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September 5, 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 – Supplementary Reply Argument

In accordance with the Regulatory Timetable set for this proceeding, Nelson Hydro encloses for filing its Supplementary 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 – SUPPLEMENTARY REPLY TO INTERVENER SUPPLEMENTARY FINAL ARGUMENT

David Okros, a registered intervener (the “Intervener”), submitted a Supplementary Final Argument dated August 28, 2019 with regard to Nelson Hydro’s 2019 Rural Rate Application (“Application”). The Intervener’s Supplementary Final Argument encourages the Commission to deny Nelson Hydro’s 2019 Rural Rate Application and focuses on how Nelson Hydro distinguishes between the Rural and Urban rate classes. As Nelson Hydro has explained throughout this proceeding, the distinction is justified and warranted, and its Application should be approved because Nelson Hydro must implement rates that allow it to recover the basic operating cost of providing Rural service.

The Intervener raises two specific issues with regard to how Nelson Hydro treats its Rural and Urban rate classes. First, the Intervener appears to take the position that any surpluses in revenue should be allocated “on a pro rata basis” amongst the ratepayers and specifically that “rural customers of Nelson Hydro should in fairness share in the good fortune of the Applicant. . . .” In particular the Intervener identifies an “unexpected surplus of \$819,137 in 2018” and claims this surplus eliminates the need for a 2019 rate increase. As Nelson Hydro has always maintained, it is justified in seeking rates that allow it to recover the costs to supply service, as well as operating and maintenance costs, while also providing for some marginal return on investment. Moreover, even without an assured return (dividend) from the Rural service area, Nelson Hydro continues to make capital investments in the rural service area. By way of example, Nelson Hydro has made significant investment (amounting to over \$1 million) in system upgrades through marine cable installs that will benefit the Rural service area. Finally, it should be noted that Nelson Hydro is projecting a dividend returned of \$0 for 2019. *See* Response to Panel IR No. 1, Attachment 2 – IR 1.1.1.

Likewise, the Intervener then goes on to question how Nelson Hydro allocates purchased energy costs amongst its different rate classes noting that 82.30% of purchased energy costs are allocated to rural customers. In essence, both of these issues go to the heart of how Nelson Hydro distinguishes between Urban and Rural service areas – an issue that has been addressed by Nelson Hydro in the Application and its Reply Argument. It should also be noted that the Intervener has already raised this issue in his Final Argument (*See* Intervener Final Argument, p.2 addressing “Cost of Service Analysis”).

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.

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. Accordingly, Rural customers do indeed derive a benefit from the hydraulic generating plant in which they made no investment. Rural needs in excess of what Nelson Hydro is able to provide are serviced through purchased power. With regard to purchased power, in 2019 the average Rural residential customer (1,133

kWh/month) with Nelson Hydro can expect to pay 86.6% of the Fortis BC rate, and the average Urban residential customer (755 kWh/month) with Nelson Hydro can expect to pay 94.6% of Fortis BC Rates. See Response to BCUC IR#2, IR 23.2, page 40, Attachment 1. This again shows that rural customers are enjoying a rate benefit with Nelson Hydro.

The Intervener's position that this framework is "asking rural residents to indirectly subsidize urban customers" is incorrect. Rather, allocating a larger portion of City-generated energy to the Rural customers would result in the Urban customers subsidizing Rural customers. As fully set out in Nelson Hydro's Reply Argument, the manner in which Nelson Hydro allocates purchased power to urban and rural service areas is rational, reasonable and fair.

Finally, the Intervenor is correct in his assessment of the difficulty of forecasting both generation and demand. Rate design is a complex process that is subject to the best information available at the time of design. In the fall of 2018, when the Application was being prepared, the available information led to a Rural rate increase request of 2.94%. Information that is now available would have resulted in a requested rate increase of 2.69%. This rate difference amounts to \$12,452 from the Rural service area. See Panel IR Response, IR 1.1.1, Attachment 2. However, it is expected that other variables (e.g. revenues, generation, weather impacts, inflation) will have more material impacts throughout the year and as a result it is prudent to adhere to the original budget and rate design calculations rather than try to continuously adjust the rate throughout the year.

In conclusion, Nelson Hydro notes that the issues raised by the Intervener have been previously addressed throughout the course of this proceeding. Nelson Hydro maintains that it is prudent and necessary that it be allowed to recover at least the operating cost associated with serving Rural ratepayers. The record in this Proceeding establishes that the requested Rural service rate increase sought in the Application is warranted.