



BACKGROUND

For Immediate Release

Oct. 27, 2011

The rates that BC Hydro charges British Columbians are set by the BC Utilities Commission (BCUC). BCUC is guided by the return on investment desired by government, which in turn determines the dividend government collects (85 per cent of net income, \$463 million last fiscal) from the Crown corporation.

BC Hydro: The Effects of Rate-Regulated Accounting

Rate-regulated accounting allows BC Hydro to establish deferral accounts as a mechanism for deferring revenues and expenses to future years. As of March 2011, there was \$2.2 billion in net deferred expenses in these accounts and, by government's own estimate, this amount is predicted to grow to nearly \$5 billion by 2017.

Net Income = Revenues - expenses

Because expenses have been deferred, higher net income has been recorded, resulting in higher dividend payments to the Province.

Rate-regulated accounting

BC Hydro has been using a deferral technique known as "rate-regulated accounting" where special accounts are used to "smooth out" the effects of windfall revenues and/or unexpected costs over several years. Rate regulated accounts must be managed carefully. If overused, rate-regulated deferrals can mask the true cost of doing business, distort the financial condition of an enterprise and place undue burdens on future rate payers.

BC Hydro's deferral accounts

Deferral accounts have been permitted by the BC Utilities Commission (BCUC) to cover a range of purposes, including:

- the variances between forecasted costs and revenue expectations;
- the maintenance of assets;
- costs for First Nations negotiation, litigation and settlement;
- environmental compliance and remediation; and
- foreign exchange gains and losses.

As disclosed in BC Hydro's audited financial statements, in the absence of rate regulation almost all of the amounts recorded in these accounts would have been included as revenues or expenditures in the financial statements in the year they occurred.

Government's Report

On Aug. 11, 2011, government released its report *Review of BC Hydro, June 2011*. Government's review evaluated the effectiveness of BC Hydro's governance framework, financial performance and other matters including rate regulated accounting. The Auditor General's comments have been tailored to avoid duplicating the recommendations of government's review.