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COLD AND SNOWY WINTER HELPS BC HYDRO'S FINANCES, BUT HAMMERS ICBC.

After a couple of relatively mild winters, beginning in early December southwest BC suffered through a prolonged period of cold and snowy weather. The average temperatures for December to February were about two thirds of the levels recorded in the previous year. The cold weather forced homeowners to use more electricity for space heating, while the snow and icy road conditions contributed to a significant increase in ICBC claims for vehicle damage and personal injuries.

The cold and snowy winter of 2016/17 will have different impacts on the year-end financial results of BC Hydro and ICBC. This paper attempts to estimate what they will be.

BC HYDRO

BC Hydro recently released its third quarter (Q3) financial report for April to December of 2016.¹ The cold weather improved domestic electricity sales (GWh) as compared to the same period in 2015. Residential and commercial sales were both up by 0.8%, although large industrial sales were down by 3.7%.

The Q3 2016 to 2015 sales results were significantly higher when compared to the second quarter year-over-year (Q2) results, with residential sales showing an increase of 0.8%, where by Q2 residential sales were 2.8% less than in 2015.

Table 1 Change in Power Sales (GWh) 2016 to 2015 for Q3 and Q2 (Percent)

	Q3 2016 TO 2015	Q2 2016 TO 2015
RESIDENTIAL	0.8	(2.8)
COMMERCIAL	0.8	(0.3)
INDUSTRIAL	(3.7)	(3.9)
TOTAL	(0.5)	(2.1)

Source: BC Hydro third quarter reports for 2016/17 and 2015/16.

BC Hydro acknowledges that the cold weather in December increased electricity sales and improved its revenue compared to the lower sales trend reported for Q2.² The cooler weather had little or no impact on electricity sales to the industrial sector.

2016/17 Year-End Outlook

The continuing colder than normal weather experienced in January, February and early March should – by my estimate – result in BC Hydro's actual domestic GWh sales being very close to its forecast for

¹ <https://www.bchydro.com/content/dam/BCHydro/customer-portal/documents/corporate/accountability-reports/financial-reports/quarterly-reports/f17-q3-report.pdf>

² Ibid., p. 4.

2016/17. If it does, it will be the first time in the last six years. Table 2 shows the variance in the actual to forecast GWh sales from 2011/12 to 2015/16.

Table 2 ACTUAL TO FORECAST DOMESTIC SALES (GWh)

	GWh	PERCENT
2015/16	(2,737)	(5.1)
2014/15	(1,932)	(3.6)
2013/14	(2,346)	(4.3)
2012/13	(2,535)	(4.7)
2011/12	(1,431)	(2.7)

Source: BCUC, BC Hydro F17-F19 RRA, IR 1, BCUC 4.2.

The achievement of the forecasted domestic sales, combined with interest cost savings resulting from continued low interest rates, does not mean that BC Hydro will report a larger 2016/17 net income (profit). In July 2016, cabinet fixed the net income target for this year and the next two years.³ Because of BC Hydro's unique accounting system, the achievement of the forecasted revenue from domestic sales will allow BC Hydro to avoid additional borrowing to plug any revenue shortfall on its year-end financial statements.⁴

By fixing the annual net income requirement the government forces BC Hydro to make up any revenue shortfall by increasing the Non-Heritage deferral account. The revenue shortfall reported in this deferral account grew by \$895 million from 2010/11 to 2015/16. The reporting of unbilled revenue allows BC Hydro to report higher net income (and pay a dividend), but increased its borrowing requirements.

Thus, the impact of the cold weather relieves BC Hydro of the need to add perhaps \$200 to \$250 million to its borrowings for 2016/17, compared to what a more normal weather scenario would have required.

INSURANCE CORPORATION of BRITISH COLUMBIA

The cold weather from December through February resulted in above normal snowfall and icy driving conditions in southwest part of the province. ICBC was faced with a significant increase in claims for both vehicle damage and personal injuries.⁵

Unlike BC Hydro, ICBC does not produce detailed quarterly reports. Instead, the single sheet statement of operating revenue and expenditures, which is an affront to the concepts of accountability and transparency, shows only corporate (or combined) level information, with no discussion or analysis. The annual report has much more information but the discussion is at the corporate level, without separate utilization detail for the compulsory Basic and the Optional programs.

The increased volume of claims, caused in part by the prolonged ice and snow in the southwest, has exacerbated ICBC's already deteriorating financial. In February 2016, ICBC forecast a 2016/17 combined operating deficit of \$11 million, and a capital reserve of \$2.97 billion.⁶ Last month ICBC published a

³ OIC 590/16.

⁴ For an explanation of why BC Hydro's net income is not dependent on variances in revenues or expenditures see http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_23_2_march_2017/pdf

⁵ <http://www.abbynews.com/news/415159024.html>

⁶ See page 14 <http://www.icbc.com/about-icbc/company-info/Documents/service-plan-2016-2018.pdf>

corporate level financial forecast for year-end 2016/17, which showed the 15-month operating loss at a staggering \$697 million, and the forecast capital reserve dropping to \$2.56 billion.⁷

Based on ICBC's claims costs as of September 2016, I estimate that the additional claims resulting from the poor winter road conditions added between \$150 and \$200 million to ICBC's 2016/17 current and prior years claims costs (assuming that ICBC's February 2017 service plan forecast anticipated the continuing snow conditions in February).

To ensure there are sufficient funds to pay claims in the advent of an unexpected financial shock, ICBC must meet regulatory minimum risk-weighted capital reserve funding ratios of 100% for the Basic program, and 200% for the Optional program.

Based on the February 2017 forecast, I estimate that the dollar value of the combined Basic and Optional minimum levels required for year-end 2016/17 at approximately \$2.84 billion. Using the higher capital reserve ratios approved by the BC Utilities Commission for the Basic program (145%), and the ICBC board of directors for Optional insurance (260%), the year-end capital reserves requirement totals approximately \$3.90 billion. **Therefore, ICBC's capital reserve forecast of \$2.56 billion will be \$280 million below the minimum requirements, and \$1.34 billion less than the approved safety margin.**⁸

In the last 27 months ICBC's capital reserves will have dropped by some \$1.06 billion (29%), with most of the loss (approximately \$780 million) due to the government's policy of subsidizing Basic rates.⁹

SUMMARY

The prolonged cold and snowy weather experienced by residents of the southwest part of the province had a significant positive effect on the finances of BC Hydro, and a serious negative impact on the claims costs of ICBC. This was noted in BC Hydro's Q3 (to December) financial report. Unfortunately, ICBC does not provide any commentary to accompany its highly aggregated quarterly financial summaries (when they are available), avoiding the accountability and transparency exhibited by BC Hydro.

The exceptionally cold and snowy weather will help BC Hydro to avoid additional debt related to operations. But the increase in claims will drain ICBC's capital reserves more quickly, thereby advancing the financial crisis being faced by our public auto insurer.

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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

⁷ See page 15 <http://www.icbc.com/about-icbc/company-info/Documents/Service-Plan-201718-201920.pdf>

The report spans 15 months to account for the change in fiscal year. If the forecast for current year claims costs was reduced by 20% to equate to the 2015 (12 month) actuals, the forecast is up approximately 18% over 2015. The 2015 current year claims costs were 12.4% higher than 2014.

⁸ The 100% ratio for Basic equates to approximately \$1.40 billion, while the 200% ratio for Optional equates to approximately \$1.44 billion, for a combined capital reserve requirement of \$2.84 billion.

⁹ The balance was appropriated by the government in 2014 (\$139 million), and 2015 (\$138 million).

intervener in the BC Utilities Commission's recent reviews of ICBC's rate requests, and is currently an intervener in the Commission's current reviews of ICBC and BC Hydro rate requests.

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