BC CITIZENS FOR PUBLIC POWER

Fact Sheet: Public v. Private

BC Hydro is in the Best Position to Make Future Investments

BC Energy and Mines Minister Richard Neufeld has argued that it is preferable to rely on private power companies to meet the province's future power needs rather than asking publicly-owned BC Hydro to provide new supply. It is therefore important to take a close look at the debt and financial health of both BC Hydro, as well as private suppliers.

Ratepayers – the customers who purchase electricity in BC – support the costs of new electricity supply, whether provided by BC Hydro or the private sector. Private sector suppliers will have to borrow money to make their investments, just as BC Hydro does. And it will be British Columbia ratepayers who will pay those costs, no matter who borrows the money.

BC Hydro – a well run company in excellent financial position

Credit ratings have a direct bearing on the costs of debt. Those with better credit ratings are able to borrow money more cheaply than those with poor ratings. Because public utilities like BC Hydro can borrow more cheaply, private projects have higher debt costs.

The June report by Moody's Investment Services grades BC Hydro's credit rating as AA2. This is the same rating enjoyed by the Province of BC. According to the Mergent Bond Record: "bonds and preferred stocks which are rated AA are judged to be of high quality by all standards. Together with the AAA group they comprise what are generally known as high grade bonds."(Source: Mergent Bond Record Vol. 69. Number 6. June, 2002. Page 4 and 147. http://www.mergent.com) The "2" means the rating is in the middle range of the AA group. BC Hydro debt is similarly rated AA- by Standard and Poors, as is other debt of the Province. (Source: http://www.powerex.com/trading/credit.htm)

It's no wonder that BC Hydro enjoys an excellent credit rating. From 1997 to 2001, net long-term debt of BC Hydro decreased by $1.2 billion. BC Hydro reduced its long-term debt by $791 million in fiscal 2001 alone. (Source: 2001 Annual Report - BC Hydro, Page 3. http://bchydro.com/rx_mfiles/info/info1567.pdf)

In fiscal 2002, total long-term debt was $6.8 billion, an increase for the year of $675 million. The recent Annual Report attributes this increase to reduced electricity trade revenues, low water levels, increased capital expenditures and the timing of payments of accounts payable.

Nonetheless, BC Hydro's total net debt is still $602 million less than in 1999. (Source: BC Hydro Annual Report 2002, Page 18.)

The provincial government establishes "debt limits" for each of its Crown Corporations. BC Hydro's debt limit is $8.8 billion - fully $2 billion more than Hydro's total net debt today. Finance charges in fiscal 2002 were $544 million, $15 million less than last year and down $71 million from a high of $615 million in 1999.[6] BC Hydro's current debt to equity ratio is 72:28, a major improvement from the 1999 ratio of 77:23. (Source: BC Hydro Annual Report 2002, Page 7, 8, and 16)

The Private Energy Sector – A Tale of Woe

According to Moody's Investor Services, credit ratings in the "B" category "...generally lack characteristics of the desirable investment..." (Source: Mergent Bond Record June 2002, Page 24) As of June, the "issuer" credit ratings of some of the major potential private electricity suppliers were as follows:

- Calpine Canada - B1
- Utilicorp Canada (Aquila) - BAA3
- Teck Corporation - BAA3
- Cominco Ltd. - BAA3
- Trans-Alta - BAA1
- Avista - Baa3
- Williams - Baa3
- Dynegy - Baa3
- Duke Energy - A1 and AA3

Of that list, only Duke Energy matched the credit rating of BC Hydro.[11] However, even Duke has suffered with the recent energy market collapse and has halted production on a power plant in Washington State, citing the declining market. Sources: Mergent Bond Record June 2002, Page 24, 76, 151 and 211; "Standard and Poor's Cuts Williams to Junk Status." Reuters Company News, July 23, 2002 http://biz.yahoo.com/rc/020723/utilities_williams_s_p_1.html; "Dynegy to Make Stock Offer, Sell Assets, Cut Costs." Eilleen O'Grady and Jim Kennett, Bloomberg Financial News, December 17, 2001; "Pipieline work continues despite power plant construction shutdown." Seattle Post-Intelligencer, August 20, 2002)

Many of the "B" category ratings are relatively recent downgrades. For example, the owner of Utilicorp Canada, Aquila, saw its rating reduced in May. Aquila's stock value has fallen 61% in the past year. (Source: "Moody's Places Aquila's Ratings Under Review." Natural Gas Intelligence Daily Price Index. May 21, 2002; and "Aquila May Double Asset Sales to Stay Focused on Improving Credit." Natural Gas Intelligence Daily Price Index. May 21, 2002) Trans-Alta's rating was reduced in May to the "B" category from A3 previously.

The Enron scandal and problems with electricity deregulation in the US have contributed to the financial problems of many of the private power companies. According to Hugh Holman, a power industry analyst with C.I.B.C.: "the demand for capital by these power companies is astronomical. Now, lenders are nervous and support in the banking industry is faltering." (Source:

Calpine Pulls the Plug on Plants" Engineering News Record. January 28, 2002) Bank of America describes investments in energy companies as: "dead money for the foreseeable future" and has downgraded the entire sector. (Source: "Energy Merchants Implode." Energy Compass. July 26, 2002. Page 11)

Long held to be the model of privatization, the United Kingdom is currently rethinking its energy privatization due to poor performance of private companies. British Energy was privatized in 1996 and produces 20% of the UK's power supply. In the last two, years British Energy has lost millions and is facing financial ruin. According to a report by Credit Suisse First Boston, wholesale energy prices (the price at which British Energy sells) have dropped 36% yet, retail prices (the price the consumer pays) has remained stagnant. This is casting doubt on the market system that was supposed to deliver lower prices. (Source: "British Reopening the Debate Over Privatization." Suzanne Kapner. New York Times, August 29, 2002. http://www.nytimes.com/2002/08/29/business/worldbusiness 29PRIV.html?ex=1031632537&ei=1&en=52ef73b0a897df76)

The private North American electricity market is extremely unstable right now. Credit ratings and stock prices for most large US electricity companies have dropped sharply in recent months. Costs of credit for many private companies have soared. Our province will take a large and unwarranted risk if we begin to rely on those companies for our new electricity supply. All BC ratepayers will pay the price for the high cost of the private credit that will be necessary.
For BC ratepayers, the choice of whether new power supply will be publicly or privately generated will have very real cost implications. BC Hydro is in outstanding financial shape, is paying down significant amounts of its debt and has an excellent credit rating. On the other hand, many private power companies are facing credit downgrades and an unstable market environment. If private companies are asked to take the lead in meeting most of our future power needs, all BC ratepayers will bear the risk through increased costs.

Conclusion

For BC to depend on the private energy sector to develop our electricity system is a high risk initiative that will mean higher electricity rates and unstable supply. Public power clearly remains the best choice for meeting BC's future energy needs.