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Suite 101, 310 Ward Street, Nelson, British Columbia, V1L 5S4

• Phone: (250) 352-8212 • Facsimile: (250) 352-6417 •

June 1st, 2017

Commission Secretary  
Sixth Floor, 900 Howe Street  
Vancouver, BC, V6Z 2N3

**Via: e-mail**  
Commission.Secretary@bcuc.com

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**RE: Nelson Hydro – 2017 Rate Application – Written Final Argument**

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As requested, we are submitting our Final Written Argument to the Utilities Commission.

Nelson Hydro has applied to the BCUC, and is seeking final approval of a 4.28% general rate increase effective April 01, 2017. This rate change is effectively a 2.96% rate impact to customers for the 2017 calendar year.

The approval sought is for the rural area portion of the utility. This is exactly the same rate change as was implemented in the urban service area which has been previously approved by Nelson City Council. The rate change for both urban and rural service areas is identical; however the process for approval is different in the two service areas.

The rate change is warranted because the utility needs to recover its operating costs, build its capital reserve and deliver a profit to its shareholder (the City of Nelson). The utility is operating efficiently, and in the best interests of not only its shareholder, but its ratepayers as well. In the following, we will demonstrate that Nelson Hydro operates efficiently, reliably, and innovatively and that the utility operations funded by rates are in the rate payer interest.

### **Operating Expenses**

The Operational Efficiency of Nelson Hydro is strong. This is indicated by the fact that we are looking at a budget increase of only 0.38% above the 2016 budget, which is well below inflationary levels.

Much of the utility operating costs are not variable while the majority of the revenue is based on the variable commodity of energy. As the energy volumes are reduced, there is a disproportionate pressure on energy rates to increase. This is a reality faced by many or even most electric utilities in recent years.

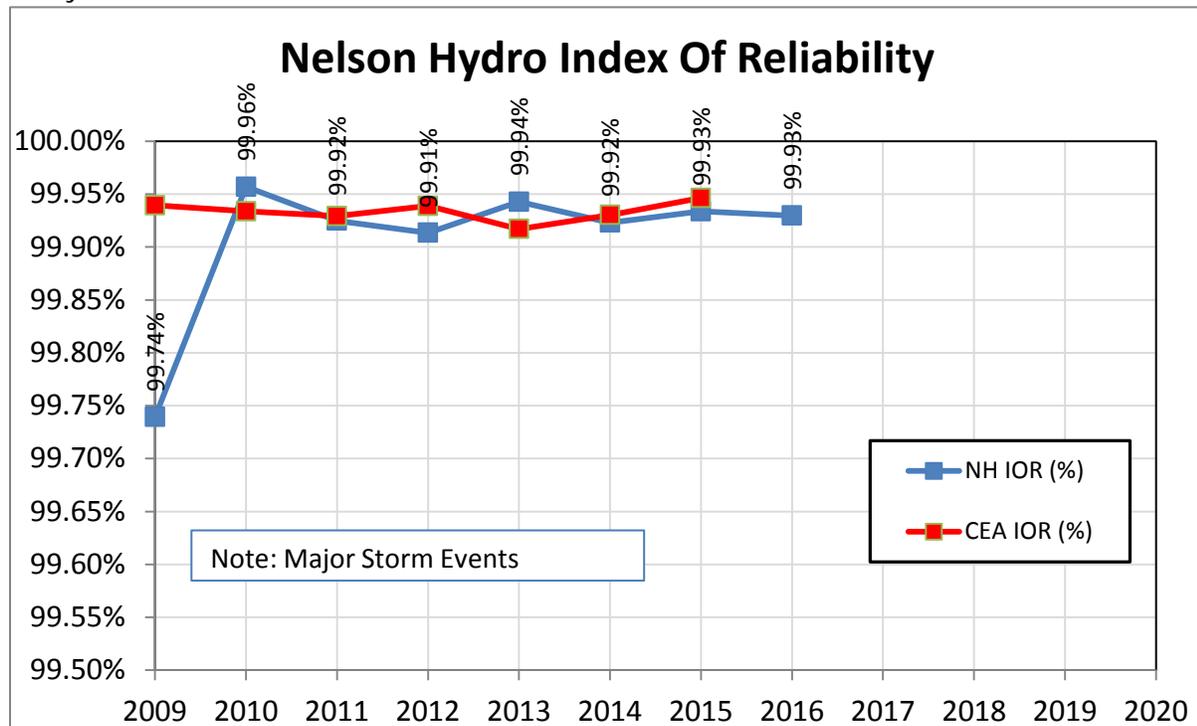
### Capital Upgrades

Nelson Hydro has undertaken a large - for a utility the size of Nelson Hydro - capital upgrade program over the last several years. These capital upgrades have renewed transmission, distribution and generation assets to assure long term reliability and efficiency of the utility. Aside from the borrowing in 2009 (\$1.5 million) and 2012 (\$6.0 million), the capital upgrades have been paid for through the Nelson Hydro Capital Reserve. There are no future liabilities such as deferral accounts that will need to be funded by future rates.

The Capital Reserve is the instrument that enables Nelson Hydro to deliver its infrastructure upgrades. It is important to preserve this instrument in a healthy state as it provides security to the utility and hence its rate payers.

### Reliability:

Nelson Hydro's reliability has improved since 2009 and over the last seven years is similar or slightly better than the CEA average for Urban / Rural utilities (CEA, 2015, p. 52) for IOR <sup>1</sup>. This indicates that Nelson Hydro is prudently investing in capital upgrades and operating of the utility assets.



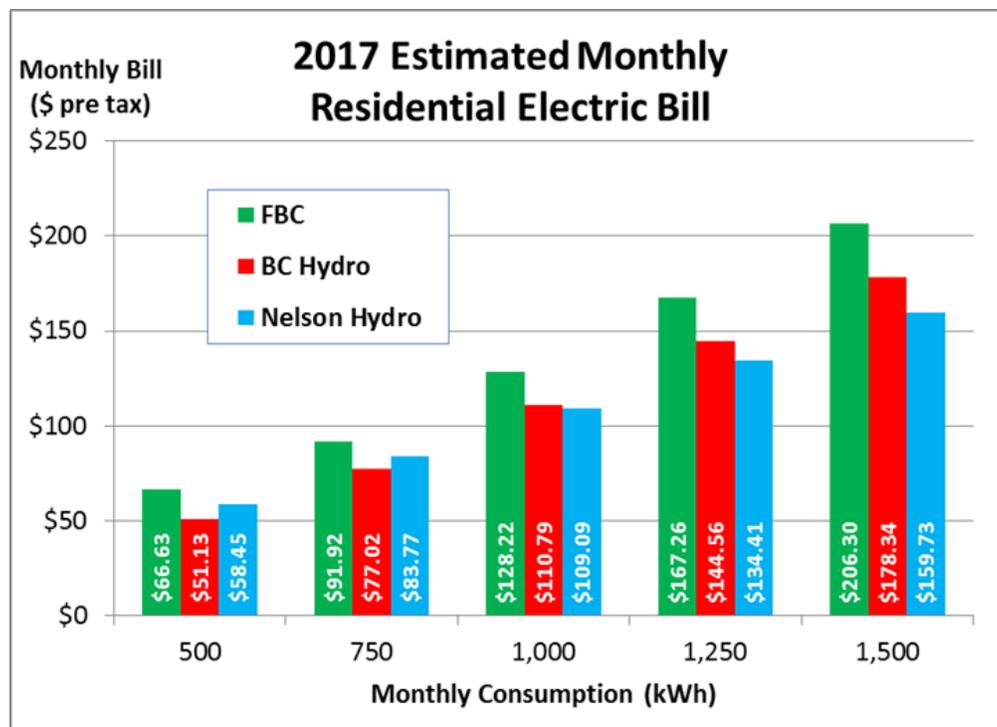
## Innovation

Nelson Hydro has kept abreast of emerging issues in the electric utility business. In particular, the utility was able to deliver a Community Solar Garden opt-in program for its customers - the first of its kind in Canada. A project like this delivers an energy service to customers who clearly want it, as the subscription to the program is sold out. Equally importantly, the Solar Garden gives the utility very low cost hands on experience with PV solar. PV solar is without a doubt going to become a big player in utility operations over the coming years.

The utility continues to provide EcoSave, a successful energy efficiency program for its customers that aligns well with provincial, municipal (urban) and regional (rural) goals of making GHG reductions. Many of the customers achieved a 30% reduction in their utility bills (primarily natural gas savings).

## Rate Comparison

Compared to other BC utilities, Nelson Hydro rates are favorable. Please see chart below. This indicates to us that the utility must be providing at least as good value to the customer as the other utilities are.



## COSA

As noted in the IR proceedings Nelson Hydro is undertaking a Cost of Service Analysis (COSA) which may result in rate redesign. This would be separate application independent of this General Rate Change application.

## Summary

The foregoing information shows the utility is operating efficiently, prudently, innovatively and is delivering good value to the rate payer. In closing, we feel that the 2017 general rate increase of 4.28%, April 01, 2017 is justified to fund these operations, and is in the best interest of the rate payer.

## Footnotes:

1) For calculating IOR, CEA uses average customer count for the year, whereas Nelson Hydro uses customer count at year end.

## Works Cited

CEA. (2015). *Service Continuity Data on Distribution System Performance in Electrical Utilities*. Canadian Electricity Association.

Sincerely,



Marg Craig  
Nelson Hydro Office Administrator  
On behalf of Alex Love, General Manager

Cc: Alex Love