



# NEWS RELEASE

## For Immediate Release

February 6, 2019

### **Rate-regulated accounting at BC Hydro, explained**

VICTORIA – The Office of the Auditor General of British Columbia has released a new information report: *Rate-regulated Accounting at BC Hydro*.

Rate-regulated accounting shows the effect rate regulation has on a company's financial statements. Rate regulation is the practice of controlling, or regulating, the price, or rate, a company charges its customers. A regulator that can act independently plays a critical role in rate-regulation.

BC Hydro uses rate-regulated accounting. The British Columbia Utilities Commission, or BCUC as it is commonly referred to, is responsible for regulating BC Hydro.

For example, if a storm destroys the power grid and the repairs result in higher annual repair costs than expected, a regulator may allow a utility to smooth out the recovery of those costs from customers over future years. This is done instead of increasing rates dramatically in one year and then lowering rates in following years, or potentially incurring a financial statement loss.

A key role of the regulator is to ensure that the operating costs and deferred amounts are reasonable and can be absorbed in future rates.

“Rate-regulated accounting is a widely accepted practice in North America,” said Carol Bellringer, auditor general. “However, we found that government has largely overridden BCUC’s role in regulating BC Hydro and hasn’t allowed BC Hydro to charge its customers enough to cover its operating costs each year. It’s not clear what would have happened without this government direction.”

As of March 31, 2018, BC Hydro had 29 regulatory accounts, with a net regulatory asset balance of approximately \$5.5 billion. In other words, BC Hydro has deferred \$5.5 billion in expenses to be recovered from ratepayers. Some of these accounts are common, such as variance accounts to smooth out short term variances associated with highly volatile or unpredictable costs. Other accounts, such as the Rate Smoothing Regulatory Account, are less common and defer unspecified costs to future years. The nature and balances of these accounts is explained more fully in the report.

Government has started to make changes that affect BC Hydro and BCUC. In November 2018, government removed the regulation that prevented BC Hydro from implementing appropriate accounting standards. “Government has told us that more changes are on the way. We are waiting to see how these changes will roll out and how they will affect both BC Hydro’s and government’s financial statements,” said Bellringer.



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**Auditor General**  
of British Columbia

The full report is available on the Office of the Auditor General website at [www.bcauditor.com](http://www.bcauditor.com).

Bellringer will answer questions pertaining to the report via a news conference.

News Conference Date: Wednesday, February 6, 2019

Time: 11:30 a.m. (Pacific time)

Dial-in Information:

From Vancouver: 604 681-0260

From elsewhere in Canada and the USA: 1 877 353-9184

Participant Pass Code: 44848#

During question and answer period, to ask a question: Press 01

During question and answer period, to exit the question queue: Press #

**About the Office of the Auditor General of British Columbia**

The auditor general is a non-partisan, independent officer of the legislature who reports directly to the legislative assembly. The *Auditor General Act* empowers the auditor general and staff to conduct audits, report findings and make recommendations.

Contact us:

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