

BC HYDRO RATE REQUEST APPLICATION F17 to F19
INFORMATION REQUEST No. 2

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December 15, 2016.

1.0 Pension Funding

In response to RM 1.2.1 BC Hydro pension plan funding policy is to maintain the plan’s going concern funding level near 100%, and that funding to a solvency ratio of 100% would be imprudent as the utility is an agent of the Crown with a low risk of insolvency.

The Financial Institutions Commission (FICOM) expects BC Hydro, as a self-sustaining Crown corporation, to fund its pension at a solvency ratio of 100%. BC Hydro has been utilizing letters of credit to meet this requirement.

In June 2015 FICOM published a profile of defined benefit plans (<http://www.fic.gov.bc.ca/pdf/pensionplans/DefinedBenefitProfile.pdf>). Table 6.4 shows that BC Hydro’s 2013 solvency ratio placed it among 30 plans with the lowest solvency ratio of the 144 plans in the survey. Table 7.1 shows that in 2014 only 11 plans were using a letter of credit to approximate the solvency ratio requirement.

- 1.1 Will BC Hydro confirm that FICOM regards letters of credit as temporary measures?
- 1.2 Is it correct to interpret BC Hydro’s position that, rather than transferring equity to the pension plan, it will continue to use letters of credit to meet the solvency requirement until economic conditions improve to close the funding gap?
- 1.3 The F16 actual balance in the Non-Current Pension Costs Regulatory Account was \$691 million, while the forecast for F17 is \$385 million less; please explain the reason(s) for the reduced forecast.
- 1.4 As of 31 December 2016, for each pension plan please provide the number and value of each current letter of credit.
- 1.5 Does BC Hydro agree that by underfunding the solvency of the pension plan it is preserving equity to enable it to achieve the 80/20 debt to equity ratio required to pay a dividend to its shareholder?

2.0 BC Studies Article

- 2.1 Is BC Hydro aware that an article entitled “Rate Suppression and Debt Transformation: The Political Use of BC Hydro 2008 to 2014” was published by the BC Studies journal in November 2016?

3.0 The 10-Year Financial Plan

The following questions relate to the 10-year deferral/regulatory plan shown as Table 7-2 in the application. The actual F16 net balance of \$5.91 billion is approximately \$1.1 billion greater than the forecast for F16 in the 2014 original plan. The F20 balance of \$6.0 billion is forecast to decline by \$2.4 billion by F24. From F20 to F24 BC Hydro states that the average rate increase for these five years will be approximately 2.6%.

- 3.1 Please confirm that the F17 to F24 forecast assumes no additions to the cost of energy deferral accounts.
- 3.2 Please confirm that the F17 to F24 forecast assumes no additions to the Non-Current Pensions Costs Regulatory Account from F17 to F24.
- 3.3 Please confirm that the 10-year forecast assumes that some or all of the revenue from the 5% rate rider will be used to reduce the balances in the regulatory accounts (non-cost of energy accounts) after F19.
- 3.4 Please explain how BC Hydro intends to reduce the F21 balance (\$1.59 billion) in the Rate Smoothing Regulatory Account to zero by F24 with an average rate increase of 2.6% from F21 to F24.

4.0 Future Revenue Reporting and Deferral

- 4.1 Would BC Hydro agree that the BC Utilities Commission was never explicitly requested to approve the recording and deferral of revenue variances to the Non-Heritage Deferral Account?
- 4.2 Would BC Hydro agree that the BC Utilities Commission was directed by cabinet in March 2014 to approve the Rate Smoothing Regulatory Account?
- 4.3 In response to RM 1.13.12 BC Hydro provided four examples of regulated power utilities that record and defer variances between forecast and actual revenues; would BC Hydro agree that all the examples provided assume that the variance will be incorporated into the subsequent rate period while the Rate Smoothing Regulatory Account deferrals are not incorporated into the next period's rates?
- 4.4 Would BC Hydro agree that the four examples are analogous to a cost of energy deferral, rather than recording unspecified revenue to enhance the net income?
- 4.5 In response to BCUC 1. 159.5 BC Hydro provided reasons why it believes that the recording of future revenue, and the transfer of such revenue to the Rate Smoothing Regulatory Account conforms to the US ASC 980.

.4.5.1 Does BC Hydro agree that the US ASC 980 presupposes the existence of an independent regulator?

4.5.1 Does BC Hydro agree that as a result of prescriptive cabinet directives, especially Direction 7 and OIC 590/16, the BC Utilities Commission would not qualify as an independent regulator as required by US ASC 980?

5.0 Is the BC Utilities Commission Independent?

Rowland Harrison QC, an authority on energy regulation in Canada, wrote “Independence and the British Columbia Utilities Commission.” which was Appendix 4 to the 2014 Task Force report on the BC Utilities Commission, see http://www2.gov.bc.ca/assets/gov/farming-natural-resources-and-industry/electricity-alternative-energy/electricity/bcuc_review_final_report_nov_14_final.pdf

In his paper, Mr. Harrison concluded that because of the provincial cabinet’s prescriptive directions the BC Utilities Commission is not independent with respect to the regulation of BC Hydro. He stated that the use of special directions “directly contradicts the independence of the Commission, which, rather than making independent decisions in such circumstances, is merely implementing decisions made by cabinet.” (p. 82).

On 28 October, 2016, the writer posted “Is the BC Utilities Commission Independent?” on http://www.bcpolicy Perspectives.com/media/attachments/view/doc/occasional_paper_no_15_bcuc_independence_27_october_2016/pdf.

5.1 Would BC Hydro agree with Mr. Rowland Harrison’s assessment that on matters concerning the regulation of BC Hydro the BC Utilities Commission is an agent implementing decisions of the provincial cabinet?