

FACT SHEET: BC HYDRO RATE INCREASES

In its current Revenue Requirements Application before the BC Utilities Commission (available at www.bcuc.com) covering the years F2012-F2014, BC Hydro requested a rate increase of 9.73% in each year, which compounds to a 32.1% increase over the three-year period.

Opponents of private power have tried to blame independent power producers for the proposed increases. In fact, the Application shows that most of the requested rate increase is allocated to the cost of renewing and expanding Hydro's publicly-owned assets while only 2.6% of the 32.1% increase is related to purchases from B.C.'s private power producers. (Private producers include those generally identified as 'independent power producers' and large generators such as Alcan and Columbia Power Corporation).

BC Hydro has spent \$7 billion on infrastructure and energy conservation programs since F2008 and plans to spend a further \$6.5 billion over the next three years on rebuilding its generation, transmission and distribution systems, much of it built in the 1960s. To do this, BC Hydro requires a \$1.15 billion increase in revenues from its ratepayers - from \$3.30 billion in fiscal 2011 to \$4.45 billion in fiscal 2014.

BC Hydro's rate Application contains a chart (Fig. 1-3) that shows the relative contribution to the rate increase due to nine different cost components, as follows:

Finance charges:	9.0%	Rate smoothing:	3.6%
Operating costs:	5.9%	Subsidiary net income:	1.9%
Amortization:	5.1%	Non-Rate revenue:	1.2%
Cost of energy:	4.1%	Taxes:	0.8%
Return on equity:	0.4%		

Almost half the increase, \$522 million, will pay for charges related to the *capital costs* (finance, amortization, return on equity) of the new BC Hydro assets coming into service. As they come into service, electricity consumers are expected to pay for them through their electricity rates.

The second largest component is the \$242 million increase proposed for *operating costs*. Much of this is due to changes in accounting policies which require BC Hydro to include items which previously were capitalized or expensed elsewhere.

The third largest component is \$148 million allocated for the *cost of energy* including imported power and power from BC's private producers – 4.1% of the total increase. Of that, \$94 million is for purchases from BC's large and small private power producers – only 2.6% of the total 32.1% rate increase.

Note, too, that while BC Hydro is more than doubling its investment in facility upgrades, these will not produce significant amounts of new energy and will not serve any additional customer demand. They are expenditures for renewal, not for growth. As the population increases, the economy grows and electrification of the gas and transportation sectors proceeds, new sources of supply will be needed and rates will have to increase to pay for them.

Also note that the costs of conservation programs such as Power Smart, if as successful as hoped for, will reduce BC Hydro's revenues from participating ratepayers and put upward pressure on rates to compensate for the losses. If they are not so successful, another result will be to increase the demand for new sources of energy.

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