenditure forecasts.

The deferred revenue helps BC Hydro to achieve its profit targets; and because the deferral is treated as an asset the new revenue allows BC Hydro to claim sufficient equity to pay a dividend to the government. But the revenue – not actually being received – is added to the corporation's debt.

Thus, BC Hydro's plan has two sources of revenue; the ratepayer-financed and the debt-financed. Using the 2016 ratio of a 1% rate increase producing \$43 million, the four-year plan is shown in Table 1.

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<sup>1</sup> <http://vancouver.sun.com/news/local-news/b-c-election-2017-liberals-analyze-ndp-spending-plans>

<sup>2</sup> See

[http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_25\\_12\\_march\\_2017/pdf](http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_25_12_march_2017/pdf)

Table 1 – Planned Revenue Increases (\$=million)

		<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>TOTAL</b>
Customer-Financed	\$	150	130	112	112	<b>504</b>
	%	3.5	3.0	2.6	2.6	11.7
Debt-Financed	\$	210	290	300	410	<b>1.200</b>
	%	4.9	6.7	7.0	9.5	27.9
Four Year Total	\$	360	420	412	522	<b>1.704</b>
	%	8.4	9.7	9.6	12.1	39.6

The government’s 10-year financing plan for BC Hydro shows the balance in the rate smoothing deferral account growing to almost \$1.6 billion by fiscal year 2020/21, then magically being eliminated by 2023/2024.

From 2012/13 to 2015/16, BC Hydro recorded and deferred almost \$790 million in unbilled revenue in the Non-Heritage deferral account. This reflected actual domestic sales being less than budgeted, and this shortfall was also debt-financed. The current three-year forecast assumes actual sales will match the budget.

#### Which Forecast Is Accurate?

The government approved BC Hydro submission states that – all else being equal -- \$1.7 billion in new revenue is required during the next four years, with \$1.2 billion being financed by debt.

Minister de Jong says a four-year freeze on customer rates will add \$1.2 billion to BC Hydro’s debt, yet this is BC Hydro’s current plan.

#### Time for Honesty and Accountability

Should the NDP be defending its plan to review BC Hydro’s poor finances, or should the government be explaining what the true cost of electricity has been, and what is planned for the coming years? Little wonder Moody’s has stated that BC Hydro’s finances are the poorest of all public power utilities in Canada.

