

HAVE THE NDP ARGONAUTS SUCCUMBED TO THE SIRENS' SONG OF DEFERRAL ACCOUNTING?

Following the government's 8 November 2017 announcement that it would not proceed with the 3% rate increase planned for April 2018, BC Hydro filed a request with the BC Utilities Commission (BCUC) to approve the amendment to its three-year rate submission, where final arguments had been filed on 4 July 2017.

On November 23rd the BCUC convened a meeting of BC Hydro and the interveners to determine whether it had the discretion to approve the request, and whether there should be information requests and possibly oral hearings on the matter. The Commission panel determined that more information will be sought from BC Hydro respecting the need for the request, and the impact on the utility's debt liability.¹ It is unlikely that the Commission will decide on the freeze request before February 2018.

The government's decision to freeze BC Hydro's rates and increase the debt by \$140 million was contrary to its criticism of this practice while in opposition. But the lure of short-term popularity by deferring the financial pain into the future appears to have overcome its earlier principled objections to the Liberal government's abuse of regulatory accounting at BC Hydro.

The history of the government using regulatory accounting at BC Hydro to manipulate the finances of the public energy utility goes back several years. In the absence of an independent regulator, the previous Liberal government expanded the size and number of deferral accounts (including the recording of future unbilled and uncollected revenue), until there was little risk left for the shareholder. Future generations of ratepayers would be responsible for paying down the growing debt liability.

¹ During the meeting BC Hydro disclosed the possibility that the new government may change the last six years of the unrealistic 10-year financing plan. Mr. Ghikas stated that the addition of the \$140 million foregone revenue to the balance of the rate smoothing deferral account may not affect the current financial plan, as there may be a new plan soon: "So other things being equal, it would take longer to recover that balance, but all things aren't going to be equal, Mr. Chairman, because the government has identified that they're going to be looking at a different rates plan, a refreshed rates plan going forward."

http://www.bcuc.com/Documents/Transcripts/2017/DOC_50347_11-23-2017_Transcript_PHC-Vol-8.pdf p. 458. Also, <http://vancouversun.com/news/politics/rob-shaw-b-c-hydros-awkward-case-for-rate-freeze-puts-ndp-promise-into-jeopardy>

The following timeline is presented as a reference document. While the creation of a regulatory asset for recording future unbilled and uncollected revenue did not officially begin until 2014, the manipulation began much earlier.

RATE SMOOTHING REGULATORY ACCOUNT TIMELINE

ISSUE/EVENT	SIGNIFICANCE
1 March 2011—BC Hydro files a two-year 32% rate increase for 2012 to 2013. The Auditor General announces a review of the deferral accounts. Premier Clark announces government review of BC Hydro’s finances.	Significant public concern about forecast electricity bills and impact of province’s energy policies on BC Hydro’s costs.
2 July 2011—Cabinet adopts US accounting standard for BC Hydro regulatory\deferral accounting, but exempts utility from need for independent regulator.	Creates unique accounting standard for BC Hydro; an independent regulator is fundamental to the use of regulatory/deferral accounting.
3 August 2011—Government review released.	Report warns of growth in costs and debt; also warns of growth in deferral amounts. Notes that credit rating could suffer.
4 October 2011—Auditor General report released; criticizes use of deferral accounts to produce high net income while increasing BC Hydro debt.	The report was highly critical of the number and size of the deferral accounts, and the lack of a plan to pay down the balances. AG Doyle said the sole purpose of the deferral accounts was to generate revenue for the government.
5 November 2011—BC Hydro files lower than required rate increases for 2012 to 2014, again relying on deferral accounts to suppress rates.	BCUC becoming concerned about the growing debt liability faced by further generations; balks at closed negotiated conference to set rates citing broader public interest.
6 May 2012—Cabinet pre-empts further review of BC Hydro’s finances, and orders BCUC to approve lower Hydro rate increases for 2012 to 2014 than amounts required to match cost increases.	Government now setting BC Hydro rates. BC Hydro refers to “prescribed” accounting standard.
7 May 2013—Government re-elected.	Electricity rates were not a factor during the election.
8 July 2013---Leaked BC Hydro two-year 26% rate forecast causes public concern. Main cost drivers are the rising cost of IPP contracts and	Premier Clark denies veracity of leaked request and appoints joint committee of

	debt servicing resulting from the large CAPEX program.	senior deputy ministers and BC Hydro management to develop more affordable plan.
9	August-October 2013—Senior officials committee reviews BC Hydro’s expenditure forecasts; new multi-year plan developed.	Key to the new financing plan is a new deferral account for recording as revenue received the shortfall between the forecast requirement and that allowed by the suppressed (smoothed) rates. BC Hydro advised the government that the BCUC would probably reject such as deferral plan as being unfair to future generations.
10	Late November 2013—After cabinet endorsement Hon. Bill Bennett announces 10-year financing plan for BC Hydro.	Plan includes diminishing rate increases for first five years while increasing the net income. BCUC rate-setting authority suspended until 2019.
11	March 2014—Cabinet directions 6 and 7 to the BCUC are highly prescriptive; BCUC ordered to approve low rate increases and the new “rate smoothing” regulatory/deferral account. Plan forecasts growing balance in the revenue deferral account, reaching almost \$1.6 billion by 2020/21.	One week later BCUC complies with cabinet orders. BC Hydro now claimed it had the regulator’s approval to record unbilled and uncollected future revenue, and create a regulatory asset for same.
12	November 2014—Task force on BCUC’s independence files its report with the government. Calls on the government to restore its rate-setting authority and provide more resourcing.	The report said the government should clearly delineate its energy policy and allow the BCUC to operate with its legislative mandate.
13	January 2015—Energy minister Bennett admits that in recent years BC Hydro has borrowed most of its dividend payments to the government.	Deferring costs and unbilled revenue does not affect cash flow; BC Hydro has been borrowing to cover operating deficits.
14	July 2016—Cabinet sets dividend for 2016/17 and net income targets for 2016/17 to 2018/19. BC Hydro files rate increases of 4% for 2016, 3.5% for 2017 and 3% for 2018.	During the three years BC Hydro plans to increase the rate smoothing deferrals by almost \$800 million
15	November 2016—BC Hydro confirms that between 2008/09 to 2015/16 it has deferred a further \$1.0 billion in unbilled and uncollected revenue in a different deferral account.	All the deferred revenue was considered a regulatory asset, thereby offsetting the increase in liabilities.
16	July 2017--New Democratic Party forms minority government.	
17	August 2017—Auditor General Bellringer cites BC Hydro’s regulatory accounting as	The government responds by saying that BC Hydro’s external auditor approved the

<p>new reason to qualify the government’s financial statements for 2016/17.</p>	<p>Crown’s financial statements, and that cabinet was the regulator of BC Hydro for rate setting purposes.</p>
<p>18 September 2017—Government announces major ICBC premium increases for 2017.</p>	<p>Contrary to its election promise to freeze ICBC rates, the government cited the growing financial crisis at ICBC as the reason for the increase.</p>
<p>19 November 2017—Government announces a freeze on BC Hydro’s planned 3% rate increase for April 2018. BC Hydro applies to the BCUC to amend the 2018 rate request.</p>	<p>The government says the freeze fulfills election promise and helping to achieve more affordability. The government said that the \$140 million in foregone revenue would be added to the rate smoothing deferral account.</p>
<p>20 November 2017--BCUC receives submissions from interveners on process re the amended request. Decides to extend decision into 2018 after another round of information requests.</p>	<p>The major consumer interveners asked the BCUC to approve the deferral, while many wanted to use the opportunity to question BC Hydro on the plan to pay down the rate smoothing account balance. Only one intervener suggested that the BCUC must follow its legislated regulatory principles and approve the 3% increase because BC Hydro had confirmed that its costs were rising, and Direction 7 continued to cap the 2018 rate increase at 3%.</p>

SOURCES:

- Nos. 1 to 13. More detail can be found in Richard McCandless, “Rate Suppression and Debt Transformation: The Political Use of BC Hydro 2008 to 2014. *BC Studies*, No. 191, Autumn, 2016. See <http://ojs.library.ubc.ca/index.php/bcstudies/issue/view/182759> and http://www.bcpolicyperspectives.com/media/attachments/view/doc/article_bcuc_june_10_2016_excerpts/pdf
- No. 14. OIC 589/16 and OIC 590/16.
- No.15. BCUC, BC Hydro rate request for F17 to F19. BCUC information request 1.126.1; http://www.bcuc.com/Documents/Proceedings/2016/DOC_48161_B-9_BCH-Responses-to-BCUC-IRs.pdf p. 4327/4967.
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No. 20. http://www.bcuc.com/Documents/Proceedings/2017/DOC_50353_A-8_Procedural_Conference_Information.pdf and

http://www.bcuc.com/Documents/Proceedings/2017/DOC_50332_C5-5_Written-Submission.pdf

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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 ICBC's rate requests, and is an intervener in the Commission's current review BC Hydro's rate request.