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July 18, 2019

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

Via: upload to www.BCUC.com
Commission.Secretary@bcuc.com

RE: Nelson Hydro – 2019 Rural Rate Application – Reply Argument

In accordance with the Regulatory Timetable set for this proceeding, Nelson Hydro encloses for filing its Reply Argument with respect to the 2019 Rural Rate Application currently before the Commission.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gabriel Bouvet-Boisclair".

Gabriel Bouvet-Boisclair
Deputy Corporate Officer, City of Nelson
On behalf of Alex Love, General Manager, Nelson Hydro

cc: Alex Love, General Manager, Nelson Hydro

Nelson Hydro

2019 Rural Rate Application - Project No. 1598997

NELSON HYDRO – REPLY TO INTERVENER FINAL ARGUMENT

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I. OVERVIEW

David Okros, a registered intervener (the “Intervener”), submitted a Final Argument dated July 11, 2019 with regard to Nelson Hydro’s 2019 Rural Rate Application (“Application”). The Intervener’s Final Argument of four pages (including a one-page attachment) was organized in four sections titled as follows: (a) consultation and process; (b) reliability; (c) cost of service analysis; and (d) general.

Nelson Hydro’s Reply Argument addresses the issues raised by the Intervener consistent with the structure of the headings used by the Intervener. In each instance, the Intervener’s arguments are briefly summarized and then Nelson Hydro’s reply is provided. Nelson Hydro has sought to address all of the issues raised by the Intervener. However, to the extent that any of the Intervener’s points are not addressed, Nelson Hydro notes that this does not constitute tacit approval of the Intervener’s position.

II. THE INTERVENER MISCHARACTERIZES NELSON HYDRO’S NOTICE AND CONSULTATION PROCESS

Summary of Intervener’s Argument

The Intervener’s Final Argument references and attaches an April 9, 2019 advertisement in Pennywise wherein Nelson Hydro advertised the notice of proposed rate change put forth in its Application. The Intervener states that this “was the first published, formal notice of the proposed rate change.” See Intervener Final Argument, p. 1.

Nelson Hydro’s Reply

The Intervener’s claims are not accurate as Nelson Hydro engaged in a comprehensive and fair process to ensure that notice of the proposed rate change would reach all customers in the service area well in advance of filing the Application. Indeed, Nelson Hydro began providing notice over two months before the April 9, 2019 date referenced by the Intervener.

Specifically, in the January 29, 2019 edition of Pennywise, Nelson Hydro published a Public Notice – Notice of Rate Change which was identical to the notice provided on April 9, 2019 and referenced by the Intervener. Additionally, alongside that Notice of Rate Change was an advertisement from Nelson Hydro inviting the public to an Open House to be held on February 7, 2019 and which stated that the Open House would address Nelson Hydro’s 2019 Rate Application. Also included was information provided on behalf of the Commission informing the public about how it could participate in the upcoming rate application. Likewise the April 9, 2019 Pennywise advertisement included information on behalf of the Commission informing rural residents how they could participate in the rate application. The Pennywise advertisements appeared in both the Kootenay Lake/Nel RR#1&3 and Nelson/Salmo editions.

Moreover, in addition to the Pennywise advertisements, Nelson Hydro advertised the proposed rate change and the Open House in the local newspaper’s (the Nelson Star) January 31, 2019 edition. Finally, the proposed rate change and Open House were advertised on the City of Nelson’s Facebook page and on the City of Nelson’s website on January 24, 2019. Accordingly, the Intervener’s claims regarding Nelson Hydro’s consultation and notice efforts are incorrect as the facts show that Nelson Hydro engaged in a robust notice and consultation process.

The Intervener also discusses the timing of Nelson Hydro's filing which has been addressed at length in Nelson Hydro's responses to the Commission's Information Requests (IRs) and its Final Argument.

III. THE INTERVENER'S RELIABILITY CONCERNS ARE ADDRESSED IN NELSON HYDRO'S APPLICATION

Summary of Intervener's Argument

The Intervener's Final Argument raises issue with the reliability of Nelson Hydro's service in the rural service area. The Intervener states that "[s]ervice in the Harrop-Procter area for instance is routinely out between 40-60 times per year, perhaps more, for intervals of a few minutes, often 1 ½-3 hours, frequently 4-6 hours and including a 3 1/2 day outage in 2017." See Intervener Final Argument, p. 1. The Intervener suggests that Nelson Hydro should provide data regarding the length of outages, and the number of customers forced to resort to back-up power systems by power outages.

Nelson Hydro's Reply

Preliminarily, the Intervener's argument references statistics that are not accompanied by any source citation and appear to be unsupported by the record in this Proceeding. For example, the Intervener states that service in the Harrop-Procter areas is "routinely out 40-60 times per year, perhaps more, for intervals of a few minutes, often 1 ½-3 hours, frequently 4-6 hours and including a 3 1/2 day outage in 2017." See Intervener Final Argument, p. 1. The Commission should not consider statistics that are not contained in the record to this Proceeding, much less statistics presented without support from any source beyond the anecdotal accounts of the Intervener himself.

Nevertheless, to respond to the issue of reliability raised by the Intervener, and as set out in its Application, Nelson Hydro acknowledges that service experienced a drop in reliability in 2017 and 2018 as compared to the previous years. The reasons for this are fully addressed in Nelson Hydro's Application, which explains in detail that the decline in reliability was primarily caused by an increase in tree related outages and loss of supply. More specifically, Nelson Hydro noted that the outages caused by trees amounted to 39% of the total outage time in 2018 and that loss of supply from FortisBC resulted in 36% of the outage time in 2018. See Application, pp. 4-6.

Furthermore, Nelson Hydro, in its Application, noted the following with regard to reliability of service:

- In order to address the outage issues related to trees, Nelson Hydro has increased its vegetation management budget for 2019 which is the single largest cost increase for rural service area as indicated in Nelson Hydro's Final Argument. See Final Argument, p. 4. The cost increase attributed to vegetation management for rural service area is higher as compared to the urban service area. This is because the rural service area has significantly more vegetation to manage due to the lower density of customers. Nelson Hydro also noted in its Application that in addition to normal vegetation trim cycles, an additional effort will be made on "danger trees" (which are trees, outside the normally trimmed right of way, that are leaning, dead or otherwise posing a future hazard to power lines). See Application, p. 5.
- Nelson Hydro has discussed the outages due to supply of power with FortisBC and believes that FortisBC understands and is committed to resolving these issues. One of the supply points, Coffee Creek, is particularly troublesome due to Coffee Creek being fed by long and exposed FortisBC

transmission lines and thus exposed to wind, storm and snow events. Also Coffee Creek is a radial feed making restoration from alternate sources of supply challenging. Nelson Hydro has been making system upgrades on the North shore (part of the rural service area) to improve this situation including:

- North Shore re-conductor in 2017/18;
- Marine cable install at Lakeside crossing in 2019;
- Marine cable install at Harrop/Proctor in 2015; and
- Planning for possible future substation upgrades

In addition to the above, Nelson Hydro has proactively been upgrading its infrastructure including generation, transmission and distribution systems without any deferral of these costs to the future. Like urban service area customers, the rural service area customers benefit from such investments.

In terms of information regarding the lengths of outages, Nelson Hydro already provided this information in the Application. See Application, p. 6. Nelson Hydro plans to include data evidencing the number of customers affected by the outages in future rate applications, based on available information.

Finally, as fully set out in the Application and Nelson Hydro's Final Argument, the requested rate increase is designed to allow Nelson Hydro to move towards a rate that recovers the cost of providing service to its rural customers. A rural rate that recovers the cost of service allows Nelson Hydro to further invest in improving reliability through costly expenditures such as vegetation management. Accordingly, the reliability issues raised by the Intervener provide further support that the rural rate increase in the Application is warranted.

IV. THE INTERVENER'S COST OF SERVICE SECTION FAILS TO RAISE ANY MATERIAL ISSUE

Intervenor Argument Regarding Power Purchase Allocation

The section entitled "Cost of Service Analysis" in the Intervener's Final Argument primarily focuses on the power purchase cost allocation. Specifically, the Intervener notes that "the allocation, by Nelson Hydro to Rural customers, of a disproportionate amount of the much more expensive purchased power seems to be the basic flaw in this Application." See Intervener Final Argument, p. 2.

The Intervener suggests that "it would be assumed that the energy need of all customers both Rural and Urban would be met first during" freshet periods and in winter-time a lot of purchased power must be used by, and charged equally to, both classes of customers. See Intervener Final Argument, p. 2. The Intervener also suggests that "perhaps a monthly breakdown by class, of demand and allocation of purchased vs generated power would help the Panel determine whether the allocation of so much purchased power costs to Rural customers is just and reasonable." See Intervener Final Argument, p. 2.

Nelson Hydro's Reply

Preliminarily, Nelson Hydro again notes that the claims made by the Intervener in advancing his argument in this section are entirely unsupported. Nelson Hydro does not agree with the Intervenor's assumptions used to support his claims, which appear to only reflect the Intervenor's personal opinion on the issues raised.

Still, to respond to the issue raised, the hydraulic generating plant owned by the City of Nelson was built using City of Nelson funds which represents the investment of its urban residents, and for the core purpose of providing the City of Nelson residents (urban service area) with electricity. Therefore, the main purpose of the hydraulic generating plant owned by the City of Nelson and its residents is to serve City residents. Where this output is insufficient for servicing all urban needs, a portion of the purchased power from Fortis BC is allocated to serve urban needs.

As provided in response to IR 11.1, a portion of the energy produced by the City-owned hydraulic generating plant is also allocated to the rural customers, which reflects generation in excess of needs of urban customers. Rural needs in excess of what Nelson Hydro is able to provide are serviced through purchased power.

The allocation of purchase power costs is separated into energy, demand and customer charge as set out in response to IR 11.1. As indicated in the IR response, urban customers use 17.70% of the energy purchase costs from Fortis BC, with rural customers using the remaining 82.30%. This was estimated based on urban energy requirements less Nelson Hydro's own energy production.

The allocation of the demand portion of purchased power costs are prepared based on a feeder loading study conducted by Nelson Hydro that shows based on 2014-2017 actual peak numbers (monthly analysis) the urban customers share about 32.3% of demand portion of power purchase costs, while rural customers share the remaining 67.7%.

The customer charge is allocated simply based on number of customers (i.e. urban customers share about 57.70% of the customer charge costs from Fortis BC, without adjusting to reflect how much energy and demand is purchased for urban customers' needs).

Accordingly, the manner in which Nelson Hydro allocates purchased power to urban and rural service areas is rational, reasonable and fair.

Intervener Argument – Revenue to Cost Ratio

The Intervener also appears to reference comments submitted by Mr. Jay Doyle (Exhibits E-8, E-8-1, and E-8-2). Specifically, the Intervener indicates that "Mr. Doyle's analysis on page 9 of Exhibit 2, shows that the revenue from rural customers is well within the range of acceptable performance as set out in the COSA report herein. The contents of these exhibits also point out many factual and mathematical errors in the material submitted by the Applicant, which, in the submission of the Intervener, make it unsafe for the panel to authorize the differential increase in rural rate, sought by Nelson Hydro." See Intervener Final Argument, p. 2.

Nelson Hydro's Reply

Nelson Hydro notes that the page referenced by the Intervener in Mr. Doyle's comments appear to estimate revenue to cost ratio based on estimated revenues and estimated costs prepared by Mr. Doyle, which was not reviewed or confirmed by Nelson Hydro. Again, Nelson Hydro believes it is inappropriate to consider calculations, statistics, and data that are not supported by any evidence that can be found in this Proceeding.

Furthermore, it must be noted that revenue to cost ratio is the matter of a separate proceeding and not related to the 2019 Rural Rate Application which is seeking to recover only the allocated operating costs and the cost of debt from rural service area customers. The 2019 business plan does not recover, through rates, any amount to fund a dividend from rural rate payers. Accordingly, the revenue to cost ratio issue raised by the Intervener is not properly considered in this proceeding.

V. THE INTERVENER’S “GENERAL” SECTION LACKS MERIT

Intervenor Argument – Service Level

Under the section entitled “General”, the Intervener states the following:

People living in rural areas move there for peace and quiet, for space and the beauty of their surroundings. They know that ambulance and police wait times are many multiples of those in urban areas. That they will be responsible for their own garbage and septic services, many in this area build and maintain their own water systems. Rural people also pay less in the matter of taxes. But this Application seems to be a case of being asked to pay more for less service.

See Intervener Final Argument, p. 2.

Nelson Hydro’s Reply

Nelson Hydro disagrees with the assertion that rural ratepayers are “being asked to pay more for less service.” Rather, the rural ratepayers are being asked to move towards a framework where they pay for the cost of service, an approach that is not only valid and reasonable, but one that ensures safe and reliable service. Electric rates are designed to fully recover the costs to provide utility services, and are paid for by the ratepayers rather than tax payers. Nelson Hydro has invested in the rural service area in order to provide utility services and has proactively been upgrading its infrastructure to provide safe and reliable services. Like urban service area customers, the rural service area customers benefit from such investments. Nelson Hydro, like any other utility, is justified in seeking to implement rates that allow it to recover the costs to supply service, including power purchase costs, operating and maintenance costs, and capital investments required to maintain the existing infrastructure and support the development of new projects.

VI. CONCLUSION

In conclusion, Nelson Hydro notes that the vast majority of the issues raised by the Intervener are not supported by any evidence in the record and lack merit. The record in this Proceeding establishes that the requested rural service rate increase sought in the Application is warranted.