

# BC Hydro: the Effects of Rate-Regulated Accounting

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OFFICE OF THE  
**Auditor General**  
of British Columbia

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- The Auditor General is the independent auditor of the Legislative Assembly of British Columbia
- Reports to the Legislative Assembly, not to the government of the day
- Conducts both financial audits and performance (or “value for money”) audits



# Background

- BC Hydro's consumer rates are set by the BC Utilities Commission (BCUC)
- BCUC guided by the return on investment desired by govt. and the dividend govt. collects from BC Hydro



# Rate-Regulated Accounting

- Rate-regulated accounting allows BC Hydro to establish deferral accounts to defer revenues and expenses to future years
- \$2.2 billion in net deferred expenses (Mar, 2011). By government's own estimate, predicted to grow to nearly \$5 billion by 2017
- Deferred expenses mean higher net income recorded; therefore, higher dividend payments to Province



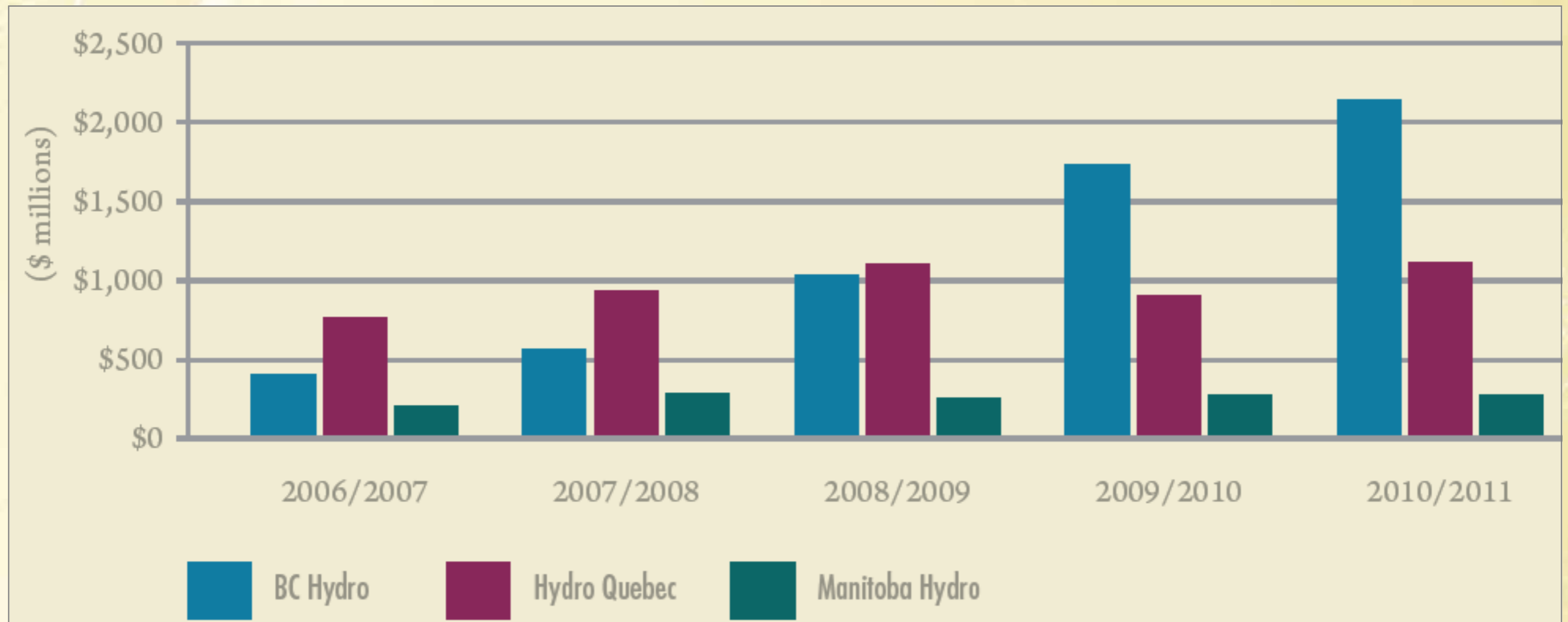


# Purpose and Scope

- Looked at BC Hydro's rate regulated accounting practices to determine the significance and growth of costs that have been deferred
- These deferred costs represent dollars that, for the most part, have been spent by BC Hydro and will eventually have to be recouped



# Growth of Deferral Accounts



# ROI and Dividends

Pressure to keep rates stable and meet a required rate of return

- **Rate of Return** (14.3% last fiscal)
- **Dividends** (85% of net income, \$463 million last fiscal)



# Impact on Future Generations

Costs may be unfairly passed on to future rate payers

- Intergenerational inequity
- Recovery period of deferral accounts is unclear
- Interest charges extending recovery time





# Recommendation 1

We recommend that Government determine, at the earliest opportunity, how BC Hydro will recover the net deferred costs in its regulatory accounts.



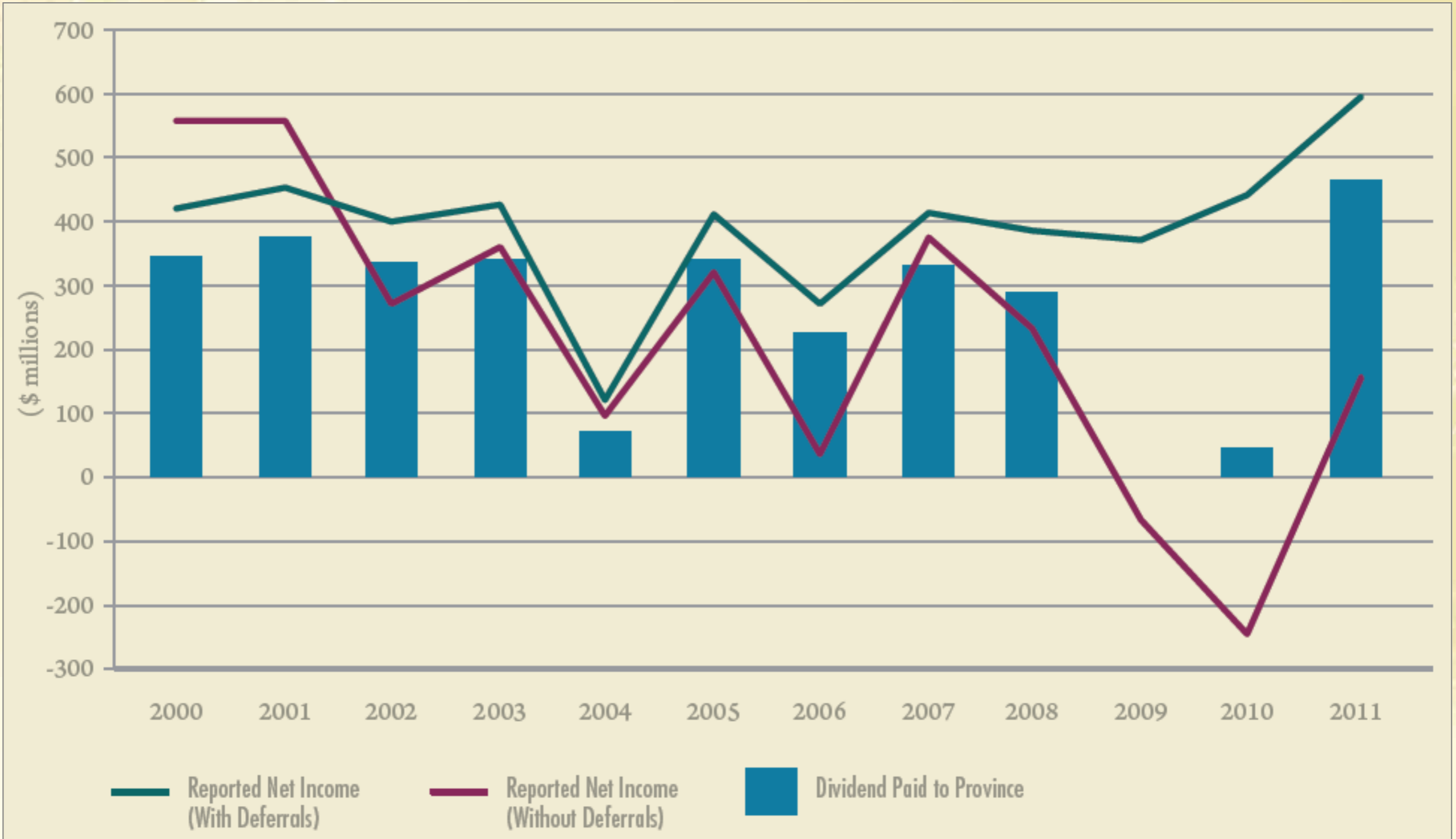
# Financial Management and Transparency

Financial management and financial transparency are being confused

- Deferral accounts useful for rate-setting (a financial management decision)
- Transparent financial reporting should focus on actual results



# Growth of Deferral Accounts



# Changing Accounting Standards

Canada changing to International Financial Reporting Standards (IFRS)

Rate-regulated deferrals no longer permitted under Canadian GAAP



## Recommendation 2

We recommend that Government prescribe that the annual financial statements for BC Hydro be prepared fully in accordance with Canadian generally accepted accounting principles.





# Feedback

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