

SINISTER FINANCIAL VECTORS AT BC HYDRO: AN ECONOMIC ANALYSIS OF THE IMPACT OF THE CAMPBELL PRIVATE POWER POLICY ON THE FINANCIAL HEALTH OF BC HYDRO¹

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A vector gives information as to direction and the magnitude of a changing position. A series of financial statements can also provide vector information about the financial health or otherwise of corporations.

- The first vector is of the direction and speed of change for the operating net income at BC Hydro. In fiscal 2007 (financial year ending March 31, 2007) BC Hydro's net operating revenues, less financing expenses, were \$379 millions. By 2010 the recorded loss was \$249 million. In the four year period there has been a \$628 million reversal of net operating income.
- The vector for recorded demand is also instructive. Expressed in GWhs (what BC Hydro sells) total volume of domestic (inside BC) sales went from 52,440 in 2006 to 50,233 units by 2010. After five years at the 52/53 thousand levels, demand dropped away sharply in fiscal 2010.
- A handy vector is the ratio of debt-to-equity. A ratio of 0/100 is the extreme where the corporation or individual has zero debt. The opposite extreme is 100/0 where there is no equity. There can even be conditions where the debt is greater than 100. A ratio of 100/0 can be evidence of insolvency. At BC Hydro this ratio had traditionally hovered around the 70/30 mark. The 2009 Annual report showed a remarkable change to 81/19. After calling upon the "Regulatory Account" for the 2010 year the debt-to-equity ratio is now presented as 80/20. If the "regulatory account" transfers were stripped from the BC Hydro financial statements, the ratios for 2009 and 2010 respectively would be 87/13 and 89/11.
- Productivity vectors always help to illustrate if we shareholders are getting value for money. In fiscal 2007 about \$236,000 of capital was used to produce one GWh. By 2010 it took 38% more capital to get the same quantity of energy for domestic customers. By this evidence it looks as though the system is becoming less efficient. Liabilities also mirrored this vector.
- The final vector of note is the immediate prospect of new and expensive contractual obligations associated with the call for power from Independent Power Producers (IPPs). From page 10 of the 2010 Annual Report BC Hydro states that "During fiscal 2010, IPPs provided 8,893 GWhs of energy to the BC Hydro system, which accounted for about 16 per cent of total domestic electricity requirements." A December 2009 report from Price WaterhouseCoopers projects that existing and potential IPP projects will deliver 35,470 GWhs by 2020. The estimated total capital deployed would be \$26.144 billion. That translates into \$737,074 of new capital to produce one GWh or 126% greater than the already elevated 2010 level. Amazing!

¹ The Common Sense Canadian, Tuesday, 17 August 2010

Now what to make of this all? First off it was clear as long ago as 2006 that the growth in domestic demand for electricity was slowing and reversing. With this evidence it is hard to understand why the management and Board at BC Hydro embarked on the increased spending and aggressive contracting for energy from IPPs. From the 2010 Report it is manifestly clear that sales to outside of BC customers have collapsed. That leaves only the captive domestic customers to carry the growing financial burden.

As the evidence of need for more electricity in BC is not apparent, the aggressive borrowing/investing/contracting with IPPs is plain wrong. It is improbable that the BC Hydro team are “financial illiterates” so there must be some other explanation; hence the word “sinister”.

Some questions arising from my August 16, 2010 report re: BC Hydro that must be dealt with immediately

1. **Hydro borrowing/spending is at an unprecedented rate** at the very time when there was at least 4 years advance notice of a slowing domestic demand. There is no credible projection of improved economic circumstances for at least the next 3 years. This is irresponsible by Hydro's board and management as it has increased the risk of financial insolvency.
2. The available evidence indicates that Hydro is paying IPPs **more than double the open market rates** prevailing in western North America. By the 2010 sales to others collapsed by 50% in 2009/2010.
3. The best available consulting report indicates that from now to 2020 new IPP producers will use **more than double the capital now used by Hydro to produce a single unit of saleable energy**. This is the antithesis of improved productivity normally expected when large capital projects are begun.

WE TOLD YOU SO! ECONOMIST'S REPORT CONFIRMS ECONOMIC FOLLY OF CAMPBELL'S PRIVATE POWER POLICY²

Rafe Mair[©]

Common Sense Canadian co-founder Damien Gillis and I have been raising concerns about the future of BC Hydro for over two years; and now a new economic analysis by contributor Erik Andersen, drawing on available hard data, proves beyond a doubt what we have been saying all along: Gordon Campbell's private power program is unnecessary and costly to the point of threatening the very solvency of our most important crown corporation, BC Hydro - not to mention hitting the pocketbooks of every British Columbian and company doing business in our province that once relied on a steady supply of affordable public electricity.

It's important to note why WAC Bennett bought the BC Electric in 1961 and made it into BC Hydro and Power Authority (BCH). The late premier - because our province is so large geographically and so sparsely settled - saw the need for ferries, rail, and power to be tools of public policy. He saw ferries as extensions of highways and knew that Black Ball Ferries, a private corporation, would only service areas that made money. He saw, similarly, that a private rail company would not service developing areas, so he created BC Rail. He also knew that for BC to compete on national and international markets we must have cheap, reliable power so created BCH and developed the "Two Rivers Policy," bulking dams on the Peace and Columbia Rivers so that BC would always have clean, constant, and sufficient power. He was not opposed to selling power elsewhere but only so long as sufficient power was always available to British Columbia's industries and people.

BC Hydro has been a huge success and is the envy of the world.

For reasons that can only be ideologically driven, the Campbell government has set out on a process that will bankrupt BCH (meanwhile Campbell has been in California this past week, shilling for this power which even Californians recognize is a bad deal for the environment, thus refusing to buy it - see Campbell urges California to review imports by Scott Simpson in the *Vancouver Sun* (August 13, 2010). Despite what he and his ministers have stated, BC is not a net importer of power and never needs to be. With conservation, new generators on flood control dams and new generators and upgrades on power dams, and taking back the power to which we're entitled under the Columbia River Treaty, we have power for as far as we wish to look.

Premier Campbell now has in place Independent Power Producers (IPPs), which he portrays as small private companies, doing no environmental damage, which will dam (IPPs prefer to say "weir") up to 700 rivers in BC - saying that the energy produced will make us "energy sufficient by 2016". Unfortunately Mr. Campbell is being very economical with the truth.

This power can only be produced during high run-off periods when BC Hydro doesn't need their power - which they must buy anyway under contract - and since it can't use it, it must then export it **at less than half what they paid for it**. One doesn't have to get much further than Kindergarten arithmetic to know that a company can't do that very long before it goes broke!

² The Common Sense Canadian, Tuesday, 17 August 2010

It should also be noted that because BCH is forced into this “buy high/sell low” policy it will no longer be able to pay the government the very substantial annual dividends which went for our schools, hospitals and social programs.

What will now happen is a little three card monte game where BC Hydro will hike its rates to citizens and industry to make some extra money to give back to us as that missing dividend! One must also remember that there won't be any BC Utilities Commission to stop this nonsense (Campbell took care of that just as soon as our public watchdog blew the whistle on the foolish scheme last year).

As Damien and I traveled the province speaking and showing DVDs, telling people what I've just revealed, there was no answer from either the "mom and pop" companies (such as General Electric, Ledcor etc.) nor from the government. During the 2009 election I spoke and challenged the Liberal government to meet with me in debate and there were no takers!

Now we know why – Damien and I have been right all along.

I believe that's because Premier Campbell is a Fraser Institute acolyte who simply detests publicly owned companies. There is no other explanation for this mad energy policy whereby British Columbia sees its rivers and the ecology they sustain destroyed, its first class power company hurtling into bankruptcy, its profits going out of province all because of a hatred of public power by a far right-wing premier.

I said that Damien and I have been right all along as to what's happening and this is where engineer and economist Erik Andersen comes in. Quite properly, Mr. Andersen doesn't deal with government policies but just the facts.

The first step toward dealing with this catastrophe in the making is bringing an end to the fantasy Campbell has conjured for the past decade that this private power policy is an economic and environmental benefit for the people of BC.