

BC Hydro: Sales Record and Financial Fitness do not Support Building Site C Dam

Eric Anderson, Economist, July 20, 2015

The just released BC Hydro Annual Report for the year ending March 31, 2015 shows British Columbia sales (domestic only) were 3.4 per cent less than in 2014. The power demand volume over the same period, as measured in gigawatt hours (GWhrs), was 51,213, or about the same as it was a decade ago.

For many years now, the Government of B.C. and BC Hydro have both claimed a new dam on the Peace River was essential in order to meet a growing demand for electricity by B.C. businesses and citizens. In 2006, for example, Hydro forecast a domestic demand of 57,201 GWhrs by 2012 and 63,865 GWhrs by 2018 – a combined forecasting error of about 10,000 GWhrs for the 2015/16 years.

It is alleged that Site C will generate about 4,000 GWhrs per year and cost close to \$9 billion to build. Therefore, the 10,000 GWhrs error is the same as making a borrowing/spending error of about \$20 billion. As recently as 2011, BC Hydro still failed to acknowledge its own evidence of declining sales and the more general malaise of weakening global economies and scale back its outlook for domestic demand.

In 2011, the corporation forecast an absolute need for 67,457 GWhrs by 2017, less than two years hence. That is a mind-blowing forecasting error of about 15,000 GWhrs or an equivalence of \$30 billion.

If the provincial government and BC Hydro wish to remain oblivious to the ongoing effects of the global implosion of 2008/09, that will not change reality. This wilful avoidance of reality shows up regularly in the annual government and Hydro budgets. Revenues are exaggerated and expenses are minimized. A near decade of evidence has just been an inconvenience in their political determination to build a third dam in the fertile Peace River Valley.

The BC Hydro way of desperately trying to stay solvent is to do what all monopolies do – increase rates.

As stated previously, Hydro's data show that the amount of physical product sold to domestic users during the last fiscal year decreased by 3.4 per cent, yet revenue from those sales actually *increased* by 6.6 per cent. The paradox BC Hydro has created for itself is one of trying to sell more product at the very same time demand is shrinking because of global economic weakness and customer response to ever higher electricity rates.

It is impossible to see this as a winning business strategy and of no value whatsoever as a support for building more generation capacity in BC.

As if that were not enough we now read that the “Regulatory Asset Accounts” stand at a record high of \$5.714 billion. Starting about a decade ago, the BC Hydro Board and managers began making aggressive use of an accounting ruse only available to corporations reporting to a Public Utilities Commission.

Up to 2006, all capital investments were expensed in the current year. That process created a symmetrical relationship between needed capital investment and the rate structure used to recover investment expenses from BC Hydro customers.

Since 2006, some non-expensed investments have accumulated in what Hydro’s accountants designate as, “Regulatory Asset Accounts”. In this fashion, those amounts may – or may not – become “receivables” at some unspecified future date. Former B.C. Auditor General John Doyle disapproved of this strategy but was overruled and has since left B.C. Today, the regulatory asset account sits at a record high of \$5.714 billion which, coincidentally, matches the total annual revenue BC Hydro currently collects from ratepayers.

As Hydro customers, you are currently one year in arrears. Yet if this so-called asset category were removed, Hydro would be close to, if not actually in, a negative equity position.

It is impossible to believe that successive BC Hydro executives and managers could be so financially and economically illiterate as to allow the corporation to slide into this deplorable condition and then continue to borrow and spend another \$9 billion to build a third Peace River dam for which no sound business, agricultural or environmental case can be made.