

# British Columbia Hydro and Power Authority

## F2020 to F2021 Revenue Requirements

### Application – Project No. 1598990

### Information Request No. 1

Submitted by Richard McCandless

May 1, 2019.

#### 1.0 EXECUTIVE SUMMARY

In announcing the F2020 and F2021 two-year rate increase minister responsible Mungall claimed that the cumulative rate increase was approximately 2.5%. Appendix A of the RRA (Schedule 1.0, p. 2) presents a more realistic picture when it shows that the rate increase required for 2019/20 is 6.85%, with a further 0.72% requested for 2020/21. But even this representation fails to acknowledge the contribution of a windfall accounting change on keeping the planned/requested rate increase lower than would have been the case without the windfall.

- 1.1 During the March 15<sup>th</sup> workshop B.C. Hydro presented a high-level summary of the cost pressures and off-sets for the two-year test period in Slide 12. This mirrored the summary explanation for the differences between the F2019 RRA and the F2021 (current view) plan presented on pages 1-39 and 1-40. Would B. C. Hydro agree that the following is a more comprehensive summary of the cost pressures and offsets (\$=million) than the summary provided in Slide 12?

	2019/20	2020/21	Two Year	Percent
<b>Pressures</b>				
Elimination of the RSRA	321.4	---	321.4	6.5
Cost of Energy	(52.7)	198.1	145.4	2.9
Taxes	11.1	12.4	23.5	0.5
Amortization	80.3	24.6	104.9	2.1
Finance Charges	142.0	(35.2)	106.8	2.2
TOTAL Cost Pressures	502.1	199.5	702.0	14.2
<b>Offsets</b>				
Energy Rebate (2 yr.)	(165.0)	(165.0)	(330.0)	6.7

Re-purpose DARR	(247.0)	----	(247.0)	5.0
Sub-total	(412.0)	(165.0)	(577.0)	11.7
Rate Increase (1.8%+0.7%)	(90.0)	(35.0)	(125.0)	2.5
TOTAL Offsets	(502.0)	(200.0)	(702.0)	14.2

1.2 In response to my RM 1.1.1 request in the F17 to F19 RRA, B.C. Hydro provided a financial summary (with caveats). Using the same format, please provide the information for the actual 2017/18, the forecast for 2018/19, and the budget for 2019/20 and 2020/21.

## 2.0 LEGAL and REGULATORY FRAMEWORK

The cost of service model should provide the regulated utility the opportunity to recover prudently incurred costs, and to achieve a certain return on equity.

2.1 Since the government has now fixed the net income (distributable surplus) for F2020 to F2021, would BC Hydro agree that BC Utilities Commission is not operating under a cost of service model when reviewing the F2020 to F2021 rate request?

2.2 Given the requirement in section 3 of Direction 8 (OIC 51/19) that the BCUC must set the F2020 and F2021 rates to achieve a distributable surplus of \$712, would B.C. Hydro agree that the rates for the test period are not being set by an independent regulator?

## 3.0 OPERATING COSTS

3.1 Please provide a summary of the financial impacts of phasing out the the Medical Services Plan premiums and now paying the Employer's Health Tax (\$=million). Please show the annual savings to the pension plans as a separate summary.

	2017/18	2018/19	2019/20	2020/21
MSP Savings				
Emp. Heath Tax costs				
Net Change				
Pension Plan Savings				

3.2 In Table 7-2 (page 7-10) the Non-Current Pension regulatory account (item 15) balance drops from \$303 million in 2017/18 to \$ (3) million for

the 2018/19 forecast. How much of this reduction was the result of the elimination of the MSP payment?

- 3.3 During the March 15, 2019 workshop a pension savings figure of \$250 million was mentioned. As the full savings from the elimination of the MSP will not be realized until 2020/21 where are these savings shown in Table 7-2?
- 3.4 Why did B.C. Hydro deduct all the MSP pension savings from the Non-Current Pension Costs account and not from the IFRS Pension regulatory account?
- 3.5 In response to a question during last year's proceedings (RRA F17 to F19, RM 1.2.1) B.C. Hydro discussed the use of letters of credit to achieve a going concern pension solvency ratio. What was the total value of all letters of credit for 2018/19, and what is the forecast level for 2019/20?
- 3.6 In 2017/18, what percentage of pensionable earnings did BC Hydro contribute to each of the three pension plans, and what percentage did the employees contribute?
- 3.7 What are the forecasted contribution percentages for the employer and the employee for 2018/19? (See RRA F17 to F19 RM 1.2.2)

#### 4.0 REGULATORY ACCOUNTS Non-Heritage Deferral Account

For F2020 and F2021 B.C. Hydro asserts that revenue (load) variances will be deferred to the NHDA and now characterizes this as the "Domestic Revenue Variance." (page 7-25).

In her review of the 2017 Ontario "Fair Hydro" accounting Ontario Auditor General Bonnie Lysyk was of the view that creating a regulatory asset based on recording unbilled and uncollected revenue does not conform to Canadian public sector accounting standards. In her special report of October 2017 (see page 15 in [http://www.auditor.on.ca/en/content/specialreports/specialreports/FairHydroPlan\\_en.pdf](http://www.auditor.on.ca/en/content/specialreports/specialreports/FairHydroPlan_en.pdf)) she stated, "A promise or commitment to raise revenue in the future is not an asset today."

- 4.1 Does BCH have any external accounting opinions that confirm that creating a regulatory asset from unbilled and uncollected revenue conforms to Canadian public sector accounting standards?

- 4.2 Has BCH sought the opinion of its new external auditor (the auditor general of B.C.) on this issue?

#### 4.0 DEMAND SIDE MANAGEMENT

On April 26, 2019, the government increases in rebates for residential and commercial energy conservation purchases (see <http://digital.timescolonist.com/epaper/viewer.aspx> ).

- 4.1 Please explain how the energy conservation funding provided through the Demand Side Management (DSM) programs is coordinated with the CleanBC programs and funding.
- 4.2 What DSM expenditures are planned for 2019/20 for providing rebates for residential customers who purchase heat pump technology for space heating, and for higher insulated windows?